

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the Quarterly Period Ended September 30, 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 Boulevard, Santa Monica, CA**

(Address of principal executive offices)

**90405**

(Zip Code)

**(310) 255-2000**

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding at October 30, 2009 was 1,268,298,995.

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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 (see Note 1 of Condensed Consolidated Financial Statements for more details).

**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 "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-Q was first filed. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of our 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, our ability to predict consumer preferences among competing hardware platforms, declines in software pricing, product returns and price protection, product delays, retail acceptance of our products, adoption rate and availability of new hardware (including peripherals) and related software, industry competition, rapid changes in technology,

industry standards and customer preferences, protection of proprietary rights, litigation, maintenance of relationships with key personnel, customers, licensees, licensors, vendors and third-party developers, 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 II, Item 1A of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2008. 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. 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.

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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 and per share data)

	At September 30, 2009	At December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,360	\$ 2,958
Short-term investments	361	44
Accounts receivable, net of allowances of \$230 million and \$268 million at September 30, 2009 and December 31, 2008, respectively	228	974
Inventories	351	262
Software development	253	235
Intellectual property licenses	65	35
Deferred income taxes, net	727	536
Intangible assets, net	1	14
Other current assets	162	201
Total current assets	<u>4,508</u>	<u>5,259</u>
Long-term investments	22	78
Software development	15	1
Intellectual property licenses	—	5
Property and equipment, net	133	149
Other assets	12	30
Intangible assets, net	1,168	1,283
Trademark and trade names	433	433
Goodwill	7,161	7,227
Total assets	<u>\$ 13,452</u>	<u>\$ 14,465</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 282	\$ 319
Deferred revenues	471	923
Accrued expenses and other liabilities	532	842
Total current liabilities	<u>1,285</u>	<u>2,084</u>
Deferred income taxes, net	685	615
Other liabilities	190	239
Total liabilities	<u>2,160</u>	<u>2,938</u>
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock, \$.000001 par value per share, 2,400,000,000 shares authorized, 1,356,273,202 and 1,325,206,032 shares issued at September 30, 2009 and December 31, 2008, respectively	—	—
Additional paid-in capital	12,332	12,170
Less: Treasury stock, at cost, 88,802,250 and 12,967,265 shares at September 30, 2009 and December 31, 2008, respectively	(960)	(126)
Accumulated deficit	(75)	(474)
Accumulated other comprehensive loss	(5)	(43)
Total shareholders' equity	<u>11,292</u>	<u>11,527</u>
Total liabilities and shareholders' equity	<u>\$ 13,452</u>	<u>\$ 14,465</u>

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

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

(Unaudited)

(Amounts in millions, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
<b>Net revenues</b>				
Product sales	\$ 411	\$ 413	\$ 1,848	\$ 553
Subscription, licensing, and other revenues	292	298	874	834
<b>Total net revenues</b>	<b>703</b>	<b>711</b>	<b>2,722</b>	<b>1,387</b>
<b>Costs and expenses</b>				
Cost of sales — product costs	185	279	762	350
Cost of sales — software royalties and amortization	54	50	212	88
Cost of sales — intellectual property licenses	45	36	163	45
Cost of sales — massively multi-player online role-playing game ("MMORPG")	55	43	158	123
Product development	122	200	362	414
Sales and marketing	128	142	329	220
General and administrative	106	94	301	172
Restructuring	(1)	61	29	61
<b>Total costs and expenses</b>	<b>694</b>	<b>905</b>	<b>2,316</b>	<b>1,473</b>
<b>Operating income (loss)</b>	<b>9</b>	<b>(194)</b>	<b>406</b>	<b>(86)</b>
<b>Investment and other income, net</b>	<b>11</b>	<b>24</b>	<b>21</b>	<b>28</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>20</b>	<b>(170)</b>	<b>427</b>	<b>(58)</b>
<b>Income tax expense (benefit)</b>	<b>5</b>	<b>(62)</b>	<b>28</b>	<b>(22)</b>
<b>Net income (loss)</b>	<b>\$ 15</b>	<b>\$ (108)</b>	<b>\$ 399</b>	<b>\$ (36)</b>
<b>Earnings (loss) per common share, basic</b>	<b>\$ 0.01</b>	<b>\$ (0.08)</b>	<b>\$ 0.31</b>	<b>\$ (0.04)</b>
<b>Earnings (loss) per common share, diluted</b>	<b>\$ 0.01</b>	<b>\$ (0.08)</b>	<b>\$ 0.30</b>	<b>\$ (0.04)</b>
<b>Weighted-average shares outstanding</b>				
Basic	1,271	1,271	1,289	816
Diluted	1,297	1,271	1,320	816

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

**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Amounts in millions)

	For the nine months ended September 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 399	\$ (36)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Deferred income taxes	(70)	(109)
Depreciation and amortization	187	144
Impairment charges	—	24
Unrealized gain on auction rate securities classified as trading securities	(3)	—
Unrealized loss on put option from UBS	3	—
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	192	120
Stock-based compensation expense (2)	109	47
Tax (shortfall) benefit from employee stock option exercises	(1)	2
Excess tax benefits from stock option exercises	(68)	(17)
<b>Changes in operating assets and liabilities:</b>		

Accounts receivable	748	306
Inventories	(89)	(135)
Software development and intellectual property licenses	(229)	(119)
Other assets	53	(11)
Deferred revenues	(452)	10
Accounts payable	(39)	26
Accrued expenses and other liabilities	(370)	(127)
Net cash provided by operating activities	<u>370</u>	<u>125</u>
Cash flows from investing activities:		
Capital expenditures	(41)	(24)
Proceeds from sale of investments	2	—
Proceeds from maturities of investments	9	—
Cash acquired through the business combination, net of cash payments to effect acquisitions	—	1,137
Increase in restricted cash	(40)	(35)
Purchase of short-term investments	(228)	—
Net cash (used in) provided by investing activities	<u>(298)</u>	<u>1,078</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	63	19
Repurchase of common stock	(834)	—
Repurchase of stock through tender offer	—	(2)
Return of capital to Vivendi	—	(79)
Issuance of additional common stock related to the business combination	—	1,731
Excess tax benefits from stock option exercises	68	17
Net cash transfers to Vivendi and affiliated companies	—	(79)
Net cash (used in) provided by financing activities	<u>(703)</u>	<u>1,607</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>33</u>	<u>(30)</u>
Net (decrease) increase in cash and cash equivalents	(598)	2,780
Cash and cash equivalents at beginning of period	<u>2,958</u>	<u>62</u>
Cash and cash equivalents at end of period	<u>\$ 2,360</u>	<u>\$ 2,842</u>

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

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

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

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**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Nine Months ended September 30, 2009  
(Unaudited)  
(Amounts in millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
<b>Balance at December 31, 2008</b>	1,325	\$ —	\$ 12,170	(13)	\$ (126)	\$ (474)	\$ (43)	\$ 11,527
Components of comprehensive income:								
Net income	—	—	—	—	—	399	—	399
Foreign currency translation adjustment	—	—	—	—	—	—	38	38
Total comprehensive income	—	—	—	—	—	—	—	437
Issuance of common stock pursuant to employee stock options and restricted stock rights	28	—	63	—	—	—	—	63
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	117	—	—	—	—	117
Tax shortfall from employee stock option exercises	—	—	(1)	—	—	—	—	(1)
Issuance of contingent consideration	3	—	2	—	—	—	—	2
Shares repurchased	—	—	—	(76)	(834)	—	—	(834)
Return of capital to Vivendi related to settlement of pre-Business Combination taxes	—	—	(19)	—	—	—	—	(19)
<b>Balance at September 30, 2009</b>	<u>1,356</u>	<u>\$ —</u>	<u>\$ 12,332</u>	<u>(89)</u>	<u>\$ (960)</u>	<u>\$ (75)</u>	<u>\$ (5)</u>	<u>\$ 11,292</u>

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. Background and basis of presentation**

*Business*

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:

*(i) 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 (“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; and the new handheld game system Nintendo DSi. We will continue to market to the PS2 platform as long as it remains economically attractive given the console’s installed base. Our Activision business involves the development, marketing, and sale of products directly, by license, or 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 game enthusiasts, and children to adults.

*(ii) 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 Warcraft franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscription revenues (which consist of fees from individuals playing World of Warcraft, prepaid cards and other ancillary online revenues); 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 China, Russia, and Taiwan. Blizzard is currently developing new games, including sequels to the StarCraft and Diablo franchises. Blizzard has 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 for a term of 3 years.

*(iii) 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, VGAC LLC, a wholly-owned subsidiary of Vivendi, and 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. See Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008 for a more complete discussion of the Business Combination.

Activision Blizzard continues to operate as a public company traded on NASDAQ under the ticker symbol ATVI and now conducts the combined business operations of Activision, Inc. and Vivendi Games including its subsidiary, Blizzard.

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.

*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 described above, but 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 decreasing significance 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.

*Basis of 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, 2008. 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.

The prior year condensed consolidated balance sheet as of December 31, 2008 and condensed consolidated statement of cash flows for the nine months ended September 30, 2008 have been adjusted to correct immaterial errors related to the elimination of intercompany receivables and payables. The corrections reduced accounts receivable and accounts payable line items in the December 31, 2008 condensed consolidated balance sheet by \$236 million, and the September 30, 2008 condensed consolidated balance sheet (not presented herein) by \$82 million, which increased the change in accounts receivable and decreased the change in accounts payable reflected in the condensed consolidated statement of cash flows for the nine months ended September 30, 2008 by \$82 million. These corrections had no impact on net income, earnings (loss) per share, working capital or net cash provided by operating, investing and financing activities.

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

The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. Subsequent events have been evaluated through November 6, 2009, the date of issuance of these financial statements.

## 2. Summary of significant accounting policies

### *Financial Instruments*

The estimated fair values of financial instruments have been determined using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are a reasonable approximation of fair value due to their short-term nature. At September 30, 2009, our \$361 million of short-term investments included \$54 million of auction rate securities ("ARS") classified as trading, \$228 million of U.S. government agency securities

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classified as available-for-sale, \$77 million of restricted cash, and \$2 million of mortgage-backed securities. The U.S. government agency securities and mortgage-backed securities are carried at fair value with fair values estimated based on quoted market prices. Long-term investments represent ARS classified as available-for-sale. Both short-term and long-term ARS, which are comprised of student loan backed securities, are carried at fair value with fair values estimated using an income-approach model (discounted cash-flow analysis).

### *Other-Than-Temporary Impairments*

A debt security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference being defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and we intend, or more-likely-than-not will be required, to sell the security before recovery of the security's amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of credit loss if we do not intend to sell the security, and it is more-likely-than-not that we will not be required to sell the security, before recovery of the security's amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

### *Derivative Financial Instruments*

On January 1, 2009, we adopted an amendment issued by the Financial Accounting Standards Board ("FASB") regarding disclosures about derivative investments and hedging activities. The adoption of such amendment had no financial impact on our Condensed Consolidated Financial Statements and only required additional financial statement disclosures. We have applied the requirements of the amendment on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. At September 30, 2009, no financial statement disclosures were included in our Condensed Consolidated Financial Statements due to immateriality.

## 3. Inventories

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

	<u>At September 30, 2009</u>	<u>At December 31, 2008</u>
Finished goods	\$ 320	\$ 251

Purchased parts and components	31	11
	\$ 351	\$ 262

#### 4. Goodwill

The changes in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2009 are as follows (amounts in millions):

	<u>Activision</u>	<u>Blizzard</u>	<u>Distribution</u>	<u>Total</u>
Balance at December 31, 2008	\$ 7,037	\$ 178	\$ 12	\$ 7,227
Issuance of contingent consideration	2	—	—	2
Goodwill acquired	3	—	—	3
Purchase accounting adjustments	(6)	—	—	(6)
Tax benefit credited to goodwill	(67)	—	—	(67)
Effect of foreign exchange rate changes	2	—	—	2
Balance at September 30, 2009	<u>\$ 6,971</u>	<u>\$ 178</u>	<u>\$ 12</u>	<u>\$ 7,161</u>

Issuance of contingent consideration consists of additional purchase consideration paid during 2009 in relation to previous acquisitions. The tax benefit credited to goodwill represents the tax deduction resulting from the exercise of stock options that

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were outstanding and vested at the consummation of the Business Combination and included in the purchase price of Activision, Inc. to the extent that the tax deduction did not exceed the fair value of those options.

#### 5. Intangible assets, net

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

	<u>At September 30, 2009</u>			
	<u>Estimated useful lives</u>	<u>Gross carrying amount</u>	<u>Accumulated amortization</u>	<u>Net carrying amount</u>
<b>Finite-lived intangible assets:</b>				
License agreements	3 - 10 years	\$ 209	\$ (26)	\$ 183
Developed software	1 - 2 years	288	(286)	2
Game engines	2 - 5 years	133	(66)	67
Internally developed franchises	11 - 12 years	1,124	(218)	906
Favorable leases	1 - 4 years	5	(3)	2
Distribution agreements	4 years	18	(9)	9
Total finite-lived intangible assets		1,777	(608)	1,169
<b>Indefinite-lived intangible assets:</b>				
Activision trademark	Indefinite	386	—	386
Acquired trade names	Indefinite	47	—	47
Total		<u>\$ 2,210</u>	<u>\$ (608)</u>	<u>\$ 1,602</u>
	<u>At December 31, 2008</u>			
	<u>Estimated useful lives</u>	<u>Gross carrying amount</u>	<u>Accumulated amortization</u>	<u>Net carrying amount</u>
<b>Finite-lived intangible assets:</b>				
License agreements	3 - 10 years	\$ 207	\$ (12)	\$ 195
Developed software	1 - 2 years	286	(272)	14
Game engines	2 - 5 years	134	(42)	92
Internally developed franchises	11 - 12 years	1,124	(145)	979
Favorable leases	1 - 4 years	5	(1)	4
Distribution agreements	4 years	17	(5)	12
Other intangibles	0 - 2 years	5	(4)	1
Total finite-lived intangible assets		1,778	(481)	1,297
<b>Indefinite-lived intangible assets:</b>				
Activision trademark	Indefinite	386	—	386
Acquired trade names	Indefinite	47	—	47
Total		<u>\$ 2,211</u>	<u>\$ (481)</u>	<u>\$ 1,730</u>

Amortization expense of intangible assets for the three and nine months ended September 30, 2009 was \$39 million and \$129 million, respectively. Amortization expense of intangible assets for the three and nine months ended September 30, 2008 was \$90 million and \$92 million, respectively.

At September 30, 2009, future amortization of finite-lived intangible assets is estimated as follows (amounts in millions):

2009 (remaining three months)	\$ 153
2010	213

2011	146
2012	123
2013	106
Thereafter	428
Total	<u>\$ 1,169</u>

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**6. Income taxes**

The income tax expense of \$5 million for the three months ended September 30, 2009 reflects an effective tax rate of 26%. The effective tax rate of 26% for the three months ended September 30, 2009 differs from the statutory rate of 35% primarily due to foreign income taxes provided at lower rates, geographic mix in profitability, recognition of research and development credits and IRC 199 domestic production deductions.

For the nine months ended September 30, 2009, the tax rate is based on our projected annual effective tax rate for 2009, and also includes certain discrete tax benefits recorded during the period. Our tax expense of \$28 million for the nine months ended September 30, 2009 reflects an effective tax rate of 7% which differs from the statutory rate of 35% for the nine months ended September 30, 2008 primarily due to lower foreign income tax rates and certain discrete tax benefits recorded during the period related to the release of valuation allowances on foreign net operating losses and the impact of changes to California tax laws.

We evaluate our deferred tax assets, including net operating losses, to determine if a valuation allowance is required. We assess whether a valuation allowance should be established or released based on the consideration of all available evidence using a “more likely than not” standard. In making such judgments, significant weight is given to evidence that can be objectively verified. At December 31, 2008 we had a foreign net operating loss valuation allowance of \$23 million. The ultimate realization of the foreign net operating losses depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We currently expect to realize these net operating losses through taxable income; therefore, in the first quarter of 2009, we released a valuation allowance of \$23 million against our deferred tax assets.

California Senate Bill No.15 was enacted in February 20, 2009 and contains significant changes to the state of California tax landscape. When there is an enacted change in tax laws or rate, we adjust our deferred tax liabilities and assets to reflect the change. During the nine months ended September 30, 2009, we reduced our net deferred tax liabilities and tax provision by \$10 million.

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. This difference has resulted in no additional payment to Vivendi and no impact to our consolidated statement of cash flows for the nine months ended September 30, 2009.

**7. Software development costs and intellectual property licenses**

At September 30, 2009, capitalized software development costs included \$211 million of internally developed software costs and \$57 million of payments made to third-party software developers. At December 31, 2008, capitalized software development costs included \$173 million of internally developed software costs and \$63 million of payments made to third-party software developers. Capitalized intellectual property licenses were \$65 million and \$40 million at September 30, 2009 and December 31, 2008, respectively. Amortization of capitalized software development costs and intellectual property licenses for the three months ended September 30, 2009 and 2008 was \$41 million and \$19 million, respectively. Write-offs and impairments were \$2 million and \$62 million for the three months ended September 30, 2009 and 2008, respectively. Amortization of capitalized software development costs and intellectual property licenses for the nine months ended September 30, 2009 and 2008 were \$210 million and \$26 million, respectively. Write-offs and impairments were \$2 million and \$94 million for the nine months ended September 30, 2009 and 2008, respectively.

**8. Restructuring**

We have substantially completed our implementation of our organizational restructuring plan as a result of the Business Combination described in Note 1 of the Notes to Condensed Consolidated Financial Statements. This organizational restructuring plan included the integration of different operations to streamline the combined organization of Activision Blizzard.

The primary goals of the organizational restructuring were to rationalize the title portfolio and consolidate certain corporate functions so as to realize the synergies of the Business Combination.

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The following table details the changes in restructuring reserves included in accrued expenses and other liabilities in the Condensed Consolidated Balance Sheets for the nine months ended September 30, 2009 (amounts in millions):

	Severance	Facilities costs	Total
Balance at December 31, 2008	\$ 37	\$ 7	\$ 44
Costs charged to expense	21	8	29
Costs paid or otherwise settled	(42)	(5)	(47)

Foreign exchange and other	(1)	(1)	(2)
Balance at September 30, 2009	\$ 15	\$ 9	\$ 24

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

	Restructuring Reserve Balance		Restructuring Charges
	At September 30, 2009	At December 31, 2008	Nine months ended September 30, 2009
Activision	\$ 24	\$ 44	\$ 8
Blizzard	—	—	—
Distribution	—	—	4
Total operating segments	24	44	12
Other (i)	—	—	17
Total	\$ 24	\$ 44	\$ 29

(i) Represents legacy Vivendi Games' divisions or business units that the Company has exited, divested, or wound down as part of its restructuring and integration efforts as a result of the Business Combination. Currently, Non-Core activities, which are handled by certain functional departments of our Activision segment, are insignificant to Activision Blizzard's financial condition and results of operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment, however, in light of the decreasing significance 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.

## 9. Comprehensive income (loss) and accumulated other comprehensive income (loss)

### *Comprehensive Income (Loss)*

The components of comprehensive income (loss) for the three and nine months ended September 30, 2009 and 2008 were as follows (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 15	\$ (108)	\$ 399	\$ (36)
Other comprehensive income (loss):				
Foreign currency translation adjustment	9	(26)	38	(25)
Unrealized depreciation on investments, net of taxes	—	(2)	—	(2)
Other comprehensive income (loss)	9	(28)	38	(27)
Comprehensive income (loss)	\$ 24	\$ (136)	\$ 437	\$ (63)

### *Accumulated Other Comprehensive Income (Loss)*

For the nine months ended September 30, 2009 the components of accumulated other comprehensive loss were as follows (amounts in millions):

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	Foreign currency translation adjustment	Unrealized depreciation on investments	Accumulated other comprehensive loss
Balance at December 31, 2008	\$ (41)	\$ (2)	\$ (43)
Other comprehensive income	38	—	38
Balance at September 30, 2009	\$ (3)	\$ (2)	\$ (5)

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

## 10. Investment and other income, net

Investment and other income, net comprises the following (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest income	\$ 4	\$ 17	\$ 16	\$ 22
Interest expense	(1)	—	(3)	—
Net realized gain on investments	—	4	—	4
Unrealized gain on trading securities	1	—	3	—
Unrealized loss on put option from UBS	(1)	—	(3)	—

Net realized and unrealized gains on foreign exchange contracts and swaps with Vivendi	—	3	—	2
Change in fair value of other financial liability	8	—	8	—
Investment and other income, net	\$ 11	\$ 24	\$ 21	\$ 28

## 11. Investments

### Available-for-Sale Investments

The following table summarizes our short-term and long-term investments classified as available-for-sale at September 30, 2009 and December 31, 2008 (amounts in millions):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>At September 30, 2009</b>				
Short-term investments:				
Mortgage-backed securities	\$ 2	\$ —	\$ —	\$ 2
U.S. government agency securities	228	—	—	228
Long-term investments:				
Taxable auction rate securities	27	—	(5)	22
Total available-for-sale investments	\$ 257	\$ —	\$ (5)	\$ 252
<b>At December 31, 2008</b>				
Short-term investments:				
Mortgage-backed securities	\$ 8	\$ —	\$ (1)	\$ 7
Long-term investments:				
Taxable auction rate securities	27	—	(4)	23
Total available-for-sale investments	\$ 35	\$ —	\$ (5)	\$ 30

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The following table illustrates the gross unrealized losses on available-for-sale securities and the fair value of those securities, aggregated by investment category at September 30, 2009 and December 31, 2008. The table also illustrates the length of time that they have been in a continuous unrealized loss position at September 30, 2009 and December 31, 2008 (amounts in millions):

	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
<b>At September 30, 2009</b>						
Taxable auction rate securities	\$ —	\$ —	\$ (5)	\$ 22	\$ (5)	\$ 22
<b>At December 31, 2008</b>						
Mortgage-backed securities	\$ (1)	\$ 7	\$ —	\$ —	\$ (1)	\$ 7
Taxable auction rate securities	(4)	23	—	—	(4)	23
Total	\$ (5)	\$ 30	\$ —	\$ —	\$ (5)	\$ 30

The total unrealized loss of \$5 million at September 30, 2009 is due to the taxable ARS held through Morgan Stanley Smith Barney LLC, which is 51% owned by Morgan Stanley and 49% owned by Citigroup, Inc., as a result of failed auctions. (The ARS were held directly through a wholly owned subsidiary of Citigroup, Inc. until the Morgan Stanley Smith Barney LLC joint-venture closed in the second quarter 2009.) Our investments in ARS are all backed by higher education student loans.

Based upon our analysis of the available-for-sale investments with unrealized losses, we have concluded that the gross unrealized losses of \$5 million at September 30, 2009 were temporary in nature. We do not intend to sell the investment securities that are in an unrealized loss position and do not consider that it is more-likely-than-not that we will be required to sell the investment securities before recovery of their amortized cost basis, which may be maturity. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. However, facts and circumstances may change which could result in a decline in fair value considered to be other-than-temporary in the future.

The following table summarizes the contractually stated maturities of our investments classified as available-for-sale at September 30, 2009 (amounts in millions):

	Amortized cost	Fair value
<b>At September 30, 2009</b>		
U.S. government agency securities due in 1 year or less	\$ 228	\$ 228
Mortgage-backed securities (not due at a single maturity date)	2	2
Due after ten years	27	22
	\$ 257	\$ 252

### Trading Investments

In connection with our acceptance of the UBS offer in November 2008, (see Note 3 and Note 6 of the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2008 for more details), resulting in our right to require UBS AG (“UBS”) to purchase our ARS held through UBS (which are different from the taxable ARS discussed above under Available-for-Sale Investments) at par value beginning on June 30, 2010 (the “Rights”), we reclassified our investments in the ARS from available-for-sale to trading securities. The reclassification to trading securities reflects management’s intent to exercise the Rights during the period between June 30, 2010 and July 3, 2012, which results in the securities being held for the purpose of selling them in the near future. Prior to our agreement with UBS, our intent was to hold the ARS until the market recovered. At the time of reclassification, the unrealized loss on our ARS was \$5 million. This unrealized loss was included in accumulated other comprehensive income (loss). Upon reclassification to trading securities, we immediately recognized in investment income, net, the \$5 million unrealized loss not previously recognized in earnings. Subsequently, we recognized an additional decline in fair value of \$2 million for a total unrealized loss of \$7 million, included in investment and other income, net, in our Consolidated Statements of Operations for the year ended December 31, 2008. The fair value of the ARS held through UBS totaled \$54 million and \$55 million at September 30, 2009 and December 31, 2008, respectively. This change in the fair value of the ARS held through UBS represents redemptions of \$4 million and unrealized gains of \$3 million included in investment and other income, net for the nine months ended September 30, 2009.

We continue to monitor the ARS market and consider its impact (if any) on the fair value of our investments. If the market conditions deteriorate further, we may be required to record additional unrealized losses in earnings, which may be offset by corresponding increases in value of the UBS arrangement.

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**12. Fair value measurements**

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

	Fair Value Measurements at Reporting Date Using				Balance Sheet Classification
	At September 30, 2009	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial assets:</b>					
Money market funds	\$ 2,293	\$ 2,293	\$ —	\$ —	Cash and cash equivalents
Mortgage-backed securities	2	—	2	—	Short-term investments
Auction rate securities held through UBS	54	—	—	54	Short-term investments
U.S. government agency securities	228	228	—	—	Short-term investments
Auction rate securities held through Morgan Stanley Smith Barney LLC	22	—	—	22	Long-term investments
Put option from UBS	7	—	—	7	Other assets—current
<b>Total financial assets at fair value</b>	<b>\$ 2,606</b>	<b>\$ 2,521</b>	<b>\$ 2</b>	<b>\$ 83</b>	
<b>Financial liabilities:</b>					
Other financial liability	23	—	—	23	Other liabilities—non-current
<b>Total financial liabilities at fair value</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 23</b>	

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	Fair Value Measurements at Reporting Date Using				Balance Sheet Classification
	At December 31, 2008	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial assets:</b>					

Money market funds	\$	2,609	\$	2,609	\$	—	\$	—	Cash and cash equivalents
Mortgage-backed securities		7		—		7		—	Short-term investments
Auction rate securities held through									
UBS and Citigroup, Inc.		78		—		—		78	Long-term investments
Put option from UBS		10		—		—		10	Other assets—non-current
Foreign exchange contract									
derivatives		5		—		5		—	Other assets—current
<b>Total financial assets at fair value</b>	<b>\$</b>	<b>2,709</b>	<b>\$</b>	<b>2,609</b>	<b>\$</b>	<b>12</b>	<b>\$</b>	<b>88</b>	

#### Financial liabilities:

Foreign exchange contract									
derivatives	\$	2	\$	—	\$	2	\$	—	Other liabilities—current
Other financial liability		31		—		—		31	Other liabilities—non-current
<b>Total financial liabilities at fair value</b>	<b>\$</b>	<b>33</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>2</b>	<b>\$</b>	<b>31</b>	

Other financial liability represents the earn-out liability from a previous acquisition. The earn-out liability was recorded at fair value at the date of the Business Combination as it will be settled by a variable number of shares of our common stock based on the average closing price for the five business days immediately preceding issuance of the shares. When estimating the fair value, we considered our projection of revenues from the related titles under the earn-out provisions. For the nine months ended September 30, 2009, there was an \$8 million change in our fair value estimate of this financial liability, which was recorded in investment and other income, net.

The following table provides a reconciliation of the beginning and ending balances of our financial assets and financial liabilities classified as Level 3 (amounts in millions):

	<b>Level 3</b>
Balance at December 31, 2008, net	\$ 57
Total realized/unrealized gains/losses included in earnings	7
Cash settlement	(4)
Balance at September 30, 2009, net	<u>\$ 60</u>

### 13. Operating segments, geographic regions, and platforms

Our operating segments are a reflection of our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, 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.

Prior to the Business Combination, Vivendi Games managed its business in two main divisions: Blizzard Entertainment and Sierra Entertainment (including Sierra online and Vivendi Games Mobile). As a result of the Business Combination, we provide our CODM financial information based upon management’s new organizational structure.

Currently, we operate under three operating segments: (i) Activision, which publishes interactive entertainment software and peripherals, which includes businesses operated by Activision, Inc. prior to the Business Combination and certain studios, assets, and titles previously included in Vivendi Games’ Sierra Entertainment operating segment prior to the Business Combination, (ii) Blizzard, which publishes traditional games and online subscription-based games in the MMORPG category, (iii) Distribution, which distributes interactive entertainment software and hardware products.

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Prior to July 1, 2009 we operated a fourth operating segment, Non-Core, which represented legacy Vivendi Games’ divisions or business units that the Company had exited, divested, or wound down as part of its restructuring and integration efforts as a result of the Business Combination. At July 1, 2009 in light of the decreasing significance of Non-Core activities, we ceased management of Non-Core as a separate operating segment and consequently we are no longer providing separate operating segment disclosure with respect to Non-Core and have reclassified our prior periods’ segment presentation so that it conforms to the current periods’ presentation.

As the historical financial statements prior to July 10, 2008 are those of Vivendi Games, net revenues and segment income (loss) from the business operated by Activision, Inc. prior to the Business Combination are not included for the period January 1, 2008 through July 9, 2008, but are included for the entire three and nine month periods ended September 30, 2009. Also, the Activision operating segment includes Vivendi Games titles retained after the Business Combination.

The CODM reviews segment performance exclusive of the impact of the deferred net revenues and related cost of sales, stock-based compensation expense, restructuring expense, amortization of intangible assets and purchase price accounting related adjustments, integration and transaction costs, and other. Information on the operating segments and reconciliations of total net revenues and total segment income from operations to consolidated net revenues and operating income (loss) for the three and nine months ended September 30, 2009 and 2008 are presented below (amounts in millions):

	<b>Three months ended September 30,</b>					
	<b>2009</b>	<b>2008</b>		<b>2009</b>	<b>2008</b>	
	<b>Net revenues</b>		<b>Segment income (loss) from operations</b>			
Activision	\$	415	\$	364	\$ (43)	\$ (26)
Blizzard		286		297	116	146
Distribution		54		56	2	2
Operating segments total		<u>755</u>		<u>717</u>	<u>75</u>	<u>122</u>

Reconciliation to consolidated net revenues / operating

income (loss):				
Net effect from deferral of net revenues and related cost of sales	(52)	(12)	9	(12)
Stock-based compensation expense	—	—	(36)	(26)
Restructuring income (expense)	—	—	1	(61)
Amortization of intangible assets and purchase price accounting related adjustments	—	—	(33)	(90)
Integration and transaction costs	—	—	(7)	(17)
Other*	—	6	—	(110)
Consolidated net revenues / operating income (loss)	<u>\$ 703</u>	<u>\$ 711</u>	<u>\$ 9</u>	<u>\$ (194)</u>

	Nine months ended September 30,			
	2009	2008	2009	2008
	Net revenues		Segment income (loss) from operations	
Activision	\$ 1,211	\$ 457	\$ (49)	\$ (61)
Blizzard	867	866	393	447
Distribution	202	56	6	3
Operating segments total	<u>2,280</u>	<u>1,379</u>	<u>350</u>	<u>389</u>

Reconciliation to consolidated net revenues / operating income (loss):				
Net effect from deferral of net revenues and related cost of sales	441	(8)	341	(7)
Stock-based compensation expense	—	—	(107)	(47)
Restructuring expense	—	—	(29)	(61)
Amortization of intangible assets and purchase price accounting related adjustments	—	—	(117)	(92)
Integration and transaction costs	—	—	(24)	(17)
Other*	1	16	(8)	(251)
Consolidated net revenues / operating income (loss)	<u>\$ 2,722</u>	<u>\$ 1,387</u>	<u>\$ 406</u>	<u>\$ (86)</u>

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Geographic information for the three and nine months ended September 30, 2009 and 2008 is based on the location of the selling entity. Net revenues from external customers by geographic region were as follows (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
North America	\$ 378	\$ 295	\$ 1,458	\$ 591
Europe	287	348	1,088	627
Asia Pacific	38	62	175	153
Total geographic region net revenues	703	705	2,721	1,371
Other*	—	6	1	16
Total consolidated net revenues	<u>\$ 703</u>	<u>\$ 711</u>	<u>\$ 2,722</u>	<u>\$ 1,387</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
MMORPG	\$ 301	\$ 271	\$ 939	\$ 828
Console	286	272	1,334	335
Handheld	30	81	127	102
PC and other	32	25	119	50
Total platform net revenues	649	649	2,519	1,315
Distribution	54	56	202	56
Other*	—	6	1	16
Total consolidated net revenues	<u>\$ 703</u>	<u>\$ 711</u>	<u>\$ 2,722</u>	<u>\$ 1,387</u>

\*Represents Non-Core activities, which are handled by certain functional departments of our Activision segment and are insignificant to Activision Blizzard's financial condition and results of operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment, however, in light of the decreasing significance 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.

We did not have any single external customer that accounted for 10% or more of consolidated net revenues for either of the three or nine months ended September 30, 2009 or 2008.

[Table of Contents](#)**14. Computation of earnings (loss) per common share**

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Consolidated net income (loss)	\$ 15	\$ (108)	\$ 399	\$ (36)
Net income allocated to unvested share-based awards that participate in earnings	—	—	(3)	—
Numerator for basic and diluted earnings per common share — income (loss) available to common shareholders	\$ 15	\$ (108)	\$ 396	\$ (36)
<b>Denominator:</b>				
Denominator for basic earnings per common share — weighted-average common shares outstanding	1,271	1,271	1,289	816
<b>Effect of potential dilutive common shares under treasury stock method:</b>				
Employee stock options	26	—	31	—
Denominator for diluted earnings per common share — weighted-average common shares outstanding plus potential dilutive effect of employee stock options	1,297	1,271	1,320	816
Basic earnings (loss) per common share	\$ 0.01	\$ (0.08)	\$ 0.31	\$ (0.04)
Diluted earnings (loss) per common share	\$ 0.01	\$ (0.08)	\$ 0.30	\$ (0.04)

On January 1, 2009, we adopted the new accounting guidance for determining whether instruments granted in share-based payment transactions are participating securities and, as a result, unvested share-based awards which include the right to receive non-forfeitable dividends or dividend equivalents are considered to participate with common stock in undistributed earnings. Companies that issue share-based awards considered to be participating securities are required to calculate basic and diluted earnings per common share amounts under the two-class method. The two-class method excludes from earnings per common share calculations any dividends paid or owed to participating securities and any undistributed earnings considered to be attributable to participating securities. The accounting guidance requires retrospective application to all prior-period earnings per share data presented. Our unvested restricted stock rights (including restricted stock units, restricted stock awards, and performance shares) are considered participating securities since these securities have non-forfeitable rights to dividends or dividend equivalents during the contractual period of the award. Since the unvested restricted stock rights are considered participating securities, we are required to use the two-class method in our computation of basic and diluted net earnings per common share. For both the three and nine months ended September 30, 2009, we had outstanding unvested restricted stock rights with respect to 10 million shares of common stock on a weighted-average basis. The adoption did not change our basic or diluted earnings per common share for the three and nine months ended September 30, 2009.

According to the accounting guidance, our unvested restricted stock rights are not considered to participate with common stock in undistributed losses. Therefore, the two-class method in our computation of basic and diluted net earnings per common share for the three and nine months ended September 30, 2008 does not apply as there were losses during these periods. As such, the adoption did not change our basic or diluted earnings per common share for the three and nine months ended September 30, 2008.

On July 9, 2008, Vivendi obtained control of Activision, Inc. through acquisition of the majority of the outstanding common stock of Activision, Inc. For accounting purposes, Vivendi Games is deemed to be the acquirer (reverse acquisition — see Note 1 of the Notes to Condensed Consolidated Financial Statements). The historical financial statements prior to July 10, 2008, are those of Vivendi Games. Further, earnings per common share for periods prior to the Business Combination are retrospectively adjusted to reflect the number of split adjusted shares received by Vivendi, former parent of Vivendi Games.

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when inclusion of such shares would be anti-dilutive. Therefore, options to acquire 18 million shares and 19 million shares of common

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stock were not included in the calculation of diluted earnings per common share for the three and nine months ended September 30, 2009, respectively, as the effect of their inclusion would be anti-dilutive.

**15. Capital transactions***Repurchase Program*

On November 5, 2008, we announced that our Board of Directors authorized a stock repurchase program under which we may repurchase up to \$1 billion of our common stock. Under this program, we may repurchase our common stock from time to time on the open market or in private transactions, including structured or accelerated transactions. We will determine the timing and amount of repurchases based on our evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued by the Company at any time.

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.

Since inception, we have repurchased 89 million shares of our common stock for \$960 million under the repurchase program. At September 30, 2009, we had \$290 million available for utilization under the repurchase program.

## 16. Commitments and contingencies

We did not have any significant changes to our commitments since December 31, 2008. See Note 18 of the Notes to Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2008 for more information regarding our commitments.

### *Legal Proceedings*

On February 8, 2008, the Wayne County Employees' Retirement System filed a lawsuit challenging the Business Combination in the Delaware Court of Chancery. The suit is a putative class action filed against the parties to the Business Combination agreement, as well as certain current and former members of our Board of Directors. The plaintiff alleges, among other things, that our current and former directors named therein failed to fulfill their fiduciary duties with regard to the Business Combination by "surrendering" the negotiating process to "conflicted management," that those breaches were aided and abetted by Vivendi and those of its subsidiaries named in the complaint, and that the preliminary proxy statement filed by the Company on January 31, 2008 contained certain statements that the plaintiff alleges are false and misleading. The plaintiff seeks an order from the court that, among other things, certifies the case as a class action, enjoins the Business Combination, requires the defendants to disclose all material information, declares that the Business Combination is in breach of the directors' fiduciary duties and therefore unlawful and unenforceable, awards the plaintiff and the putative class damages for all profits and special benefits obtained by the defendant in connection with the Business Combination and tender offer, and awards the plaintiff its cost and expense, including attorney's fees.

After various initial motions were filed and ruled upon, on May 8, 2008, the plaintiff filed an amended complaint that, among other things, added allegations relating to a revised preliminary proxy statement filed by the Company on April 30, 2008. Additional motions were then filed, including a motion for preliminary injunction filed by the plaintiff and a motion to dismiss filed by Vivendi and its subsidiaries. On June 14, 2008, the plaintiff filed a motion for leave to file a second amended complaint. On June 30, 2008, the court granted Vivendi and its subsidiaries' motion to dismiss, pursuant to a stipulation with the plaintiff, and on July 1, 2008, denied the plaintiff's motion for preliminary injunction.

On December 23, 2008, the plaintiff filed an amended motion for leave to file a second amended complaint. The court granted the motion on January 14, 2009 and the second amended complaint was deemed filed on the same date. The second amended complaint asserts claims similar to the ones made in the original complaint, challenging Activision's Board of Directors' actions in connection with the negotiation and approval of the Business Combination, as well as disclosures made to our shareholders and certain amendments made to our certificate of incorporation in connection therewith. In addition, the second amended complaint asserts that Activision's Board of Directors breached its fiduciary duties in approving and recommending those amendments to the certificate of incorporation. Among other things, the plaintiff seeks certification of the action as a class action, a declaration that amendments made to the certificate of incorporation are invalid and unenforceable, a declaration that our directors breached their fiduciary duties, rescission of the Business Combination and related transactions, and damages, interest, fees and costs. On July 24, 2009, the court granted the Company's motion to dismiss the complaint for failure to state a claim.

On August 21, 2009, the plaintiff filed a notice of appeal of the Court's dismissal. The plaintiff filed its appellate brief on October 5, 2009 and Activision filed its opposition on November 4, 2009.

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

## 17. Stock-based compensation

### *Restricted Stock Rights*

The following table summarizes our restricted stock rights (including restricted stock units, restricted stock, and performance shares) activity for the nine months ended September 30, 2009 (amounts in thousands, except per share amounts):

	Restricted Stock Rights	Weighted- Average Grant Date Fair Value
Balance at December 31, 2008	10,267	\$ 14.52
Granted	1,264	12.04
Vested	(1,045)	11.53
Forfeited	(118)	11.47
Balance at September 30, 2009	<u>10,368</u>	<u>12.82</u>

At September 30, 2009, \$56 million of total unrecognized compensation cost related to Activision Blizzard restricted stock rights is expected to be recognized over a weighted-average period of 1.8 years.

## Stock Option Activity

Stock option activity for the nine months ended September 30, 2009 is as follows (amounts in millions, except number of shares in thousands and per share amounts):

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2008	97,841	\$ 6.53		
Granted	4,422	11.76		
Exercised	(26,691)	2.60		
Forfeited	(883)	9.28		
Outstanding at September 30, 2009	<u>74,689</u>	8.21	6.36	\$ 350
Vested and expected to vest at				
September 30, 2009	70,623	\$ 8.00	5.69	\$ 344
Exercisable at September 30, 2009	41,833	5.91	4.98	281

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (i.e. the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the exercise price is below the closing stock price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes over time based on the changes in the fair market value of our stock. Total intrinsic value of options exercised was \$58 million and \$243 million for the three and nine months ended September 30, 2009, respectively.

At September 30, 2009, \$69 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.4 years.

Income tax benefits from stock option exercises were \$68 million for the nine months ended September 30, 2009. We present excess tax benefits or shortfall from the exercise of stock options, if any, as financing cash flows, rather than operating cash flows.

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### *Blizzard Equity Plan ("BEP")*

In 2006, Blizzard implemented the BEP, an equity incentive plan denominated in U.S. dollars. Under the BEP, restricted shares of Blizzard stock and other cash settled awards were granted to certain key executives and employees of Blizzard.

At September 30, 2009, unrecognized compensation expense under the BEP was \$5 million, which will be recognized over the following three months. At September 30, 2009, accrued expenses and other liabilities in our Condensed Consolidated Balance Sheet included \$83 million related to this plan.

### *Vivendi Corporate Plan*

There were no new grants from Vivendi during the three and nine months ended September 30, 2009. During the three and nine months ended September 30, 2009 there were no material changes to the components of the cash-settled instruments. At September 30, 2009, other liabilities included \$10 million relating to the Vivendi Corporate Plan.

### *Method and Assumptions on Valuation of Stock Options*

Our stock options have features that differentiate them from exchange-traded options. These features include lack of transferability, early exercise, vesting restrictions, pre- and post-vesting termination provisions, blackout dates, and time-varying inputs. In addition, some of the options have non-traditional features, such as accelerated vesting upon the satisfaction of certain performance conditions that must be reflected in the valuation. A binomial-lattice model was selected as it is better able to explicitly address these features than closed-form models such as the Black-Scholes model, and is able to reflect expected future changes in model inputs, including changes in volatility, during the option's contractual term.

We have estimated the expected future changes in model inputs during the option's contractual term. The inputs required by our binomial-lattice model include expected volatility, risk-free interest rate, risk-adjusted stock return, dividend yield, contractual term, and vesting schedule, as well as measures of employees' forfeiture, exercise, and post-vesting termination behavior. Statistical methods were used to estimate employee rank-specific termination rates. These termination rates, in turn, were used to model the number of options that are expected to vest and post-vesting termination behavior. Employee rank-specific estimates of expected time-to-exercise ("ETTE") were used to reflect employee exercise behavior. ETTE was estimated by using statistical procedures to first estimate the conditional probability of exercise occurring during each time period, which is conditional on the option surviving to that time period, and then using those probabilities to estimate ETTE. The model was calibrated by adjusting parameters controlling exercise and post-vesting termination behavior so that the measures output by the model matched values of these measures that were estimated from historical data.

The following tables present the weighted-average assumptions and the weighted-average fair value at grant date using the binomial-lattice model:

	Employee and director options for three months ended September 30, 2009	Employee and director options for nine months ended September 30, 2009
Expected life (in years)	5.64	6.37
Risk free interest rate	4.06%	3.54%
Volatility	52.70%	54.04%
Dividend yield	—	—
Weighted-average fair value at grant date	\$ 5.63	\$ 5.79

To estimate volatility for the binomial-lattice model, we use methods that consider the implied volatility method based upon the volatilities for exchange-traded options on our stock to estimate short-term volatility, the historical method (annualized standard deviation of the instantaneous returns on Activision Blizzard's stock) during the option's contractual term to estimate long-term volatility, and a statistical model to estimate the transition or "mean reversion" from short-term volatility to long-term volatility. Based on these methods, for options granted during the nine months ended September 30, 2009, the expected stock price volatility ranged from 41.56% to 60.77%, with a weighted-average volatility of 54.04%.

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

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The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is an output from the binomial-lattice model. The expected life of employee stock options depends on all of the underlying assumptions and calibration of our model. A binomial-lattice model can be viewed as assuming that employees will exercise their options when the stock price equals or exceeds an exercise boundary. The exercise boundary is not constant, but continually declines as the option's expiration date approaches. The exact placement of the exercise boundary depends on all of the model inputs as well as the measures that are used to calibrate the model to estimated measures of employees' exercise and termination behavior.

As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2009 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

*Accuracy of Fair Value Estimates*

We developed the assumptions used in the binomial-lattice model, including model inputs and measures of employees' exercise and post-vesting termination behavior. Our ability to accurately estimate the fair value of share-based payment awards at the grant date depends upon the accuracy of the model and our ability to accurately forecast model inputs as long as ten years into the future. These inputs include, but are not limited to, expected stock price volatility, risk-free rate, dividend yield, and employee termination rates. Although the fair value of employee stock options is determined using an option-pricing model, the estimates that are produced by this model may not be indicative of the fair value observed between a willing buyer and a willing seller. Unfortunately, it is difficult to determine if this is the case, as markets do not currently exist that permit the active trading of employee stock option and other share-based instruments.

*Stock-based Compensation Expense*

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock rights, the BEP, and the Vivendi Corporate Plan included in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008 (amounts in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cost of sales—software royalties and amortization	\$ 3	\$ —	\$ 18	\$ 1
Product development	11	7	28	34
Sales and marketing	2	4	9	6
General and administrative	20	15	52	6
Restructuring	—	—	2	—
Stock-based compensation expense before income taxes	36	26	109	47
Income tax benefit	(13)	(10)	(43)	(19)
Total stock-based compensation expense, net of income tax benefit	\$ 23	\$ 16	\$ 66	\$ 28

As a result of the reverse acquisition accounting treatment for the Business Combination, previously issued Activision, Inc. stock options and restricted stock rights granted to employees and directors outstanding and unvested at the date of the Business Combination, were accounted for as an exchange of awards. The fair value of the outstanding vested and unvested awards was measured on the date of the acquisition, and for unvested awards, which required service subsequent to the date of the Business Combination, a portion of the awards' fair values was allocated to future service and will be recognized over the remaining future requisite service period. As a result of this fair value measurement of stock-based payment awards on the date of the acquisition, we estimate that we incurred an additional \$5 million and \$30 million of stock-based compensation expense for the three and nine months ended September 30, 2009, respectively.

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Stock option expenses included in the development costs of computer software are capitalized as discussed in Note 3 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. The following table summarizes stock-based compensation included in our Consolidated Balance Sheets as a component of software development (amounts in millions):

	Software development
Balance at December 31, 2008	\$ 36

Stock-based compensation expense capitalized during period	37
Amortization of capitalized stock-based compensation expense	(25)
Balance at September 30, 2009	<u>\$ 48</u>

## 18. Related party transactions

### *Treasury*

Our foreign currency risk policy seeks to reduce risks arising from foreign currency fluctuations. We use derivative financial instruments, primarily currency forward contracts and swaps, with Vivendi as our principal counterparty. The gross notional amount of outstanding foreign exchange swaps was \$246 million at September 30, 2009. The notional amounts of outstanding forward foreign exchange contracts and foreign exchange swaps were \$126 million and \$118 million, respectively, at December 31, 2008. See Note 10 of the Notes to Condensed Consolidated Financial Statements for pre-tax net realized and unrealized gains (losses) that resulted from foreign exchange contracts and swaps with Vivendi and were recognized in our Condensed Consolidated Statements of Operations.

### *Others*

Activision Blizzard has entered into various transactions and agreements, including treasury management services, investor agreement, internal group reporting services, credit facilities arrangement and music royalty agreements with Vivendi and its subsidiaries and affiliates. None of these services, transactions and agreements with Vivendi and its subsidiaries and affiliates is material either individually or in the aggregate to the Condensed Consolidated Financial Statements as a whole.

## 19. Recently issued accounting pronouncements

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs), which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity. Additionally, this amendment requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. We are currently evaluating the impact from the adoption of this amendment on our consolidated financial statements.

In October 2009, the FASB issued an update to *Revenue Recognition — Multiple-Deliverable Revenue Arrangements*. This update establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This update provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this update also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this update are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

In October 2009, the FASB issued an update to *Software — Certain Revenue Arrangements That Include Software Elements*. This update changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this update are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

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

### Business Overview

Activision Blizzard, Inc. is a worldwide online, personal computer ("PC"), console, 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:

#### (i) *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 ("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; and the new handheld game system Nintendo DSi. We will continue to market to the PS2 platform as long as it remains economically attractive given the console's installed base. Our Activision business involves the development, marketing, and sale of products directly, by license, or 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 game enthusiasts, and children to adults.

#### (ii) *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 Warcraft franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscription revenues (which consist of fees from individuals playing World of Warcraft, prepaid cards and other ancillary online revenues); 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 China, Russia, and Taiwan. Blizzard is currently developing new games, including sequels to the StarCraft and Diablo franchises. Blizzard has 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 for a term of 3 years.

### *(iii) 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. See Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008 for a more complete discussion of the Business Combination.

### *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 described above, but 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 decreasing significance of Non-Core activities, as of that date we ceased their management as a separate operating segment and consequently we are no longer

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providing separate operating segment disclosure and have reclassified our prior periods’ segment presentation so that it conforms to the current periods’ presentation.

## **Management’s Overview of Business Trends**

### *Business Highlights*

According to the NPD Group with respect to the U.S. market, and Charttrack, and Gfk, for the European market during the three months ended September 30, 2009:

- Activision Blizzard grew its U.S. market share across all platforms by 3.1 points to 13.3% from 10.2% in the previous year;
- Activision Blizzard increased its combined U.S. and European market share across all platforms by 1.2 points to 12.3% from 11.1% in the previous year;
- *Guitar Hero 5* and *Guitar Hero World Tour* were two of the top-10 best selling titles in the U.S.;
- *Guitar Hero* and *Call of Duty* were two of the top-10 best selling franchises in the U.S.; and
- *Guitar Hero* was the #1 best-selling third-party console and handheld franchise in Europe.

During the nine months ended September 30, 2009:

- *Guitar Hero World Tour* and *Call of Duty: World at War* were the number #1 and #2 third-party best selling titles, respectively, in the U.S. and Europe;
- Activision Blizzard grew its U.S. market share of the music/dance category by 5 points to 51%, from 46% in the previous year;
- *Guitar Hero* was the #1 best-selling third-party franchise in the U.S. and Europe; and
- *Call of Duty* was the #2 best-selling third-party franchise in the U.S. and Europe.

### *Other Business Highlights*

On September 19, 2009, paid subscriptions of Blizzard’s *World of Warcraft* were resumed in China after an interruption as a result of a license transfer in June 2009.

### *Activision 2009 Releases*

Activision expects to continue to build its success in releasing games based on proven franchises such as *Call of Duty*, *Guitar Hero*, *Transformers*, *X-Men*, *Spiderman*, and *Tony Hawk*.

Games released during the nine months ended September 30, 2009 included:

- *Monsters vs. Aliens*;
- *Guitar Hero: Metallica*;
- *X-Men Origins: Wolverine*;
- *Guitar Hero: Modern Hits*;
- *PROTOTYPE*;
- *Guitar Hero: Smash Hits*;
- *Transformers: Revenge of the Fallen*;
- *Ice Age: Dawn of the Dinosaurs*;
- *Wolfenstein: Return to the Castle*;
- *Guitar Hero 5*;
- *Marvel Ultimate Alliance 2*; and
- the first, second, and third map packs for *Call of Duty: World at War*.

The more notable games, among other titles, scheduled for release during the fourth quarter of 2009 include:

- *Bakugan Battle Brawlers*;
- *DJ Hero*;
- *Band Hero*;
- *Call of Duty: Modern Warfare 2*; and
- *Tony Hawk: Ride*.

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### *Economic Conditions*

The video games industry in the U.S. and Europe had combined overall decreases of 21% and 19% in sales revenues for the three and nine months ended September 30, 2009, respectively, as compared to the same periods in 2008, according to the NPD Group with respect to the U.S. market and, Charttrack and Gfk with respect to the European market, resulting from a weakening economy in 2009 with retailers focused on reducing inventories, and the release of fewer blockbuster titles this quarter as compared to a year ago. In this challenging macroeconomic environment, Activision Blizzard gained market share during the three months ended September 30, 2009 as compared to the same period in 2008.

### **Consolidated Statements of Operations Data**

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

The following table sets forth Consolidated Statements of Operations data for the periods indicated in dollars and as a percentage of total net revenues (amounts in millions):

	<u>Three months ended September 30,</u>		<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2009</u>		<u>2008</u>		<u>2009</u>		<u>2008</u>	
<b>Net revenues:</b>								
Product sales	\$ 411	58%	\$ 413	58%	\$ 1,848	68%	\$ 553	40%
Subscription, licensing, and other revenues	292	42	298	42	874	32	834	60
<b>Total net revenues</b>	<u>703</u>	<u>100</u>	<u>711</u>	<u>100</u>	<u>2,722</u>	<u>100</u>	<u>1,387</u>	<u>100</u>
<b>Costs and expenses:</b>								
Cost of sales — product costs	185	26	279	39	762	28	350	25
Cost of sales — software royalties and amortization	54	8	50	7	212	8	88	6
Cost of sales — intellectual property licenses	45	7	36	5	163	6	45	3
Cost of sales — MMORPG	55	8	43	6	158	6	123	9
Product development	122	17	200	28	362	13	414	30
Sales and marketing	128	18	142	20	329	12	220	16
General and administrative	106	15	94	13	301	11	172	13
Restructuring	(1)	—	61	9	29	1	61	4
<b>Total costs and expenses</b>	<u>694</u>	<u>99</u>	<u>905</u>	<u>127</u>	<u>2,316</u>	<u>85</u>	<u>1,473</u>	<u>106</u>
<b>Operating income (loss)</b>	<u>9</u>	<u>1</u>	<u>(194)</u>	<u>(27)</u>	<u>406</u>	<u>15</u>	<u>(86)</u>	<u>(6)</u>
<b>Investment and other income, net</b>	<u>11</u>	<u>2</u>	<u>24</u>	<u>3</u>	<u>21</u>	<u>1</u>	<u>28</u>	<u>2</u>
<b>Income (loss) before income tax expense (benefit)</b>	<u>20</u>	<u>3</u>	<u>(170)</u>	<u>(24)</u>	<u>427</u>	<u>16</u>	<u>(58)</u>	<u>(4)</u>
<b>Income tax expense (benefit)</b>	<u>5</u>	<u>1</u>	<u>(62)</u>	<u>(9)</u>	<u>28</u>	<u>1</u>	<u>(22)</u>	<u>(1)</u>
<b>Net income (loss)</b>	<u>\$ 15</u>	<u>2%</u>	<u>\$ (108)</u>	<u>(15)%</u>	<u>\$ 399</u>	<u>15%</u>	<u>\$ (36)</u>	<u>(3)%</u>

**Three and Nine Months ended September 30, 2009 highlights**

Operating Highlights (amounts in millions)

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Increase/ (Decrease)	2009	2008	Increase/ (Decrease)
<b>Segment net revenues:</b>						
Activision	\$ 415	\$ 364	\$ 51	\$ 1,211	\$ 457	\$ 754
Blizzard	286	297	(11)	867	866	1
Distribution	54	56	(2)	202	56	146
Operating segments total	755	717	38	2,280	1,379	901
<b>Reconciliation to consolidated net revenues:</b>						
Net effect from deferral net revenues	(52)	(12)		441	(8)	
Other*	—	6		1	16	
Consolidated net revenues	703	711		2,722	1,387	
<b>Segment income (loss) from operations:</b>						
Activision	(43)	(26)	(17)	(49)	(61)	12
Blizzard	116	146	(30)	393	447	(54)
Distribution	2	2	—	6	3	3
Operating segments total	75	122	(47)	350	389	(39)
<b>Reconciliation to consolidated operating income (loss):</b>						
Net effect from deferral of net revenues and related costs						
of sales	9	(12)		341	(7)	
Stock-based compensation expense	(36)	(26)		(107)	(47)	
Restructuring	1	(61)		(29)	(61)	
Amortization of intangible assets and purchase price						
accounting related adjustments	(33)	(90)		(117)	(92)	
Integration and transaction costs	(7)	(17)		(24)	(17)	
Other*	—	(110)		(8)	(251)	
Consolidated operating income (loss)	\$ 9	\$ (194)		\$ 406	\$ (86)	

\*Represents Non-Core activities, which are handled by certain functional departments of our Activision segment and are insignificant to Activision Blizzard's financial condition and results of operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment, however, in light of the decreasing significance 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.

**Note** – We provide discussion and analysis of the Activision segment for the nine months ended September 30, 2009 and 2008 in the Supplemental Pro Forma Information section as the pro forma basis provides greater comparability.

*Segment Net Revenues Highlights*Activision

For the three months ended September 30, 2009, Activision's net revenues increased as the historical financial statements prior to July 10, 2008 are those of Vivendi Games, which resulted in net revenues from the Activision segment (business formerly operated by Activision, Inc. prior to the Business Combination) being included for the entire three months ended September 30, 2009, but only for the period from July 10, 2008 through September 30, 2008 in the three months ended September 30, 2008.

Additionally, the three months ended September 30, 2009 included the key releases of *Guitar Hero 5*, *Marvel Ultimate Alliance 2*, *Wolfenstein: Return to the Castle*, and our third map pack for *Call of Duty: World at War*, whereas during the same period of the prior year revenues were mainly driven by catalogue sales from our Guitar Hero franchise and *Call of Duty: Modern Warfare*, and the European launch of *Star Wars: The Force Unleashed*. For the three months ended September 2009, catalogue sales from our

Guitar Hero and Call of Duty franchises remained major revenue contributors and leading franchises.

Blizzard

Blizzard's net revenues slightly decreased for the three months ended September 30, 2009 as compared to the same period of the prior year primarily due to an interruption of paid subscriptions for *World of Warcraft* in China from June 2009 to September 19, 2009 as a result of a license transfer. This

decrease was partially offset by an increase in other ancillary online revenues.

## Consolidated Net Revenues

We estimate that changes in foreign exchange rates had an unfavorable impact of approximately \$37 million to Activision Blizzard's consolidated net revenues for the three months ended September 30, 2009 as compared to the same period in 2008 as the U.S. dollar strengthened primarily in relation to the British pound, euro, Australian dollar, Korean won, and Swedish krona.

## Segment Income (Loss) from Operations Highlights

### Activision

For the three months ended September 30, 2009, Activision's operating loss increased as the historical financial statements prior to July 10, 2008 are those of Vivendi Games, which resulted in operating losses from the businesses formerly operated by Activision, Inc. prior to the Business Combination being included for the entire three months ended September 30, 2009, but only for the period from July 10, 2008 through September 30, 2008 in the three months ended September 30, 2008.

Additionally for the three months ended September 30, 2009, the increase in Activision's operating loss as compared to the same period in 2008 was principally attributable to the following:

- Increased marketing and trade promotion spending to generate sales in a challenging macro-economic and competitive environment;
- Higher amortization of capitalized software development costs of new releases during the period as compared to the same period in 2008 when revenues were primarily driven by catalogue sales; and
- Higher general and administrative expenses due to the unfavorable impact of foreign exchange rates.

These factors were partially offset by lower operating expenses due in part to the cost containment strategies that we implemented and synergies resulting from our restructuring efforts from the Business Combination.

### Blizzard

For the three and nine months ended September 30, 2009, the decrease in Blizzard's segment income as compared to the same periods in 2008 was principally attributable to the following:

- An interruption of paid subscriptions for *World of Warcraft* in China from June 2009 to September 19, 2009 as a result of a license transfer;
- Incremental investments made by Blizzard for customer service and product development of its sequels to the StarCraft and Diablo franchises;
- A higher share of annual marketing costs spent earlier in 2009 as compared to the same period in 2008 when the majority of spending was allocated to *World of Warcraft: Wrath of the Lich King*, which was released in the three months ended December 31, 2008; and
- Higher general and administrative expenses as a result of the unfavorable impact of foreign exchange rates.

These factors were partially offset by an increase in other ancillary online revenues.

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### Supplemental Pro Forma Information

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 10, 2008 onwards), but not for prior periods. In the following table, we combine Activision, Inc.'s financial information with Activision Blizzard's reported financial information to show the comparable three and nine months pro forma periods ended September 30, 2008 of Activision Blizzard. 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 periods presented. We have included schedules of reconciliation of the reported consolidated and segment financial information to the pro forma consolidated and segment financial information. Further, see Note 13 to the Condensed Consolidated Financial Statements for details of our segment presentation.

<u>(Amounts in millions)</u>	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>Increase/ (Decrease)</u>	<u>2009</u>	<u>2008</u>	<u>Increase/ (Decrease)</u>
<b>Pro forma segment net revenues:</b>						
Activision	\$ 415	\$ 399	\$ 16	\$ 1,211	\$ 1,584	\$ (373)
Blizzard	286	297	(11)	867	866	1
Distribution	54	74	(20)	202	239	(37)
Pro forma operating segments total	<u>755</u>	<u>770</u>	<u>(15)</u>	<u>2,280</u>	<u>2,689</u>	<u>(409)</u>
<b>Reconciliation to pro forma consolidated net revenues:</b>						
Net effect from deferral net revenues	(52)	(12)		441	(8)	
Other*	—	6		1	16	
Pro forma consolidated net revenues	<u>703</u>	<u>764</u>		<u>2,722</u>	<u>2,697</u>	
<b>Pro forma segment income (loss) from operations:</b>						
Activision	(43)	(36)	(7)	(49)	101	(150)
Blizzard	116	146	(30)	393	447	(54)
Distribution	2	3	(1)	6	8	(2)

Pro forma operating segments total	75	113	(38)	350	556	(206)
Reconciliation to pro forma consolidated operating income (loss):						
Net effect from deferral of net revenues and related costs of sales	9	(12)		341	(7)	
Stock-based compensation expense	(36)	(23)		(107)	(120)	
Restructuring	1	(61)		(29)	(61)	
Amortization of intangible assets and purchase price accounting related adjustments	(33)	(89)		(117)	(400)	
Integration and transaction costs	(7)	(13)		(24)	(29)	
Other*	—	(110)		(8)	(251)	
Pro forma consolidated operating income (loss)	<u>\$ 9</u>	<u>\$ (195)</u>		<u>\$ 406</u>	<u>\$ (312)</u>	

\*Represents Non-Core activities, which are handled by certain functional departments of our Activision segment and are insignificant to Activision Blizzard's financial condition and results of operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment, however, in light of the decreasing significance 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.

**Note** – We provide discussion and analysis of the Activision segment for the three months ended September 30, 2009 and 2008 under *Operating Highlights* above. In this section, we provide discussion and analysis of our Activision segment operating results in the nine months ended September 30, 2009 as compared to the same period in 2008.

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*Pro forma Activision Segment Net Revenues*

For the nine months ended September 30, 2009, Activision net revenues decreased as compared to the same period of the previous year primarily due to weaker market conditions in 2009 driven by declining consumer spending and from the stronger performance of the Guitar Hero franchise in the prior year period.

*Pro forma Activision Segment Income (Loss) From Operations*

Activision's operating loss increased in the nine months ended September 30, 2009 as compared to the same period of the prior year, which was mainly attributable to:

- Stronger performance from the Guitar Hero franchise in the prior year period;
- Higher amortization of capitalized software development costs and IP license expense from the new releases in the current period as compared to the same period in 2008;
- Increased marketing and trade promotion spending to generate sales in a challenging macro-economic and competitive environment; and
- Higher general and administrative expenses due to the unfavorable impact of foreign exchange rates.

These factors were partially offset by:

- Strong performance from the Call of Duty franchise catalogue sales and *Call of Duty: World at War* map packs;
- A decrease in product costs mainly due to the higher product costs for the nine months ended September 30, 2008 associated with the releases of Lucas Arts' titles; and
- Lower operating expenses due in part to the cost containment strategies we implemented and synergies resulting from our restructuring efforts from the Business Combination.

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*Schedules of Reconciliation of Reported Consolidated and Segment Financial Information to Pro Forma Consolidated and Segment Financial Information for the Three and Nine Months ended September 30, 2008*

For the three months ended September 30, 2008, the pro forma Activision Blizzard financial information represents the combination of the financial information of Activision, Inc. for the nine day period from July 1, 2008 through July 9, 2008 and Activision Blizzard's reported financial information for the three months ended September 30, 2008. Activision, Inc.'s financial information from July 1, 2008 through July 9, 2008 has not been audited.

(Amounts in millions)	For the three months ended September 30, 2008			
	Reported	Activision, Inc.	Pro forma adjustments(i)	Pro forma Activision Blizzard
<b>Consolidated net revenues</b>	\$ 711	\$ 53	\$ —	\$ 764
Reconciliation to segment net revenues:				
Net effect from deferral net revenues	12	—	—	12
Other(ii)	(6)	—	—	(6)
<b>Total segment net revenues</b>	<u>\$ 717</u>	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ 770</u>

<b>Segment net revenues</b>								
Activision	\$	364	\$	35	\$	—	\$	399
Blizzard		297		—		—		297
Distribution		56		18		—		74
<b>Total segment net revenues</b>	<b>\$</b>	<b>717</b>	<b>\$</b>	<b>53</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>770</b>
<b>Consolidated operating income (loss)</b>	<b>\$</b>	<b>(194)</b>	<b>\$</b>	<b>(50)</b>	<b>\$</b>	<b>49</b>	<b>\$</b>	<b>(195)</b>
Reconciliation to segment operating income (loss):								
Net effect from deferral of net revenues and cost of sales		12		—		—		12
Stock-based compensation		26		3		(6)		23
Restructuring		61		—		—		61
Amortization of intangible assets and purchase price accounting related adjustments		90		—		(1)		89
Integration and transaction costs		17		38		(42)		13
Other(ii)		110		—		—		110
<b>Total segment income (loss) from operations</b>	<b>\$</b>	<b>122</b>	<b>\$</b>	<b>(9)</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>113</b>
<b>Segment income (loss) from operations</b>								
Activision	\$	(26)	\$	(10)	\$	—	\$	(36)
Blizzard		146		—		—		146
Distribution		2		1		—		3
<b>Total segment income (loss) from operations</b>	<b>\$</b>	<b>122</b>	<b>\$</b>	<b>(9)</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>113</b>
<b>Consolidated net income (loss)</b>	<b>\$</b>	<b>(108)</b>	<b>\$</b>	<b>(43)</b>	<b>\$</b>	<b>30</b>	<b>\$</b>	<b>(121)</b>

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For the nine months ended September 30, 2008, the pro forma Activision Blizzard financial information represents the combination of the financial information of Activision, Inc. for the six months ended June 30, 2008, and the nine day period from July 1, 2008 through July 9, 2008 and Activision Blizzard's reported financial information for the nine months ended September 30, 2008. Neither Activision, Inc.'s financial information for the six months ended June 30, 2008, which was extracted from quarterly information, nor Activision, Inc.'s financial information from July 1, 2008 through July 9, 2008 has been audited.

(Amounts in millions)	For the nine months ended September 30, 2008							
	Reported	Activision, Inc.	Pro forma adjustments(i)	Pro forma Activision Blizzard				
<b>Consolidated net revenues</b>	\$	1,387	\$	1,310	\$	—	\$	2,697
Reconciliation to segment net revenues:								
Net effect from deferral net revenues		8		—		—		8
Other(ii)		(16)		—		—		(16)
<b>Total segment net revenues</b>	<b>\$</b>	<b>1,379</b>	<b>\$</b>	<b>1,310</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>2,689</b>
<b>Segment net revenues</b>								
Activision	\$	457	\$	1,127	\$	—	\$	1,584
Blizzard		866		—		—		866
Distribution		56		183		—		239
<b>Total segment net revenues</b>	<b>\$</b>	<b>1,379</b>	<b>\$</b>	<b>1,310</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>2,689</b>
<b>Consolidated operating income (loss)</b>	<b>\$</b>	<b>(86)</b>	<b>\$</b>	<b>85</b>	<b>\$</b>	<b>(311)</b>	<b>\$</b>	<b>(312)</b>
Reconciliation to segment operating income (loss):								
Net effect from deferral of net revenues and cost of sales		7		—		—		7
Stock-based compensation		47		32		41		120
Restructuring		61		—		—		61
Amortization of intangible assets and purchase price accounting related adjustments		92		—		308		400
Integration and transaction costs		17		50		(38)		29
Other(ii)		251		—		—		251
<b>Total segment income (loss) from operations</b>	<b>\$</b>	<b>389</b>	<b>\$</b>	<b>167</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>556</b>
<b>Segment income (loss) from operations</b>								
Activision	\$	(61)	\$	162	\$	—	\$	101
Blizzard		447		—		—		447
Distribution		3		5		—		8
<b>Total segment income (loss) from operations</b>	<b>\$</b>	<b>389</b>	<b>\$</b>	<b>167</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>556</b>
<b>Consolidated net income (loss)</b>	<b>\$</b>	<b>(36)</b>	<b>\$</b>	<b>60</b>	<b>\$</b>	<b>(190)</b>	<b>\$</b>	<b>(166)</b>

(i) The pro forma adjustments include a \$1 million decrease and \$308 million increase of amortization expense resulting from the application of the purchase method of accounting for the three and nine months ended September 30, 2008, respectively, elimination of Activision, Inc.'s historical transaction costs of \$42 million and \$38 million for the three and nine months ended September 30, 2008, respectively, and a decrease of \$6 million and an increase of \$41 million in stock-based compensation expense associated with the increase in the fair value of Activision, Inc.'s unvested stock awards at the closing date of the transaction for the three and nine months ended September 30, 2008, respectively. Pro forma adjustments are tax effected at the combined federal and state statutory rate of 39.4%.

(ii) Represents Non-Core activities, which are handled by certain functional departments of our Activision segment and are insignificant to Activision Blizzard's financial condition and results of operations. Prior to July 1, 2009, Non-Core activities were managed as a stand-alone operating segment, however, in light of the decreasing significance 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.

*Cash Flow Highlights (amounts in millions)*

	For the nine months ended September 30,		Increase/ (Decrease)
	2009	2008	
Cash flows provided by operating activities	\$ 370	\$ 125	\$ 245
Cash flows (used in) provided by investing activities	(298)	1,078	(1,376)
Cash flows (used in) provided by financing activities	(703)	1,607	(2,310)

For the nine months ended September 30, 2009, the primary drivers of cash flows provided by operating activities included the collection of customer receivables generated by the sale of our products and our subscription revenues, partially offset by payments to vendors for the manufacture, distribution and marketing of our products, third-party developers, and intellectual property holders, tax and to our employees. Cash flows used in investing activities reflect that we purchased short-term investments totaling \$228 million, made capital expenditures of \$41 million primarily for property and equipment, and experienced an increase in restricted cash of \$40 million during the nine months ended September 30, 2009. Cash flows used in financing activities primarily reflect our repurchase of 76 million shares of our common stock for \$834 million under the stock repurchase program, partially offset by \$63 million of proceeds from issuance of common stock to employees.

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**Results of Operations — Three and Nine Months Ended September 30, 2009 and 2008**

*Net Revenues*

The following table details our consolidated net revenues by geographic region for the three and nine months ended September 30, 2009 and 2008 (amounts in millions):

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Increase/ (Decrease)	2009	2008	Increase/ (Decrease)
Net revenues by geographic region:						
North America	\$ 378	\$ 295	\$ 83	\$ 1,458	\$ 591	\$ 867
Europe	287	348	(61)	1,088	627	461
Asia Pacific	38	62	(24)	175	153	22
Total net revenues by geographic region	703	705	(2)	2,721	1,371	1,350
Other	—	6	(6)	1	16	(15)
Total consolidated net revenues	\$ 703	\$ 711	\$ (8)	\$ 2,722	\$ 1,387	\$ 1,335

For the three months ended September 30, 2009, net revenues from Europe and Asia Pacific decreased as compared to the same period in 2008 primarily due to the deferral of net revenues for titles released during the three months ended September 30, 2009. Net revenues from *Star Wars: The Force Unleashed*, which was released in the international region in the three months ended September 30, 2008, were not subject to deferral accounting treatment. For the three months ended September 30, 2009, the net revenues from North America increased principally due to the impact of the net amortization of deferred revenues mainly resulting from the releases of *World of Warcraft: Wrath of the Lich King* and *Call of Duty: World at War* in the December quarter of 2008.

Post-Business Combination net revenues consisting of \$690 million in North America, \$507 million in Europe and \$54 million in Asia Pacific from the businesses previously operated by Activision, Inc. for the six month period ended June 30, 2009 were included in the nine months ended September 30, 2009, however, net revenues from the Activision business for the six month period ended June 30, 2008 were not included in the nine months ended September 30, 2008.

*Net Revenues by Platform*

The following table details our net revenues by platform and as a percentage of total platform net revenues for the three months ended September 30, 2009 and 2008 (amounts in millions):

	Three months ended September 30, 2009	% of total platform net revs.	Three months ended September 30, 2008	% of total platform net revs.	Increase/ (Decrease)
Net revenues:					
MMORPG	\$ 301	46%	\$ 271	42%	\$ 30
PC and other	32	5	25	4	7
Console					
Sony PlayStation 3	73	11	60	9	13
Sony PlayStation 2	37	6	57	9	(20)
Microsoft Xbox360	104	16	72	11	32
Nintendo Wii	72	11	83	13	(11)

Total console	286	44	272	42	14
Handheld	30	5	81	12	(51)
Total net revenues by platform	649	100	649	100	—
Distribution	54		56		(2)
Other	—		6		(6)
Total consolidated net revenues	\$ 703		\$ 711		\$ (8)

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The following table details our net revenues by platform and as a percentage of total platform net revenues for the nine months ended September 30, 2009 and 2008 (amounts in millions):

	Nine months ended September 30, 2009	% of total platform net revs.	Nine months ended September 30, 2008	% of total platform net revs.	Increase/ (Decrease)
<b>Net revenues:</b>					
MMORPG	\$ 939	37%	\$ 828	63%	\$ 111
PC and other	119	5	50	4	69
<b>Console</b>					
Sony PlayStation 3	356	14	77	6	279
Sony PlayStation 2	121	5	80	6	41
Microsoft Xbox360	533	21	88	6	445
Nintendo Wii	324	13	90	7	234
Total console	1,334	53	335	25	999
Handheld	127	5	102	8	25
Total net revenues by platform	2,519	100	1,315	100	1,204
Distribution	202		56		146
Other	1		16		(15)
Total consolidated net revenues	\$ 2,722		\$ 1,387		\$ 1,335

Net revenues from MMORPG increased for the three and nine months ended September 30, 2009 as compared to the same periods in 2008 primarily due to the impact of net amortization of deferred revenues mainly resulting from the release of *World of Warcraft: Wrath of the Lich King* in the December quarter of 2008.

For the three months ended September 30, 2009, the pricing actions made by Sony and Microsoft on their PS3 and XB360 platforms, respectively, early in the quarter, has resulted in higher software sales for these platforms. Nintendo announced a price cut of its Wii platform late in the third quarter of 2009, the effect of which will be determined in the fourth quarter of 2009. Our handheld related software sales decreased for the three months ended September 30, 2009 as compared to the same period in 2008 due to the absence of a blockbuster handheld specific title release in the three months ended September 30, 2009.

*Costs and Expenses*

*Cost of Sales*

The following table details the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the three months ended September 30, 2009 and 2008 (amounts in millions):

	Three months ended September 30, 2009	% of consolidated net revenues	Three months ended September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Product costs	\$ 185	26%	\$ 279	39%	\$ (94)
Software royalties and amortization	54	8	50	7	4
Intellectual property licenses	45	7	36	5	9
MMORPG	55	8	43	6	12

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For the three months ended September 30, 2009, costs of sales decreased as compared to the same period in 2008 primarily due to:

- The release in the three months ended September 30, 2008 of Lucas Arts' affiliated title *Star Wars: The Force Unleashed*, which had higher product and distribution costs as compared to releases in the same period in 2009; and
- A decrease of intangible amortization and other purchase price accounting related adjustments.

These factors were partially offset by higher net deferrals of costs of sales in the three months ended September 30, 2009 as compared to the same period in 2008.

The following table details the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the nine months ended September 30, 2009 and 2008 (amounts in millions):

	Nine months ended September 30, 2009	% of consolidated net revenues	Nine months ended September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Product costs	\$ 762	28%	\$ 350	25%	\$ 412
Software royalties and amortization	212	8	88	6	124
Intellectual property licenses	163	6	45	3	118
MMORPG	158	6	123	9	35

For the nine months ended September 30, 2009, costs of sales increased as compared to the same period in 2008 primarily due to:

- Post-Business Combination product costs of \$530 million, software royalties and amortization of \$151 million, and intellectual property licenses of \$112 million from businesses previously operated by Activision, Inc., for the six month period ended June 30, 2009 were included in the nine months ended September 30, 2009, however, costs of sales from the Activision business for the six month period ended June 30, 2008 were not included in the nine months ended September 30, 2008;
- An increase in amortization of intangible assets and other purchase price accounting related adjustments; and
- Incremental investments made by Blizzard for customer service.

These factors were partially offset by higher net deferrals of costs of sales in the nine months ended September 30, 2009 as compared to the same period in 2008.

#### Product Development (amounts in millions)

	September 30, 2009	% of consolidated net revenues	September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Three months ended	\$ 122	17%	\$ 200	28%	\$ (78)
Nine months ended	362	13	414	30%	(52)

For the three months ended September 30, 2009, product development costs decreased as compared to the same period of the prior year primarily due to the implementation of our organizational restructuring including title portfolio rationalization. This resulted in the elimination of Non-Core product development expenses. Excluding the effect of the elimination of these Non-Core product development expenses, we incurred higher product development expenses for the three months ended September 30, 2009 as compared to the same period of the prior year to support our larger slate of releases for the future.

For the nine months ended September 30, 2009, product development costs decreased as compared to the same period in 2008 primarily attributable to a reduction of product development costs as a result of the implementation of our organizational restructuring including title portfolio rationalization. This resulted in the elimination of Non-Core product development expenses. This decrease was partially offset by post-Business Combination product development costs of \$143 million from businesses previously operated by Activision, Inc., for the six month period ended June 30, 2009 included in the nine months ended September 30, 2009, however, product development costs from the Activision business for the six month period ended June 30, 2008 were not included in the nine months ended September 30, 2008.

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#### Sales and Marketing (amounts in millions)

	September 30, 2009	% of consolidated net revenues	September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Three months ended	\$ 128	18%	\$ 142	20%	\$ (14)
Nine months ended	329	12	220	16	109

For the three months ended September 30, 2009, sales and marketing decreased as compared to the same period in 2008 principally due to the wind down of Non-Core activities and the amortization of intangible assets related to customer relationships of \$36 million for the three months ended September 30, 2008. This was partially offset by an increased level of investment in marketing and trade promotions to generate sales in a challenging macro-economic and competitive environment.

Post-Business Combination sales and marketing of \$147 million from businesses previously operated by Activision, Inc., for the six month period ended June 30, 2009 were included in the nine months ended September 30, 2009, however, sales and marketing from the Activision business for the six month period ended June 30, 2008 were not included in the nine months ended September 30, 2008. This increase was partially offset by a decrease in Non-Core sales and marketing expenses and amortization of intangible assets during the nine months ended September 30, 2009.

#### General and Administrative (amounts in millions)

	September 30, 2009	% of consolidated net revenues	September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Three months ended	\$ 106	15%	\$ 94	13%	\$ 12
Nine months ended	301	11	172	13	129

For the three months ended September 30, 2009, general and administrative expenses increased compared to the same period in 2008 primarily due to higher share-based compensation expenses and foreign exchange losses from the revaluation of transaction exposures.

For the nine months ended September 30, 2009, general and administrative expense increased as compared to the same period in 2008 primarily due to:

- Post-Business Combination general and administrative expenses of \$114 million from businesses previously operated by Activision, Inc., for the six month period ended June 30, 2009 were included in the nine months ended September 30, 2009, however, general and administrative expenses from the Activision business for the six month period ended June 30, 2008 were not included in the nine months ended September 30, 2008;
- Increases in stock-based compensation expense; and
- Foreign exchange losses from revaluation of our transaction exposures.

These factors were partially offset by the cost containment strategy we implemented and synergies resulting from our restructuring efforts from the Business Combination.

*Restructuring (amounts in millions)*

	September 30, 2009	% of consolidated net revenues	September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Three months ended	\$ (1)	—%	\$ 61	9%	\$ (62)
Nine months ended	29	1	61	4	(32)

In the third quarter of 2008, we implemented an organizational restructuring as a result of the Business Combination. This organizational restructuring was to integrate different operations and to streamline the combined Activision Blizzard organization. The implementation of the organizational restructuring resulted in the following restructuring charges: severance costs, contract termination costs, fixed asset write-off on disposals, impairment charges on acquired trade names, prepaid royalties, intellectual property licenses, impairment charges on goodwill, and loss on disposal of assets/liabilities. At June 30, 2009, we had completed the majority of our organizational restructuring activities as a result of the Business Combination. See Note 8 of the Notes to Condensed Consolidated Financial Statements for more detail.

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*Investment and Other Income, Net (amounts in millions)*

	September 30 2009	% of consolidated net revenues	September 30, 2008	% of consolidated net revenues	Increase/ (Decrease)
Three months ended	\$ 11	2%	\$ 24	3%	\$ (13)
Nine months ended	21	1	28	2	(7)

Investment and other income, net is comprised of interest income and expense, unrealized gains and losses on trading securities, our auction rate securities put option from UBS and foreign exchange contracts and swaps with Vivendi, and changes in the fair values of certain other financial liabilities.

Investment and other income, net decreased for the three and nine months ended September 30, 2009, as compared to the same period of the prior year primarily as a result of lower cash and cash equivalents balances, lower interest rates and less gain on foreign exchange contracts. Partially offsetting these decreases was an \$8 million increase due to the reduction of our financial liability for the three months ended September 30, 2009.

*Income Tax Expense (Benefit) (amounts in millions)*

	September 30, 2009 <u>Income tax expense</u>	% of pre-tax income (loss)	September 30, 2008 <u>Income tax benefit</u>	% of pre-tax income (loss)
Three months ended	\$ 5	26%	\$ (62)	37%
Nine months ended	28	7	(22)	38

The income tax expense of \$5 million for the three months ended September 30, 2009 reflects an effective tax rate of 26%. The effective tax rate of 26% for the three months ended September 30, 2009 differs from the statutory rate of 35% primarily due to foreign income taxes provided at lower rates, recognition of research and development credits and IRC 199 domestic production deductions.

For the nine months ended September 30, 2009 the tax rate is based on our projected annual effective tax rate for 2009, and also includes certain discrete tax benefits recorded during the period. Our tax expense of \$28 million for the nine months ended September 30, 2009 reflects an effective tax rate of 7% which differs from the statutory rate of 35% for the nine months ended September 30, 2008 primarily due to foreign income taxes provided at lower rates and certain discrete tax benefits recorded during the period related to the release of valuation allowances on foreign net operating losses and the impact of changes to California tax laws.

The overall effective income tax rate for the year could be different from the tax rates in effect for the nine months ended September 30, 2009 and will be dependent on our profitability for the remainder of the year. In addition, our effective income tax rates for the remainder of 2009 and future periods will depend on a variety of factors, such as changes in the geographic mix of income, 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.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States and, accordingly, no U.S. taxes have been provided thereon. We currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries outside of the United States of America.

On May 4, 2009, President Obama's administration announced several proposals to reform U.S. tax laws, including a proposal to further limit foreign tax credits and a proposal to defer tax deductions allocable to non-U.S. earnings until earnings are repatriated. It is unclear whether these proposed tax reforms will be enacted or, if enacted, what the scope of the reforms will be. Depending on their content, such reforms, if enacted, could have a material effect on our operating results and financial condition.

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**Liquidity and Capital Resources**

*Sources of Liquidity (amounts in millions)*

	At September 30, 2009	At December 31, 2008	Increase/ (Decrease)
Cash and cash equivalents	\$ 2,360	\$ 2,958	\$ (598)
Short-term investments	361	44	317
	<u>\$ 2,721</u>	<u>\$ 3,002</u>	<u>\$ (281)</u>

Percentage of total assets	20%	21%
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	For the nine months ended September 30, 2009	2008	Increase/ (Decrease)
Net cash provided by operating activities	\$ 370	\$ 125	\$ 245
Net cash (used in) provided by investing activities	(298)	1,078	(1,376)
Net cash (used in) provided by financing activities	(703)	1,607	(2,310)

In addition to cash flows provided by operating activities, our primary source of liquidity was \$2.7 billion of cash and cash equivalents and short-term investments at September 30, 2009. With our cash and cash equivalents and expected cash flows provided by operating activities, we believe that we have sufficient liquidity to meet daily operations in the foreseeable future. We also believe that we have sufficient working capital (approximately \$3.2 billion at September 30, 2009), as well as availability under our credit facilities, to finance our operational requirements for at least the next twelve months, including purchases of inventory and equipment, the funding of the development, production, marketing and sale of new products, to finance the acquisition of intellectual property rights for future products from third parties, and to fund the stock repurchase program.

On November 5, 2008, we announced that our Board of Directors authorized a stock repurchase program under which we may repurchase up to \$1 billion worth 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. Under this program, we may repurchase our common stock from time to time on the open market or in private transactions, including structured or accelerated transactions. We will determine the timing and amount of repurchases based on our evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued by the Company at any time.

At September 30, 2009, we had \$290 million available for utilization under the repurchase program.

*Cash Flows from Operating Activities*

The primary drivers of cash flows from operating activities have typically included the collection of customer receivables generated by the sale of our products and our subscription revenues, offset by payments for taxes and to vendors for the manufacture, distribution and marketing of our products, third-party developers, intellectual property holders, and our workforce. A significant operating use of our cash relates to our continued investment in software development and intellectual property licenses. We expect that we will continue to make significant expenditures relating to our investment in software development and intellectual property licenses.

*Cash Flows from Investing Activities*

The primary drivers of cash flows used in investing activities have typically included capital expenditures, acquisitions of privately held interactive software development companies and publishing companies and the net effect of purchases and sales/maturities of short-term investment instruments.

*Cash Flows from Financing Activities*

The primary drivers of cash flows provided by financing activities have historically related to transactions involving our common stock, including the issuance of shares of common stock to employees and the public and the purchase of treasury shares. We have not utilized debt financing as a source of cash flows. However, if needed, we may access and utilize the credit facilities that are described in "Credit Facilities" in Note 18 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2008.

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For the nine months ended September 30, 2009, cash flows used in financing activities included \$834 million used to purchase Activision Blizzard stock under the stock repurchase program. Since its inception in November 2008, we have repurchased \$960 million worth of our common stock under this program.

### *Capital Requirements*

For the year ending December 31, 2009, we anticipate total capital expenditures of approximately \$75 million. Capital expenditures will be primarily for computer hardware and software purchases.

### **Off-balance Sheet Arrangements**

At September 30, 2009 and December 31, 2008, Activision Blizzard had no relationships with unconsolidated entities or financial parties, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditure, or capital resources.

### **Financial Disclosure**

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

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

### **Critical Accounting Policies and Estimates**

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

- Revenue Recognition
- Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence
- Software Development Costs and Intellectual Property Licenses
- Accounting for Income Taxes
- Fair Value Estimates

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- Business Combinations
- Goodwill and Intangible Assets — Impairment Assessments
- Stock-Based Compensation

During the nine months ended September 30, 2009, there were no significant changes in our critical accounting policies and estimates. You should refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008 for a more complete discussion of our critical accounting policies and estimates.

### **Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs), which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity. Additionally, this amendment requires ongoing

reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. We are currently evaluating the impact from the adoption of this amendment on our consolidated financial statements.

In October 2009, the FASB issued an update to *Revenue Recognition — Multiple-Deliverable Revenue Arrangements*. This update establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This update provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this update also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this update are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

In October 2009, the FASB issued an update to *Software — Certain Revenue Arrangements That Include Software Elements*. This update changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality,” and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered “essential to the functionality.” The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this update are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating the impact, if any, of this new accounting update on our consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

#### **Interest Rate Risk**

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments to manage interest rate risk in our investment portfolio. Our investment portfolio consists primarily of debt instruments with high credit quality and relatively short average maturities and money market funds that invest in such securities. As short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents, or short-term securities is more subject to market fluctuations than a portfolio of longer term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer term securities. At September 30, 2009, our \$2,360 million of cash and cash equivalents were comprised primarily of money market funds. At September 30, 2009, our \$361 million of short-term investments included \$228 million of U.S. government agency securities, \$2 million of mortgage-backed securities, \$54 million of auction rate securities classified as trading, and \$77 million restricted cash. We have \$22 million in auction rate securities at fair value classified as long-term investments at September 30, 2009. Most of our investment portfolio is invested in short-term or variable rate securities. Accordingly, we believe that a sharp change in interest rates would not have a material effect on the value of our short-term investment portfolio.

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### **Foreign Currency Exchange Rate Risk**

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates. Currency volatility is monitored frequently throughout the year. We enter into currency forward contracts and swaps with Vivendi, generally with maturities of twelve months or less, to mitigate our risk associated with our exposures, which are comprised of foreign currency denominated financial assets and liabilities (e.g. intercompany receivables and payables) and earnings. We expect to continue to use economic hedge programs in the future to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk. We do not hold or purchase any foreign currency contracts for trading or speculative purposes. All foreign currency economic hedging transactions are backed, in amount and by maturity, by an identified economic underlying item.

The gross notional amount of outstanding foreign exchange swaps was \$246 million at September 30, 2009. The notional amounts of outstanding forward foreign exchange contracts and foreign exchange swaps were \$126 million and \$118 million, respectively, at December 31, 2008. A pre-tax net unrealized gain of less than \$1 million and \$3 million for the three months ended September 30, 2009 and 2008, respectively, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the Condensed Consolidated Statements of Operations. A pre-tax net unrealized loss of \$4 million and pre-tax net unrealized gain of \$2 million for the nine months ended September 30, 2009 and 2008, respectively, resulted from the foreign exchange contracts and swaps with Vivendi and were recognized in the Condensed Consolidated Statements of Operations.

### **Item 4. Controls and Procedures**

#### **Controls and Procedures**

##### **1) Definition and Limitations of Disclosure Controls and Procedures.**

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the “Exchange Act”) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In

addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

## 2) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at September 30, 2009, the end of the period covered by this report. Based on this controls evaluation, the principal executive officer and principal financial officer concluded that, at September 30, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

## 3) Changes in Internal Control Over Financial Reporting.

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The discussion in Note 16 to the Condensed Consolidated Financial Statements regarding legal proceedings is incorporated herein by reference.

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### Item 1A. Risk Factors

Various risk factors associated with our business are included in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. In addition, the Company notes the following risk:

*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 on September 19, 2009. There are indications of ongoing regulatory uncertainty regarding NetEase's operation of World of Warcraft in China, which could impact its ability to continue to make the game available on a paying basis without interruption. 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.

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

#### Issuer Repurchase of Equity Securities

The following table provides the number of shares repurchased and average price paid per share during the three months ended September 30, 2009, and the approximate dollar value of shares that may yet be purchased under our \$1.25 billion stock repurchase program at September 30, 2009 (amounts in millions, except number of shares and per share data).

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
July 1, 2009—July 31, 2009	14,420,193	\$ 11.81	14,420,193	\$ 411
August 1, 2009—August 31, 2009	10,165,785	11.90	10,165,785	290
September 1, 2009—September 30, 2009	—	—	—	290
Total	24,585,978	\$ 11.85	24,585,978	

(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 from time to time on the open market or in private transactions, including structured or accelerated transactions. 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. We will determine the timing and amount of repurchases based on our evaluation of market conditions and other factors. We may suspend or discontinue the stock repurchase program at any time.

### Item 6. Exhibits

The exhibits listed on the accompanying index to exhibits are hereby incorporated by reference into this Form 10-Q.

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## SIGNATURE

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

Date: November 6, 2009

ACTIVISION BLIZZARD, INC.

/s/ Thomas Tippl

Thomas Tippl  
Chief Corporate Officer and Chief Financial Officer,  
Principal Financial and Accounting Officer of Activision Blizzard, Inc.

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## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>
3.1	Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated July 9, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed July 15, 2008).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated August 15, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed August 15, 2008).
3.3	Amended and Restated By-Laws of Activision Blizzard, Inc., dated July 9, 2008 (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K, filed July 15, 2008).
3.4	First Amendment to the Amended and Restated By-Laws of Activision Blizzard, Inc., dated July 28, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed July 31, 2008).
10.1*	Employment Agreement, dated July 31, 2009, between Brian Hodous and Activision Publishing, Inc.
10.2*	Notice of Stock Option Award, dated as of November 6, 2009, to Brian Hodous.
10.3*	Notice of Restricted Share Unit Award, dated as of November 6, 2009, to Brian Hodous.
10.4*	Employment Agreement, dated August 31, 2009, between Christopher Walther and Activision Blizzard, Inc.
10.5*	Employment Agreement, dated September 11, 2009, between George Rose and Activision Blizzard, Inc.
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Thomas Tippl pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Thomas Tippl pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Document.

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

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2009 and December 31, 2008, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and September 30, 2008, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and September 30, 2008; (iv) Condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2009; and (v) Notes to Condensed Consolidated Financial Statements.

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

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into this 31<sup>st</sup> of July 2009, between Activision Publishing, Inc. (the "**Employer**"), a subsidiary of Activision Blizzard, Inc. ("**Activision Blizzard**" and, together with its subsidiaries, the "**Activision Blizzard Group**"), and Brian Hodous ("**you**").

RECITAL

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

AGREEMENT

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

**1. Term of Employment**

(a) The term of your employment under this Agreement (the "**Term**") shall commence on August 1, 2009 (the "**Effective Date**") and shall end on July 31, 2011 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 10). Except as set forth in Section 11 and Section 12(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.

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

**2. Compensation**

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

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$575,000, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) You may be eligible to receive an annual discretionary bonus (the "**Annual Bonus**"). Your target Annual Bonus for each calendar year will be seventy five percent (75%) of your Base Salary. In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, your base salary and target bonus prior to the Term, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time

bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15<sup>th</sup> day of the third month, of the year following the year to which the Annual Bonus relates. In all instances, you must remain continuously employed by the Activision Blizzard Group through the date on which the Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the "**Compensation Committee**"), Activision Blizzard will grant to you a non-qualified stock option to purchase 200,000 shares of Activision Blizzard's common stock (the "**Option**") and 60,000 restricted share units which represent the conditional right to receive shares of Activision Blizzard's common stock (the "**RSUs**," and collectively with the Option, the "**Equity Awards**").

- (i) (X) Three-eighths of the Option will vest on the day prior to each of the first and second anniversary of the Effective Date, subject to your remaining employed by the Activision Blizzard Group through that date, and (Y) one-quarter of the Option will vest on the day prior to the third anniversary of the Effective Date (unless the 2010 Annual Operating Plan "Activision Publishing + Blizzard Retail" operating income objectives established by the Compensation Committee for 2010 annual bonus goal of the Employer's President and Chief Executive Officer are met or exceeded, in which case it will vest on the day prior to the second anniversary of the Effective Date), subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.
- (ii) (X) One-half of the RSUs will vest on the day prior to the second anniversary of the Effective Date, subject to your remaining employed by the Activision Blizzard Group through that date, and (Y) one-half of the RSUs will vest on the day prior to the third anniversary of the Effective Date (unless the 2009 Annual Operating Plan "Activision Publishing + Blizzard Retail" operating income objectives established by the Compensation Committee for 2009 annual bonus goal of the Employer's President and Chief Executive Officer are met or exceeded, in which case it will vest on the day prior to the second anniversary of the Effective Date), subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.

You acknowledge that the grant of Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee, and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the "**Incentive Plan**") and Activision Blizzard's standard forms of award agreement (as modified to the extent necessary to reflect the provisions of Section 11 of this Agreement). In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall

govern. These Equity Awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.

(e) Within three weeks of the Effective Date, the Employer will provide you with a renewal bonus in the amount of \$48,000 (less applicable taxes).

**3. Title; Location**

You shall serve as Chief Customer Officer. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to time for business reasons.

**4. Duties**

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

**5. Expenses**

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

**6. Other Benefits**

(a) The Employer will provide you during the Term, at the Employer's expense, with a supplemental term life insurance policy with a benefit amount of \$2,000,000 through a carrier of the Employer's choice.

(b) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available

to executives of the Employer from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement.

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

**7. Vacation and Paid Holidays**

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

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

**8. Protection of the Employer's Interests**

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

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

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

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

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

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

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

(i) During your employment, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly: (a) offer employment to, or solicit the employment or engagement of, or otherwise entice away from the

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employment or engagement of the Activision Blizzard Group, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group; or (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.

(ii) For a period of two (2) years following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly solicit the employment or engagement of, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group (or any person who was employed or otherwise engaged by the Activision Blizzard Group during your final ninety (90) days of employment), whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group.

(iii) During your employment and at all times following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, use the confidential, trade secret information of the Activision Blizzard Group or any other unlawful means to directly or indirectly solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.

(iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you do not violate your Duty of Loyalty or any other fiduciary duty to the Employer, and are reasonable in all circumstances in scope, duration and all other respects. The provisions of this Section 8(f) shall survive the expiration or earlier termination of this Agreement.

**9. Disability**

(a) If, during the Term, you become “Disabled,” you shall receive a lump sum payment of an amount equal to three (3) times the Base Salary (at the rate in effect at the time you become Disabled).

(b) For purposes of this Agreement, whether you are considered to be “**Disabled**” shall be determined in accordance with Section 409A (“**Section 409A**”) of the Internal Revenue

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Code of 1986, as amended and the rules and regulations promulgated thereunder (the “**Code**”). That determination shall be made by a physician mutually agreed upon by you and the Employer. If you and the Employer are unable to agree on such a physician, you and the Employer shall each appoint one physician and those two physicians shall appoint a third physician who shall make the determination of whether you are Disabled. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any determination of whether you are Disabled within ten (10) days of such a request.

(c) Payment of any amount under this Section 9 is conditioned upon your execution of a waiver and release agreement in a form prepared by the Employer after you are determined to be Disabled in accordance with Section 9(b) and that release becoming effective and irrevocable in its entirety and shall be made on the 60<sup>th</sup> day following the date of Disability. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60<sup>th</sup> day following the date on which you are determined to be Disabled, you shall not be entitled to any payments under this Section 9.

(d) Nothing in this Section 9 shall reduce any right you may otherwise have to receive any disability benefits under any Employer-sponsored disability plan.

**10. Termination of Employment**

**(a) By the Employer for Cause.**

- (i) At any time during the Term, the Employer may terminate your employment for “**Cause**,” which shall mean a good-faith determination by the Employer that you (i) engaged in misconduct or gross negligence in the performance of your duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of your employment; (ii) engaged in fraud, dishonesty, or any other conduct that causes or has the potential to cause, harm to any entity in the Activision Blizzard Group, including its business or reputation; (iii) violated any lawful directives or policies of the Activision Blizzard Group or any applicable laws, rules or regulations; (iv) materially breached this Agreement; (v) materially breached any proprietary information or confidentiality agreement with any entity in the Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (vii) breached your fiduciary duties to the Activision Blizzard Group.
- (ii) In the case of any termination for Cause pursuant to clause (iii) of the definition thereof, the Employer shall give you at least thirty (30) days written notice of its intent to terminate your employment. The notice shall specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within fifteen (15) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause. Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall

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be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.

- (iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts) under clauses (i), (ii), (v), (vi) or (vii) of the definition of Cause, your termination shall be treated as a termination by the Employer for Cause.

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

(c) **By You If Your Principal Place of Business Is Relocated Without Your Consent.** At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part, the Employer reassigns your principal place of business to a location that is more than fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 10(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the “**Cure Period**”). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 10(c) will no longer exist.

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

**11. Termination of Obligations and Severance Payments**

(a) **General.** Upon the termination of your employment pursuant to Section 10, your rights and the Employer's obligations to you under this Agreement shall immediately terminate except as provided in this Section 11 and Section 12(s), and you (or your heirs or estate, as applicable) shall be entitled to receive any amounts or benefits set forth below (subject in all cases to Sections 11(f), 12(q) and 12(r)). The payments and benefits provided pursuant to this Section 11 are (x) in lieu of any severance or income continuation protection under any plan of the Activision Blizzard Group that may now or hereafter exist and (y) deemed to satisfy and be in full and final settlement of all obligations of the Activision Blizzard Group to you under this Agreement. You shall have no further right to receive any other compensation benefits following your termination of employment for any reason except as set forth in this Section 11.

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

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**"Basic Severance"** shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

The Employer shall pay or provide you when due (a) any Base Salary earned but unpaid as of the date of your termination, (b) any business expenses incurred but not reimbursed under Section 5 as of the date of your termination, and (c) payment in lieu of any vacation accrued under Section 7 but unused as of the date of your termination

**"Bonus Severance"** shall mean payment of:

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

**"Termination Date"** shall mean the effective date of your termination of employment pursuant to Sections 10(a)-(d).

(b) **Death.** In the event your employment is terminated under Section 10(d):

- (i) Basic Severance. Your heirs or estate shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan.
- (ii) Lump Sum Payment of Three Times Base Salary. Your heirs or estate shall receive payment of an amount equal to three (3) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date.
- (iii) Bonus Severance. Your heirs or estate shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates.
- (iv) Impact on Equity Awards.

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- a. The Option shall continue to vest until the Expiration Date and shall otherwise be treated as if your employment had not terminated prior to that date.
- b. The RSUs that would have vested following your death had you remained employed until the Expiration Date shall immediately vest as of the date of year death and shall thereafter be paid in accordance with their terms.

(c) **Termination by the Employer Without Cause or by you If Your Principal Place of Business Is Relocated Without Your Consent.** In the event the Employer terminates your employment under Section 10(b) or you terminate your employment under Section 10(c):

- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan.
- (ii) Salary Continuation. You shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date, which amount shall be paid in equal installments commencing on the first payroll date following the 60<sup>th</sup> day following the Termination Date in accordance with the Employer's payroll practices in effect on the Termination Date, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date.
- (iii) Bonus Severance. You shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates.

(iv) Impact on Equity Awards.

- a. The Option shall continue to vest until the Expiration Date and shall otherwise be treated as if your employment had not terminated prior to that date.
- b. The RSUs that would have vested following the Termination Date had you remained employed until the Expiration Date shall vest as of the 60th day following the Termination Date and shall thereafter be paid in accordance with their terms.

(v) Severance Conditioned Upon Release. Payments and benefits described in Sections 11(c)(ii), 11(c)(iii) and Section 11(c)(iv) are conditioned upon your execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60<sup>th</sup> day following the Termination Date, you

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shall not be entitled to any payments under this Section 11(c) other than the Basic Severance.

(vi) Severance Following Disability. If you are entitled to receive payments pursuant to Section 9 as a result of your having become Disabled, then upon a subsequent or concurrent termination of employment under Section 10(b) or 10(c), you shall only be entitled to the payments under Sections 11(c)(i) and (iii) and not any payment under Section 11(c)(ii).

(d) **Termination by the Employer For Cause.** In the event your employment is terminated by the Employer under Section 10(a), then:

- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan.
- (ii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.

(e) **Termination on the Expiration Date.** In the event your employment terminates on the Expiration Date, then:

- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan.
- (ii) Bonus Severance. You shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates.
- (iii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of the Expiration Date will be cancelled immediately.
- (iv) Severance Conditioned Upon Release. Payments described in Section 11(e) are conditioned upon your execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60<sup>th</sup> day following the Termination Date, you shall not be entitled to any payments under this Section 11(e) other than the Basic Severance.

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(f) **Breach of Post-termination Obligations or Subsequent Employment.**

- (i) Breach of Post-termination Obligations. In the event that you breach any of your obligations under Section 8, the Employer's obligation, if any, to make payments and provide benefits under Section 11 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.
- (ii) Subsequent Employment. Notwithstanding anything to the contrary contained herein, you shall receive the payments and benefits under Section 11 (other than payment of the Basic Severance) only for the time period that you do not obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity. If, at any time, you obtain subsequent employment or provide services as set forth in the prior sentence, you must promptly notify the Company and payments and benefits under Section 11 (other than payment of the Basic Severance) shall cease as of the date you commenced such employment or provision of services.

## 12. General Provisions

(a) **Entire Agreement.** This Agreement and the Proprietary Information Agreement supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard Group, and no amendment or modification of these agreements shall be binding unless it is set forth in a writing signed by both the Employer and you. To the extent that this Agreement conflicts with any

of the Employer's policies, procedures, rules or regulations, this Agreement shall supersede the other policies, procedures, rules or regulations. Without limiting the generality of the foregoing, you acknowledge that this Agreement supersedes your prior written employment agreement with the Activision Blizzard Group dated September 18, 2006, and such agreement is hereby terminated and of no further force and effect.

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

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

(d) **No Conflict with Prior Agreements.** You represent to the Employer that neither your commencement of employment under this Agreement nor the performance of your duties under this Agreement conflicts or will conflict with any contractual or legal commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party.

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If you have acquired any confidential or proprietary information in the course of your prior employment or otherwise in connection with your provision of services to any entity outside the Activision Blizzard Group, during the Term you will fully comply with any duties to such entity then-applicable to you not to disclose or otherwise use such information.

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

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

(g) **Expiration.** This Agreement does not constitute a commitment of the Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon the Expiration Date, or, if earlier, the termination of this Agreement pursuant to Section 10, neither the Employer nor you shall have any obligation to the other with respect to your continued employment.

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

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

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

(k) **Arbitration.**

(i) Except as otherwise provided in this Agreement, any dispute or controversy between the Employer and you will be settled by final and binding arbitration by a single arbitrator to be held in the city in which you were last employed by the Employer, unless the Employer and you agree otherwise, in accordance with the JAMS rules for resolution of employment disputes then in effect, except as provided in this Section 12(k). The arbitrator the parties select will have the authority to grant any party all remedies otherwise available by law, but will not have the power to grant any remedy that would not be available in a state or federal court in the jurisdiction in which the arbitration is being held. Either party may seek court intervention in a dispute for interim equitable relief in a court of competent subject matter jurisdiction located within the city in which you

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were last employed by the Employer, but the resort to interim equitable relief will be pending and in aid of arbitration only, and in such cases the trial on the merits of the action will occur in front of, and will be decided by, the arbitrator, who will have the same ability to order legal or equitable remedies as could a court of general jurisdiction. The arbitrator will have the authority to hear and rule on dispositive motions (such as motions for summary adjudication or summary judgment) and has the exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this agreement to arbitrate claims, including but not limited to any claim that all or any part of this agreement is void or voidable. This agreement to arbitrate applies to all claims that the Employer may have against you or that you may have against the Employer or the Employer's current and former officers, directors, employees, representatives and agents, and/or all entities affiliated with the Employer, as well as the current and former officers, directors, employees, representatives and agents of those affiliates. This arbitration obligation shall not prohibit the Employer or you from filing a claim with an administrative agency, nor does it apply to claims for workers' compensation or unemployment benefits, claims for benefits under an employee welfare or pension plan that specifies a different dispute resolution procedure, or claims which, by law, cannot be compelled to binding arbitration via private agreement.

(ii) Notwithstanding anything to the contrary in the rules of JAMS, the arbitration shall provide (a) for written discovery and depositions as provided under the Federal Rules of Civil Procedure and (b) for a written decision by the arbitrator that includes the

essential findings and conclusions upon which the decision is based which must be issued no later than thirty (30) days after a dispositive motion is heard or an arbitration hearing has completed. The Employer will pay the fees and administrative costs charged by the arbitrator and JAMS; provided, however, that if you initiate the arbitration, you must initiate it by paying to JAMS an amount equal to the filing fee for the state court of general jurisdiction in the state in which you were last employed by the Employer.

- (iii) Either party will have the same amount of time to file any claim against any other party as it would have if the claim had been filed in state or federal court in the city in which you were last employed by the Employer. In conducting the arbitration, the arbitrator shall follow the Federal Rules of Evidence (including but not limited to all applicable privileges).
- (iv) The arbitrator must be experienced in employment law. He or she will be selected by the mutual agreement of the parties. If the parties cannot agree on an arbitrator, the parties will alternately strike names from a list provided by JAMS until only one name remains. If a JAMS arbitrator is not available to conduct an arbitration in the city in which you last worked for the Employer, then another similar arbitration service provider will be selected by the mutual agreement of the parties (and all references to

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JAMS in this Section 12(k) will be deemed to be references to that arbitration service provider).

- (v) The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. The prevailing party in the arbitration, as determined by the arbitrator, shall be entitled to recover his or its reasonable attorneys' fees, experts' fees and costs, including the costs or fees charged by the arbitrator and JAMS, in addition to such other relief as may be granted, under the standards provided by law for awarding such fees and costs applicable to the claims asserted. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
- (vi) **You understand that your and the Employer's agreement to arbitrate all disputes means that both you and the Employer are waiving your right to file a court action, except for requests for injunctive relief pending arbitration. You also understand that both you and the Employer are giving up any right to a jury trial.**

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

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

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to obtain injunctive relief for such breaches or threatened breaches in any court of competent jurisdiction. The injunctive relief provided for in Section 12(k) (i) and this Section 12(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

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

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

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

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

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deduction for such payment. The determinations to be made with respect to this Section 12(r) shall be made by a certified public accounting firm designated by the Employer

(s) **Survivability.** The provisions of Sections 8, 11(f), 12(b), 12(c), 12(e), 12(f), 12(h), 12(i), 12(k), 12(l), 12(m), 12(n), 12(o), 12(q), 12(r), this 12(s) and Section 13 (as well as the Proprietary Information Agreement) shall survive the termination or expiration of this Agreement

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

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

(v) **Right to Negotiate.** You hereby acknowledge that you have been given the opportunity to participate in the negotiation of the terms of this Agreement. You acknowledge and confirm that you have read this Agreement and fully understand its terms and contents.

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

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

### 13. **Indemnification**

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

### 14. **Notices**

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

To the Employer:	Activision Publishing, Inc. 3100 Ocean Park Boulevard Santa Monica, California 90405
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	Attention: Chief Legal Officer
To You:	Brian Hodous EMPLOYEE ADDRESS

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

### **ACCEPTED AND AGREED TO:**

**Employer**

**Employee**

ACTIVISION PUBLISHING, INC

By: /s/ Michael Griffith

/s/ Brian Hodous

Michael Griffith  
Chief Executive Officer

Brian Hodous

Date: July 30, 2009

Date: July 24, 2009

## AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

## 2008 INCENTIVE PLAN

## NOTICE OF STOCK OPTION AWARD

You have been awarded an option to purchase Common Shares of Activision Blizzard, Inc. (the “Company”), as follows:

- Your name: **Brian Hodous**
- Total number of Shares purchasable upon exercise of the Stock Option awarded: **200,000**
- Exercise Price: US\$ **12.46** per Share
- Date of Grant: **August 7, 2009**
- Expiration Date: **August 7, 2019**
- Grant ID: **08001731**
- Your Award of the Stock Option is governed by the terms and conditions set forth in:
  - this Notice of Stock Option Award;
  - the Stock Option Award Terms attached hereto as Exhibit A (the “Award Terms”); and
  - the Company’s Amended and Restated 2008 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Stock Option Award has been made in connection with your employment agreement with the Company or one of its subsidiaries or affiliates as a material inducement to your entering into or renewing employment with such entity pursuant to such agreement, and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting*: Except as otherwise provided under the Award Terms, the Stock Option awarded to you will vest and become exercisable as follows, provided you remain continuously employed by the Company or one of its subsidiaries or affiliates through each such date:

## Schedule for Vesting

<u>Date of Vesting</u>	<u>No. of Shares Vesting at Vesting Date</u>	<u>Cumulative No. of Shares Vested at Vesting Date</u>
July 31, 2010	75,000	75,000
July 31, 2011	75,000	150,000
July 31, 2012	50,000	200,000

Notwithstanding the foregoing, the portion of the Option scheduled to vest on July 31, 2012 shall vest on July 31, 2011 following a determination by the Committee that the 2010 annual

operating plan “Activision Publishing + Blizzard Retail” operating income objectives established by the Committee in connection with the establishment of the annual bonus goals for Activision Publishing, Inc.’s President and Chief Executive Officer for that year have been met or exceeded, provided you remain employed by the Company or one of its subsidiaries or affiliates through such vesting date.

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

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

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

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

**ACTIVISION BLIZZARD, INC.**

/s/ Ann E. Weiser  
Ann E. Weiser

Date: October 21, 2009

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**ACCEPTED AND AGREED:**

/s/ Brian Hodous

**Brian Hodous**

Date: October 19, 2009

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**EXHIBIT A**

**AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.**

**2008 INCENTIVE PLAN**

**STOCK OPTION AWARD TERMS**

1. Definitions.

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

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

**“Cause”** (i) shall have the meaning given to such term in any employment agreement or offer letter between the Holder and the Company or any of its subsidiaries or affiliates in effect from time to time or (ii) if the Holder is not party to any agreement or offer letter with the Company or any of its subsidiaries or affiliates or any such agreement or offer letter does not contain a definition of “cause,” shall mean that the Holder (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other improper conduct that causes, or in the sole and absolute discretion of the Company has the potential to cause, harm to the Company Group, including the business reputation or financial condition of any member of the Company Group; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, proprietary information agreement or any other agreement with the Company Group; (E) committed, was indicted on charges related to, convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty, moral turpitude or which could reflect negatively upon the Company Group of otherwise impede its operations; or (F) breached his or her fiduciary duties to the Company Group.

**“Common Shares”** means the shares of common stock, par value \$0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 8 hereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) if the Holder has exercised any portion of the Stock Option during such Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the sales price per Share sold minus the Exercise Price times (B) the number of Shares as to which the Stock Option was exercised and which were sold at such sales price; plus
- (ii) if the Holder has exercised any portion of the Stock Option during such Look-back Period and not sold any of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the greatest of the following: (1) the Market Value per Share of Common Shares on the date of exercise, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of the Company’s written notice of its exercise of its rights under Section 11 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of

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

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

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

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

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

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

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

3. Vesting and Exercise.

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

(b) Exercisable Only by the Holder. Except as otherwise permitted under the Plan or Section 10 hereof, the Stock Option may be exercised during the Holder’s lifetime only by the Holder or, in the event of the Holder’s legal incapacity to do so, by the Holder’s guardian or legal representative acting on behalf of the Holder in a fiduciary capacity under state law and/or court supervision.

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

(d) Payment of Exercise Price. To be valid, any exercise of the Stock Option must be accompanied by full payment of the aggregate Exercise Price of the Shares being purchased. The Company shall determine the method or methods the Holder may use to make such payment, which may include any of the following: (i) by bank check or certified check or wire transfer of immediately available funds, (ii) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities

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Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company’s consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate Exercise Price of the Shares being purchased, (iii) by tendering previously owned shares (valued at their Market Value per Share as of the date of tender), (iv) through the withholding of Shares otherwise deliverable upon exercise, or (v) any combination of (i), (ii), (iii) or (iv) above or any other manner permitted pursuant to the Plan.

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

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

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

(g) Issuance and Delivery of Shares. As soon as practicable (and, in any event, within 30 days) after the valid exercise of the Stock Option, the Company shall (i) effect the issuance or transfer of the Shares purchased upon such exercise, (ii) cause the issuance or transfer of such Shares to be evidenced on the books and records of the Company, and (iii) cause such Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Shares are subject to a legend as set forth in Section 14 hereof, the Company shall instead cause a certificate evidencing such Shares and bearing such legend to be delivered to the person entitled thereto.

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

4. Termination of Employment.

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

(b) Death. In the event that the Holder dies while employed by the Company or any of its subsidiaries or affiliates, the Stock Option shall (i) continue to vest until July 31, 2011 as if the Holder's employment had continued until that date and (ii) be exercisable in accordance with these Award Terms until August 30, 2011, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled. To the extent not vested as of July 31, 2011, the Stock Option shall be cancelled as of that date and shall no longer be exercisable.

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(c) Without Cause or Following Relocation of Employment Without Consent. In the event that the Holder's employment is terminated by the Company or any of its subsidiaries or affiliates without Cause or by the Holder pursuant to Section 10(c) of the Employment Agreement, the Stock Option shall (i) continue to vest until July 31, 2011 as if the Holder's employment had continued until that date and (ii) be exercisable in accordance with these Award Terms until August 30, 2011, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled; provided, however, that if the waiver and release executed by the Holder in accordance with the Employment Agreement does not become effective and irrevocable in its entirety in accordance with the Employment Agreement, the Stock Option shall (i) cease to vest as of the termination date, if not then fully vested, (ii) no longer be exercisable, whether or not vested, and (iii) be cancelled. In any case, to the extent not vested as of July 31, 2011, the Stock Option shall be cancelled as of that date and shall no longer be exercisable.

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

5. Tax Withholding. The Company shall have the right to require the Holder to satisfy any Withholding Taxes resulting from the exercise (in whole or in part) of the Stock Option, the issuance or transfer of any Shares upon exercise of the Stock Option or otherwise in connection with the Award at the time such Withholding Taxes become due. The Company shall determine the method or methods the Holder may use to satisfy any Withholding Taxes contemplated by this Section 5, which may include any of the following: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate amount of such Withholding Taxes; (c) by tendering previously owned shares (valued at their Market Value per Share as of the date of tender); (d) through the withholding of Shares otherwise deliverable upon exercise; or (e) by any combination of (a), (b), (c) or (d) above. Notwithstanding anything to the contrary contained herein, (i) the Company or any of its subsidiaries or affiliates shall have the right to withhold from the Holder's compensation any Withholding Taxes contemplated by this Section 5 and (ii) the Company shall have no obligation to deliver any Shares upon exercise of the Stock Option unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

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

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

to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to Section 409A.

8. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of the Holder that would otherwise result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash or other equity awards), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

9. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Stock Option may not be exercised, and the Stock Option and Shares purchasable upon exercise of the Stock Option may not be purchased, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with (a) the Securities Act of 1933, as amended, or any comparable federal securities law, and all applicable state securities laws, (b) the requirements of any securities exchange, securities association, market system or quotation system on which securities of the Company of the same class as the Shares are then traded or quoted, (c) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (d) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, the Stock Option or Shares with the SEC, any state securities commission or any securities exchange, securities association, market system

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or quotation system to effect such compliance. The Holder shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act of 1933, as amended, relating to the Stock Option or Shares, to issue or transfer the Stock Option or Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or resale of the Stock Option or Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

10. Transferability. Except as otherwise permitted under the Plan or this Section 10, the Stock Option shall not be transferable by the Holder other than by will or the laws of descent and distribution. Subject to the terms of the Plan, with the Company's consent, the Holder may transfer all or part of the Stock Option for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided further that the Holder will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms.

11. Employment Violation. The terms of this Section 11 shall apply to the Stock Option if the Holder is or becomes subject to an employment agreement with the Company or any of its subsidiaries or affiliates. In the event of an Employment Violation, the Company shall have the right to require (i) the termination and cancellation of the Stock Option, whether vested or unvested, and (ii) payment by the Holder to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by the Holder to the Company of the Recapture Amount, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of the Stock Option during the Look-back Period with respect to such Employment Violation and the Holder shall not be entitled to receive any consideration from the Company in exchange therefor. Any such termination of the Stock Option and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate the Holder's employment if not already terminated and to seek injunctive relief and additional monetary damages.

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

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

(b) The Award is subject to the terms and conditions of the Term Sheet, and any Company policies or procedures adopted in connection with the Company's implementation

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of the Term Sheet, including, without limitation, any policy requiring or permitting the Company to recover any gains realized by the Holder in connection with the Award.

13. Section 409A. As the Exercise Price is equal to the fair market value of a Share on the Date of Grant, payments contemplated with respect to the Award are intended to be exempt from Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on the Holder or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of the Holder, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 13 does not create an obligation on the part of the Committee or the Company to make any such modification.

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

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

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

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

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

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

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19. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Holder and, to the extent applicable, the Holder’s permitted assigns under Section 3(b) hereof and the Holder’s estate or beneficiary(ies) as determined by will or the laws of descent and distribution.

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

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

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

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## AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.

## 2008 INCENTIVE PLAN

## NOTICE OF RESTRICTED SHARE UNIT AWARD

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

- Your name: **Brian Hodous**
- Total number of Restricted Share Units awarded: **60,000**
- Date of Grant: **August 7, 2009**
- Grant ID: **08001758**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
  - this Notice of Restricted Share Unit Award;
  - the Restricted Share Unit Award Terms attached hereto as Exhibit A (the "Award Terms"); and
  - the Company's Amended and Restated 2008 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Award of Restricted Share Units has been made in connection with your employment agreement with the Company or one of its subsidiaries or affiliates as a material inducement to your entering into or renewing employment with such entity pursuant to such agreement, and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting:*

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

## Schedule for Vesting

<u>Date of Vesting</u>	<u>No. of Restricted Share Units Vesting at Vesting Date</u>	<u>Cumulative No. of Restricted Share Units Vested at Vesting Date</u>
July 31, 2011	30,000	30,000
July 31, 2012	30,000	60,000

Notwithstanding the foregoing, the Restricted Share Units scheduled to vest on July 31, 2012 shall vest on July 31, 2011 following a determination by the Committee that the 2009 annual

operating plan "Activision Publishing + Blizzard Retail" operating income objectives established by the Committee in connection with the establishment of the annual bonus goals for Activision Publishing, Inc.'s President and Chief Executive Officer for that year (the "Performance Conditions") have been met or exceeded, provided you remain employed by the Company or one of its subsidiaries or affiliates through such vesting date.

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

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

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

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

**ACTIVISION BLIZZARD, INC.**

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

Date: October 21, 2009

/s/ Brian Hodous

Brian Hodous

Date: October 19, 2009

**EXHIBIT A**

**AMENDED AND RESTATED ACTIVISION BLIZZARD, INC.**

**2008 INCENTIVE PLAN**

**RESTRICTED SHARE UNIT AWARD TERMS**

1. Definitions.

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

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

**“Cause”** (i) shall have the meaning given to such term in any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time or (ii) if Grantee is not party to any agreement or offer letter with the Company or any of its subsidiaries or affiliates or any such agreement or offer letter does not contain a definition of “cause,” shall mean that Grantee (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other improper conduct that causes, or in the sole and absolute discretion of the Company has the potential to cause, harm to the Company Group, including the business reputation or financial condition of any member of the Company Group; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, proprietary information agreement or any other agreement with the Company Group; (E) committed, was indicted on charges related to, convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty, moral turpitude or which could reflect negatively upon the Company Group of otherwise impede its operations; or (F) breached his or her fiduciary duties to the Company Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**"Restricted Share Units"** means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these

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Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

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

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

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

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

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

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

3. Termination of Employment.

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

(b) Without Cause or Following Relocation of Employment Without Consent. In the event that Grantee's employment is terminated by the Company or any of its subsidiaries or affiliates without Cause or by Grantee pursuant to Section 10(c) of the Employment Agreement, the Restricted Share Units, if any, that would have ultimately vested in accordance with the "Schedule for Vesting" set forth on the Grant Notice if Grantee's employment had continued until July 31, 2011 shall vest as of the 60<sup>th</sup> day following the termination date (without giving effect to the possible acceleration of vesting due to satisfaction of the Performance Conditions if the termination date is on or prior to December 31, 2009, and only giving effect to the accelerated vesting due to satisfaction of the Performance Conditions if the termination date occurs on or after January 1, 2010 and the Committee makes or has made the needed determination related to satisfaction of the Performance Conditions on or prior to the 60<sup>th</sup> day following the termination date); provided, however, that if the waiver and release to be executed by Grantee in accordance with the Employment Agreement does not become effective and irrevocable in its entirety in accordance with the Employment Agreement, with the exception of

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any Vested Shares that have yet to settle pursuant to Section 7 hereof, the Restricted Share Units cease to vest as of the termination date and shall be forfeited to the Company without payment of consideration by the Company on the 60<sup>th</sup> day following the termination date. To the extent not vested as of the termination date or capable of vesting in accordance with this Section 3(b), with the exception of any Vested Shares that have yet to settle pursuant to Section 7 hereof, the Restricted Share Units shall immediately be forfeited to the Company without payment of consideration by the Company.

(c) Death. In the event Grantee dies while employed by the Company or any of its subsidiaries or affiliates, the Restricted Share Units, if any, that would have ultimately vested in accordance with the "Schedule for Vesting" set forth on the Grant Notice if Grantee's employment had continued until July 31, 2011 shall immediately vest (without giving effect to the possible acceleration of vesting due to satisfaction of the Performance Conditions if Grantee dies on or prior to December 31, 2009, and only giving effect to the accelerated vesting due to satisfaction of the Performance Conditions if Grantee dies on or after January 1, 2010 and the Committee makes or has made the needed determination related to satisfaction of the Performance Conditions on or prior to the date of Grantee's death). To the extent not vested as of the date of Grantee's death (whether in accordance with this Section 3(c) or otherwise), with the exception of any Vested Shares that have yet to settle pursuant to Section 7 hereof, the Restricted Share Units shall immediately be forfeited to the Company without payment of consideration by the Company.

(d) Other. Unless the Committee determines otherwise in the event that Grantee's employment is terminated for any reason not addressed by Section 3(a), 3(b) or 3(c), as of the date of such termination of employment all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 7 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

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

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

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

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

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

9. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that would otherwise result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash or other equity awards), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

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

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appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act of 1933, as amended, relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the

issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act of 1933, as amended, or any comparable federal securities law or applicable state securities law.

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

12. Employment Violation. The terms of this Section 12 shall apply to the Restricted Share Units if Grantee is or becomes subject to an employment agreement with the Company or any of its subsidiaries or affiliates. In the event of an Employment Violation, the Company shall have the right to require (i) the forfeiture by Grantee to the Company of any outstanding Restricted Share Units or Vested Shares which have yet to settle pursuant to Section 7 hereof and (ii) payment by Grantee to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by Grantee to the Company of the Recapture Amount, Grantee, in his or her discretion, may tender to the Company the Vested Shares acquired during the Look-back Period with respect to such Employment Violation and Grantee shall not be entitled to receive any consideration from the Company in exchange therefor. Any such forfeiture of Restricted Share Units and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate Grantee's employment if not already terminated and to seek injunctive relief and additional monetary damages.

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

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

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

14. Section 409A.

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

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

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

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

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

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

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

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

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

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

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

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

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such other address as the Company by notice to Grantee may designate in writing from time to time; and (b) if to Grantee, at the address shown in any employment agreement or offer letter between Grantee and the Company or any of its subsidiaries or affiliates in effect from time to time, or such other address as Grantee by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

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

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

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## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into this 31<sup>st</sup> day of August 2009, between Activision Publishing, Inc. (the "**Employer**"), a subsidiary of Activision Blizzard, Inc. ("**Activision Blizzard**" and, together with its subsidiaries, the "**Activision Blizzard Group**"), and Christopher Walther ("**you**").

### RECITAL

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

### AGREEMENT

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

#### 1. Term of Employment

(a) The term of your employment under this Agreement (the "**Term**") shall commence on or before December 1, 2009 (the "**Effective Date**") and shall end on December 31, 2012 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 9). The Employer shall have the option to extend the Term by up to one year by notifying you in writing of its intent to do so at least six (6) months prior to the original Expiration Date. The final date of any such extended Term shall thereafter be referred to as the "Expiration Date" for purposes of this Agreement and the Term shall end on such date (or such earlier date on which your employment is terminated). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.

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

#### 2. Compensation

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

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$500,000, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) You will be eligible to receive an annual discretionary bonus (the "**Annual Bonus**"). Your target Annual Bonus for each calendar year will be seventy five percent (75%) of your Base Salary. In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15<sup>th</sup> day of the third month, of the year following the year to which the Annual Bonus relates. In all instances, you must remain continuously employed by the Activision Blizzard Group through the date on which an Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the "**Compensation Committee**"), Activision Blizzard will grant to you a non-qualified stock option to purchase 300,000 shares of Activision Blizzard's common stock (the "**Option**") and 75,000 restricted share units which represent the conditional right to receive shares of Activision Blizzard's common stock (the "**RSUs**," and collectively with the Option, the "**Equity Awards**").

- (i) One-third of the Option will vest on each of December 31, 2010, December 31, 2011 and December 30, 2012, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.
- (ii) One-third of the RSUs will vest on each of December 31, 2010, December 31, 2011 and December 30, 2012, subject to your remaining employed by the Activision Blizzard Group through such vesting date.

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

Within three weeks of the Effective Date, the Employer will provide you with a sign on bonus in the amount of \$350,000 (less applicable taxes). This bonus will not be fully earned by you until you have completed two years of employment under this Agreement. Specifically, should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) prior to the first anniversary of the Effective Date, you agree to repay the Employer 100% of the net amount of this bonus (after taking into account any tax credit and/or refund you are entitled to receive as a result of such repayment) within 60 days of the termination of your employment. Should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) at any point after the first anniversary, but prior to the second anniversary, of the Effective Date, you agree to repay the Employer 50% of the bonus (after

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Group through the second anniversary of the Effective Date, the bonus shall be fully earned as of such date such that if your employment subsequently terminates for any reason you will not have to repay any portion of the bonus. The fact that you are receiving this bonus and the terms under which you will be required to repay the bonus in no way affect your other obligations under this Agreement.

(e) In connection with your relocation to the Los Angeles area, you shall be entitled to the relocation benefits set forth in, and determined in accordance with and otherwise subject to the terms and conditions of, the "Relocation Summary" attached hereto as Exhibit C hereto. Notwithstanding anything to the contrary in this Agreement or in the Relocation Summary, should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) prior to the first anniversary of the Effective Date, you agree to repay the Employer 100% of any relocation expenses for which you were reimbursed by the Employer within 60 days of the termination of your employment.

**3. Title; Location**

You shall serve as Chief Legal Officer of Activision Blizzard. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to time for business reasons.

**4. Duties**

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

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**5. Expenses**

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

**6. Other Benefits**

(a) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available to executives of the Employer from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement. In addition to the foregoing benefits, Employer will provide you during the Term, at Employer's expense, with a supplemental term life insurance policy with a face amount of \$2,000,000 through a carrier of Employer's choice (the "**Target Face Amount**"), subject to your insurability. If it is determined that you are insurable at a higher cost than a healthy individual of like age, the face amount of such insurance coverage will be reduced to the maximum face amount of coverage that may be obtained for the cost of coverage of the Target Face Amount for such healthy individual.

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

**7. Vacation and Paid Holidays**

(a) You will generally be entitled to paid vacation days in accordance with the normal vacation policies of the Employer in effect from time to time; provided, however, that you will be entitled to at least twenty (20) paid vacation days per year.

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

**8. Protection of the Employer's Interests**

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

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

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

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

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

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

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

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

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

- (iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you

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

## 9. Termination of Employment

### (a) **By the Employer for Cause.**

- (i) At any time during the Term, the Employer may terminate your employment for "**Cause**," which shall mean a reasonable and good-faith determination by the Employer that you (i) engaged in gross negligence in the performance of your duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of your employment; (ii) engaged in fraud, dishonesty, or any other serious misconduct that causes or has the potential to cause, harm to any entity in the Activision Blizzard Group, including its business or reputation; (iii) materially violated any lawful directives or policies of the Activision Blizzard Group or any laws, rules or regulations applicable to your employment with the Activision Blizzard Group; (iv) materially breached this Agreement; (v) materially breached any proprietary information or confidentiality agreement with any entity in the Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (vii) materially breached your fiduciary duties to the Activision Blizzard Group.
- (ii) In the case of any termination for Cause that is curable without any residual damage (financial or otherwise) to the Employer or any entity in the Activision Blizzard Group, the Employer shall give you at least thirty (30) days written notice of its intent to terminate your employment; provided, that in no event shall any termination pursuant to clause (vi) of the definition of Cause be deemed curable. The notice shall specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within fifteen (15) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause (other than a termination pursuant to clause (vi) of the definition thereof). Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.
- (iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts)

under clauses (i), (ii), (v), (vi) or (vii) of the definition of Cause, your termination shall be treated as a termination by the Employer for Cause.

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

(c) **By You If Your Principal Place of Business Is Relocated Without Your Consent.** At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part, the Employer reassigns your principal place of business to a location that is more than fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 9(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the "**Cure Period**"). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 9(c) will no longer exist.

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

(e) **Disability.** In the event that you are or become "**disabled**," the Employer shall, to the extent permitted by applicable law, have the right to terminate your employment. For purposes of this Agreement, "**disabled**" shall mean that either (i) you are receiving benefits under any long-term disability plan of the Employer then in effect, or (ii) if there is no such long-term disability plan of the Employer then in effect, you have a long-term and continuous physical or mental impairment that renders you unable to perform the duties required of you under this Agreement, even with the Employer providing you a reasonable accommodation, as determined by a physician mutually acceptable to you and the Employer. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any determination of whether you are disabled within ten (10) days of such a request. Without limiting the generality of the foregoing, to the extent provided by the Employer's policies and practices then in effect, you shall not receive any Base Salary during any period in which you are disabled; provided, however, that nothing in this Section 9(e) shall impact any right you may have to any payments under the Employer's short-term and long-term disability plans, if any.

## 10. Termination of Obligations and Severance Payments

(a) **General.** Upon the termination of your employment pursuant to Section 9, your rights and the Employer's obligations to you under this Agreement shall immediately terminate except as provided in this Section 10 and Section 11(s), and you (or your heirs or estate, as applicable) shall be entitled to receive any amounts or benefits set forth below (subject in all cases to Sections 10(f), 11(q) and 11(r)). The payments and benefits provided

in full and final settlement of all obligations of the Activision Blizzard Group to you under this Agreement. You shall have no further right to receive any other compensation benefits following your termination of employment for any reason except as set forth in this Section 10.

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

“**Basic Severance**” shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

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

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

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

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

- (i) **Basic Severance.** Your heirs or estate, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) **Lump Sum Payment of Two Times Base Salary.** Your heirs or estate, as the case may be, shall receive payment of an amount equal to two (2) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date; provided, however, that this amount shall be reduced by any payments to which you become entitled upon death under any Employer-sponsored plan other than the \$2,000,000 life insurance policy;
- (iii) **Bonus Severance.** Your heirs or estate, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day

of the third month of the year following the year to which the underlying amount relates; and

- (iv) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (i) one (1) year after the Termination Date or (ii) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately.

(c) **Termination by the Employer Without Cause, by You if Your Principal Place of Business Is Relocated Without Your Consent or by the Employer if You Become Disabled.** In the event the Employer terminates your employment under Section 9(b), you terminate your employment under Section 9(c) or the Employer terminates your employment under Section 9(e):

- (i) **Basic Severance.** You or your legal representative, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) **Salary Continuation.** Subject to Section 10(f)(ii), you or your legal representative, as the case may be, shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date (the “**Salary Continuation Period**”), which amount shall be paid in equal installments commencing on the first payroll date following the 60<sup>th</sup> day following the Termination Date in accordance with the Employer’s payroll practices in effect on the Termination Date, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date; provided, however, that, to the extent doing so will not result in the imposition of additional taxes under Section 409A (“**Section 409A**”) of the Internal Revenue Code of 1986, as amended and the rules and regulations promulgated thereunder (the “**Code**”), this amount shall be reduced by any payments which you have received or to which you become entitled under any Employer-sponsored long-term disability plan;
- (iii) **Bonus Severance.** You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates;

- (iv) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately; and

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- (v) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(c)(ii) and 10(c)(iii) are conditioned upon your execution or your legal representative's execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60<sup>th</sup> day following the Termination Date, you shall not be entitled to any payments under this Section 10(c) other than the Basic Severance.
- (d) **Termination by the Employer For Cause.** In the event your employment is terminated by the Employer under Section 9(a), then:
- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and
- (ii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.
- (e) **Termination on the Expiration Date.** In the event your employment terminates on the Expiration Date, then:
- (i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and
- (ii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of the Expiration Date will be cancelled immediately; and
- (iii) Annual Bonus. You shall receive payment of an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for the fiscal year ending on the Expiration Date had you remained employed through the date such bonus would have been otherwise been paid. Such payment will be made to you in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates.
- (f) **Breach of Post-termination Obligations or Subsequent Employment.**
- (i) Breach of Post-termination Obligations. In the event that you materially breach any of your obligations under Section 8, the Employer's obligation,

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if any, to make payments and provide benefits under Section 10 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.

- (ii) Subsequent Employment. Notwithstanding anything to the contrary contained herein, if, at any time during the Salary Continuation Period, you obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity, you must promptly notify the Employer and payments under Section 10(c)(ii) shall be refunded by you to the Employer (to the extent already paid) and shall be offset (to the extent payable in the future) by the amount of Base Compensation (as defined below) earned by, paid to, or granted to you during or with respect to the Salary Continuation Period. "**Base Compensation**" shall mean the amount of your base salary or, if applicable, wages you earn (or are paid or granted) during or with respect to any subsequent employment or services arrangement; provided, however, such base salary or wages shall be deemed, in all cases, to equal no less than 35% of the total compensation (including, without limitation, any and all amounts of salary, bonus and all other kinds of cash or in-kind or equity-based compensation) you earn, are paid, or are granted during or with respect to such subsequent employment or services arrangement and which are paid to you, vest or otherwise accrue with respect to services performed by you, during or with respect to the Salary Continuation Period.

## 11. General Provisions

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

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

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

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

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

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

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

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

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

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

(k) **Arbitration.**

(i) Except as otherwise provided in this Agreement, any dispute or controversy between the Employer and you will be settled by final and

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binding arbitration by a single arbitrator to be held in the city in which you were last employed by the Employer, unless the Employer and you agree otherwise, in accordance with the JAMS rules for resolution of employment disputes then in effect, except as provided in this Section 11(k). The arbitrator the parties select will have the authority to grant any party all remedies otherwise available by law, but will not have the power to grant any remedy that would not be available in a state or federal court in the jurisdiction in which the arbitration is being held. Either party may seek court intervention in a dispute for interim equitable relief in a court of competent subject matter jurisdiction located within the city in which you were last employed by the Employer, but the resort to interim equitable relief will be pending and in aid of arbitration only, and in such cases the trial on the merits of the action will occur in front of, and will be decided by, the arbitrator, who will have the same ability to order legal or equitable remedies as could a court of general jurisdiction. The arbitrator will have the authority to hear and rule on dispositive motions (such as motions for summary adjudication or summary judgment) and has the exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this agreement to arbitrate claims, including but not limited to any claim that all or any part of this agreement is void or voidable. This agreement to arbitrate applies to all claims that the Employer may have against you or that you may have against the Employer or the Employer’s current and former officers, directors, employees, representatives and agents, and/or all entities affiliated with the Employer, as well as the current and former officers, directors, employees, representatives and agents of those affiliates. This arbitration obligation shall not prohibit the Employer or you from filing a claim with an administrative agency, nor does it apply to claims for workers’ compensation or unemployment benefits, claims for benefits under an employee welfare or pension plan that specifies a different dispute resolution procedure, or claims which, by law, cannot be compelled to binding arbitration via private agreement.

(ii) Notwithstanding anything to the contrary in the rules of JAMS, the arbitration shall provide (a) for written discovery and depositions as provided under the Federal Rules of Civil Procedure and (b) for a written decision by the arbitrator that includes the essential findings and conclusions upon which the decision is based which must be issued no later than thirty (30) days after a dispositive motion is heard or an arbitration hearing has completed. The Employer will pay the fees and administrative costs charged by the arbitrator and JAMS; provided, however, that if you initiate the arbitration, you must initiate it by paying to JAMS

an amount equal to the filing fee for the state court of general jurisdiction in the state in which you were last employed by the Employer.

- (iii) Either party will have the same amount of time to file any claim against any other party as it would have if the claim had been filed in state or federal court in the city in which you were last employed by the Employer. In conducting the arbitration, the arbitrator shall follow the Federal Rules of Evidence (including but not limited to all applicable privileges).

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- (iv) The arbitrator must be experienced in employment law. He or she will be selected by the mutual agreement of the parties. If the parties cannot agree on an arbitrator, the parties will alternately strike names from a list provided by JAMS until only one name remains. If a JAMS arbitrator is not available to conduct an arbitration in the city in which you last worked for the Employer, then another similar arbitration service provider will be selected by the mutual agreement of the parties (and all references to JAMS in this Section 11(k) will be deemed to be references to that arbitration service provider).
- (v) The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. The prevailing party in the arbitration, as determined by the arbitrator, shall be entitled to recover his/her or its reasonable attorneys' fees, experts' fees and costs, including the costs or fees charged by the arbitrator and JAMS, in addition to such other relief as may be granted, under the standards provided by law for awarding such fees and costs applicable to the claims asserted. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
- (vi) **You understand that your and the Employer's agreement to arbitrate all disputes means that both you and the Employer are waiving your right to file a court action, except for requests for injunctive relief pending arbitration. You also understand that both you and the Employer are giving up any right to a jury trial.**

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

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

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to obtain injunctive relief for such breaches or threatened breaches in

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any court of competent jurisdiction. The injunctive relief provided for in Section 11(k)(i) and this Section 11(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

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

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

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

(r) **Section 280G and Section 162(m).** Notwithstanding anything herein to the contrary, in the event that you receive any payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute "parachute payments" within the meaning of Section 280G of the Code, and the net after-tax amount of the parachute payment is less than the net after-tax amount if the aggregate payment to be made to you were three times your "base amount" (as defined in Section 280G(b)(3) of the Code), less \$1.00, then the aggregate of the amounts constituting the parachute payment shall be

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reduced to an amount that will equal three times your base amount, less \$1.00. To the extent the aggregate of the amounts constituting the parachute payments are required to be so reduced, the amounts provided under Section 10 of this Agreement shall be reduced (if necessary, to zero) with amounts that are payable first reduced first; provided, however, that, in all events the payments provided under Section 10 of this Agreement which are not subject to Section 409A shall be reduced first. Similarly, you agree that no payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, shall be made to you if the Employer reasonably anticipates that Section 162(m) of the Code would prevent the Employer from receiving a deduction for such payment. If, however, any payment is not made pursuant to the previous sentence, the Employer shall make such payment as soon as practicable in the first calendar year that it reasonably determines that it can do so and still receive a deduction for such payment. The determinations to be made with respect to this Section 12(r) shall be made by a certified public accounting firm designated by the Employer.

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

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

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

(v) **Right to Negotiate.** You hereby acknowledge that you have been given the opportunity to participate in the negotiation of the terms of this Agreement. You acknowledge and confirm that you have read this Agreement and fully understand its terms and contents.

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

## 12. Indemnification

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

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## 13. Notices

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

To the Employer:	Activision Publishing, Inc. 3100 Ocean Park Boulevard Santa Monica, California 90405 Attention: Chief Corporate Officer
To You:	Christopher Walther c/o Ben B. Stockton, Jr. 4545 Sienna Court Evansville, IN 47711

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

### ACCEPTED AND AGREED TO:

**Employer**

**Employee**

ACTIVISION PUBLISHING, INC

By: /s/ Thomas Tippl  
Thomas Tippl

/s/ Christopher Walther  
Christopher Walther

Date: September 1, 2009

Date: August 31, 2009

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into this 11<sup>th</sup> day of September 2009, between Activision Blizzard, Inc. (the "**Employer**"), and, together with its subsidiaries, (the "**Activision Blizzard Group**"), and George Rose ("**you**").

RECITAL

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

AGREEMENT

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

**1. Term of Employment**

(a) The term of your employment under this Agreement (the "**Term**") shall commence on January 1, 2010 (the "**Effective Date**") and shall end on December 31, 2012 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 9). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse. Prior to the Effective Date, you shall remain employed pursuant to the terms set forth in your Employment Agreement with Activision Publishing, Inc., dated as of September 11, 2007, as amended (the "**Prior Agreement**"). Subject to your continued employment through the Effective Date, upon the Effective Date this Agreement shall supersede the Prior Agreement and the Prior Agreement shall be of no further force or effect.

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

**2. Compensation**

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

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$540,000, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) You may be eligible to receive an annual discretionary bonus (the "**Annual Bonus**"). Your target Annual Bonus for each calendar year will be seventy five percent (75%)

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of your Base Salary. In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15<sup>th</sup> day of the third month, of the year following the year to which the Annual Bonus relates. In all instances, you must remain continuously employed by the Activision Blizzard Group through the date on which an Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the "**Compensation Committee**"), Activision Blizzard will grant to you a non-qualified stock option to purchase 460,000 shares of Activision Blizzard's common stock (the "**Option**") and 45,000 restricted share units which represent the conditional right to receive shares of Activision Blizzard's common stock (the "**RSUs**," and collectively with the Option, the "**Equity Awards**").

- (i) One-third of the Option will vest on December 30, 2010, one third of the Option will vest on December 30, 2011 and one third of the Option will vest on December 30, 2012, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.
- (ii) One-third of the RSUs will vest on December 30, 2010, one third of the RSUs will vest on December 30, 2011 and one third of the RSUs will vest on December 30, 2012, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.

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

**3. Title; Location**

You shall serve as Executive Vice President and Chief Public Policy Officer of Activision Blizzard. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to

time for business reasons.

#### 4. **Duties**

You shall report directly to the Chief Executive Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by it in its sole and absolute

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

#### 5. **Expenses**

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

#### 6. **Other Benefits**

(a) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available to executives of the Employer from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement. In addition to the foregoing benefits, Employer will provide you during the Term, at Employer's expense, with a supplemental term life insurance policy with a benefit amount of \$2,000,000 through a carrier of Employer's choice.

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

#### 7. **Vacation and Paid Holidays**

(a) You will generally be entitled to paid vacation days in accordance with the normal vacation policies of the Employer in effect from time to time; provided, however, that you will be entitled to accrue twenty (20) paid vacation days per year unless your vacation balance exceeds the Employer's then-current maximum.

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

#### 8. **Protection of the Employer's Interests**

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

(b) **Property of the Activision Blizzard Group.** All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you, whether on your own time or not, alone or with others, during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of the Activision Blizzard Group, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of the Activision Blizzard Group, (iii) were created using the time or resources of the Activision Blizzard Group, or (iv) are based on any property owned or idea conceived by the Activision Blizzard Group, shall be deemed to be a work made for hire and shall be the sole and exclusive property of the Activision Blizzard Group. You agree to execute, acknowledge and deliver to the Employer, at the Employer's request, such further documents, including copyright and patent assignments, as the Employer finds appropriate to evidence the Activision Blizzard Group's rights in such property. Your agreement to assign to the Activision Blizzard Group any of your rights as set forth in this Section 8(b) shall not apply to any invention that qualifies fully under the provisions of California Labor Code Section 2870, where no equipment, supplies, facility or trade secret information of the Activision Blizzard Group was used, where the invention was developed entirely upon your own time, where the invention does not relate to the Activision Blizzard Group's business, and where the invention does not result from any work performed by you for the Activision Blizzard Group.

(c) **Covenant Not to Shop.** Other than during the final six (6) months of the Term, you shall not negotiate for employment with any entity or person outside of the Activision Blizzard Group. During the search process and thereafter you shall remain strictly subject to your continuing obligations

under this Agreement, including, without limitation, your Duty of Loyalty, compliance with the Activision Blizzard Group's policies and your confidentiality obligations.

(d) **Confidentiality.** You acknowledge, and the Employer agrees, that during your employment you will have access to and become informed of confidential and proprietary information concerning the Activision Blizzard Group. During your employment and at all times following the termination of your employment, confidential or proprietary information of any entity in the Activision Blizzard Group shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment with the Activision Blizzard Group. Upon the termination of your employment (or at any time on the Employer's request), you shall return to the Activision Blizzard Group all such information that exists, whether in electronic, written, or other form (and all copies or extracts thereof) under

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your control and shall not retain such information in any form, including without limitation on any devices, disks or other media. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the Employee Proprietary Information Agreement attached as Exhibit A hereto (the "**Proprietary Information Agreement**") as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

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

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

- (i) During your employment, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly: (a) offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment or engagement of the Activision Blizzard Group, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group; or (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (ii) For a period of two (2) years following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly solicit the employment or

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engagement of, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group (or any person who was employed or otherwise engaged by the Activision Blizzard Group during your final ninety (90) days of employment), whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group.

- (iii) During your employment and at all times following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, use the confidential, trade secret information of the Activision Blizzard Group or any other unlawful means to directly or indirectly solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you do not violate your Duty of Loyalty or any other fiduciary duty to the Employer, and are reasonable in all circumstances in scope, duration and all other respects. The provisions of this Section 8(f) shall survive the expiration or earlier termination of this Agreement.

## 9. **Termination of Employment**

(a) **By the Employer for Cause.**

- (i) At any time during the Term, the Employer may terminate your employment for "**Cause**," which shall mean a good-faith determination by the Employer that you (i) engaged in misconduct or gross negligence in the performance of your duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of your employment; (ii) engaged in fraud, dishonesty, or any other conduct that causes or has the potential to cause, harm to any entity in the Activision Blizzard Group, including its business or reputation; (iii) violated any lawful directives or policies of the Activision Blizzard Group or any applicable laws, rules or regulations; (iv) materially breached this Agreement; (v) materially breached any

proprietary information or confidentiality agreement with any entity in the Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (vii) breached your fiduciary duties to the Activision Blizzard Group.

- (ii) In the case of any termination for Cause pursuant to clause (iii) of the definition thereof, the Employer shall give you at least thirty (30) days written notice of its intent to terminate your employment. The notice shall

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specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within fifteen (15) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause. Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.

- (iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts) under clauses (i), (ii), (v), (vi) or (vii) of the definition of Cause, your termination shall be treated as a termination by the Employer for Cause.

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

(c) **By You If Your Principal Place of Business Is Relocated Without Your Consent.** At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part, the Employer reassigns your principal place of business to a location that is more than fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 9(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the "**Cure Period**"). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 9(c) will no longer exist.

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

(e) **Disability.** In the event that you are or become "**disabled**," the Employer shall, to the extent permitted by applicable law, have the right to terminate your employment. For purposes of this Agreement, "**disabled**" shall mean that either (i) you have a physical or mental impairment that renders you unable to perform the duties required of you under this Agreement, even with the Employer providing you a reasonable accommodation, as determined by a physician selected by the Employer in its sole discretion or (ii) you are receiving benefits under any long-term disability plan of the Employer then in effect. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any

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determination of whether you are disabled within ten (10) days of such a request. Without limiting the generality of the foregoing, to the extent provided by the Employer's policies and practices then in effect, you shall not receive any Base Salary during any period in which you are disabled; provided, however, that nothing in this Section 9(e) shall impact any right you may have to any payments under the Employer's short-term and long-term disability plans, if any.

## 10. **Termination of Obligations and Severance Payments**

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

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

"**Basic Severance**" shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

"**Bonus Severance**" shall mean payment of:

- (i) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for any year that ended prior to the Termination Date had you remained employed through the date such bonus would have been otherwise been paid; and
- (ii) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for the year in which your Termination Date occurs had you had remained employed through the date such bonus

would have been paid, multiplied by a fraction, the numerator of which is the number corresponding to the calendar month in which the Termination Date occurs and the denominator of which is 12, where, for purposes of calculating the amount of such bonus, any goals will be measured by actual performance.

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

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

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- (i) **Basic Severance.** Your heirs or estate, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) **Lump Sum Payment of Two Times Base Salary.** Your heirs or estate, as the case may be, shall receive payment of an amount equal to two (2) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date; provided, however, that this amount shall be reduced by any payments to which you become entitled upon death under any Employer-sponsored plan other than the \$2,000,000 life insurance policy;
- (iii) **Bonus Severance.** Your heirs or estate, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates; and
- (iv) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (i) one (1) year after the Termination Date or (ii) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately.

(c) **Termination by the Employer Without Cause, by You if Your Principal Place of Business Is Relocated Without Your Consent or by the Employer if You Become Disabled.** In the event the Employer terminates your employment under Section 9(b), you terminate your employment under Section 9(c) or the Employer terminates your employment under Section 9(e):

- (i) **Basic Severance.** You or your legal representative, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) **Salary Continuation.** You or your legal representative, as the case may be, shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date, which amount shall be paid in equal installments commencing on the first payroll date following the 60<sup>th</sup> day following the Termination Date in accordance with the Employer’s payroll practices in effect on the Termination Date, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date; provided, however, that, to the extent doing so will not result in the imposition of additional taxes under Section 409A (“**Section 409A**”) of the Internal Revenue Code

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of 1986, as amended and the rules and regulations promulgated thereunder (the “**Code**”), this amount shall be reduced by any payments which you have received or to which you become entitled under any Employer-sponsored long-term disability plan;

- (iii) **Bonus Severance.** You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15<sup>th</sup> day of the third month of the year following the year to which the underlying amount relates;
- (iv) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately; and
- (v) **Severance Conditioned Upon Release.** Payments and benefits described in Sections 10(c)(ii) and 10(c)(iii) are conditioned upon your execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60<sup>th</sup> day following the Termination Date, you shall not be entitled to any payments under this Section 10(c) other than the Basic Severance.

(d) **Termination by the Employer For Cause.** In the event your employment is terminated by the Employer under Section 9(a), then:

- (i) **Basic Severance.** You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and
- (ii) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.

(e) **Termination on the Expiration Date.** In the event your employment terminates on the Expiration Date, then:

- (i) **Basic Severance.** You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and

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- (ii) **Impact on Equity Awards.** All outstanding Equity Awards shall cease to vest. All vested RSUs shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of the Expiration Date will be cancelled immediately.

(f) **Breach of Post-termination Obligations or Subsequent Employment.**

- (i) **Breach of Post-termination Obligations.** In the event that you breach any of your obligations under Section 8, the Employer's obligation, if any, to make payments and provide benefits under Section 10 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.
- (ii) **Subsequent Employment.** Notwithstanding anything to the contrary contained herein, you shall receive the payments and benefits under Section 10 (other than payment of the Basic Severance) only for the time period that you do not obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity. If, at any time, you obtain subsequent employment or provide services as set forth in the prior sentence, you must promptly notify the Company and payments and benefits under Section 10 (other than payment of the Basic Severance) shall cease as of the date you commenced such employment or provision of services.

**11. General Provisions**

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

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

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

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(d) **No Conflict with Prior Agreements.** You represent to the Employer that neither your commencement of employment under this Agreement nor the performance of your duties under this Agreement conflicts or will conflict with any contractual or legal commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party. If you have acquired any confidential or proprietary information in the course of your prior employment or otherwise in connection with your provision of services to any entity outside the Activision Blizzard Group, during the Term you will fully comply with any duties to such entity then-applicable to you not to disclose or otherwise use such information.

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

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

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

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

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

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

(k) **Arbitration.**

- (i) Except as otherwise provided in this Agreement, any dispute or controversy between the Employer and you will be settled by final and binding arbitration by a single arbitrator to be held in the city in which you were last employed by the Employer, unless the Employer and you agree otherwise, in accordance with the JAMS rules for resolution of employment disputes then in effect, except as provided in this Section 11(k). The arbitrator the parties select will have the authority to grant any

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party all remedies otherwise available by law, but will not have the power to grant any remedy that would not be available in a state or federal court in the jurisdiction in which the arbitration is being held. Either party may seek court intervention in a dispute for interim equitable relief in a court of competent subject matter jurisdiction located within the city in which you were last employed by the Employer, but the resort to interim equitable relief will be pending and in aid of arbitration only, and in such cases the trial on the merits of the action will occur in front of, and will be decided by, the arbitrator, who will have the same ability to order legal or equitable remedies as could a court of general jurisdiction. The arbitrator will have the authority to hear and rule on dispositive motions (such as motions for summary adjudication or summary judgment) and has the exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this agreement to arbitrate claims, including but not limited to any claim that all or any part of this agreement is void or voidable. This agreement to arbitrate applies to all claims that the Employer may have against you or that you may have against the Employer or the Employer's current and former officers, directors, employees, representatives and agents, and/or all entities affiliated with the Employer, as well as the current and former officers, directors, employees, representatives and agents of those affiliates. This arbitration obligation shall not prohibit the Employer or you from filing a claim with an administrative agency, nor does it apply to claims for workers' compensation or unemployment benefits, claims for benefits under an employee welfare or pension plan that specifies a different dispute resolution procedure, or claims which, by law, cannot be compelled to binding arbitration via private agreement.

- (ii) Notwithstanding anything to the contrary in the rules of JAMS, the arbitration shall provide (a) for written discovery and depositions as provided under the Federal Rules of Civil Procedure and (b) for a written decision by the arbitrator that includes the essential findings and conclusions upon which the decision is based which must be issued no later than thirty (30) days after a dispositive motion is heard or an arbitration hearing has completed. The Employer will pay the fees and administrative costs charged by the arbitrator and JAMS; provided, however, that if you initiate the arbitration, you must initiate it by paying to JAMS an amount equal to the filing fee for the state court of general jurisdiction in the state in which you were last employed by the Employer.
- (iii) Either party will have the same amount of time to file any claim against any other party as it would have if the claim had been filed in state or federal court in the city in which you were last employed by the Employer. In conducting the arbitration, the arbitrator shall follow the Federal Rules of Evidence (including but not limited to all applicable privileges).
- (iv) The arbitrator must be experienced in employment law. He or she will be selected by the mutual agreement of the parties. If the parties cannot agree on an arbitrator, the parties will alternately strike names from a list

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provided by JAMS until only one name remains. If a JAMS arbitrator is not available to conduct an arbitration in the city in which you last worked for the Employer, then another similar arbitration service provider will be selected by the mutual agreement of the parties (and all references to JAMS in this Section 11(k) will be deemed to be references to that arbitration service provider).

- (v) The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. The prevailing party in the arbitration, as determined by the arbitrator, shall be entitled to recover his/her or its reasonable attorneys' fees, experts' fees and costs, including the costs or fees charged by the arbitrator and JAMS, in addition to such other relief as may be granted, under the standards provided by law for awarding such fees and costs applicable to the claims asserted. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
- (vi) **You understand that your and the Employer's agreement to arbitrate all disputes means that both you and the Employer are waiving your right to file a court action, except for requests for injunctive relief pending arbitration. You also understand that both you and the Employer are giving up any right to a jury trial.**

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

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

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to

obtain injunctive relief for such breaches or threatened breaches in any court of competent jurisdiction. The injunctive relief provided for in Section 11(k) (i) and this Section 11(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the

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requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

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

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

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

(r) **Section 280G and Section 162(m).** Notwithstanding anything herein to the contrary, in the event that you receive any payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute "parachute payments" within the meaning of Section 280G of the Code, and the net after-tax amount of the parachute payment is less than the net after-tax amount if the aggregate payment to be made to you were three times your "base amount" (as defined in Section 280G(b)(3) of the Code), less \$1.00, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times your base amount, less \$1.00. To the extent the aggregate of the amounts constituting the parachute payments are required to be so reduced,

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the amounts provided under Section 10 of this Agreement shall be reduced (if necessary, to zero) with amounts that are payable first reduced first; provided, however, that, in all events the payments provided under Section 10 of this Agreement which are not subject to Section 409A shall be reduced first. Similarly, you agree that no payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, shall be made to you if the Employer reasonably anticipates that Section 162(m) of the Code would prevent the Employer from receiving a deduction for such payment. If, however, any payment is not made pursuant to the previous sentence, the Employer shall make such payment as soon as practicable in the first calendar year that it reasonably determines that it can do so and still receive a deduction for such payment. The determinations to be made with respect to this Section 12(r) shall be made by a certified public accounting firm designated by the Employer.

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

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

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

(v) **Right to Negotiate.** You hereby acknowledge that you have been given the opportunity to participate in the negotiation of the terms of this Agreement. You acknowledge and confirm that you have read this Agreement and fully understand its terms and contents.

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

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

## 12. **Indemnification**



**CERTIFICATION**

I, Robert A. Kotick, certify that:

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

Date: November 6, 2009

*/s/ Robert A. Kotick*

Robert A. Kotick

President and Chief Executive Officer of Activision Blizzard, Inc.

**CERTIFICATION**

I, Thomas Tippl, certify that:

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

Date: November 6, 2009

*/s/ Thomas Tippl*

Thomas Tippl

Chief Corporate Officer and Chief Financial Officer,  
Principal Financial and Accounting Officer of Activision Blizzard, Inc.

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

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, President and Chief Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 6, 2009

/s/ Robert A. Kotick

Robert A. Kotick

President and Chief Executive Officer of Activision Blizzard, Inc.

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

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

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Tippl, Chief Corporate Officer and Chief Financial Officer, Principal Financial and Accounting Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 6, 2009

/s/ Thomas Tippl

\_\_\_\_\_  
Thomas Tippl

Chief Corporate Officer and Chief Financial Officer,  
Principal Financial and Accounting Officer of Activision Blizzard, Inc.

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