
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of report (Date of earliest event reported): **February 3, 2011**

ACTIVISION BLIZZARD, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware

(State or Other Jurisdiction of
Incorporation)

001-15839

(Commission File Number)

95-4803544

(IRS Employer
Identification No.)

**3100 Ocean Park Boulevard, Santa
Monica, CA**

(Address of Principal Executive
Offices)

90405

(Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Certain Information Not Filed. The information in Item 2.02 of this Form 8-K and Exhibit 99.1 attached to this Form 8-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall such Item 2.02 or such Exhibit 99.1 or any of the information contained therein be deemed incorporated by reference in any filing under the Securities Exchange Act of 1934 or the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 2.02. Results of Operations and Financial Condition.

On February 9, 2011, Activision Blizzard, Inc. (the "Company") issued a press release announcing results for the Company for the fiscal quarter and year ended December 31, 2010. A copy of the press release is attached hereto as Exhibit 99.1. As previously announced, the Company is hosting a conference call and Webcast in conjunction with that release.

Item 2.05. Costs Associated with Exit or Disposal Activities.

On February 3, 2011, the Board of Directors of the Company approved a restructuring plan involving a focus on the development and publication of a reduced slate of titles on a going-forward basis, including the discontinuation of the development of all music-based games and the closure of the related business unit and the cancellation of other titles then in production, and a related reduction in studio headcount and corporate overhead. Driven by a desire to improve operating margin by focusing the Company's resources on titles the Company believes have the largest potential for success and the anticipation of a continuing weak environment for casual and music-based games, the plan will result in the separation of approximately 500 employees. The plan is expected to be implemented in the quarter ending March 31, 2011, resulting in a net pre-tax charge in the first two quarters of 2011, which is expected to total between \$35 and \$50 million, comprised of severance costs, the costs of other separation benefits and other exit costs. All of the above estimated charges are expected to result in future cash expenditures during 2011.

Item 8.01. Other Events.

Stock Repurchase Program. On February 3, 2011, the Board of Directors of the Company authorized the Company to repurchase up to \$1.5 billion of the Company's common stock, on terms and conditions to be determined by the Company, until the earlier of March 31, 2012 and a determination by the Board of Directors to discontinue the repurchase program. This program replaces the Company's \$1 billion stock repurchase plan authorized in February 2010, which expired on December 31, 2010.

Cash Dividend. On February 9, 2011, the Board of Directors approved a cash dividend of \$0.165 per share to be paid on May 11, 2011 to shareholders of record of the Company's common stock on March 16, 2011.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

99.1 Press Release dated February 9, 2011 (furnished not filed)

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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 hereunto duly authorized.

Date: February 9, 2011

ACTIVISION BLIZZARD, INC.

By: /s/ Thomas Tippl
Thomas Tippl
Chief Operating Officer and
Chief Financial Officer

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EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated February 9, 2011 (furnished not filed)

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FOR IMMEDIATE RELEASE

**ACTIVISION BLIZZARD REPORTS DECEMBER QUARTER AND
 CALENDAR YEAR 2010 FINANCIAL RESULTS**

- *Company Achieves Record CY 2010 Operating Cash Flow of \$1.4 Billion –*
- *CY 2010 GAAP Net Revenues Increase Year Over Year to \$4.45 Billion -*
- *Company Delivers Record CY 2010 EPS –*
- *2010 Revenues From Digital Channels Grow Over 20% to More Than \$1.5 Billion -*
- *Company Announces New \$1.5 Billion Stock Repurchase Program -*
- *Company Announces 10% Increase in Cash Dividend to \$0.165 per Common Share –*

Santa Monica, CA – February 9, 2011 – Activision Blizzard, Inc. (Nasdaq: ATVI) today announced financial results for the calendar year and quarter ending December 31, 2010. Activision Blizzard reports results on both a GAAP and a non-GAAP basis. A reconciliation of the company's GAAP and non-GAAP results can be found in the attached tables.

For calendar year 2010, Activision Blizzard's GAAP net revenues increased to \$4.45 billion, as compared with \$4.28 billion for 2009. On a non-GAAP basis, the company's net revenues were \$4.80 billion, as compared with \$4.78 billion for 2009. Revenues from digital channels for the calendar year were more than \$1.5 billion, an increase of more than 20% year over year.

For calendar year 2010, Activision Blizzard's GAAP earnings per diluted share increased to \$0.33, as compared with \$0.09 per diluted share for 2009. The 2010 results include a \$0.16 per share non-cash reduction in the valuation of intangible assets reflecting weaker retail sales in the casual and music genres, while the 2009 results included a similar non-cash charge of \$0.19 per share. On a non-GAAP basis, the company's earnings per diluted share grew 14.5% to \$0.79, as compared with \$0.69 per diluted share for 2009.

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For the quarter ended December 31, 2010, Activision Blizzard's GAAP net revenues were \$1.43 billion as compared with fourth-quarter 2009 net revenues of \$1.56 billion. On a non-GAAP basis, the company's net revenues for the quarter were \$2.55 billion, as compared with fourth-quarter 2009 non-GAAP net revenues of \$2.50 billion. Revenues from digital channels for the quarter were more than \$470 million, an increase of 40% year over year.

For the quarter ended December 31, 2010, Activision Blizzard had a GAAP loss per share of \$0.20, inclusive of the \$0.16 per share non-cash charge mentioned above. On a non-GAAP basis, the company's earnings per diluted share grew to \$0.53. For the comparable quarter in 2009, the company had a GAAP loss per share of \$0.23, inclusive of the \$0.19 per share non-cash charge mentioned above, and non-GAAP earnings per diluted share of \$0.49.

Robert Kotick, CEO of Activision Blizzard, stated, "Because of focus and disciplined execution, 2010 was another extraordinary year for Activision Blizzard. We made some of the best games we have ever made in over 30 years of being in the interactive entertainment business. We benefited from new content releases for two of the world's most successful online entertainment franchises: Activision Publishing's **Call of Duty®: Black Ops** and Blizzard Entertainment's **World of Warcraft®: Cataclysm™**, a new installment in the world's largest subscription-based massively multiplayer online role-playing game. During the year, we grew our net revenues, delivered record earnings, achieved record GAAP and non-GAAP operating margins of 11% and 29%, respectively, and generated \$1.4 billion in operating cash flow."

Kotick added, "Activision Blizzard's key franchises have larger audience bases than ever before and we continue to see significantly enhanced user activity and engagement for our expanding online communities. Our revenues from digital channels, which now account for over 30% of our overall revenues, were driven by increased sales of Activision Publishing's **Call of Duty** map packs and value-added services for Blizzard Entertainment's **World of Warcraft**. Blizzard significantly evolved its direct digital distribution capabilities with the launch of its new Battle.net® service and saw players embrace its service offerings in record numbers. Notably, since **Call of Duty: Black Ops** was launched in November players have spent an average of 52 minutes per day playing online, roughly equivalent to the 55 minutes that the average user spends each day on Facebook.(1) As of February 2, 2011, more than 27 million gamers have played **Call of Duty** games online, logging more than 2 billion hours, or the equivalent of more than 229,000 years of gameplay.(2)"

(1)According to Microsoft, Sony, Activision Blizzard internal estimates and digitalbuzzblog.com

(2)According to Activision Blizzard internal estimates

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Kotick concluded, “Online gaming continues to broaden its appeal. Our shareholders continue to be well positioned to benefit from these trends and the focus of our incredibly talented employees around the world continues to allow us to lead our industry. We expect to continue to drive long-term growth, increase our return on invested capital and generate strong cash flow as we have over the last few years. Our strong balance sheet affords us the financial flexibility to invest in games that few companies have the ability to create and allows us to provide our shareholders with value through dividends and share repurchases.”

Business Highlights

- Activision Blizzard was the #1 publisher overall in North America and Europe for the calendar year.(3)
- Activision Blizzard was the #1 publisher in North America on the Xbox® 360, PlayStation® 3 and PC collectively for the calendar year.(4)
- Blizzard Entertainment’s **World of Warcraft: Cataclysm**, which was launched on December 7, 2010, sold through more than 3.3 million copies worldwide during its first 24 hours of release, making it the fastest-selling PC game of all time. It continued to sell through more than 4.7 million copies in its first month.(5)
- As of December 31, 2010, more than 12 million gamers worldwide are subscribed to play Blizzard Entertainment’s **World of Warcraft**.(6)
- For the December quarter, in North America and Europe, **Call of Duty: Black Ops** was the #1 best-selling console title in dollars ever during a single quarter and the *Call of Duty* franchise was the #1 franchise overall.(3)
- In November 2010, **Call of Duty: Black Ops** became the first video game ever to surpass \$650 million in retail sales in its first five days of release. (2) To date, the game has achieved more than \$1 billion in retail sales worldwide.(3)
- As of January 31, 2011, total unique gamers playing Activision Publishing’s **Call of Duty: Black Ops** increased by more than 49% over the number of total unique gamers that played **Call of Duty®: Modern Warfare®** for the first three months after each game’s release.(7)

(3)According to The NPD Group - Charttrack and Gfk

(4)According to The NPD Group

(5) According to internal company records from Blizzard Entertainment and reports from key distribution partners

(6)According to Blizzard Entertainment internal data

(7)According to Microsoft, Sony and Activision Blizzard internal estimates

(more)

- On February 1, 2011, Activision Publishing released **Call of Duty: Black Ops First Strike**, the first add-on pack for **Call of Duty: Black Ops**, on Xbox LIVE®. The map pack set new Xbox LIVE records with more than 1.4 million downloads in the first 24 hours, an increase of more than 25% over last year’s **Call of Duty: Modern Warfare 2 Stimulus Package**.(7) The map pack also will be available on the PlayStation® 3 computer entertainment system on March 3, 2011 and on the PC later in the quarter.

Company Outlook

Activision Blizzard will continue to invest its capital and resources in the significant opportunities afforded by online gaming worldwide and will reduce its exposure to low-margin and low-potential businesses. In 2011, the company will allocate the majority of its resources and focus toward opportunities which we expect will afford us the greatest competitive advantages and the greatest potential for best-in-class quality, high-margin digital growth, and long-term success. These opportunities include Blizzard Entertainment’s games currently in development, robust investment in forthcoming **Call of Duty** titles, the development of a best-in-class digital community surrounding the **Call of Duty** franchise, a new property from Bungie and an innovative new universe with broad appeal that will be revealed at Toy Fair later this week and will bring the world of toys, video games and the Internet together in an unprecedented way. These investments should better position Activision Blizzard for long-term growth and enable it to continue expanding its position as the largest digital publisher.

At the same time, due to continued declines in the music genre, the company will disband Activision Publishing’s Guitar Hero business unit and discontinue development on its Guitar Hero game for 2011. The company also will stop development on **True Crime: Hong Kong™**. These decisions are based on the desire to focus on the greatest opportunities that the company currently has to create the world’s best interactive entertainment experiences.

For calendar year 2011, Activision Blizzard expects GAAP net revenues to be \$3.95 billion and GAAP earnings per diluted share to be \$0.56. On a non-GAAP basis, the company expects net revenues of \$3.9 billion and non-GAAP earnings per diluted share to be \$0.70 for the calendar year. Since Blizzard Entertainment has not confirmed a launch date for its next global release, the company’s calendar year outlook at this time does not yet include a new game from Blizzard in 2011.

For the first quarter of 2011, Activision Blizzard expects GAAP net revenues of \$1.28 billion, and GAAP earnings per diluted share of \$0.28. The company’s first quarter GAAP earnings per diluted share outlook includes the impact of between \$0.02 - \$0.03 of expenses related to the restructuring. On a non-GAAP basis, the company expects net revenues of \$640 million and \$0.07 earnings per diluted share for the first quarter.

(8)According to Microsoft, Sony and Activision Blizzard internal estimates

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Activision Blizzard's financial outlook is subject to significant risks and uncertainties, including declines in demand for its products, competition, the effectiveness of the company's restructuring efforts, fluctuations in foreign exchange and tax rates, and counterparty risks relating to customers, licensees, licensors and manufacturers.

The company's outlook is also based on assumptions about sell-through rates for its products, and the launch timing, success and pricing of its new slate of products. Current macroeconomic conditions increase those risks and uncertainties. As a result of these and other factors, actual results may deviate materially from the outlook presented above.

Board Authorizes Stock Repurchase Program and Declares Cash Dividend

Activision Blizzard today announced that its Board of Directors has authorized a new stock repurchase program under which the company can repurchase up to \$1.5 billion of the company's outstanding common stock. This program replaces the company's \$1 billion stock repurchase plan program authorized in February 2010, which expired on December 31, 2010. As of December 31, 2010, Activision Blizzard had purchased an aggregate of 86 million shares of its common stock for approximately \$966 million under the 2010 program.

The Board of Directors also declared a cash dividend of \$0.165 per common share payable on May 11, 2011 to shareholders of record at the close of business on March 16, 2011. This is the company's second-ever cash dividend and it represents a 10% increase over its first-ever dividend that was issued in 2010.

Conference Call

Today at 4:30 p.m. EST, Activision Blizzard's management will host a conference call and Webcast to discuss the company's results for the quarter and year ended December 31, 2010 and management's outlook for 2011. The company welcomes all members of the financial and media communities and other interested parties to visit the "Investor Relations" area of www.activisionblizzard.com to listen to the conference call and view a brief supporting slide presentation via live Webcast or to listen to the call live by dialing into **877-397-0292** in the U.S. with passcode **8890647**.

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Non-GAAP Financial Measures

Activision Blizzard provides net revenues, net income (loss), earnings (loss) per share and operating margin data and guidance both including (in accordance with GAAP) and excluding (non-GAAP) the following items: the impact of the change in deferred net revenues and related cost of sales with respect to certain of the company's online-enabled games; expenses related to share-based payments; Activision Blizzard's non-core exit operations (which are the operating results of products and operations of the historical Vivendi Games, Inc. businesses that the company has exited or substantially wound down); costs related to the business combination between Activision, Inc. and Vivendi Games, Inc. (including transaction costs, integration costs, and restructuring activities); expenses related to the restructuring of our Activision Publishing operations; the amortization of intangibles and impairment of intangible assets; and the associated tax benefits.

Management believes that the presentation of these non-GAAP financial measures provides investors with additional useful information to measure Activision Blizzard's financial and operating performance because they facilitate comparison of operating performance between periods and help investors to better understand the operating results of Activision Blizzard.

Internally, management uses these non-GAAP financial measures in assessing the company's operating results, as well as in planning and forecasting.

Non-GAAP financial measures should be considered in addition to, not as a substitute for or superior to, financial measures determined in accordance with GAAP. Activision Blizzard recognizes that there are limitations associated with the use of these non-GAAP financial measures.

Activision Blizzard's non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and the terms non-GAAP net revenues, non-GAAP net income, non-GAAP earnings per share, and non-GAAP operating margin do not have a standardized meaning. Therefore, other companies may use the same or similarly named measures, but exclude different items, which may not provide investors a comparable view of Activision Blizzard's performance in relation to other companies.

Management compensates for the limitations resulting from the exclusion of these items by considering the impact of the items separately and by considering Activision Blizzard's GAAP, as well as non-GAAP results and outlook and, in this release, by presenting the most comparable GAAP measures directly ahead of non-GAAP measures, and by providing a reconciliation that indicates and describes the adjustments made.

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About Activision Blizzard

Headquartered in Santa Monica, California, Activision Blizzard, Inc. is a worldwide online, PC, console, handheld and mobile game publisher with leading positions across the major categories of the rapidly growing interactive entertainment software industry.

Activision Blizzard maintains operations in the U.S., Canada, the United Kingdom, France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China. More information about Activision Blizzard and its products can be found on the company's website, www.activisionblizzard.com.

Cautionary Note Regarding Forward-looking Statements: Information in this press release that involves Activision Blizzard's expectations, plans, intentions or strategies regarding the future, including statements under the heading "Company Outlook," are forward-looking statements that are not facts and involve a number of risks and uncertainties. Activision Blizzard generally uses words such as "outlook," "will," "could," "should," "would," "might," "to be," "plans," "believes," "may," "expects," "intends," "anticipates," "estimate," "future," "plan," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "upcoming" and similar expressions to identify forward-looking statements. Factors that could cause Activision Blizzard's actual future results to differ materially from those expressed in the forward-looking statements set forth in this release include, but are not limited to, sales levels of Activision Blizzard's titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the current macroeconomic environment and market conditions within the video game industry, Activision Blizzard's ability to predict consumer preferences, including interest in specific genres such as first-person action and massively multiplayer online games and preferences among competing hardware platforms, the seasonal and cyclical nature of the interactive game market, changing business models including digital and used games, competition including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, rapid changes in technology and industry standards, litigation risks and associated costs, the effectiveness of Activision Blizzard's restructuring efforts, protection of proprietary rights, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality "hit" titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, and the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion, and the other factors identified in the risk factors sections of Activision Blizzard's most recent annual report on Form 10-K. The forward-looking statements in this release are based upon information available to Activision Blizzard as of the date of this release, and Activision Blizzard assumes no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of the future performance of Activision Blizzard and are subject to risks, uncertainties and other factors, some of which are beyond its control and may cause actual results to differ materially from current expectations.

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(Tables to Follow)

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in millions, except per share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
Net revenues:				
Product sales	\$ 1,061	\$ 1,232	\$ 3,087	\$ 3,080
Subscription, licensing and other revenues	366	325	1,360	1,199
Total net revenues	1,427	1,557	4,447	4,279
Costs and expenses:				
Cost of sales - product costs	585	670	1,350	1,432
Cost of sales - massively multi-player online role playing game ("MMORPG")	73	54	241	212
Cost of sales - software royalties and amortization	128	136	338	348
Cost of sales - intellectual property licenses	92	152	197	315
Product development	275	265	642	627
Sales and marketing	226	215	520	544
General and administrative	119	94	364	395
Impairment of intangible assets	326	409	326	409
Restructuring	—	(6)	—	23
Total costs and expenses	1,824	1,989	3,978	4,305
Operating income (loss)	(397)	(432)	469	(26)
Investment and other income, net	8	(3)	23	18
Income (loss) before income tax expense	(389)	(435)	492	(8)
Income tax (benefit) expense	(156)	(149)	74	(121)
Net income (loss)	\$ (233)	\$ (286)	\$ 418	\$ 113
Basic earnings (loss) per common share				
	\$ (0.20)	\$ (0.23)	\$ 0.34	\$ 0.09
Weighted average common shares outstanding	1,198	1,265	1,222	1,283
Diluted earnings (loss) per common share				
	\$ (0.20)	\$ (0.23)	\$ 0.33	\$ 0.09
Weighted average common shares outstanding assuming dilution	1,198	1,265	1,236	1,311

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Amounts in millions)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,812	\$ 2,768
Short-term investments	696	477
Accounts receivable, net	640	739
Inventories	112	241
Software development	147	224
Intellectual property licenses	45	55
Deferred income taxes, net	640	498
Other current assets	293	327
Total current assets	<u>5,385</u>	<u>5,329</u>
Long-term investments	23	23
Software development	55	10
Intellectual property licenses	28	28
Property and equipment, net	169	138
Other assets	21	9
Intangible assets, net	160	618
Trademark and trade names	433	433
Goodwill	7,132	7,154
Total assets	<u>\$ 13,406</u>	<u>\$ 13,742</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 363	\$ 302
Deferred revenues	1,726	1,426
Accrued expenses and other liabilities	818	779
Total current liabilities	<u>2,907</u>	<u>2,507</u>
Deferred income taxes, net	112	270
Other liabilities	184	209
Total liabilities	<u>3,203</u>	<u>2,986</u>
Shareholders' equity:		
Common stock	—	—
Additional paid-in capital	12,353	12,376
Treasury stock	(2,194)	(1,235)
Retained earnings (accumulated deficit)	57	(361)
Accumulated other comprehensive loss	(13)	(24)
Total shareholders' equity	<u>10,203</u>	<u>10,756</u>
Total liabilities and shareholders' equity	<u>\$ 13,406</u>	<u>\$ 13,742</u>

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in millions)

	Three Months Ended December 31, 2010	2009	Year Ended December 31, 2010	2009
Cash flows from operating activities:				
Net income (loss)	\$ (233)	\$ (286)	\$ 418	\$ 113
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred income taxes	(329)	(185)	(278)	(256)
Impairment of intangible assets	326	409	326	409
Depreciation and amortization	101	160	198	347
Loss on disposal of property and equipment	1	2	1	2
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	137	89	319	281
Stock-based compensation expense (2)	37	47	131	156
Excess tax benefits from stock options exercises	(11)	(11)	(22)	(79)
Changes in operating assets and liabilities:				
Accounts receivable	(395)	(513)	76	235
Inventories	143	110	124	21
Software development and intellectual property	(75)	(79)	(313)	(308)
Other assets	(201)	(163)	17	(110)
Deferred revenues	1,103	955	293	503
Accounts payable	130	21	70	(18)

Accrued expenses and other liabilities	259	257	16	(113)
Net cash provided by operating activities	993	813	1,376	1,183
Cash flows from investing activities:				
Proceeds from maturities of investments	107	35	580	44
Proceeds from sale of available-for-sale investments	—	—	—	2
Payment of contingent consideration	—	—	(4)	—
Purchases of available-for-sale investments	(119)	(197)	(800)	(425)
Capital expenditures	(21)	(28)	(97)	(69)
Decrease in restricted cash	44	45	9	5
Net cash provided by (used in) investing activities	11	(145)	(312)	(443)
Cash flows from financing activities:				
Proceeds from issuance of common stock to employees	19	18	73	81
Repurchase of common stock	(346)	(275)	(959)	(1,109)
Dividends paid	(2)	—	(189)	—
Excess tax benefits from stock option exercises	11	11	22	79
Net cash used in financing activities	(318)	(246)	(1,053)	(949)
Effect of foreign exchange rate changes on cash and cash equivalents				
	3	(14)	33	19
Net increase (decrease) in cash and cash equivalents	689	408	44	(190)
Cash and cash equivalents at beginning of period	2,123	2,360	2,768	2,958
Cash and cash equivalents at end of period	<u>\$ 2,812</u>	<u>\$ 2,768</u>	<u>\$ 2,812</u>	<u>\$ 2,768</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.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

SUPPLEMENTAL FINANCIAL INFORMATION

(Amounts in millions)

	Three Months Ended					Year over Year % Increase (Decrease)
	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	
Cash Flow Data						
Operating Cash Flow	\$ 813	\$ 227	\$ (26)	\$ 182	\$ 993	22%
Operating Cash Flow - TTM	1,183	1,083	1,175	1,196	1,376	16
Capital Expenditures	28	12	27	37	21	(25)
Capital Expenditures - TTM	69	71	84	104	97	41
Non-GAAP Free Cash Flow	785	215	(53)	145	972	24
Non-GAAP Free Cash Flow - TTM	\$ 1,114	\$ 1,012	\$ 1,091	\$ 1,092	\$ 1,279	15%

TTM represents trailing twelve months.

Non-GAAP free cash flow represents operating cash flow minus capital expenditures.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES

(Amounts in millions, except earnings per share data)

Three Months Ended December 31, 2010	Net Revenues	Cost of Sales - Product Costs	Cost of Sales - MMORPG	Cost of Sales - Software Royalties and Amortization	Cost of Sales - Intellectual Property Licenses	Product Development	Sales and Marketing	General and Administrative	Impairment of Intangible Assets	Total Costs and Expenses
GAAP Measurement	\$ 1,427	\$ 585	\$ 73	\$ 128	\$ 92	\$ 275	\$ 226	\$ 119	\$ 326	\$ 1,824
Less: Net effect from deferral in net revenues and related cost of sales	(a) 1,121	200	—	45	17	—	—	—	—	262
Less: Stock-based compensation	(b) —	—	—	(14)	—	(8)	(2)	(13)	—	(37)
Less: Restructuring (included in general and administrative)	(c) —	—	—	—	—	—	—	1	—	1
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d) —	(2)	—	(6)	(69)	—	—	—	—	(77)
Less: Impairment of intangible assets	(e) —	—	—	—	—	—	—	—	(326)	(326)
Non-GAAP Measurement	<u>\$ 2,548</u>	<u>\$ 783</u>	<u>\$ 73</u>	<u>\$ 153</u>	<u>\$ 40</u>	<u>\$ 267</u>	<u>\$ 224</u>	<u>\$ 107</u>	<u>\$ —</u>	<u>\$ 1,647</u>
Three Months Ended December 31, 2010	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share						
GAAP Measurement	\$ (397)	\$ (233)	\$ (0.20)	\$ (0.20)						
Less: Net effect from deferral in net revenues and related cost of sales	(a) 859	628	0.52	0.51						
Less: Stock-based compensation	(b) 37	24	0.02	0.02						
Less: Restructuring (included in general and administrative)	(c) (1)	—	—	—						

Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	77	38	0.03	0.03
Less: Impairment of intangible assets	(e)	326	198	0.16	0.16
Non-GAAP Measurement		<u>\$ 901</u>	<u>\$ 655</u>	<u>\$ 0.54</u>	<u>\$ 0.53</u>

Year Ended December 31, 2010	Net Revenues	Cost of Sales - Product Costs	Cost of Sales - MMORPG	Cost of Sales - Software Royalties and Amortization	Cost of Sales - Intellectual Property Licenses	Product Development	Sales and Marketing	General and Administrative	Impairment of Intangible Assets	Total Costs and Expenses
GAAP Measurement	\$ 4,447	\$ 1,350	\$ 241	\$ 338	\$ 197	\$ 642	\$ 520	\$ 364	\$ 326	\$ 3,978
Less: Net effect from deferral in net revenues and related cost of sales	(a)	356	3	—	29	5	—	—	—	37
Less: Stock-based compensation	(b)	—	—	—	(65)	—	(12)	(8)	(46)	(131)
Less: Restructuring (included in general and administrative)	(c)	—	—	—	—	—	—	—	(3)	(3)
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	—	(5)	—	(15)	(102)	—	—	(1)	(123)
Less: Impairment of intangible assets	(e)	—	—	—	—	—	—	—	(326)	(326)
Non-GAAP Measurement	<u>\$ 4,803</u>	<u>\$ 1,348</u>	<u>\$ 241</u>	<u>\$ 287</u>	<u>\$ 100</u>	<u>\$ 630</u>	<u>\$ 512</u>	<u>\$ 314</u>	<u>\$ —</u>	<u>\$ 3,432</u>

Year Ended December 31, 2010	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	\$ 469	\$ 418	\$ 0.34	\$ 0.33
Less: Net effect from deferral in net revenues and related cost of sales	(a)	319	232	0.19
Less: Stock-based compensation	(b)	131	88	0.07
Less: Restructuring (included in general and administrative)	(c)	3	2	—
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	123	53	0.04
Less: Impairment of intangible assets	(e)	326	198	0.16
Non-GAAP Measurement	<u>\$ 1,371</u>	<u>\$ 991</u>	<u>\$ 0.81</u>	<u>\$ 0.79</u>

- (a) Reflects the net change in deferred net revenues and related cost of sales.
(b) Includes expense related to stock-based compensation.
(c) Reflects restructuring related to the Business Combination with Vivendi Games. Restructuring activities includes severance costs, facility exit costs and balance sheet write down and exit costs from the cancellation of projects.
(d) Reflects amortization of intangible assets, and the change in the fair value of assets and liabilities from purchase price accounting related adjustments.
(e) Reflects impairment of intangible assets acquired as a result of purchase price accounting.

The per share adjustments are presented as calculated, and the GAAP and non-GAAP earnings per share information is also presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES

(Amounts in millions, except earnings per share data)

Three Months Ended December 31, 2009	Net Revenues	Cost of Sales - Product Costs	Cost of Sales - MMORPG	Cost of Sales - Software Royalties and Amortization	Cost of Sales - Intellectual Property Licenses	Product Development	Sales and Marketing	General and Administrative	Impairment of Intangible Assets	Restructuring	Total Costs and Expenses
GAAP Measurement	\$ 1,557	\$ 670	\$ 54	\$ 136	\$ 152	\$ 265	\$ 215	\$ 94	\$ 409	\$ —	\$ 1,989
Less: Net effect from deferral in net revenues and related cost of sales	(a)	938	194	—	16	4	—	—	—	—	214
Less: Stock-based compensation	(b)	—	—	—	(16)	—	(12)	1	(20)	—	(47)
Less: Costs related to the Business Combination, integration and restructuring	(c)	—	—	—	—	—	—	—	—	6	6
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	—	(1)	—	(29)	(112)	—	—	—	—	(142)
Less: Impairment of intangible assets	(e)	—	—	—	—	—	—	—	(409)	—	(409)
Non-GAAP Measurement	<u>\$ 2,495</u>	<u>\$ 863</u>	<u>\$ 54</u>	<u>\$ 107</u>	<u>\$ 44</u>	<u>\$ 253</u>	<u>\$ 216</u>	<u>\$ 74</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,611</u>

Three Months Ended December 31, 2009	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
GAAP Measurement	\$ (432)	\$ (286)	\$ (0.23)	\$ (0.23)
Less: Net effect from deferral in net revenues and related cost of sales	(a)	724	552	0.43
Less: Stock-based compensation	(b)	47	29	0.02
Less: Costs related to the Business Combination, integration and restructuring	(c)	(6)	(4)	—
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	142	92	0.07
Less: Impairment of intangible assets	(e)	409	249	0.19
Non-GAAP Measurement	<u>\$ 884</u>	<u>\$ 632</u>	<u>\$ 0.50</u>	<u>\$ 0.49</u>

Year Ended December 31, 2009	Net Revenues	Cost of Sales - Product Costs	Cost of Sales - MMORPG	Cost of Sales - Software Royalties and Amortization	Cost of Sales - Intellectual Property Licenses	Product Development	Sales and Marketing	General and Administrative	Impairment of Intangible Assets	Restructuring	Total Costs and Expenses
GAAP Measurement	\$ 4,279	\$ 1,432	\$ 212	\$ 348	\$ 315	\$ 627	\$ 544	\$ 395	\$ 409	\$ 23	\$ 4,305
Less: Net effect from deferral in net revenues and related cost of sales	(a)	497	115	—	(4)	(2)	5	—	—	—	114
Less: Stock-based compensation	(b)	—	—	—	(34)	(40)	(9)	(71)	—	—	(154)
Less: Results of Activision Blizzard's non-core exit operations	(f)	(1)	—	—	—	4	(3)	(10)	—	—	(9)
Less: Costs related to the Business Combination, integration and restructuring	(c)	—	—	—	—	—	—	(24)	—	(23)	(47)
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	—	(5)	—	(66)	(186)	—	(2)	—	—	(259)
Less: Impairment of intangible assets	(e)	—	—	—	—	—	—	—	(409)	—	(409)
Non-GAAP Measurement	<u>\$ 4,775</u>	<u>\$ 1,542</u>	<u>\$ 212</u>	<u>\$ 244</u>	<u>\$ 127</u>	<u>\$ 591</u>	<u>\$ 537</u>	<u>\$ 288</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,541</u>

Year Ended December 31, 2009		Operating Income (Loss)	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement		\$ (26)	\$ 113	\$ 0.09	\$ 0.09
Less: Net effect from deferral in net revenues and related cost of sales	(a)	383	279	0.22	0.21
Less: Stock-based compensation	(b)	154	96	0.07	0.07
Less: Results of Activision Blizzard's non-core exit operations	(f)	8	4	—	—
Less: Costs related to the Business Combination, integration and restructuring	(c)	47	28	0.02	0.02
Less: Amortization of intangible assets and purchase price accounting related adjustments	(d)	259	141	0.11	0.11
Less: Impairment of intangible assets	(e)	409	249	0.19	0.19
Non-GAAP Measurement		<u>\$ 1,234</u>	<u>\$ 910</u>	<u>\$ 0.70</u>	<u>\$ 0.69</u>

- (a) Reflects the net change in deferred net revenues and related cost of sales.
(b) Includes expense related to stock-based compensation.
(c) Reflects costs related to the Business Combination with Vivendi Games (including transaction costs, integration costs and restructuring activities). Restructuring activities includes severance costs, facility exit costs and balance sheet write down and exit costs from the cancellation of projects.
(d) Reflects amortization of intangible assets, and the change in the fair value of assets and liabilities from purchase price accounting related adjustments.
(e) Reflects impairment of intangible assets acquired as a result of purchase accounting.
(f) Reflects the results of products and operations from the historical Vivendi Games businesses that the company has exited, divested or wound down.

The per share adjustments are presented as calculated, and the GAAP and non-GAAP earnings per share information is also presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES FINANCIAL INFORMATION

For the Three Months and Year Ended December 31, 2010 and 2009

(Amounts in millions)

GAAP Net Revenues by Distribution Channel	Three Months Ended					
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
Retail channel	\$ 820	57%	\$ 1,000	64%	\$ (180)	(18)%
Digital online channel*	414	29	336	22	78	23
Total Activision and Blizzard	1,234	86	1,336	86	(102)	(8)
Distribution	193	14	221	14	(28)	(13)
Total consolidated GAAP net revenues	1,427	100	1,557	100	(130)	(8)

Change in Deferred Net Revenues(1)

Retail channel	1,059	933
Digital online channel*	62	5
Total changes in deferred net revenues	1,121	938

Non-GAAP Net Revenues by Distribution Channel

Retail channel	1,879	73	1,933	77	(54)	(3)
Digital online channel*	476	19	341	14	135	40
Total Activision and Blizzard	2,355	92	2,274	91	81	4
Distribution	193	8	221	9	(28)	(13)
Total non-GAAP net revenues (2)	\$ 2,548	100%	\$ 2,495	100%	\$ 53	2%

	Year Ended					
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
GAAP Net Revenues by Distribution Channel						
Retail channel	\$ 2,629	59%	\$ 2,622	61%	\$ 7	—%
Digital online channel*	1,440	32	1,234	29	206	17
Total Activision and Blizzard	4,069	91	3,856	90	213	6
Distribution	378	9	423	10	(45)	(11)
Total consolidated GAAP net revenues	4,447	100	4,279	100	168	4

Change in Deferred Net Revenues(1)

Retail channel	243	457
Digital online channel*	113	39
Total changes in deferred net revenues	356	496

Non-GAAP Net Revenues by Distribution Channel

Retail channel	2,872	60	3,079	64	(207)	(7)
Digital online channel*	1,553	32	1,273	27	280	22

Total Activision and Blizzard	4,425	92	4,352	91	73	2
Distribution	378	8	423	9	(45)	(11)
Total non-GAAP net revenues (2)	<u>\$ 4,803</u>	<u>100%</u>	<u>\$ 4,775</u>	<u>100%</u>	<u>\$ 28</u>	<u>1%</u>

(1) We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred net revenues.

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

* Represents revenues from subscriptions and licensing royalties, value added services, downloadable contents, digitally distributed products, and wireless devices.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES FINANCIAL INFORMATION

For the Three Months Ended December 31, 2010 and 2009

(Amounts in millions)

	Three Months Ended					
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
GAAP Net Revenues by Segment/Platform Mix						
Activision and Blizzard:						
MMORPG	\$ 340	24%	\$ 309	20%	\$ 31	10%
PC and other	124	9	45	3	79	176
Sony PlayStation 3	259	18	228	15	31	14
Sony PlayStation 2	6	—	53	3	(47)	(89)
Microsoft Xbox 360	281	20	324	21	(43)	(13)
Nintendo Wii	141	10	260	17	(119)	(46)
Total console	687	48	865	56	(178)	(21)
Sony PlayStation Portable	6	—	16	1	(10)	(63)
Nintendo Dual Screen	77	5	101	6	(24)	(24)
Total handheld	83	5	117	7	(34)	(29)
Total Activision and Blizzard	1,234	86	1,336	86	(102)	(8)

Distribution:						
Total Distribution	193	14	221	14	(28)	(13)
Total consolidated GAAP net revenues	<u>1,427</u>	<u>100</u>	<u>1,557</u>	<u>100</u>	<u>(130)</u>	<u>(8)</u>

Change in Deferred Net Revenues(1)

Activision and Blizzard:						
MMORPG	204		12			
PC and other	—		76			
Sony PlayStation 3	393		343			
Microsoft Xbox 360	441		429			
Nintendo Wii	75		78			
Total console	909		850			
Nintendo Dual Screen	8		—			
Total changes in deferred net revenues	<u>1,121</u>		<u>938</u>			

Non-GAAP Net Revenues by Segment/Platform Mix

Activision and Blizzard:						
MMORPG	544	21	321	12	223	69
PC and other	124	5	121	5	3	2
Sony PlayStation 3	652	26	571	23	81	14
Sony PlayStation 2	6	—	53	2	(47)	(89)
Microsoft Xbox 360	722	28	753	30	(31)	(4)
Nintendo Wii	216	8	338	14	(122)	(36)
Total console	1,596	62	1,715	69	(119)	(7)
Sony PlayStation Portable	6	—	16	1	(10)	(63)
Nintendo Dual Screen	85	4	101	4	(16)	(16)
Total handheld	91	4	117	5	(26)	(22)
Total Activision and Blizzard	<u>2,355</u>	<u>92</u>	<u>2,274</u>	<u>91</u>	<u>81</u>	<u>4</u>
Total Distribution						
	193	8	221	9	(28)	(13)
Total non-GAAP net revenues(2)	<u>\$ 2,548</u>	<u>100%</u>	<u>\$ 2,495</u>	<u>100%</u>	<u>\$ 53</u>	<u>2%</u>

(1) We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred net revenues.

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

(Amounts in millions)

MMORPG	1,421	30	1,155	24	266	23
PC and other	406	8	213	4	193	91
Sony PlayStation 3	931	19	843	18	88	10
Sony PlayStation 2	35	1	174	4	(139)	(80)
Microsoft Xbox 360	1,048	22	1,141	24	(93)	(8)
Nintendo Wii	392	8	582	12	(190)	(33)
Total console	2,406	50	2,740	58	(334)	(12)
Sony PlayStation Portable	16	—	48	1	(32)	(67)
Nintendo Dual Screen	176	4	196	4	(20)	(10)
Total handheld	192	4	244	5	(52)	(21)
Total Activision and Blizzard	4,425	92	4,352	91	73	2
Total Distribution	378	8	423	9	(45)	(11)
Total non-GAAP net revenues(2)	\$ 4,803	100%	\$ 4,775	100%	\$ 28	1%

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

(Amounts in millions)

		Three Months Ended			
December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
Amount	% of Total	Amount	% of Total		
GAAP Net Revenues by Geographic Region					

North America	\$	734	51%	\$	759	49%	\$	(25)	(3)%
Europe		600	42		710	46		(110)	(15)
Asia Pacific		93	7		88	5		5	6
Total consolidated GAAP net revenues		<u>1,427</u>	<u>100</u>		<u>1,557</u>	<u>100</u>		<u>(130)</u>	<u>(8)</u>

Change in Deferred Net Revenues(1)

North America		627			528				
Europe		440			371				
Asia Pacific		54			39				
Total changes in net revenues		<u>1,121</u>			<u>938</u>				

Non-GAAP Net Revenues by Geographic

Region									
North America		1,361	53		1,287	52		74	6
Europe		1,040	41		1,081	43		(41)	(4)
Asia Pacific		147	6		127	5		20	16
Total non-GAAP net revenues(2)	\$	<u>2,548</u>	<u>100%</u>	\$	<u>2,495</u>	<u>100%</u>	\$	<u>53</u>	<u>2%</u>

GAAP Net Revenues by Geographic Region	Year Ended					
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
North America	\$ 2,409	54%	\$ 2,217	52%	\$ 192	9%
Europe	1,743	39	1,798	42	(55)	(3)
Asia Pacific	295	7	263	6	32	12
Total geographic region net revenues	4,447	100	4,278	100	169	4

Other(1)		—	—		1	—		(1)	NM
Total consolidated GAAP net revenues		<u>4,447</u>	<u>100</u>		<u>4,279</u>	<u>100</u>		<u>168</u>	<u>4</u>

Change in Deferred Net Revenues(1)

North America		166			241				
Europe		159			224				
Asia Pacific		31			32				
Total changes in net revenues		<u>356</u>			<u>497</u>				

Other(1)		—			(1)				
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Non-GAAP Net Revenues by Geographic

Region									
North America		2,575	54		2,458	52		117	5
Europe		1,902	39		2,022	42		(120)	(6)
Asia Pacific		326	7		295	6		31	11
Total non-GAAP net revenues(2)	\$	<u>4,803</u>	<u>100%</u>	\$	<u>4,775</u>	<u>100%</u>	\$	<u>28</u>	<u>1%</u>

(1) We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred net revenues.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

SEGMENT INFORMATION

For the Three Months And Year Ended December 31, 2010 and 2009

(Amounts in millions)

	Three Months Ended								
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)			
	Amount	% of Total	Amount	% of Total					
Segment net revenues:									
Activision(i)	\$	1,785	125%	\$	1,945	125%	\$	(160)	(8)%
Blizzard(ii)		570	40		329	21		241	73
Distribution(iii)		193	14		221	14		(28)	(13)
Operating segment total		2,548	179		2,495	160		53	2

Reconciliation to consolidated net revenues:

Net effect from deferral of net revenues		(1,121)	(79)		(938)	(60)			
Consolidated net revenues	\$	<u>1,427</u>	<u>100%</u>	\$	<u>1,557</u>	<u>100%</u>		<u>(130)</u>	<u>(8)</u>

Segment income from operations:

Activision(i)	\$	599		\$	712	(113)		(16)	
Blizzard(ii)		291			162	129		80	
Distribution(iii)		11			10	1		10	
Operating segment total		<u>901</u>			<u>884</u>	<u>17</u>		<u>2</u>	

Reconciliation to consolidated operating income (loss):				
Net effect from deferral of net revenues and related cost of sales	(859)	(724)		
Stock-based compensation expense	(37)	(47)		
Restructuring	1	6		
Amortization of intangible assets and purchase price accounting related adjustments	(77)	(142)		
Impairment of intangible assets	(326)	(409)		
Consolidated operating (loss)	<u>\$ (397)</u>	<u>\$ (432)</u>	\$ 35	(8)%

Operating margin from total operating segments	35%	35%		
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	Year Ended					
	December 31, 2010		December 31, 2009		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
Segment net revenues:						
Activision(i)	\$ 2,769	62%	\$ 3,156	74%	\$ (387)	(12)%
Blizzard(ii)	1,656	37	1,196	28	460	38
Distribution(iii)	378	9	423	10	(45)	(11)
Operating segment total	4,803	108	4,775	112	28	1

Reconciliation to consolidated net revenues:						
Net effect from deferral of net revenues	(356)	(8)	(497)	(12)		
Other(iv)	—	—	1	—		
Consolidated net revenues	<u>\$ 4,447</u>	<u>100%</u>	<u>\$ 4,279</u>	<u>100%</u>	168	4

Segment income from operations:						
Activision(i)	\$ 511		\$ 663		(152)	(23)
Blizzard(ii)	850		555		295	53
Distribution(iii)	10		16		(6)	(38)
Operating segment total	<u>1,371</u>		<u>1,234</u>		<u>137</u>	<u>11</u>

Reconciliation to consolidated operating income (loss):				
Net effect from deferral of net revenues and related cost of sales	(319)	(383)		
Stock-based compensation expense	(131)	(154)		
Restructuring	(3)	(23)		
Amortization of intangible assets and purchase price accounting related adjustments	(123)	(259)		
Impairment of intangible assets	(326)	(409)		
Integration and transactions costs	—	(24)		
Other(iv)	—	(8)		
Consolidated operating income (loss)	<u>\$ 469</u>	<u>\$ (26)</u>	\$ 495	NM%
Operating margin from total operating segments	29%	26%		

(i) Activision Publishing (“Activision”) — publishes interactive entertainment products and contents.

(ii) Blizzard — Blizzard Entertainment, Inc. and its subsidiaries (“Blizzard”) publishes PC games and online subscription-based games in the MMORPG category.

(iii) Activision Blizzard Distribution (“Distribution”) — distributes interactive entertainment software and hardware products.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES OUTLOOK

For the Quarter Ending March 31, 2011 and

Year Ending December 31, 2011

GAAP to Non-GAAP Reconciliation

(Amounts in millions, except per share data)

	Outlook for Three Months Ending March 31, 2011	Outlook for Year Ending December 31, 2011
Net Revenues (GAAP)	\$ 1,280	\$ 3,950

Excluding the impact of:

Change in deferred net revenues	(a)	(640)	(50)
Non-GAAP Net Revenues	\$	640	\$ 3,900
Earnings Per Diluted Share (GAAP)	\$	0.28	\$ 0.56
Excluding the impact of:			
Net effect from deferral in net revenues and related cost of sales	(b)	(0.26)	0.01
Stock-based compensation	(c)	0.02	0.07
Amortization of intangible assets	(d)	—	0.03
Restructuring expenses	(e)	0.03	0.03
Non-GAAP Earnings Per Diluted Share	\$	0.07	\$ 0.70

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- (a) Reflects the net change in deferred net revenues.
 - (b) Reflects the net change in deferred net revenues and related cost of sales.
 - (c) Reflects expense related to stock-based compensation.
 - (d) Reflects amortization of intangible assets.
 - (e) Reflects expenses relating to the restructuring of our Activision Publishing operations.

The per share adjustments are presented as calculated, and the GAAP and non-GAAP earnings (loss) per share information is also presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.