

**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, 2015

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 November 3, 2015 was 731,183,860.

<a href="#">PART I.</a>	<a href="#">FINANCIAL INFORMATION</a>	
<a href="#">Item 1.</a>	<a href="#">Financial Statements (Unaudited)</a>	
	<a href="#">Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014</a>	4
	<a href="#">Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and September 30, 2014</a>	5
	<a href="#">Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and September 30, 2014</a>	6
	<a href="#">Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014</a>	7
	<a href="#">Condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2015</a>	8
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	9
<a href="#">Item 2.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	25
<a href="#">Item 3.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	48
<a href="#">Item 4.</a>	<a href="#">Controls and Procedures</a>	49
<a href="#">PART II.</a>	<a href="#">OTHER INFORMATION</a>	50
<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>	50
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	50
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>	50
<a href="#">SIGNATURE</a>		51
<a href="#">EXHIBIT INDEX</a>		52
<a href="#">CERTIFICATIONS</a>		

[Table of Contents](#)

**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 facts 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 financial or operating performance; (4) statements relating to our proposed acquisition of King Digital Entertainment plc (the "Acquisition"); (5) statements relating to the outcome or impact of pending or threatened litigation; and (6) statements of assumptions underlying such statements. Activision Blizzard, Inc. ("Activision Blizzard") generally uses words such as "outlook," "forecast," "will," "could," "should," "would," "to be," "plan," "plans," "believes," "may," "might," "expects," "intends," "intends as," "anticipates," "estimate," "future," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "upcoming" and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. Risks and uncertainties that may affect our future results include, but are not limited to: sales levels of our titles; increasing concentration of revenues among a small number of titles; our ability to predict consumer preferences, including interest in specific genres, such as first-person action, massively multiplayer online, "toys to life" and music-based games, and preferences among hardware platforms; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; the adoption rate and availability of new hardware (including peripherals) and related software, particularly during console transitions; counterparty risks relating to customers, licensees, licensors and manufacturers; maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, manufacturers, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality titles; changing business models, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from used games and other forms of entertainment; rapid changes in technology and industry standards; possible declines in software pricing; product returns and price protection; the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion; the seasonal and cyclical nature of the interactive entertainment market; litigation risks and associated costs; protection of proprietary rights; shifts in consumer spending trends; capital market risks; applicable regulations; domestic and international economic, financial and political conditions and policies; tax rates and foreign exchange rates; the impact of the current macroeconomic environment; uncertainties as to the timing of the Acquisition; uncertainties as to whether we will be able to consummate the Acquisition; the integration of King Digital Entertainment plc being more difficult, time-consuming or costly than expected; the possibility that we may be unable to achieve expected synergies and operating efficiencies in connection with the Acquisition within the expected time-frames or at all; and the other factors identified in "Risk Factors" included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 or in "Cautionary Statement Regarding Forward-Looking Statements" from our Current Report on Form 8-K filed on November 3, 2015. The forward-looking statements contained herein are based upon information available to us as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not*

guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard, Inc.'s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard. All other product or service names are the property of their respective owners.

[Table of Contents](#)

**Part I. Financial Information**

**Item 1. Financial Statements**

**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(Amounts in millions, except share data)

	At September 30, 2015	At December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,365	\$ 4,848
Short-term investments	154	10
Accounts receivable, net of allowances of \$216 and \$383, at September 30, 2015 and December 31, 2014, respectively	503	659
Inventories, net	238	123
Software development	342	452
Intellectual property licenses	27	5
Deferred income taxes, net	373	368
Other current assets	307	444
Total current assets	6,309	6,909
Long-term investments	9	9
Software development	73	20
Intellectual property licenses	—	18
Property and equipment, net	200	157
Other assets	171	85
Intangible assets, net	24	29
Trademark and trade names	433	433
Goodwill	7,083	7,086
Total assets	\$ 14,302	\$ 14,746
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 309	\$ 325
Deferred revenues	907	1,797
Accrued expenses and other liabilities	394	592
Total current liabilities	1,610	2,714
Long-term debt, net	4,078	4,324
Deferred income taxes, net	110	114
Other liabilities	515	361
Total liabilities	6,313	7,513
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,159,620,225 and 1,150,605,926 shares issued at September 30, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	10,209	9,924
Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2015 and December 31, 2014	(5,613)	(5,762)
Retained earnings	3,937	3,374
Accumulated other comprehensive loss	(544)	(303)
Total shareholders' equity	7,989	7,233
Total liabilities and shareholders' equity	\$ 14,302	\$ 14,746

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,	
	2015	2014	2015	2014
<b>Net revenues</b>				
Product sales	\$ 425	\$ 337	\$ 1,736	\$ 1,693
Subscription, licensing and other revenues	565	416	1,576	1,140
Total net revenues	990	753	3,312	2,833
<b>Costs and expenses</b>				
Cost of sales - product costs	195	156	560	568
Cost of sales - online	56	56	161	170
Cost of sales - software royalties and amortization	81	34	314	136
Cost of sales - intellectual property licenses	5	7	12	20
Product development	159	131	453	387
Sales and marketing	189	221	445	465
General and administrative	109	140	297	342
Total costs and expenses	794	745	2,242	2,088
Operating income	196	8	1,070	745
Interest and other expense, net	51	51	151	152
Income (loss) before income tax expense (benefit)	145	(43)	919	593
Income tax expense (benefit)	18	(20)	186	119
Net income (loss)	\$ 127	\$ (23)	\$ 733	\$ 474
<b>Earnings (loss) per common share</b>				
Basic	\$ 0.17	\$ (0.03)	\$ 0.99	\$ 0.65
Diluted	\$ 0.17	\$ (0.03)	\$ 0.98	\$ 0.64
<b>Weighted-average number of shares outstanding</b>				
Basic	730	718	727	714
Diluted	739	718	736	725
Dividends per common share	\$ —	\$ —	\$ 0.23	\$ 0.20

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

[Table of Contents](#)

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

(Unaudited)

(Amounts in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 127	\$ (23)	\$ 733	\$ 474
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustment	5	(206)	(240)	(230)
Unrealized gains (losses) on forward contracts designated as hedges, net of deferred income taxes of \$0 million for the periods ended September 30, 2015 and 2014	(3)	5	3	5
Unrealized losses on investments, net of deferred income taxes of \$0 million for the periods ended September 30, 2015 and 2014	(1)	—	(4)	—
Total other comprehensive income (loss)	\$ 1	\$ (201)	\$ (241)	\$ (225)
Comprehensive income (loss)	\$ 128	\$ (224)	\$ 492	\$ 249

[Table of Contents](#)

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

	<b>For the Nine Months Ended September 30,</b>	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 733	\$ 474
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Deferred income taxes	(22)	(57)
Provision for inventories	16	33
Depreciation and amortization	65	61
Amortization of capitalized software development costs and intellectual property licenses <sup>1</sup>	303	131
Amortization of debt discount and debt financing costs	5	5
Stock-based compensation expense <sup>2</sup>	71	74
Excess tax benefits from stock awards	(33)	(29)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	142	(193)
Inventories	(135)	(90)
Software development and intellectual property licenses	(249)	(253)
Other assets	158	59
Deferred revenues	(833)	(54)
Accounts payable	(7)	(83)
Accrued expenses and other liabilities	(51)	19
<b>Net cash provided by operating activities</b>	<b>163</b>	<b>97</b>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities of available-for-sale investments	15	21
Purchases of available-for-sale investments	(144)	—
Capital expenditures	(95)	(90)
Increase in restricted cash	(15)	(11)
<b>Net cash used in investing activities</b>	<b>(239)</b>	<b>(80)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock to employees	82	160
Tax payment related to net share settlements on restricted stock rights	(36)	(41)
Excess tax benefits from stock awards	33	29
Dividends paid	(170)	(147)
Repayment of long-term debt	(250)	(375)
Proceeds received from shareholder lawsuit settlement	202	—
<b>Net cash used in financing activities</b>	<b>(139)</b>	<b>(374)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(268)	(248)
<b>Net decrease in cash and cash equivalents</b>	<b>(483)</b>	<b>(605)</b>
Cash and cash equivalents at beginning of period	4,848	4,410
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,365</b>	<b>\$ 3,805</b>

<sup>1</sup> Excludes deferral and amortization of stock-based compensation expense.

<sup>2</sup> 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.

[Table of Contents](#)

**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Nine Months Ended September 30, 2015**  
(Unaudited)  
(Amounts and shares in millions, except per share data)

Common Stock	Treasury Stock	Additional Paid-In	Retained	Accumulated Other	Total Shareholders'
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	Shares		Amount		Capital	Earnings	Comprehensive Income (Loss)	Equity
Balance at December 31, 2014	1,151	\$ —	(429)	\$ (5,762)	\$ 9,924	\$ 3,374	\$ (303)	\$ 7,233
Components of comprehensive income:								
Net income	—	—	—	—	—	733	—	733
Other comprehensive income (loss)	—	—	—	—	—	—	(241)	(241)
Issuance of common stock pursuant to employee stock options	6	—	—	—	82	—	—	82
Issuance of common stock pursuant to restricted stock rights	4	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(36)	—	—	(36)
Tax benefit associated with employee stock awards	—	—	—	—	31	—	—	31
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	73	—	—	73
Dividends (\$0.23 per common share)	—	—	—	—	—	(170)	—	(170)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 9)	—	—	—	82	—	—	—	82
Shareholder lawsuit settlement in connection with the Purchase Transaction (see Note 12)	—	—	—	67	135	—	—	202
<b>Balance at September 30, 2015</b>	<b>1,160</b>	<b>\$ —</b>	<b>(429)</b>	<b>\$ (5,613)</b>	<b>\$ 10,209</b>	<b>\$ 3,937</b>	<b>\$ (544)</b>	<b>\$ 7,989</b>

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

[Table of Contents](#)

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

**1. Description of Business and Basis of Consolidation and Presentation**

Activision Blizzard, Inc. (“Activision Blizzard”) is a leading global developer and publisher of interactive entertainment. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. We currently offer games for video game consoles, personal computers (“PC”), and handheld, mobile and tablet devices. We maintain significant operations in the United States (“U.S.”), Canada, the United Kingdom (“U.K.”), France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China.

*The Business Combination and Share Repurchase*

Activision Blizzard is the result of the 2008 business combination (“Business Combination”) by and among the Company (then known as 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. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and Vivendi became a majority shareholder of Activision Blizzard.

On October 11, 2013, we repurchased approximately 429 million shares of our common stock, pursuant to a stock purchase agreement (the “Stock Purchase Agreement”) we entered into with Vivendi and ASAC II LP (“ASAC”), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi (“New VH”), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of \$5.83 billion, or \$13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the “Purchase Transaction”). Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of our common stock, pursuant to the Stock Purchase Agreement, for a cash payment of \$2.34 billion, or \$13.60 per share (the “Private Sale”). Robert A. Kotick, our Chief Executive Officer, and Brian G. Kelly, Chairman of our Board of Directors, are affiliates of ASAC II LLC. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for information regarding the financing of the Purchase Transaction.

On May 28, 2014, Vivendi sold approximately 41 million shares, or approximately 50% of its then-current holdings, of our common stock in a registered public offering. Vivendi received proceeds of approximately \$850 million from that sale; the Company did not receive any proceeds.

As of September 30, 2015, we had approximately 731 million shares of common stock issued and outstanding. At that date: (i) Vivendi held 41 million shares, or approximately 6% of the outstanding shares of our common stock; (ii) ASAC held 172 million shares, or approximately 24% of the outstanding shares of our common stock; and (iii) our other stockholders held approximately 70% of the outstanding shares of our common stock. The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.”

*Operating Segments*

Based upon our organizational structure, we conduct our business through three operating segments as follows:

**(i) Activision Publishing, Inc.**

Activision Publishing, Inc. (“Activision”) is a leading global developer and publisher of interactive software products and content. Activision delivers content to a broad range of gamers, ranging from children to adults, and from core gamers to mass-market consumers to “value” buyers seeking budget-priced software, in a variety of geographies. Activision develops games based on internally-developed properties, including games in the Call of Duty®, Skylanders® and Guitar Hero® franchises, and to a lesser extent, based on licensed intellectual properties. Additionally, we have established a long-term alliance with Bungie to publish its game universe, Destiny. Activision sells games through both retail and digital online channels. Activision currently offers games that operate on the Microsoft Corporation (“Microsoft”) Xbox One (“Xbox One”) and Xbox 360 (“Xbox 360”), Nintendo Co. Ltd. (“Nintendo”) Wii U (“Wii U”) and Wii (“Wii”), and Sony Computer Entertainment, Inc. (“Sony”) PlayStation® 4 (“PS4”) and PlayStation 3 (“PS3”) console systems (Xbox One, Wii U, and PS4 are collectively referred to as “next-generation”; Xbox 360, Wii, and PS3 are collectively referred to as “prior-generation”); the PC; the Nintendo 3DS, Nintendo Dual Screen, and Sony PlayStation Vita handheld game systems; and mobile and tablet devices.

[Table of Contents](#)

**(ii) Blizzard Entertainment, Inc.**

Blizzard Entertainment, Inc. (“Blizzard”) is a leader in the subscription-based massively multi-player online role-playing game category in terms of both subscriber base and revenues generated through its World of Warcraft® franchise, which it develops, hosts and supports. Blizzard also develops, markets, and sells role-playing action and strategy games for the PC, console, mobile and tablet platforms, including games in the multiple-award winning Diablo®, StarCraft®, and Hearthstone®: Heroes of Warcraft™ franchises. In addition, Blizzard maintains a proprietary online game-related service, Battle.net®. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; value-added services, such as in-game purchases and services; retail sales of physical “boxed” products; online download sales of PC products; purchases and downloads via third-party console, mobile and tablet platforms; and licensing of software to third-party or related-party companies that distribute World of Warcraft, Diablo, StarCraft and Hearthstone: Heroes of Warcraft products. In addition, Blizzard is the creator of *Heroes of the Storm*™, a free-to-play online hero brawler released on June 2, 2015.

**(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.

*Basis of Consolidation and Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim reporting. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been condensed or omitted if they substantially duplicate the disclosures contained in the annual audited consolidated financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. 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, 2014.

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 and accompanying notes. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair statement of our financial position and results of operations in accordance with U.S. GAAP have been included in the accompanying unaudited condensed consolidated financial statements. Actual results could differ from these estimates and assumptions.

The accompanying condensed consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated.

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.

*Supplemental Cash Flow Information: Non-cash investing activities*

As of September 30, 2015 and 2014, the Company had accrued capital expenditures of \$16 million and \$4 million, respectively, recorded within “Accounts Payable” and “Accrued expenses and other liabilities.”

[Table of Contents](#)

**2. Inventories, Net**

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

	At September 30, 2015	At December 31, 2014
Finished goods	\$ 174	\$ 112
Purchased parts and components	64	11
Inventories, net	\$ 238	\$ 123



At September 30, 2015 and December 31, 2014, inventory reserves were \$41 million and \$52 million, respectively.

### 3. Software Development and Intellectual Property Licenses

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

	At September 30, 2015	At December 31, 2014
Internally-developed software costs	\$ 249	\$ 262
Payments made to third-party software developers	166	210
Total software development costs	<u>\$ 415</u>	<u>\$ 472</u>
Intellectual property licenses	\$ 27	\$ 23

Amortization of capitalized software development costs and intellectual property licenses was the following (amounts in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Amortization of capitalized software development costs and intellectual property licenses	\$ 80	\$ 35	\$ 312	\$ 143

### 4. Intangible Assets, Net

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

	At September 30, 2015			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	3 - 10 years	\$ 98	\$ (93)	\$ 5
Internally-developed franchises	11 - 12 years	309	(290)	19
Total definite-lived intangible assets		<u>\$ 407</u>	<u>\$ (383)</u>	<u>\$ 24</u>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				<u>\$ 433</u>
	At December 31, 2014			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	3 - 10 years	\$ 98	\$ (92)	\$ 6
Internally-developed franchises	11 - 12 years	309	(286)	23
Total definite-lived intangible assets		<u>\$ 407</u>	<u>\$ (378)</u>	<u>\$ 29</u>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				<u>\$ 433</u>

### [Table of Contents](#)

Amortization expense of intangible assets was \$2 million and \$5 million for the three and nine months ended September 30, 2015, respectively. Amortization expense of intangible assets was \$2 million and \$5 million for the three and nine months ended September 30, 2014, respectively.

At September 30, 2015, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2015 (remaining three months)	\$ 7
2016	8
2017	4
2018	3
2019	2
Total	<u>\$ 24</u>

### 5. Fair Value Measurements

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



- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and
- 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, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

[Table of Contents](#)
**Fair Value Measurements on a Recurring Basis**

The table below segregates all financial assets that are measured at fair value on a recurring basis 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 September 30, 2015				Balance Sheet Classification
	As of September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial Assets:</b>					
Recurring fair value measurements:					
Money market funds	\$ 4,229	\$ 4,229	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	31	31	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	129	129	—	—	Short-term investments
Foreign currency forward contracts designated as hedges	3	—	3	—	Other current assets
Auction rate securities (“ARS”)	9	—	—	9	Long-term investments
<b>Total recurring fair value measurements</b>	<b>\$ 4,401</b>	<b>\$ 4,389</b>	<b>\$ 3</b>	<b>\$ 9</b>	

  

	Fair Value Measurements at December 31, 2014				Balance Sheet Classification
	As of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Recurring fair value measurements:					
Money market funds	\$ 4,475	\$ 4,475	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	40	40	—	—	Cash and cash equivalents
ARS	9	—	—	9	Long-term investments
<b>Total recurring fair value measurements</b>	<b>\$ 4,524</b>	<b>\$ 4,515</b>	<b>\$ —</b>	<b>\$ 9</b>	

The following tables provide a reconciliation of the beginning and ending balances of our financial assets classified as Level 3 by major categories (amounts in millions) at September 30, 2015 and 2014, respectively:

	Level 3	
	ARS (a)	Total financial assets at fair value
Balance at December 31, 2014	\$ 9	\$ 9
Total unrealized gains included in other comprehensive income	—	—
<b>Balance at September 30, 2015</b>	<b>\$ 9</b>	<b>\$ 9</b>

  

	Level 3	
	ARS (a)	Total financial assets at fair value
Balance at December 31, 2013	\$ 9	\$ 9
Total unrealized gains included in other comprehensive income	—	—
<b>Balance at September 30, 2014</b>	<b>\$ 9</b>	<b>\$ 9</b>

- (a) Fair value measurements have been estimated using an income-approach model. When estimating the fair value, we consider both observable market data and non-observable factors, including credit quality, duration, insurance wraps, collateral composition, maximum rate formulas, comparable trading instruments, and the likelihood of redemption. Significant assumptions used in the analysis include estimates for interest rates, spreads, cash flow timing and amounts, and holding periods of the securities. At September 30, 2015, assets measured at fair value using significant unobservable inputs (Level 3), all of which were ARS, represent less than 1% of our financial assets measured at fair value on a recurring basis.

## Foreign Currency Forward Contracts

The Company transacts business in various foreign currencies and has significant international sales and expenses denominated in foreign currencies, subjecting us to foreign currency risk. In addition, the Company transacts intercompany business in various foreign currencies other than its functional currency, subjecting us to variability in the functional currency-equivalent cash flows. To mitigate our foreign currency risk resulting from our foreign currency-denominated monetary assets, liabilities and earnings and our foreign currency risk related to functional currency-equivalent cash flows resulting from our intercompany transactions, we periodically enter into currency derivative contracts, principally forward contracts. We report the fair value of these contracts within “Other current assets,” “Accrued expense and other liabilities,” “Other assets,” or “Other liabilities,” as applicable, in our condensed consolidated balance sheets based on the prevailing exchange rates of the various hedged currencies as of the end of the relevant period.

We do not hold or purchase any foreign currency forward contracts for trading or speculative purposes.

### *Foreign Currency Forward Contracts Not Designated as Hedges*

For foreign currency forward contracts entered into to mitigate risk from foreign currency-denominated monetary assets, liabilities, and earnings that are not designated as hedging instruments in accordance with FASB Accounting Standards Codification (“ASC”) Topic 815, changes in the estimated fair value of these derivatives are recorded within “General and administrative expenses” and “Interest and other expense, net” in our condensed consolidated statements of operations, depending on the nature of the underlying transactions. These forward contracts generally have a maturity of less than one year.

At September 30, 2015 there were no outstanding foreign currency forward contracts not designated as hedges. At December 31, 2014, there was one outstanding foreign currency forward contract not designated as a hedge; the notional amount of that foreign currency forward contract was \$11 million and the fair value was not material. For the three and nine months ended September 30, 2015 and 2014, pre-tax net losses related to these forward contracts were not material.

### *Foreign Currency Forward Contracts Designated as Hedges*

For foreign currency forward contracts entered into to hedge forecasted intercompany cash flows that are subject to foreign currency risk and which we designated as cash flow hedges in accordance with ASC Topic 815, we assess the effectiveness of these cash flow hedges at inception and on an ongoing basis to determine if the hedges are effective at providing offsetting changes in cash flows of the hedged items. We record the effective portion of changes in the estimated fair value of these derivatives in “Accumulated other comprehensive income (loss)” and subsequently reclassify the related amount of accumulated other comprehensive income (loss) to earnings within “General and administrative expense” when the hedged item impacts earnings. We measure hedge ineffectiveness, if any, and if it is determined that a derivative has ceased to be a highly effective hedge, we will discontinue hedge accounting for the derivative.

The gross notional amount of all outstanding foreign currency forward contracts designated as cash flow hedges was approximately \$336 million at September 30, 2015 and \$78 million at September 30, 2014. At December 31, 2014, there were no outstanding foreign currency forward contracts designated as cash flow hedges. These foreign currency forward contracts have remaining maturities of 15 months or less. During the three and nine months ended September 30, 2015 and 2014, there was no ineffectiveness relating to these hedges. At September 30, 2015, \$3 million of net unrealized gains related to these contracts are expected to be reclassified into earnings within the next twelve months.

## Fair Value Measurements on a Non-Recurring Basis

We measure the fair value of certain assets on a non-recurring basis, generally annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

For the three and nine months ended September 30, 2015 and 2014, there were no impairment charges related to assets that are measured on a non-recurring basis.

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## [Table of Contents](#)

### **6. Debt**

The proceeds from the credit facilities and the unsecured senior notes, as described below, were used to fund the Purchase Transaction disclosed in Note 1 of the Notes to Condensed Consolidated Financial Statements.

#### *Credit Facilities*

On October 11, 2013, in connection and simultaneously with the Purchase Transaction, we entered into a credit agreement (the “Credit Agreement”) for a \$2.5 billion secured term loan facility maturing in October 2020 (the “Term Loan”), and a \$250 million secured revolving credit facility maturing in October 2018 (the “Revolver” and, together with the Term Loan, the “Credit Facilities”). A portion of the Revolver can be used to issue letters of credit of up to \$50 million, subject to the availability of the Revolver. To date, we have not drawn on the Revolver and there were no letters of credit issued and outstanding under the Revolver at either September 30, 2015 or December 31, 2014.

Borrowings under the Term Loan and the Revolver bear interest, payable on a quarterly basis, at an annual rate equal to an applicable margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its “prime rate,” (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate (“LIBOR”) for an interest period of one month plus 1.00%, or (B) LIBOR. LIBOR borrowings under the Term Loan are subject to a LIBOR floor of 0.75%. At September 30, 2015, the Credit Facilities bore interest at 3.25%. In certain circumstances, our applicable interest rate under the Credit Facilities will increase.

In addition to paying interest on outstanding principal balances under the Credit Facilities, we are required to pay the lenders a commitment fee on unused commitments under the Revolver. Commitment fees are recorded within “Interest and other expense, net” on the condensed consolidated statement of operations. We are also required to pay customary letter of credit fees, if any, and agency fees.

The terms of the Credit Agreement require quarterly principal repayments of 0.25% of the Term Loan’s original principal amount, with the balance due on the maturity date. On February 11, 2014, we made a voluntary repayment of \$375 million on our Term Loan. This repayment satisfied the required quarterly principal repayments for the entire term of the Credit Agreement. On February 11, 2015, we made an additional voluntary repayment of \$250 million on our Term Loan.

The Credit Facilities are guaranteed by certain of the Company’s U.S. subsidiaries, whose assets represent approximately 69% of our consolidated assets. The Credit Agreement contains customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of debt, granting of liens, payment of dividends, sales of assets and mergers and acquisitions. If our obligations under the Revolver exceed 15% of the total facility amount as of the end of any fiscal quarter (subject to certain exclusions for letters of credit), we are also subject to certain financial covenants. A violation of any of these covenants could result in an event of default under the Credit Agreement. Upon the occurrence of such event of default or certain other customary events of default, payment of any outstanding amounts under the Credit Agreement may be accelerated, and the lenders’ commitments to extend credit under the Credit Agreement may be terminated. In addition, an event of default under the Credit Agreement could, under certain circumstances, permit the holders of other outstanding unsecured debt, including the debt holders described below, to accelerate the repayment of such obligations. The Company was in compliance with the terms of the Credit Facilities as of September 30, 2015.

#### Unsecured Senior Notes

On September 19, 2013, we issued, at par, \$1.5 billion of 5.625% unsecured senior notes due September 2021 (the “2021 Notes”) and \$750 million of 6.125% unsecured senior notes due September 2023 (the “2023 Notes” and, together with the 2021 Notes, the “Notes”) in a private offering to qualified institutional buyers made in accordance with Rule 144A under the Securities Act of 1933, as amended.

The Notes are general senior obligations of the Company and rank *pari passu* in right of payment to all of the Company’s existing and future senior indebtedness, including the Credit Facilities described above. The Notes are guaranteed on a senior basis by certain of our U.S. subsidiaries. The Notes and related guarantees are not secured and are effectively subordinated to any of the Company’s existing and future indebtedness that is secured, including the Credit Facilities. The Notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of debt, granting of liens, payment of dividends, sales of assets and mergers and acquisitions. The Company was in compliance with the terms of the Notes as of September 30, 2015.

15

#### [Table of Contents](#)

Interest on the Notes is payable semi-annually in arrears on March 15 and September 15 of each year. As of September 30, 2015 and December 31, 2014, we had interest payable of \$5 million and \$38 million, respectively, related to the Notes, recorded within “Accrued expenses and other liabilities” in our condensed consolidated balance sheet.

We may redeem the 2021 Notes on or after September 15, 2016 and the 2023 Notes on or after September 15, 2018, in whole or in part on any one or more occasions, at specified redemption prices, plus accrued and unpaid interest. At any time prior to September 15, 2016, with respect to the 2021 Notes, and at any time prior to September 15, 2018, with respect to the 2023 Notes, we may also redeem some or all of the Notes by paying a “make-whole premium,” plus accrued and unpaid interest. Further, upon the occurrence of one or more qualified equity offerings, we may also redeem up to 35% of the aggregate principal amount of each of the 2021 Notes and 2023 Notes outstanding with the net cash proceeds from such offerings. The Notes are repayable, in whole or in part and at the option of the holders, upon the occurrence of a change in control and a ratings downgrade, at a purchase price equal to 101% of principal, plus accrued and unpaid interest. These redemption options are considered clearly and closely related to the Notes and are not accounted for separately upon issuance.

Fees associated with the closing of the Term Loan and the Notes are recorded as debt discount, which reduce the carrying value of the Term Loan and the Notes. The debt discount is amortized over the respective terms of the Term Loan and the Notes. Amortization expense related to the debt discount is recorded within “Interest and other expense, net” in our condensed consolidated statement of operations.

A summary of our debt is as follows (amounts in millions):

	At September 30, 2015		
	Gross Carrying Amount	Unamortized Discount	Net Carrying Amount
Term Loan	\$ 1,869	\$ (9)	\$ 1,860
2021 Notes	1,500	(21)	1,479
2023 Notes	750	(11)	739
Total long-term debt	\$ 4,119	\$ (41)	\$ 4,078
	At December 31, 2014		
	Gross Carrying Amount	Unamortized Discount	Net Carrying Amount
Term Loan	\$ 2,119	\$ (10)	\$ 2,109
2021 Notes	1,500	(23)	1,477
2023 Notes	750	(12)	738
Total long-term debt	\$ 4,369	\$ (45)	\$ 4,324

For the three and nine months ended September 30, 2015, interest expense was \$48 million and \$145 million, respectively, amortization of the debt discount for the Credit Facilities and Notes was \$1 million and \$4 million, respectively, and commitment fees for the Revolver were not material. For the three and nine months ended September 30, 2014, interest expense was \$50 million and \$150 million, respectively, amortization of the debt discount for the Credit Facilities and Notes was \$1 million and \$4 million, respectively, and commitment fees for the Revolver were not material.

16

As of September 30, 2015, the scheduled maturities and contractual principal repayments of our debt for each of the five succeeding years are as follows (amounts in millions):

For the year ending December 31,	
2015 (remaining three months)	\$ —
2016	—
2017	—
2018	—
2019	—
Thereafter	4,119
Total	<u>\$ 4,119</u>

As of September 30, 2015 and December 31, 2014, the carrying value of the Term Loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. Based on Level 2 inputs, the fair values of the 2021 Notes and 2023 Notes were \$1,579 million and \$799 million, respectively, as of September 30, 2015 and \$1,586 million and \$810 million, respectively, as of December 31, 2014.

#### Deferred Financing Costs

Costs incurred to obtain our long-term debt are recorded as deferred financing costs within “Other assets — non-current” in our condensed consolidated balance sheets and are amortized over the terms of the respective debt agreements using a straight-line basis for costs related to the Revolver and the interest earned method for costs related to the Term Loan and the Notes. Amortization expense related to the deferred financing costs is recorded within “Interest and other investment income (expense), net” in our condensed consolidated statements of operations. For the three and nine months ended September 30, 2015 and 2014, this amount was not material.

#### 7. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) at September 30, 2015 and 2014, were as follows (amounts in millions):

	For the Nine Months Ended September 30, 2015			
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on available-for-sale securities	Total
Balance at December 31, 2014	\$ (304)	\$ —	\$ 1	\$ (303)
Other comprehensive income (loss) before reclassifications	(240)	8	(4)	(236)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(5)	—	(5)
Balance at September 30, 2015	<u>\$ (544)</u>	<u>\$ 3</u>	<u>\$ (3)</u>	<u>\$ (544)</u>
	For the Nine Months Ended September 30, 2014			
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain on available-for-sale securities	Total
Balance at December 31, 2013	\$ 67	\$ —	\$ 1	\$ 68
Other comprehensive income (loss) before reclassifications	(230)	7	—	(223)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(2)	—	(2)
Balance at September 30, 2014	<u>\$ (163)</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ (157)</u>

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

#### 8. Operating Segments and Geographic Region

Our operating segments are consistent with our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our Chief Operating Decision Maker (“CODM”), the manner in which we assess operating performance and allocate resources, and the availability of separate financial information. Currently, we conduct our business through three operating segments: Activision, Blizzard and Distribution (see Note 1 of the Notes to Condensed Consolidated Financial Statements). We do not aggregate operating segments.

The CODM reviews segment performance exclusive of the impact of the change in deferred revenues and related cost of sales with respect to certain of our online-enabled games, stock-based compensation expense, amortization of intangible assets as a result of purchase price accounting, and fees and other expenses (including legal fees, costs, expenses and accruals) related to the Purchase Transaction and related debt financings. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto. Information on the operating segments and reconciliations of total net revenues and total segment operating income to consolidated net revenues from external customers and consolidated income before income tax expense for the three and nine months ended September 30, 2015 and 2014 are presented below (amounts in millions):

	Three Months Ended September 30,			
	2015	2014	2015	2014
	Net revenues		Income (loss) from operations before income tax expense (benefit)	
Activision	\$ 591	\$ 704	\$ 122	\$ 95
Blizzard	369	388	128	164

Distribution	80	78	1	1
Operating segments total	1,040	1,170	251	260

**Reconciliation to consolidated net revenues / consolidated income (loss) before income tax expense (benefit):**

Net effect from deferral of net revenues and related cost of sales	(50)	(417)	(26)	(180)
Stock-based compensation expense	—	—	(28)	(22)
Amortization of intangible assets	—	—	(1)	(2)
Fees and other expenses related to the Purchase Transaction and related debt financings	—	—	—	(48)
Consolidated net revenues / operating income	<u>\$ 990</u>	<u>\$ 753</u>	<u>\$ 196</u>	<u>\$ 8</u>
Interest and other expense, net			51	51
Consolidated income (loss) before income tax expense (benefit)			<u>\$ 145</u>	<u>\$ (43)</u>

	Nine Months Ended September 30,			
	2015	2014	2015	2014
	Net revenues		Income from operations before income tax expense	
Activision	\$ 1,208	\$ 1,193	\$ 244	\$ 66
Blizzard	1,106	1,189	383	548
Distribution	189	218	—	(1)
Operating segments total	<u>2,503</u>	<u>2,600</u>	<u>627</u>	<u>613</u>

**Reconciliation to consolidated net revenues / consolidated income before income tax expense:**

Net effect from deferral of net revenues and related cost of sales	809	233	517	260
Stock-based compensation expense	—	—	(70)	(76)
Amortization of intangible assets	—	—	(4)	(4)
Fees and other expenses related to the Purchase Transaction and related debt financings	—	—	—	(48)
Consolidated net revenues / operating income	<u>\$ 3,312</u>	<u>\$ 2,833</u>	<u>\$ 1,070</u>	<u>\$ 745</u>
Interest and other expense, net			151	152
Consolidated income before income tax expense			<u>\$ 919</u>	<u>\$ 593</u>

[Table of Contents](#)

Geographic information presented below for the three and nine months ended September 30, 2015 and 2014 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,	
	2015	2014	2015	2014
Net revenues by geographic region:				
North America	\$ 495	\$ 350	\$ 1,750	\$ 1,384
Europe	367	316	1,219	1,172
Asia Pacific	128	87	343	277
Total consolidated net revenues	<u>\$ 990</u>	<u>\$ 753</u>	<u>\$ 3,312</u>	<u>\$ 2,833</u>

The Company's net revenues in the U.S. were 46% and 45% of consolidated net revenues for the three months ended September 30, 2015 and 2014, respectively. The Company's net revenues in the U.K. were 13% and 14% of consolidated net revenues for the three months ended September 30, 2015 and 2014, respectively. The Company's net revenues in France were 7% and 19% of consolidated net revenues for the three months ended September 30, 2015 and 2014, respectively. No other country's net revenues exceeded 10% of consolidated net revenues for the three months ended September 30, 2015 and 2014.

The Company's net revenues in the U.S. were 50% and 46% of consolidated net revenues for the nine months ended September 30, 2015 and 2014, respectively. The Company's net revenues in the U.K. were 13% and 14% of consolidated net revenues for the nine months ended September 30, 2015 and 2014, respectively. The Company's net revenues in France were 8% and 16% of consolidated net revenues for the nine months ended September 30, 2015 and 2014, respectively. No other country's net revenues exceeded 10% of consolidated net revenues for the nine months ended September 30, 2015 and 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues by platform:				
Console	\$ 420	\$ 270	\$ 1,737	\$ 1,402
Online <sup>1</sup>	195	205	687	601
PC	164	165	427	447
Mobile and other <sup>2</sup>	131	35	272	165
Total Activision Blizzard net revenues	<u>910</u>	<u>675</u>	<u>3,123</u>	<u>2,615</u>
Distribution	80	78	189	218
Total consolidated net revenues	<u>\$ 990</u>	<u>\$ 753</u>	<u>\$ 3,312</u>	<u>\$ 2,833</u>

- <sup>1</sup> Revenues from online consist of revenues from all World of Warcraft products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.
- <sup>2</sup> Revenues from mobile and other include revenues from handheld, mobile and tablet devices, as well as non-platform specific game related revenues such as standalone sales of toys and accessories products from the Skylanders franchise and other physical merchandise and accessories.

Long-lived assets by geographic region at September 30, 2015 and December 31, 2014 were as follows (amounts in millions):

	At September 30, 2015	At December 31, 2014
Long-lived assets <sup>1</sup> by geographic region:		
North America	\$ 153	\$ 122
Europe	38	29
Asia Pacific	9	6
Total long-lived assets by geographic region	<u>\$ 200</u>	<u>\$ 157</u>

- <sup>1</sup> The only long-lived assets that we classify by region are our long-term tangible fixed assets, which only include property, plant and equipment assets; all other long-term assets are not allocated by location.

[Table of Contents](#)

**9. Income Taxes**

The Company accounts for its provision for income taxes in accordance with ASC 740, *Income Taxes*, which requires an estimate of the annual effective tax rate for the full year to be applied to the interim period, taking into account year-to-date amounts and projected results for the full year. The provision for income taxes represents federal, foreign, state and local income taxes. Our effective tax rate differs from the statutory U.S. income tax rate due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate could fluctuate significantly from quarter to quarter based on recurring and nonrecurring factors including, but not limited to: variations in the estimated and actual level of pre-tax income or loss by jurisdiction; changes in the mix of income by tax jurisdiction (as taxes are levied at relatively lower statutory rates in foreign regions and relatively higher statutory rates in the U.S.); changes in enacted tax laws and regulations, rulings and interpretations thereof, including with respect to tax credits, state and local income taxes; developments in tax audits and other matters; and certain nondeductible expenses. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

The income tax expense of \$18 million for the three months ended September 30, 2015 reflects an effective tax rate of 13%, which is lower than the effective tax rate of 46% for the three months ended September 30, 2014. This decrease is primarily due to an incremental tax benefit included in the three months ended September 30, 2014, from a lower estimated effective annual tax rate in 2015 due to the mix of foreign earnings taxed at relatively lower statutory rates as compared to domestic earnings, partially offset by certain non-tax benefited costs incurred during the prior year quarter.

The income tax expense of \$186 million for the nine months ended September 30, 2015 reflects an effective tax rate of 20%, which is comparable to the effective tax rate of 20% for the nine months ended September 30, 2014.

The effective tax rates of 13% and 20% for the three and nine months ended September 30, 2015, respectively, differed from the U.S. statutory rate of 35%, primarily due to the tax benefit from foreign earnings taxed at relatively lower statutory rates, recognition of California research and development credits, federal domestic production deductions and favorable return to provision adjustments, partially offset by increases to the Company's reserve for uncertain tax positions.

The overall effective income tax rate for the year could be different from the effective tax rate for the three and nine months ended September 30, 2015 and will be dependent, in part, on our profitability for the remainder of the year, as well as the other factors described above.

The Internal Revenue Service ("IRS") is currently examining Activision Blizzard's federal tax returns for the 2008 through 2011 tax years. During the second quarter of 2015, the Company transitioned the review of its transfer pricing methodology from the advanced pricing agreement review process to the IRS examination team. Their review could result in a different allocation of profits and losses under the Company's transfer pricing agreements. Such allocation could have a positive or negative impact on our provision for uncertain tax positions for the period in which such a determination is reached and the relevant periods thereafter.

In addition, Vivendi Games' tax return for the 2008 tax year is under examination by the IRS and several state taxing authorities. While Vivendi Games' results for the period January 1, 2008 through July 9, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Vivendi or its affiliates, Vivendi Games' results for the period July 10, 2008 through December 31, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Activision Blizzard. Additionally, the Company has several state and non-U.S. audits pending.

The final resolution of the Company's global tax disputes is uncertain. There is significant judgment required in the analysis of disputes, including the probability determination and estimation of the potential exposure. Based on current information, in the opinion of the Company's management, the ultimate resolution of these matters are not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on our business and results of operations in the period in which the matters are ultimately resolved.

[Table of Contents](#)

In connection with the Purchase Transaction, we assumed certain tax attributes of New VH, generally consisting of New VH's net operating loss ("NOL") carryforwards of approximately \$760 million, which represent a potential future tax benefit of approximately \$266 million. The utilization of such



NOL carryforwards will be subject to certain annual limitations and will begin to expire in 2021. The Company also obtained indemnification from Vivendi against losses attributable to the disallowance of claimed utilization of such NOL carryforwards of up to \$200 million in unrealized tax benefits in the aggregate, limited to taxable years ending on or prior to December 31, 2016. No benefit for these tax attributes or indemnification was recorded upon the close of the Purchase Transaction, as the benefit from these tax attributes did not meet the “more-likely-than-not” standard. For the nine months ended September 30, 2015, we utilized \$248 million of the NOL, which resulted in a tax benefit of \$87 million, reduced by \$5 million for return to provision adjustments, and a corresponding reserve of \$82 million was established as the position did not meet the “more-likely-than-not” standard. As of September 30, 2015, an indemnification asset of \$149 million has been recorded in “Other Assets,” and, correspondingly, the same amount has been recorded as a reduction to the consideration paid for the shares repurchased in “Treasury Stock” (see Note 1 of the Notes to Condensed Consolidated Financial Statements for details about the share repurchase).

## 10. Computation of Basic/Diluted Earnings Per Common Share

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Numerator:</b>				
Consolidated net income (loss)	\$ 127	\$ (23)	\$ 733	\$ 474
Less: Distributed earnings to unvested stock-based awards that participate in earnings	—	—	(4)	(5)
Less: Undistributed earnings allocated to unvested stock-based awards that participate in earnings	(2)	—	(6)	(7)
Numerator for basic and diluted earnings (loss) per common share — income (loss) available to common shareholders	\$ 125	\$ (23)	\$ 723	\$ 462
<b>Denominator:</b>				
Denominator for basic earnings per common share - weighted-average common shares outstanding	730	718	727	714
<b>Effect of potential dilutive common shares under the treasury stock method:</b>				
Employee stock options and awards	9	—	9	11
Denominator for diluted earnings per common share - weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	739	718	736	725
Basic earnings (loss) per common share	\$ 0.17	\$ (0.03)	\$ 0.99	\$ 0.65
Diluted earnings (loss) per common share	\$ 0.17	\$ (0.03)	\$ 0.98	\$ 0.64

Certain of our unvested restricted stock rights (including certain restricted stock units, restricted stock awards and performance shares) met the definition of participating securities as they participate in earnings based on their rights to dividends or dividend equivalents. Therefore, we are required to use the two-class method in our computation of basic and diluted earnings per common share. For the three and nine months ended September 30, 2015, on a weighted-average basis, we had outstanding unvested restricted stock rights with respect to 8 million and 9 million shares of common stock, respectively, that are participating in earnings. For the three and nine months ended September 30, 2014, on a weighted-average basis, we had outstanding unvested restricted stock rights with respect to 14 million and 16 million shares of common stock, respectively, that are participating in earnings.

Certain of our employee-related restricted stock rights are contingently issuable upon the satisfaction of pre-defined performance measures. These shares are included in the weighted-average dilutive common shares only if the performance measures are met as of the end of the reporting period. Approximately 4 million shares are not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2015 as their respective performance measures had not yet been met. Approximately 5 million and 4 million shares are not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2014 as their respective performance measures had not yet been met.

## [Table of Contents](#)

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded. Therefore, options to acquire 1 million shares of common stock were not included in the calculation of diluted earnings per common share for the three and nine months ended September 30, 2015 and options to acquire 10 million and 1 million shares of common stock were not included in the calculation of diluted earnings per common share for the three and nine months ended September 30, 2014, as the effect of their inclusion would be anti-dilutive.

## 11. Capital Transactions

### *Repurchase Program*

On February 3, 2015, our Board of Directors authorized a stock repurchase program under which we may repurchase up to \$750 million of our common stock during the two-year period from February 9, 2015 through February 8, 2017. As of September 30, 2015, we have not repurchased any shares under this program.

### *Dividends*



On February 3, 2015, our Board of Directors declared a cash dividend of \$0.23 per common share, payable on May 13, 2015, to shareholders of record at the close of business on March 30, 2015. On May 13, 2015, we made an aggregate cash dividend payment of \$167 million to such shareholders, and on May 29, 2015, we made related dividend equivalent payments of \$3 million to certain holders of restricted stock rights.

On February 6, 2014, our Board of Directors declared a cash dividend of \$0.20 per common share, payable on May 14, 2014, to shareholders of record at the close of business on March 19, 2014. On May 14, 2014, we made an aggregate cash dividend payment of \$143 million to such shareholders, and on May 30, 2014, we made related dividend equivalent payments of \$4 million to certain holders of restricted stock rights.

## 12. Commitments and Contingencies

### *Legal Proceedings*

We are subject to various legal proceedings and claims. SEC regulations govern disclosure of legal proceedings in periodic reports and ASC Topic 450 governs the disclosure of loss contingencies and accrual of loss contingencies in respect of litigation and other claims. We record an accrual for a potential loss when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. When the reasonable estimate of the potential loss is within a range of amounts, the minimum of the range of potential loss is accrued, unless a higher amount within the range is a better estimate than any other amount within the range. Moreover, even if an accrual is not required, we provide additional disclosure related to litigation and other claims when it is reasonably possible (*i.e.*, more than remote) that the outcomes of such litigation and other claims include potential material adverse impacts on us.

The outcomes of legal proceedings and other claims are subject to significant uncertainties, many of which are outside of our control. There is significant judgment required in the analysis of these matters, including the probability determination and whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Moreover, legal matters are inherently unpredictable and the timing of development of factors on which reasonable judgments and estimates can be based can be slow. As such, there can be no assurance that the final outcome of any legal matter will not materially and adversely affect our business, financial condition, results of operations, profitability, cash flows or liquidity.

### *Purchase Transaction Matters*

In prior periods, the Company reported on litigation related to the Purchase Transaction. During the period ended June 30, 2015, the cases were resolved and dismissed with prejudice. As part of the resolution of the claims, we received a settlement payment of \$202 million in July 2015 from Vivendi, ASAC, and our insurers. We recorded the settlement within "Shareholders' equity" in our condensed consolidated balance sheet as of September 30, 2015.

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## [Table of Contents](#)

### *Other Matters*

In addition, we are party to routine claims, suits, investigations, audits and other proceedings arising from the ordinary course of business, including with respect to intellectual property rights, contractual claims, labor and employment matters, regulatory matters, tax matters, unclaimed property matters, compliance matters, and collection matters. In the opinion of management, after consultation with legal counsel, such routine claims and lawsuits are not significant and we do not expect them to have a material adverse effect on our business, financial condition, results of operations, or liquidity.

## 13. Related Party Transactions

### *Transactions with Vivendi and Its Affiliates*

As part of the Business Combination in 2008, we entered into various transactions and agreements, including cash management services agreements, a tax sharing agreement and an investor agreement, with Vivendi and its subsidiaries. In connection with the consummation of the Purchase Transaction, we terminated the cash management arrangements with Vivendi and amended our investor agreement with them. We are also party to a number of agreements with subsidiaries and other affiliates of Vivendi, including music licensing and distribution arrangements and promotional arrangements, none of which were impacted by the Purchase Transaction. None of these services, transactions and agreements with Vivendi and its affiliates were material, either individually or in the aggregate, to the consolidated financial statements as a whole. As discussed in Note 1 of the Notes to Condensed Consolidated Financial Statements, on May 28, 2014, Vivendi sold 41 million shares, reducing its ownership interest below 10%, and is no longer considered a related party.

### *Transactions with ASAC's Affiliates*

Pursuant to the Stock Purchase Agreement, the Company and each of Mr. Kotick, the Company's Chief Executive Officer, and Mr. Kelly, the Company's Chairman of the Board of Directors, entered into waiver and acknowledgment letters (together, the "Waivers"), which provide, among other things, (i) that the Purchase Transaction, Private Sale, any public offerings by Vivendi and restructurings by Vivendi and its subsidiaries contemplated by the Stock Purchase Agreement and other transaction documents, shall not (or shall be deemed not to) constitute a "change in control" (or similar term) under their respective employment arrangements, including their employment agreements with the Company, the Company's 2008 Incentive Plan or any award agreements in respect of awards granted thereunder, or any Other Benefit Plans and Arrangements (as defined in the Waivers), (ii) (A) that the shares of our common stock acquired by ASAC and held or controlled by the ASAC Investors (as defined in the Waivers) in connection with the Transactions (as defined in the Waivers) will not be included in or count toward, (B) that the ASAC Investors will not be deemed to be a group for purposes of, and (C) any changes in the composition in the Board of Directors of the Company, in connection with or during the one-year period following the consummation of the Transactions will not contribute towards, a determination that a "change in control" or similar term has occurred with respect to Messrs. Kotick and Kelly's employment arrangements with the Company, and (iii) for the waiver by Messrs. Kotick and Kelly of their rights to change in control payments or benefits under their employment agreements with the Company, the Company's 2008 Incentive Plan or any award agreements in respect of awards granted thereunder, and any Other Benefit Plans and Arrangements (in each case, with respect to all current and future grants, awards, benefits or entitlements) in connection with or as a consequence of the Transactions.

Also pursuant to the Stock Purchase Agreement, on October 11, 2013, we, ASAC and, for the limited purposes set forth therein, Messrs. Kotick and Kelly entered into the Stockholders Agreement. The Stockholders Agreement contains various agreements among the parties regarding voting rights, transfer

rights, and a standstill agreement, among other things. In connection with the settlement of the litigation related to the Purchase Transaction, the parties to the Stockholders Agreement amended that agreement on May 28, 2015.

## **14. Recently issued accounting pronouncements**

### *Revenue recognition*

In May 2014, the FASB issued new accounting guidance related to revenue recognition. The new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the adoption method as well as the impact of this new accounting guidance on our financial statements.

### *Stock-based compensation*

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

## [Table of Contents](#)

### *Consolidations*

In February 2015, the FASB issued new guidance related to consolidations. The new standard amends certain requirements for determining whether a variable interest entity must be consolidated. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

### *Debt Issuance Costs*

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs in financial statements. The new standard requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2015. The new guidance will be applied retrospectively to each prior period presented. The adoption of this guidance will not have a material impact on our financial statements.

### *Internal-Use Software*

In April 2015, the FASB issued new guidance related to internal-use software. The new standard relates to a customer's accounting for fees paid in cloud computing arrangements. The amendment provides guidance for customers to determine whether such arrangements include software licenses. If a cloud arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

### *Inventory*

In July 2015, the FASB issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard is effective for fiscal years beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

## **15. Subsequent events**

### *The Acquisition*

On November 2, 2015, we and King Digital Entertainment plc, a leading interactive mobile entertainment company incorporated under the laws of Ireland ("King"), entered into a Transaction Agreement (the "Transaction Agreement") under the terms of which we will acquire King (the "Acquisition") and King will become a wholly-owned subsidiary of the Company. At the effective time of the Acquisition, King shareholders will become entitled to receive \$18.00 in cash in exchange for each King share they then hold. We expect to transfer approximately \$5.9 billion in consideration to the existing King shareholders and share based award holders through a combination of the net proceeds from \$2.3 billion of committed incremental term loans, our offshore cash, and approximately \$200 million of our share based awards for the replacement of share based awards held by current employees and directors of King.

The transaction is subject to customary closing conditions, including the approval by King's shareholders, Irish High Court sanctioning, as well as certain regulatory approvals, and is expected to close by Spring of calendar year 2016.

### *Amendment to Credit Agreement*

In conjunction with the Acquisition, the Company entered into a First Amendment (the “Amendment”), which amends the Credit Agreement, dated as of October 11, 2013. The Amendment, among other things, provides for Incremental Term Loans in the form of Tranche B-2 Term Loans in an aggregate principal amount of approximately \$2.3 billion. The proceeds of the Tranche B-2 Term Loans will be used to fund the Acquisition.

The Tranche B-2 Term Loans will mature on the date that is seven years and six months after the date of the initial funding of the Tranche B-2 Term Loans and will bear interest, at an annual rate equal to an applicable interest margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its “prime rate,” (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate (“LIBOR”) rate for an interest period of one month plus 1.00%, or (B) LIBOR. LIBOR borrowings under the Tranche B-2 Term Loan will be subject to a LIBOR floor of 0.75% and base rate will be subject to a floor of 1.75%. The applicable interest margin for Tranche B-2 Term Loans will be 3.00% for LIBOR borrowings and 2.00% for base rate borrowings. Voluntary prepayments of the Tranche B-2 Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months after the date of the initial funding of the Tranche B-2 Term Loans. The Tranche B-2 Term Loans will be secured by the same collateral and guaranteed by the same guarantors as the existing Term Loan. The other terms of the Tranche B-2 Term Loans are also generally the same as the terms of the existing Term Loan.

#### *Commitment Letter*

In conjunction with the Acquisition, the Company also entered into a commitment letter (the “Commitment Letter”) with Bank of America, N.A. and Goldman Sachs Bank USA (the “Debt Financing Sources”). Pursuant to the Commitment Letter, subject to customary conditions, the Debt Financing Sources committed to provide the Company with the Tranche B-2 Term Loans on such modified terms as set forth therein (Tranche B-2 Term Loans as so modified, the “Tranche A Term Loans”) in the same aggregate principal amount and for the same purpose as the original Tranche B-2 Term Loans. The Tranche A Term Loans will be effected via, and subject to the passing of, a second amendment to the Credit Agreement and will mature on October 11, 2020.

#### *Cash Confirmation*

Under the Irish Takeover Rules, no financing condition to the Acquisition is permitted. As is customary, we have executed and delivered a cash confirmation representation letter to our financial advisor, in which we have given various representations, warranties and undertakings in relation to the sources and availability of the funding. In conjunction with the representation letter the Company has segregated \$3.56 billion in cash in separate bank accounts, where the cash is not accessible to the Company for operating cash needs, as its use has been administratively restricted for use in the consummation of the Acquisition.

All information included in the accompanying unaudited Condensed Consolidated Financial Statements and notes to Condensed Consolidated Financial Statements in this report reflects only our results, and does not reflect any impact of the proposed Acquisition, Amendment to the Credit Agreement, Commitment Letter, or Cash Confirmation.

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## [Table of Contents](#)

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

### **Business Overview**

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

#### *Operating Segments*

Based upon our organizational structure, we conduct our business through three operating segments as follows:

#### **(i) Activision Publishing, Inc.**

Activision Publishing, Inc. (“Activision”) is a leading global developer and publisher of interactive software products and content. Activision delivers content to a broad range of gamers, ranging from children to adults, and from core gamers to mass-market consumers to “value” buyers seeking budget-priced software, in a variety of geographies. Activision develops games based on internally-developed properties, including games in the Call of Duty®, Skylanders®, and Guitar Hero® franchises, and to a lesser extent, based on licensed intellectual properties. Additionally, we have established a long-term alliance with Bungie to publish its game universe, Destiny. Activision sells games through both retail and digital online channels. Activision currently offers games that operate on the Microsoft Corporation (“Microsoft”) Xbox One (“Xbox One”) and Xbox 360 (“Xbox 360”), Nintendo Co. Ltd. (“Nintendo”) Wii U (“Wii U”) and Wii (“Wii”), and Sony Computer Entertainment, Inc. (“Sony”) PlayStation® 4 (“PS4”) and PlayStation 3 (“PS3”) console systems (Xbox One, Wii U, and PS4 are collectively referred to as “next-generation”; Xbox 360, Wii, and PS3 are collectively referred to as “prior-generation”); the personal computer (“PC”); the Nintendo 3DS, Nintendo Dual Screen, and Sony PlayStation Vita handheld game systems; and mobile and tablet devices.

#### **(ii) Blizzard Entertainment, Inc.**

Blizzard Entertainment, Inc. (“Blizzard”) is a leader in the subscription-based massively multi-player online role-playing game category in terms of both subscriber base and revenues generated through its World of Warcraft® franchise, which it develops, hosts and supports. Blizzard also develops, markets, and sells role-playing action and strategy games for the PC, console, mobile and tablet platforms, including games in the multiple-award winning Diablo®, StarCraft®, and Hearthstone®: Heroes of Warcraft™ franchises. In addition, Blizzard maintains a proprietary online game-related service, Battle.net®. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; value-added services, such as in-game purchases and services; retail sales of physical “boxed” products; online download sales of PC products; purchases and downloads via third-party console, mobile and tablet platforms; and licensing of software to third-party or related-party companies that distribute World of Warcraft, Diablo and StarCraft products. In addition, Blizzard is the creator of *Heroes of the Storm*™, a free-to-play online hero brawler released on June 2, 2015.

### (iii) Activision Blizzard Distribution

Our distribution segment (“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 Highlights

For the three months ended September 30, 2015, Activision Blizzard had net revenues of \$990 million, as compared to net revenues of \$753 million for the same period in 2014. For the three months ended September 30, 2015, Activision Blizzard had earnings per diluted share of \$0.17, as compared to loss per diluted share of \$(0.03) for the same period in 2014.

For the nine months ended September 30, 2015, Activision Blizzard had net revenues of \$3.3 billion, as compared to net revenues of \$2.8 billion for the same period in 2014. For the nine months ended September 30, 2015, Activision Blizzard had earnings per diluted share of \$0.98, as compared to earnings per diluted share of \$0.64 for the same period in 2014.

For the three and nine months ended September 30, 2015, digital online channel revenues were 64% and 54%, respectively, of consolidated net revenues, as compared to 67% and 48% for the three and nine months ended September 30, 2014, respectively.

For the three and nine months ended September 30, 2015, non-GAAP digital online channel revenues were 67% and 74%, respectively, of consolidated net revenues, as compared to 43% and 58% for the three and nine months ended September 30, 2014, respectively.

25

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#### [Table of Contents](#)

On February 3, 2015, our Board of Directors declared a cash dividend of \$0.23 per common share, payable on May 13, 2015, to shareholders of record at the close of business on March 30, 2015. On May 13, 2015, we made an aggregate cash dividend payment of \$167 million to such shareholders, and on May 29, 2015, we made related dividend equivalent cash payments of \$3 million to certain holders of restricted stock rights.

#### Activision Blizzard 2015 and Upcoming Product Releases

We have recently released the following titles and games, among other titles:

- On January 11, 2015, Activision entered open beta for *Call of Duty Online*, a free-to-play game available in China.
- Activision released *Call of Duty: Advanced Warfare Havoc* (“Havoc”), the first downloadable content pack for *Call of Duty: Advanced Warfare* on the Xbox One and Xbox 360 platforms on January 27, 2015 and on other platforms on February 26, 2015.
- Activision released *Call of Duty: Advanced Warfare Ascendance* (“Ascendance”), the second downloadable content pack for *Call of Duty: Advanced Warfare* on the Xbox One and Xbox 360 platforms on March 31, 2015 and on other platforms on April 30, 2015.
- On April 2, 2015, Blizzard released *Blackrock Mountain™*, an addition to *Hearthstone: Heroes of Warcraft* content and on April 14, 2015, *Hearthstone: Heroes of Warcraft* was released on iOS and Android smartphones.
- On April 7, 2015, Blizzard launched the *WoW™ Token System*, which enables *World of Warcraft* players to exchange game-time tokens, purchased at \$20, to other players for in-game gold, which provides players with a secure method for purchasing gold in-game.
- On April 23, 2015, Blizzard released the action role-playing game *Diablo III: Reaper of Souls™* in China.
- On May 19, 2015, Activision released *House of Wolves*, the second expansion to *Destiny*.
- On June 2, 2015, Blizzard released *Heroes of the Storm*, its free-to-play online team brawler.
- Activision released *Call of Duty: Advanced Warfare Supremacy* (“Supremacy”), the third downloadable content pack for *Call of Duty: Advanced Warfare* on the Xbox One and Xbox 360 platforms on June 2, 2015 and on other platforms on July 2, 2015.
- Activision released *Call of Duty: Advanced Warfare Reckoning* (“Reckoning”), the fourth downloadable content pack for *Call of Duty: Advanced Warfare* on the Xbox One and Xbox 360 platforms on August 4, 2015 and on other platforms on September 3, 2015.
- On August 24, 2015, Blizzard released *The Grand Tournament™*, the latest expansion to *Hearthstone: Heroes of Warcraft*.
- On September 15, 2015, Activision released *The Taken King*, the third expansion to *Destiny*.
- On September 20, 2015, Activision released *Skylanders Superchargers*, the latest title in the *Skylanders* franchise.
- On October 20, 2015, Activision released *Guitar Hero Live*, bringing back the franchise that had previously reached over 40 million players in North America and Europe.
- On October 27, 2015, Blizzard began closed beta testing for *Overwatch™*, its upcoming team-based first-person shooter.
- On November 6, 2015, Activision released *Call of Duty: Black Ops III*, the latest in the *Call of Duty* franchise series.
- In November 2015, Blizzard expects to release *Starcraft II: Legacy of the Void™*, the third installment of the real-time strategy game.

26

## Management's Overview of Business Trends

### *Console Platform Transition*

In November 2013, Sony released the PS4 and Microsoft released the Xbox One, their respective next-generation game consoles and entertainment systems. According to The NPD Group and GfK Chart-Track in North America and Europe, as of September 30, 2015, the combined installed base of PS4 and Xbox One hardware was approximately 32 million units, representing growth of approximately 118% over the combined installed base of approximately 15 million as of September 30, 2014. While the combined installed base of PS3 and Xbox 360 hardware was approximately 123 million units as of September 30, 2015, at the comparable point in their release cycle, the prior-generation platforms had only 22 million units installed.

When new console platforms are announced or introduced into the market, consumers reduce their purchases of game console software products for prior-generation console platforms in anticipation of new platforms becoming available. During these periods, sales of the game console software products we publish slow or even decline until the new platforms introduced achieve wide consumer acceptance, which we believe will have largely occurred with respect to the next-generation platforms by the end of 2015. In prior cycles, as the next-generation installed base grew, software sales declines abated and software sales grew.

During platform transitions, we simultaneously incur costs to develop and market new titles for prior-generation video game platforms and to develop and market products for next-generation platforms. We continually monitor console hardware sales and manage our product delivery on each of the prior- and next-generation platforms in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development.

### *Digital Online Channel Revenues*

We provide our products through both retail and digital distribution channels. Many of our video games that are available through retailers as physical "boxed" software products are also available digitally (from our websites and from websites and digital distribution channels owned by third parties). In addition, we offer players digital downloadable content as add-ons to our products (*e.g.*, new multi-player content packs), subscription-based services, value-added services and micro-transactions across our various video games. We have also introduced games based on some of our most successful franchises which operate online on a free-to-play model with micro-transactions.

We currently define sales via digital online channels as revenues from digitally distributed subscriptions, licensing royalties, value-added services, downloadable content, micro-transactions, and products. This definition may differ from that used by our competitors or other companies.

According to Activision Blizzard internal estimates, overall industry digital gaming revenues for the nine months ended September 30, 2015 increased by approximately 21% as compared to the same period in 2014. The primary drivers of the increase in digital gaming revenues were increases in micro-transactions and consumer purchases of full games via digital channels. Digital revenues are an important part of our business, and we continue to focus on and develop products, such as downloadable content, that can be delivered via digital online channels. The amount of our digital revenues in any period may fluctuate depending, in part, on the timing and nature of our specific product releases. Our sales of digital downloadable content are driven in part by sales of, and engagement by players in, our retail products. As such, lower revenues in our retail distribution channels in the current year may impact our revenues through digital online channels in the subsequent year.

For the three months ended September 30, 2015, revenues through digital online channels increased by \$125 million, as compared to the same period in 2014, and represented 64% of our total consolidated net revenues, as compared to 67% for the same period in 2014. On a non-GAAP basis (which excludes the impact of deferred revenues), revenues through digital online channels for the three months ended September 30, 2015 increased by \$192 million, as compared to the same period in 2014, and represented 67% of our total non-GAAP net revenues, as compared to 43% for the same period in 2014.

For the nine months ended September 30, 2015, revenues through digital online channels increased by \$421 million, as compared to the same period in 2014, and represented 54% of our total consolidated net revenues, as compared to 48% for the same period in 2014. On a non-GAAP basis (which excludes the impact of deferred revenues), revenues through digital online channels for the nine months ended September 30, 2015 increased by \$333 million, as compared to the same period in 2014, and represented 74% of our total non-GAAP net revenues, as compared to 58% for the same period in 2014.

### *Conditions in the Retail Distribution Channels*

Conditions in the retail distribution channels of the interactive entertainment industry continued to be challenging during the first nine months of 2015. In North America and Europe, retail sales of video games declined by 8%, as compared to the same period in 2014, according to The NPD Group and GfK Chart-Track. However, the increase in digitally distributed games, including full-game downloads, add-on content, and free-to-play games, has offset the negative trends in the retail distribution channels.

Additionally, the toys-to-life game category has seen increasing competition from new market participants.

Please refer to the reconciliation between GAAP and non-GAAP financial measures later in this document for further discussions of digital and retail online channels.

## **The Business Combination and Share Repurchase**

Activision Blizzard is the result of the 2008 business combination ("Business Combination") by and among the Company (then known as 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. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and Vivendi became a majority shareholder of Activision Blizzard.

On October 11, 2013, we repurchased approximately 429 million shares of our common stock, pursuant to a stock purchase agreement (the “Stock Purchase Agreement”) we entered into with Vivendi and ASAC II LP (“ASAC”), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi (“New VH”), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of \$5.83 billion, or \$13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the “Purchase Transaction”). Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of our common stock, pursuant to the Stock Purchase Agreement, for a cash payment of \$2.34 billion, or \$13.60 per share (the “Private Sale”). Robert A. Kotick, our Chief Executive Officer, and Brian G. Kelly, Chairman of our Board of Directors, are affiliates of ASAC II LLC. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for information regarding the financing of the Purchase Transaction.

On May 28, 2014, Vivendi sold approximately 41 million shares, or approximately 50% of its then-current holdings, of our common stock in a registered public offering. Vivendi received proceeds of approximately \$850 million from that sale; the Company did not receive any proceeds.

As of September 30, 2015, we had approximately 731 million shares of common stock issued and outstanding. At that date: (i) Vivendi held 41 million shares, or approximately 6% of the outstanding shares of our common stock; (ii) ASAC held 172 million shares, or approximately 24% of the outstanding shares of our common stock; and (iii) our other stockholders held approximately 70% of the outstanding shares of our common stock. The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.”

[Table of Contents](#)

**Consolidated Statements of Operations Data**

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):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
<b>Net revenues</b>								
Product sales	\$ 425	43%	\$ 337	45%	\$ 1,736	52%	\$ 1,693	60%
Subscription, licensing and other revenues	565	57	416	55	1,576	48	1,140	40
Total net revenues	990	100	753	100	3,312	100	2,833	100
<b>Costs and expenses</b>								
Cost of sales - product costs	195	20	156	21	560	17	568	20
Cost of sales - online	56	6	56	7	161	5	170	6
Cost of sales - software royalties and amortization	81	8	34	5	314	10	136	5
Cost of sales - intellectual property licenses	5	—	7	1	12	—	20	1
Product development	159	16	131	17	453	14	387	14
Sales and marketing	189	19	221	29	445	13	465	16
General and administrative	109	11	140	19	297	9	342	12
Total costs and expenses	794	80	745	99	2,242	68	2,088	74
Operating income	196	20	8	1	1,070	32	745	26
Interest and other expense, net	51	5	51	7	151	4	152	5
Income (loss) before income tax expense (benefit)	145	15	(43)	(6)	919	28	593	21
Income tax expense (benefit)	18	2	(20)	(3)	186	6	119	4
Net income (loss)	\$ 127	13%	\$ (23)	(3)%	\$ 733	22%	\$ 474	17%

**Operating Segment Results**

Our operating segments are consistent with our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our Chief Operating Decision Maker (“CODM”), the manner in which we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments.

[Table of Contents](#)

The CODM reviews segment performance exclusive of the impact of the change in deferred revenues and related cost of sales with respect to certain of our online-enabled games, stock-based compensation expense, amortization of intangible assets as a result of purchase price accounting, and fees and other expenses (including legal fees, costs, expenses and accruals) related to the Purchase Transaction and related debt financings. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto. Information on the operating

segments and reconciliations of total net revenues and total segment operating income to consolidated net revenues from external customers and consolidated income before income tax expense for the three and nine months ended September 30, 2015 and 2014 are presented in the table below (amounts in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase / (Decrease)	2015	2014	Increase / (Decrease)
<b>Segment net revenues:</b>						
Activision	\$ 591	\$ 704	\$ (113)	\$ 1,208	\$ 1,193	\$ 15
Blizzard	369	388	(19)	1,106	1,189	(83)
Distribution	80	78	2	189	218	(29)
Operating segment net revenues total	1,040	1,170	(130)	2,503	2,600	(97)
<b>Reconciliation to consolidated net revenues:</b>						
Net effect from deferral of net revenues	(50)	(417)		809	233	
Consolidated net revenues	\$ 990	\$ 753		\$ 3,312	\$ 2,833	
<b>Segment income (loss) from operations:</b>						
Activision	\$ 122	\$ 95	\$ 27	\$ 244	\$ 66	\$ 178
Blizzard	128	164	(36)	383	548	(165)
Distribution	1	1	—	—	(1)	1
Operating segment income from operations total	251	260	(9)	627	613	14
<b>Reconciliation to consolidated operating income (loss) before consolidated income tax expense (benefit):</b>						
Net effect from deferral of net revenues and related cost of sales	(26)	(180)		517	260	
Stock-based compensation expense	(28)	(22)		(70)	(76)	
Amortization of intangible assets	(1)	(2)		(4)	(4)	
Fees and other expenses related to the Purchase Transaction and related debt financings	—	(48)		—	(48)	
Consolidated operating income	196	8		1,070	745	
Interest and other expense, net	51	51		151	152	
Consolidated income (loss) before income tax expense (benefit)	\$ 145	\$ (43)		\$ 919	\$ 593	

#### Segment Net Revenues

##### Activision

Activision's net revenues decreased for the three months ended September 30, 2015, as compared to 2014, primarily due to revenues from the release of *Destiny* in September 2014 with no comparable release in the current quarter. The decrease was partially offset by revenues from the release of *The Taken King*, an expansion pack to *Destiny*, revenues from *Skylanders Superchargers*, which was released in the current quarter while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, and revenues from *Call of Duty: Advanced Warfare*'s new digital content known as "supply drops," introduced in March 2015, which provide additional content such as customized weapons and character gear.

Activision's net revenues increased for the nine months ended September 30, 2015, as compared to 2014, primarily due to higher revenues from the Call of Duty franchise, specifically from *Call of Duty: Advanced Warfare* and its digital content, including expansion packs and supply drops, as compared to *Call of Duty: Ghosts* in the prior year, and revenues from *Skylanders Superchargers*, which was released in the current quarter while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014. These increases were partially offset by lower revenues from the *Destiny* franchise, driven by prior year revenues from the release of *Destiny* in September 2014 with no comparable release in the current year, and lower revenues from titles based on licensed intellectual property, as compared to releases during the nine months ended September 30, 2014, including *The Amazing Spider-Man™ 2* and *Transformers™: Rise of the Dark Spark*, with no corresponding releases during the nine months ended September 30, 2015.

#### [Table of Contents](#)

##### Blizzard

Blizzard's net revenues decreased for the three months ended September 30, 2015, as compared to 2014, primarily due to lower revenues from the *Diablo* franchise in the current quarter due to the release of *Diablo III: Reaper of Souls* on console in the prior year quarter with no comparable release in the current quarter and lower revenues from *World of Warcraft* due to a smaller subscriber base. These decreases were partially offset by higher revenues from *Hearthstone: Heroes of Warcraft* and the release of its latest expansion, *The Grand Tournament*, and revenues from *Heroes of the Storm*. In addition to already having been released on PC, iPad, and Android tablets in the prior year, *Hearthstone: Heroes of Warcraft* was released on iPhone and Android smartphones in April 2015, which contributed to the current period revenue increase.

Blizzard's net revenues decreased for the nine months ended September 30, 2015, as compared to 2014, primarily due to revenues included in the nine months ended September 30, 2014 from *Diablo III: Reaper of Souls* and *Diablo III: Reaper of Souls - Ultimate Evil Edition™*, which were released in March 2014 on PC and in August 2014 on console, respectively, and lower revenues from *World of Warcraft* due to a smaller subscriber base. The decreases were partially offset by higher revenues during the nine months ended September 30, 2015 from *Hearthstone: Heroes of Warcraft* and revenues from *Heroes of the Storm*.



At September 30, 2015, the global subscriber\* base for *World of Warcraft* was approximately 5.5 million subscribers, compared to approximately 5.6 million subscribers at June 30, 2015, and approximately 7.4 million subscribers at September 30, 2014. There were no material shifts in the East vs. West subscriber mix in the current quarter, with general stability throughout *World of Warcraft*'s global subscriber base. Going forward, Blizzard expects to continue delivering new game content in all regions that is intended to further appeal to the gaming community, however there could be further volatility in the subscriber numbers.

Distribution

Distribution's net revenues remained flat for the three months ended September 30, 2015, as compared to the comparable period in 2014.

Distribution's net revenues decreased for the nine months ended September 30, 2015, as compared to the comparable period in 2014, primarily due to a decline in revenues from the distribution of next-generation hardware, which was introduced in the fourth quarter of 2013.

*Segment Income from Operations*

Activision

Activision's operating income increased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to an increased percentage of revenues coming from online digital channels, which typically have higher margins, the timing of the release of *Skylanders Superchargers* on September 20, 2015, as previously described, and lower overall sales and marketing spend on titles released. This is partially offset by increased sales and marketing spending for the *Guitar Hero* release, with no comparable spending in the prior year.

Blizzard

Blizzard's operating income decreased for the three months ended September 30, 2015, as compared to 2014, primarily due to lower revenues and lower capitalized software development costs.

Blizzard's operating income decreased for the nine months ended September 30, 2015, primarily due to higher sales and marketing spending for its releases, including *Hearthstone: Heroes of Warcraft* and the release of its latest expansion, *The Grand Tournament*, and *Heroes of the Storm*; lower capitalization of software development costs; and higher amortization of capitalized software costs.

*Foreign Exchange Impact*

Changes in foreign exchange rates had a negative impact of \$85 million and \$239 million on Activision Blizzard's segment net revenues for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the United States ("U.S.") dollar relative to the euro and British pound.

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\* *World of Warcraft* subscribers include individuals who have paid a subscription fee or have an active prepaid card to play *World of Warcraft*, as well as those who have purchased the game and are within their free month of access. Internet Game Room players who have accessed the game over the last thirty days are also counted as subscribers. The above definition excludes all players under free promotional subscriptions, expired or canceled subscriptions, and expired prepaid cards. Subscribers in licensees' territories are defined along the same rules.

[Table of Contents](#)

**Non-GAAP Financial Measures**

The analysis of revenues by distribution channel is presented both on a GAAP (including the impact from the change in deferred revenues) and non-GAAP (excluding the impact from the change in deferred revenues) basis. We use this non-GAAP measure internally when evaluating our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team. We believe this is appropriate because this non-GAAP measure enables an analysis of performance based on the timing of actual transactions with our customers, which is consistent with the way the Company is measured by investment analysts and industry data sources, and facilitates comparison of operating performance between periods. In addition, excluding the impact from the change in deferred net revenues provides a much more timely indication of trends in our sales and other operating results. While we believe that this non-GAAP measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP. In addition, this non-GAAP financial measure may not be the same as any non-GAAP measure presented by another company. This non-GAAP financial measure has limitations in that it does not reflect all of the items associated with our GAAP revenues. We compensate for the limitations resulting from the exclusion of the change in deferred revenues by considering the impact of that item separately and by considering our GAAP, as well as non-GAAP, revenues.

[Table of Contents](#)

The following table provides reconciliation between GAAP and non-GAAP net revenues by distribution channel for the three and nine months ended September 30, 2015 and 2014 (amounts in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase / (decrease)	2015	2014	Increase / (decrease)
GAAP net revenues by distribution channel						
Retail channels	\$ 281	\$ 171	\$ 110	\$ 1,344	\$ 1,257	\$ 87

Digital online channels (1)	629	504	125	1,779	1,358	421
Total Activision and Blizzard	910	675	235	3,123	2,615	508
Distribution	80	78	2	189	218	(29)
Total consolidated GAAP net revenues	990	753	237	3,312	2,833	479
Change in deferred net revenues (2)						
Retail channels	(18)	416	(434)	(876)	(388)	(488)
Digital online channels (1)	68	1	67	67	155	(88)
Total changes in deferred net revenues	50	417	(367)	(809)	(233)	(576)
Non-GAAP net revenues by distribution channel						
Retail channels	263	587	(324)	468	869	(401)
Digital online channels (1)	697	505	192	1,846	1,513	333
Total Activision and Blizzard	960	1,092	(132)	2,314	2,382	(68)
Distribution	80	78	2	189	218	(29)
Total non-GAAP net revenues (3)	\$ 1,040	\$ 1,170	\$ (130)	\$ 2,503	\$ 2,600	\$ (97)

(1) We define revenues from digital online channels as revenues from digitally distributed subscriptions, licensing royalties, value-added services, downloadable content, micro-transactions, and products.

(2) We have determined that some of our titles' online functionality represents an essential component of gameplay and as a result, represents a more-than-inconsequential separate deliverable. As such, we recognize revenues attributed to these titles over the estimated service periods, which range from five months to less than one year. In the table above, we present the amount of net revenues for each period as a result of this accounting treatment.

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

#### Retail Channel Net Revenues

The increase in GAAP net revenues from retail channels for the three months ended September 30, 2015, as compared to 2014, was primarily due to revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, and higher revenues recognized from the Call of Duty franchise. This was partially offset by lower revenues recognized from *Diablo III: Reaper of Souls* and *Diablo III: Reaper of Souls - Ultimate Evil Edition*, which were released in March 2014 on PC and in August 2014 on console, respectively.

#### [Table of Contents](#)

The increase in GAAP net revenues from retail channels for the nine months ended September 30, 2015, as compared to 2014, was primarily due to revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, revenues recognized from *Destiny* and its associated expansion packs, and revenues recognized from the World of Warcraft franchise, primarily associated with the release of *World of Warcraft: Warlords of Draenor™* in November 2014. These were partially offset by lower revenues recognized from the Call of Duty franchise, lower revenues recognized from the Diablo franchise due to the timing of title releases, and lower revenues from *The Amazing Spider-Man 2*, which was released during the nine months ended September 30, 2014, with no comparable releases in the nine months ended September 30, 2015.

The decrease in non-GAAP net revenues from retail channels for the three months ended September 30, 2015, as compared to 2014, was primarily due to lower revenues from *Destiny*, which launched in September 2014, and from the Diablo franchise due to the timing of title releases. This was partially offset by revenues from *Skylanders Superchargers*, which released in the current quarter while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014 and revenues from the release of *The Taken King*, an expansion pack to *Destiny*.

The decrease in non-GAAP net revenues from retail channels for the nine months ended September 30, 2015, as compared to 2014, was primarily due to revenues from titles released during the nine months ended September 30, 2014 with no corresponding release in the current period, including *Destiny*, which was released in September 2014, *Diablo III: Reaper of Souls* and *Diablo III: Reaper of Souls - Ultimate Evil Edition* which were released in 2014, and from titles based on licensed intellectual property, including *The Amazing Spider-Man 2* and *Transformers: Rise of the Dark Spark*. These decreases were partially offset by revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, revenues from the release of *The Taken King*, an expansion pack to *Destiny*, and higher revenues from the Call of Duty franchise.

#### Digital Online Channel Net Revenues

The increase in GAAP net revenues from digital online channels for the three and nine months ended September 30, 2015, as compared to 2014, was primarily due to: higher revenues recognized from *Hearthstone: Heroes of Warcraft*; revenues recognized from *Destiny* and its associated expansion packs; higher revenues recognized from *Call of Duty: Advanced Warfare* and its digital content released during the three months ended September 30, 2015, as compared to *Call of Duty: Ghosts* and its digital content released during the prior period, including revenues recognized from *Call of Duty: Advanced Warfare's* new digital content known as "supply drops;" and revenues recognized from *Heroes of the Storm* which was released on June 2, 2015 with no comparable release during the prior periods. Additionally, for the nine months ended September 30, 2015, as compared to 2014, the increase was due to higher revenues recognized from the World of Warcraft franchise, primarily associated with the release of *World of Warcraft: Warlords of Draenor* in November 2014. These increases were partially offset by lower revenues recognized from the Diablo franchise due to the timing of title releases.

The increase in non-GAAP net revenues from digital online channels for the three and nine months ended September 30, 2015, as compared to 2014, was primarily due to: revenues from *Destiny* and its associated expansion packs, including *The Taken King* which was released in September 2014; revenues from *Hearthstone: Heroes of Warcraft*; higher revenues from *Call of Duty: Advanced Warfare* and its digital content released during the three and nine months ended September 30, 2015, as compared to *Call of Duty: Ghosts* and its digital content released during the same period in 2014, including revenues from *Call of Duty: Advanced Warfare*'s new digital "supply drops;" and revenues from *Heroes of the Storm* which was released on June 2, 2015 with no comparable release during the prior periods. These were partially offset by lower revenues from *World of Warcraft*, primarily due to a decline in the subscriber base, and lower revenues recognized from the *Diablo* franchise due to the timing of title releases.

[Table of Contents](#)

**Consolidated Results**

*Net Revenues by Geographic Region*

The following table details our consolidated net revenues by geographic region for the three and nine months ended September 30, 2015 and 2014 (amounts in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase / (decrease)	2015	2014	Increase / (decrease)
Geographic region net revenues:						
North America	\$ 495	\$ 350	\$ 145	\$ 1,750	\$ 1,384	\$ 366
Europe	367	316	51	1,219	1,172	47
Asia Pacific	128	87	41	343	277	66
Consolidated net revenues	<u>\$ 990</u>	<u>\$ 753</u>	<u>\$ 237</u>	<u>\$ 3,312</u>	<u>\$ 2,833</u>	<u>\$ 479</u>

The increase/(decrease) in deferred revenues recognized by geographic region for the three and nine months ended September 30, 2015 and 2014 was as follows (amounts in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase / (decrease)	2015	2014	Increase / (decrease)
Increase/(decrease) in deferred revenues recognized by geographic region:						
North America	\$ (45)	\$ (274)	\$ 229	\$ 502	\$ 136	\$ 366
Europe	(11)	(135)	124	298	102	196
Asia Pacific	6	(8)	14	9	(5)	14
Total impact on consolidated net revenues	<u>(50)</u>	<u>(417)</u>	<u>367</u>	<u>809</u>	<u>233</u>	<u>576</u>

North America

Net revenues increased in North America for the three and nine months ended September 30, 2015, as compared to 2014. This was mainly due to revenues recognized from *Destiny* and its expansion packs, revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, revenues recognized from *Hearthstone: Heroes of Warcraft* and its associated expansions and adventures, and revenues recognized from the *World of Warcraft* franchise, primarily associated with *World of Warcraft: Warlords of Draenor* and value-added services. Additionally, for the three months ended September 30, 2015, the increase was due to higher revenues recognized from the *Call of Duty* franchise. These increases were partially offset by lower revenues recognized from the *Diablo* franchise due to the timing of title releases and lower revenues from *The Amazing Spider-Man 2*, which was released in 2014, with no comparable releases in the current periods.

The increase in deferred revenues recognized for the three and nine months ended September 30, 2015, as compared to 2014, was primarily attributed to recognition of deferred revenues from *Destiny*, from *World of Warcraft*, primarily associated with *World of Warcraft: Warlords of Draenor* and value-added services, and from the *Diablo* franchise. For the nine months ended September 30, 2015, these increases were partially offset by lower deferred revenues recognized from the *Call of Duty* franchise.

[Table of Contents](#)

Europe

Net revenues increased in Europe for the three months ended September 30, 2015, as compared to 2014. The increase was mainly due to revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014. This increase was partially offset by lower revenues recognized from the *Diablo* franchise.

Net revenues increased in Europe for the nine months ended September 30, 2015, as compared to 2014. The increase was mainly due to higher revenues recognized from *Destiny* and its expansion packs, revenues from *Skylanders Superchargers*, which was released in the current quarter, while *Skylanders Trap Team*, the comparable prior year title, was released in the fourth quarter of 2014, higher revenues recognized from *Hearthstone: Heroes of Warcraft* and its associated expansions and adventures, and from the launch of *Heroes of the Storm* in 2015. These increases were partially offset by lower revenues recognized from the *Diablo* franchise, *Call of Duty* franchise, and from the Distribution segment.

The increase in deferred revenues recognized for the three and nine months ended September 30, 2015, as compared to 2014, was primarily attributed to recognition of deferred revenues from *Destiny* and from *World of Warcraft*, primarily associated with *World of Warcraft: Warlords of Draenor*

and value-added services. For the nine months ended September 30, 2015, these increases were partially offset by lower deferred revenues recognized from the Call of Duty franchise.

### Asia Pacific

Net revenues increased in Asia Pacific for the three and nine months ended September 30, 2015, as compared to 2014. The increase was mainly due to revenues recognized from *Hearthstone: Heroes of Warcraft* and its associated expansions and adventures. Additionally, for the nine months ended September 30, 2015, the increase was due to revenues recognized from *Destiny* and its expansion packs.

Deferred revenues recognized increased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to increased deferred revenues recognized from *Destiny* and its expansion packs. This increase was partially offset by decreased deferred revenues recognized from *Hearthstone: Heroes of Warcraft*.

### Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$85 million and \$295 million on our consolidated net revenues for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

## Table of Contents

### Net Revenues by Platform

The following tables detail our net revenues by platform and as a percentage of total consolidated net revenues for the three and nine months ended September 30, 2015 and 2014 (amounts in millions):

	Three Months Ended September 30, 2015	% of total consolidated net revenues <sup>(3)</sup>	Three Months Ended September 30, 2014	% of total consolidated net revenues <sup>(3)</sup>	Increase/ (Decrease)
Platform net revenues:					
Online (1)	\$ 195	20%	\$ 205	27%	\$ (10)
PC	164	17	165	22	(1)
Next-generation (PS4, Xbox One, Wii U)	245	25	109	14	136
Prior-generation (PS3, Xbox 360, Wii)	175	18	161	21	14
Total Console	420	42	270	36	150
Mobile and other (2)	131	13	35	5	96
Total Activision Blizzard	910	92	675	90	235
Distribution	80	8	78	10	2
Total consolidated net revenues	\$ 990	100%	\$ 753	100%	\$ 237

	Nine Months Ended September 30, 2015	% of total consolidated net revenues <sup>(3)</sup>	Nine Months Ended September 30, 2014	% of total consolidated net revenues <sup>(3)</sup>	Increase/ (Decrease)
Platform net revenues:					
Online (1)	\$ 687	21%	\$ 601	21%	\$ 86
PC	427	13	447	16	(20)
Next-generation (PS4, Xbox One, Wii U)	996	30	353	12	643
Prior-generation (PS3, Xbox 360, Wii)	741	22	1,049	37	(308)
Total Console	1,737	52	1,402	49	335
Mobile and other (2)	272	8	165	6	107
Total Activision Blizzard	3,123	94	2,615	92	508
Distribution	189	6	218	8	(29)
Total consolidated net revenues	\$ 3,312	100%	\$ 2,833	100%	\$ 479

## Table of Contents

The increase/(decrease) in deferred revenues recognized by platform for the three and nine months ended September 30, 2015 and 2014 was as follows (amounts in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase / (decrease)	2015	2014	Increase / (decrease)
Increase/(decrease) in deferred revenues recognized by platform:						
Online (1)	\$ 40	\$ (4)	\$ 44	\$ 165	\$ (36)	\$ 201
PC	(4)	69	(73)	(52)	(18)	(34)
Next-generation (PS4, Xbox One, Wii U)	(88)	(359)	271	365	(214)	579
Prior-generation (PS3, Xbox 360, Wii)	8	(123)	131	363	513	(150)
Total console	(80)	(482)	402	728	299	429
Mobile and other (2)	(6)	—	(6)	(32)	(12)	(20)
Total impact on consolidated net revenues	\$ (50)	\$ (417)	\$ 367	\$ 809	\$ 233	\$ 576

(1) Revenues from online consists of revenues from all World of Warcraft products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.

(2) Revenues from mobile and other includes revenues from handheld, tablet, and mobile devices, as well as non-platform specific game-related revenues such as standalone sales of toys and accessories products from our Skylanders franchise and other physical merchandise and accessories.

(3) The percentages of total are presented as calculated. Therefore the sum of these percentages, as presented, may differ due to the impact of rounding.

Net revenues from online decreased for the three months ended September 30, 2015, as compared to 2014, primarily due to lower *World of Warcraft* subscriber levels.

Net revenues from online increased for the nine months ended September 30, 2015, as compared to 2014, primarily due to the recognition of previously deferred revenues from the expansion pack *World of Warcraft: Warlords of Draenor*, which was released in November 2014, and from associated value-added services including a paid character boost. This was partially offset by lower subscriptions revenues.

Net revenues from PC decreased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to lower revenues recognized from *Diablo III: Reaper of Souls*, which was released in March 2014. This was partially offset by revenues recognized from *Heroes of the Storm*, which had no comparable title release during the prior periods, and from *Hearthstone: Heroes of Warcraft*, which was first launched on PC in March 2014.

Net revenues from next-generation consoles increased for the three and nine months ended September 30, 2015, as compared to 2014. The increase was primarily attributable to an increase in the number of titles released for the next-generation console platforms, as well as increasing consumer adoption of the PS4 and Xbox One. Since the introduction of the PS4 and Xbox One in the fourth quarter of 2013, we have released the following titles, among others, on next-generation consoles: *Call of Duty: Ghosts* and *Skylanders SWAP Force™* in the fourth quarter of 2013; *The Amazing Spider-Man 2* and *Transformers: Rise of the Dark Spark* in the second quarter of 2014; *Diablo III: Reaper of Souls — Ultimate Evil Edition* and *Destiny* in the third quarter of 2014, and *Call of Duty: Advanced Warfare* and *Skylanders Trap Team* in the fourth quarter of 2014. Additionally, in 2015, we have released multiple expansions or map packs for *Destiny* and *Call of Duty: Advanced Warfare* on the next-generation consoles and, in September 2015, released *Skylanders Superchargers*.

## [Table of Contents](#)

Net revenues from prior-generation consoles increased for the three months ended September 30, 2015, as compared to 2014, primarily due to revenues from the release of *Skylanders Superchargers*, while *Skylanders Trap Team*, the comparable prior year title, was not released until the fourth quarter of 2014. This increase was partially offset by lower revenues recognized from the Call of Duty franchise and from the transition of players from prior-generation to next-generation platforms.

Net revenues from prior-generation consoles decreased for the nine months ended September 30, 2015, as compared to 2014, primarily due to lower revenues recognized from the Call of Duty and Diablo franchises and from the transition of players from prior-generation to next-generation platforms. These decreases were partially offset by revenues recognized from the Destiny franchise, as well as revenues from the release of *Skylanders Superchargers*.

Net revenues from mobile and other increased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to toy sales with the release of *Skylanders Superchargers* in September 2015, while *Skylanders Trap Team*, the comparable title from the prior year, was not released until the fourth quarter of 2014, and an increase in mobile and tablet platform revenues from the release of *Hearthstone: Heroes of Warcraft* on iPad and Android tablets in April and December 2014, respectively, along with the release of the title on iPhone and Android smartphones in April 2015.

Deferred revenues recognized for online increased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to the recognition of deferred revenues from *World of Warcraft: Warlords of Draenor* and from value-added services revenues for *World of Warcraft*, including paid character boosts.

Deferred revenues recognized for PC decreased for the three months ended September 30, 2015, as compared to 2014, primarily due to the recognition of deferred revenues during the prior period from *Diablo III: Reaper of Souls*, released in March 2014, and from *Hearthstone: Heroes of Warcraft* and its associated expansion packs and adventures.

Deferred revenues recognized for PC decreased for the nine months ended September 30, 2015, as compared to 2014, primarily due to deferral of revenues from *Heroes of the Storm* and from *Hearthstone: Heroes of Warcraft*. This was partially offset by the recognition of deferred revenues from *Diablo III: Reaper of Souls* in the prior period following its release in March 2014.

The increase in deferred revenues recognized for next-generation consoles for the three and nine months ended September 30, 2015, as compared to 2014, was due to the increased number of titles released for next-generation console platforms, as well as increasing consumer adoption of the PS4 and Xbox One, as discussed above.

The increase in deferred revenues recognized for prior-generation consoles for the three months ended September 30, 2015, as compared to 2014, was primarily due to the recognition of deferred revenues on *Destiny*, which was released in September 2014, without a comparable release in the current period.

The decrease in deferred revenues recognized for prior-generation consoles for the nine months ended September 30, 2015, as compared to 2014, was primarily due to increasing consumer adoption of next-generation console platforms, partially offset by recognition of deferred revenues on *Destiny*, which was released in September 2014, without a comparable release in the current period.

[Table of Contents](#)

**Costs and Expenses**

*Cost of Sales*

The following tables detail the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the three and nine months ended September 30, 2015 and 2014 (amounts in millions):

	Three Months Ended September 30, 2015	% of consolidated net revenues	Three Months Ended September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Product costs	\$ 195	20%	\$ 156	21%	\$ 39
Online	56	6	56	7	—
Software royalties and amortization	81	8	34	5	47
Intellectual property licenses	5	—	7	1	(2)
Total cost of sales	\$ 337	34%	\$ 253	34%	\$ 84

	Nine Months Ended September 30, 2015	% of consolidated net revenues	Nine Months Ended September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Product costs	\$ 560	17%	\$ 568	20%	\$ (8)
Online	161	5	170	6	(9)
Software royalties and amortization	314	10	136	5	178
Intellectual property licenses	12	—	20	1	(8)
Total cost of sales	\$ 1,047	32%	\$ 894	32%	\$ 153

Total cost of sales for the three months ended September 30, 2015 increased as compared to the same period in 2014, reflective of the increase in consolidated net revenues. Cost of sales — product costs increased primarily due to higher product sales, primarily associated with the launch of *Skylanders Superchargers* in the current quarter, partially offset by an increase from digital online channel revenues, which have relatively lower product costs. Cost of sales—software royalties and amortization increased primarily due to the amortization of capitalized software costs for the release of *Skylanders Superchargers*, while *Skylanders Trap Team*, the comparable prior year title, was not released until the fourth quarter of 2014, and software costs associated with Blizzard product releases.

Total cost of sales for the nine months ended September 30, 2015 increased as compared to the same period in 2014, reflective of the increase in consolidated net revenues. Cost of sales—software royalties and amortization increased primarily due to the amortization of deferred royalties for *Destiny* and its expansion packs and amortization of capitalized software associated with the release of *Skylanders Superchargers*, while *Skylanders Trap Team*, the comparable prior year title, was not released until the fourth quarter of 2014, and software costs associated with Blizzard product releases.

*Product Development (amounts in millions)*

	September 30, 2015	% of consolidated net revenues	September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 159	16%	\$ 131	17%	\$ 28
Nine Months Ended	\$ 453	14%	\$ 387	14%	\$ 66

Product development costs increased for the three and nine months ended September 30, 2015, as compared to 2014, primarily from increased costs to support our future title releases, a decrease in costs capitalized, and increased Blizzard product development costs.

[Table of Contents](#)

*Sales and Marketing (amounts in millions)*



	September 30, 2015	% of consolidated net revenues	September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 189	19%	\$ 221	29%	\$ (32)
Nine Months Ended	\$ 445	13%	\$ 465	16%	\$ (20)

Sales and marketing costs decreased for the three and nine months ended September 30, 2015, as compared to 2014, primarily driven by lower sales and marketing spending, as compared to the prior periods, on the Skylanders and Destiny franchises and higher spending in the prior periods related to the Diablo franchise to support the title releases in the prior period. These decreases were partially offset by marketing spending to support our other title releases in the current period, specifically, the launch of *Heroes of the Storm* in June 2015 and subsequent additional promotion of the title, additional spending on *Hearthstone: Heroes of Warcraft*, and marketing for the re-launch of *Guitar Hero*.

*General and Administrative (amounts in millions)*

	September 30, 2015	% of consolidated net revenues	September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 109	11%	\$ 140	19%	\$ (31)
Nine Months Ended	\$ 297	9%	\$ 342	12%	\$ (45)

General and administrative expenses decreased for the three and nine months ended September 30, 2015, as compared to 2014, primarily due to higher professional fees (including legal fees, costs, expenses, and accruals) in the prior year. Additionally, the decrease was due to higher foreign currency transaction gains during the nine months ended September 30, 2015 as compared to the comparable period in 2014.

*Interest and Other Expense, Net (amounts in millions)*

	September 30, 2015	% of consolidated net revenues	September 30, 2014	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 51	5%	\$ 51	7%	\$ —
Nine Months Ended	\$ 151	4%	\$ 152	5%	\$ (1)

Interest and other expense, net, did not significantly change for the three and nine months ended September 30, 2015, as compared to the same periods in 2014.

*Income Tax Expense (amounts in millions)*

	September 30, 2015	% of pretax income	September 30, 2014	% of pretax income	Increase (Decrease)
Three Months Ended	\$ 18	13%	\$ (20)	46%	\$ 38
Nine Months Ended	\$ 186	20%	\$ 119	20%	\$ 67

The Company accounts for its provision for income taxes in accordance with ASC 740, *Income Taxes*, which requires an estimate of the annual effective tax rate for the full year to be applied to the interim period, taking into account year-to-date amounts and projected results for the full year. The provision for income taxes represents federal, foreign, state and local income taxes. Our effective tax rate differs from the statutory U.S. income tax rate due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate could fluctuate significantly from quarter to quarter based on recurring and nonrecurring factors including, but not limited to: variations in the estimated and actual level of pre-tax income or loss by jurisdiction; changes in the mix of income by tax jurisdiction (as taxes are levied at relatively lower statutory rates in foreign regions and relatively higher statutory rates in the U.S.); changes in enacted tax laws and regulations, rulings and interpretations thereof, including with respect to tax credits, state and local income taxes; developments in tax audits and other matters; and certain nondeductible expenses. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

[Table of Contents](#)

The income tax expense of \$18 million for the three months ended September 30, 2015 reflects an effective tax rate of 13%, which is lower than the effective tax rate of 46% for the three months ended September 30, 2014. This decrease is primarily due to an incremental tax benefit included in the three months ended September 30, 2014, from a lower estimated effective annual tax rate in 2015 due to the mix of foreign earnings taxed at relatively lower statutory rates as compared to domestic earnings, partially offset by certain non-tax benefited costs incurred during the prior year quarter.

The income tax expense of \$186 million for the nine months ended September 30, 2015 reflects an effective tax rate in 2015 of 20%, which is comparable to the effective tax rate of 20% for the nine months ended September 30, 2014.

The effective tax rates of 13% and 20% for the three and nine months ended September 30, 2015, respectively, differed from the U.S. statutory rate of 35%, primarily due to the tax benefit from foreign earnings taxed at relatively lower statutory rates, recognition of California research and development credits, federal domestic production deductions and favorable return to provision adjustments, partially offset by increases to the Company's reserve for uncertain tax positions.

The overall effective income tax rate for the year could be different from the effective tax rate for the three and nine months ended September 30, 2015 and will be dependent, in part, on our profitability for the remainder of the year, as well as the other factors described above.



The Internal Revenue Service (“IRS”) is currently examining Activision Blizzard’s federal tax returns for the 2008 through 2011 tax years. During the second quarter of 2015, the Company transitioned the review of its transfer pricing methodology from the advanced pricing agreement review process to the IRS examination team. Their review could result in a different allocation of profits and losses under the Company’s transfer pricing agreements. Such allocation could have a positive or negative impact on our provision for uncertain tax positions for the period in which such a determination is reached and the relevant periods thereafter.

In addition, Vivendi Games’ tax return for the 2008 tax year is under examination by the IRS and several state taxing authorities. While Vivendi Games’ results for the period January 1, 2008 through July 9, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Vivendi or its affiliates, Vivendi Games’ results for the period July 10, 2008 through December 31, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Activision Blizzard. Additionally, the Company has several state and non-U.S. audits pending.

The final resolution of the Company’s global tax disputes is uncertain. There is significant judgment required in the analysis of disputes, including the probability determination and estimation of the potential exposure. Based on current information, in the opinion of the Company’s management, the ultimate resolution of these matters are not expected to have a material adverse effect on the Company’s consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company’s global tax disputes could have a material adverse effect on our business and results of operations in the period in which the matters are ultimately resolved.

In connection with the Purchase Transaction, we assumed certain tax attributes of New VH, generally consisting of New VH’s net operating loss (“NOL”) carryforwards of approximately \$760 million, which represent a potential future tax benefit of approximately \$266 million. The utilization of such NOL carryforwards will be subject to certain annual limitations and will begin to expire in 2021. The Company also obtained indemnification from Vivendi against losses attributable to the disallowance of claimed utilization of such NOL carryforwards of up to \$200 million in unrealized tax benefits in the aggregate, limited to taxable years ending on or prior to December 31, 2016. No benefit for these tax attributes or indemnification was recorded upon the close of the Purchase Transaction, as the benefit from these tax attributes did not meet the “more-likely-than-not” standard. For the nine months ended September 30, 2015, we utilized \$248 million of the NOL, which resulted in a tax benefit of \$87 million, reduced by \$5 million for return to provision adjustments, and a corresponding reserve of \$82 million was established as the position did not meet the “more-likely-than-not” standard. As of September 30, 2015, an indemnification asset of \$149 million has been recorded in “Other Assets,” and, correspondingly, the same amount has been recorded as a reduction to the consideration paid for the shares repurchased in “Treasury Stock” (see Note 1 of the Notes to Condensed Consolidated Financial Statements for details about the share repurchase).

[Table of Contents](#)

**Liquidity and Capital Resources**

*Sources of Liquidity (amounts in millions)*

	September 30, 2015	December 31, 2014	Increase (Decrease)
Cash and cash equivalents	\$ 4,365	\$ 4,848	\$ (483)
Short-term investments	154	10	144
	<u>\$ 4,519</u>	<u>\$ 4,858</u>	<u>\$ (339)</u>
Percentage of total assets	32%	33%	

	For the Nine Months Ended September 30,		
	2015	2014	Increase (Decrease)
Cash flows provided by operating activities	\$ 163	\$ 97	\$ 66
Cash flows used in investing activities	(239)	(80)	(159)
Cash flows used in financing activities	(139)	(374)	235
Effect of foreign exchange rate changes	(268)	(248)	(20)
Net decrease in cash and cash equivalents	<u>\$ (483)</u>	<u>\$ (605)</u>	<u>\$ 122</u>

*Cash Flows Provided By Operating Activities*

The primary drivers of cash flows provided by operating activities typically include the collection of customer receivables generated by the sale of our products and digital and subscription revenues, partially offset by payments to vendors for the manufacturing, distribution and marketing of our products, payments for customer service support for our subscribers, payments to third-party developers and intellectual property holders, payments for interest on our debt, payments for software development, payments for tax liabilities, and payments to our workforce.

Cash flows provided by operating activities were higher for the nine months ended September 30, 2015, as compared to the same period in 2014, primarily due to higher net income for the period and adjustments to net income for non-cash charges, including amortization of capitalized software development costs, partially offset by changes in our working capital accounts.

*Cash Flows Used In Investing Activities*

The primary drivers of cash flows used in investing activities typically include the net effect of purchases and sales/maturities of short-term investments, capital expenditures, and changes in restricted cash balances.

Cash flows used in investing activities were \$239 million for the nine months ended September 30, 2015, as compared to \$80 million for the nine months ended September 30, 2014. The increase in cash used was primarily due to \$144 million of purchases of available-for-sale investments for the nine

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[Table of Contents](#)

*Cash Flows Used In Financing Activities*

The primary drivers of cash flows used in financing activities typically include the proceeds from, and repayments of, our long-term debt, transactions involving our common stock, such as the issuance of shares of common stock to employees, the repurchase of our common stock and the payment of dividends.

Cash flows used in financing activities were lower during the nine months ended September 30, 2015, as compared to the same period in 2014, primarily due to \$202 million of proceeds received in the settlement of the litigation related to the Purchase Transaction, and the lower partial repayment of our Term Loan in 2015 of \$250 million, as compared to the \$375 million partial repayment of our Term Loan in 2014. These were partially offset by lower proceeds from stock options exercised by our employees and the higher cash dividend payment made during the nine months ended September 30, 2015, as compared to 2014.

*Effect of Foreign Exchange Rate Changes*

Changes in foreign exchange rates had a negative impact of \$268 million and \$248 million on our cash and cash equivalents for the nine months ended September 30, 2015 and 2014, respectively. The change is primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

*Other Liquidity and Capital Resources*

Our primary sources of liquidity are typically cash and cash equivalents, investments, and cash flows provided by operating activities. In addition, as described below, we have availability of \$250 million, subject to certain restrictions, under a secured revolving credit facility. With our cash and cash equivalents and short-term investments of \$4.5 billion at September 30, 2015, 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 (\$4.7 billion at September 30, 2015) to finance our operational and financing requirements for at least the next twelve months, including: purchases of inventory and equipment; the development, production, marketing and sale of new products; provision of customer service for our subscribers; acquisition of intellectual property rights for future products from third parties; and payments related to debt obligations.

As of September 30, 2015 and December 31, 2014, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$3.5 billion and \$3.6 billion, respectively. If these funds are needed in the future for our operations in the U.S., we would accrue and pay the required U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. As further described below under "Subsequent Events", on November 2, 2015, we and King Digital Entertainment plc ("King") entered into an agreement under the terms of which we will acquire King and will fund the cash consideration payable thereunder with a combination of cash and cash equivalents held outside of the U.S., as well as the net proceeds from a committed incremental term loan in the amount of \$2.3 billion.

*Debt*

On September 19, 2013, we issued, at par, \$1.5 billion of 5.625% unsecured senior notes due September 2021 (the "2021 Notes") and \$750 million of 6.125% unsecured senior notes due September 2023 (the "2023 Notes" and, together with the 2021 Notes, the "Notes"). Interest on the Notes is payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2014. As of September 30, 2015, the Notes had a carrying value of \$2.25 billion.

We may redeem the 2021 Notes on or after September 15, 2016 and the 2023 Notes on or after September 15, 2018, in whole or in part on any one or more occasions, at specified redemption prices, plus accrued and unpaid interest. At any time prior to September 15, 2016, with respect to the 2021 Notes, and at any time prior to September 15, 2018, with respect to the 2023 Notes, we may also redeem some or all of the Notes by paying a "make-whole premium," plus accrued and unpaid interest. In addition, upon the occurrence of one or more qualified equity offerings, we may also redeem up to 35% of the aggregate principal amount of each of the 2021 Notes and 2023 Notes outstanding with the net cash proceeds from such offerings. The Notes are repayable, in whole or in part and at the option of the holders, upon the occurrence of a change in control and a ratings downgrade, at a purchase price equal to 101% of principal, plus accrued and unpaid interest.

On October 11, 2013, we entered into a credit agreement (the "Credit Agreement") for a \$2.5 billion secured term loan facility maturing in October 2020 (the "Term Loan"), and a \$250 million secured revolving credit facility maturing in October 2018 (the "Revolver" and, together with the Term Loan, the "Credit Facilities"). A portion of the Revolver can be used to issue letters of credit of up to \$50 million, subject to the availability of the Revolver. To date, we have not drawn on the Revolver and there were no letters of credit issued and outstanding under the Revolver at either September 30, 2015 or December 31, 2014.

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[Table of Contents](#)

As of September 30, 2015, the outstanding balance of our Term Loan was \$1.9 billion. Borrowings under the Term Loan and Revolver bear interest at an annual rate equal to an applicable margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its "prime rate," (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate ("LIBOR") for an interest period of one month plus 1.00%, or (B) LIBOR. Further, LIBOR borrowings under the Term Loan are subject to a LIBOR floor of 0.75%. At September 30, 2015, the Term Loan bore interest at 3.25%. In certain circumstances, our interest rate under the Credit Facilities will increase.

In addition to paying interest on outstanding principal balances under the Credit Facilities, we are required to pay the lenders a commitment fee on unused commitments under the Revolver. We are also required to pay customary letter of credit fees and agency fees.

The Credit Agreement requires quarterly principal repayments of 0.25% of the Term Loan's original principal amount, with the balance due on the maturity date. On February 11, 2014, we made a voluntary partial repayment of \$375 million on our Term Loan. This repayment satisfied the required quarterly principal repayments for the entire term of the Credit Agreement. On February 11, 2015, we made an additional voluntary principal repayment, this time in the amount of \$250 million, which reduced the balance due on the maturity date. The 2015 repayment reduced the Term Loan's outstanding principal balance to \$1.9 billion and based on this reduced balance, we expect our contractual interest payments in the future will be reduced by approximately \$8 million annually, based on the interest rate of 3.25% at September 30, 2015. Amounts borrowed under the Term Loan and repaid may not be re-borrowed.

Agreements governing our indebtedness, including the indenture governing the Notes and the Credit Agreement, impose operating and financial restrictions on our activities under certain conditions. These restrictions may require us to comply with or maintain certain financial tests and ratios. In addition, the indenture and the Credit Agreement limit or prohibit our ability to, among other things: incur additional debt or make additional guarantees; pay distributions or dividends and repurchase stock; make other restricted payments, including without limitation, certain restricted investments; create liens; enter into agreements that restrict dividends from subsidiaries; engage in transactions with affiliates; and enter into mergers, consolidations or sales of substantially all of our assets.

In addition, if, in the future, we borrow under the Revolver, as described in Note 6 of the Notes to Condensed Consolidated Financial Statements, we may be required, during certain periods where outstanding revolving loans exceed a certain threshold, to maintain a maximum senior secured net leverage ratio calculated pursuant to a financial maintenance covenant under the Credit Agreement.

The Company was in compliance with the terms of the Notes and Credit Facilities as of September 30, 2015.

As further described below under "Subsequent Events", on November 2, 2015, we and King entered into an agreement under the terms of which we will acquire King and will fund the cash consideration payable thereunder with the net proceeds from a committed incremental term loan in the amount of \$2.3 billion, as well as offshore cash, and, as such, entered into the Amendment (as defined below), which amends the Credit Agreement.

#### *Capital Expenditures*

For the year ending December 31, 2015, we anticipate total capital expenditures of approximately \$115 million, primarily for computer hardware and software purchases. During the first nine months of 2015, we made aggregate capital expenditures of \$95 million.

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

At September 30, 2015 and December 31, 2014, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as "structured finance" or "special purpose" entities, 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 operations, liquidity, capital expenditures, or capital resources.

#### **Subsequent Events**

##### *The Acquisition*

On November 2, 2015, we and King, a leading interactive mobile entertainment company, entered into a Transaction Agreement (the "Transaction Agreement") under the terms of which we will acquire King (the "Acquisition") and King will become a wholly-owned subsidiary of the Company. At the effective time of the Acquisition, King shareholders will become entitled to receive \$18.00 in cash in exchange for each King share they then hold. We expect to transfer approximately \$5.9 billion in consideration to the existing King shareholders and share based award holders through a combination of the net proceeds from \$2.3 billion of committed incremental term loans, our offshore cash, and approximately \$200 million of our share based awards for the replacement of share based awards held by current employees and directors of King.

The transaction is subject to customary closing conditions, including the approval by King's shareholders, sanction of the Irish High Court, as well as certain regulatory approvals, and is expected to close by Spring of calendar year 2016.

##### *Amendment to Credit Agreement*

In conjunction with the Acquisition, the Company entered into a First Amendment (the "Amendment"), which amends the Credit Agreement, dated as of October 11, 2013. The Amendment, among other things, provides for Incremental Term Loans in the form of Tranche B-2 Term Loans in an aggregate principal amount of approximately \$2.3 billion. The proceeds of the Tranche B-2 Term Loans will be used to fund the Acquisition.

The Tranche B-2 Term Loans will mature on the date that is seven years and six months after the date of the initial funding of the Tranche B-2 Term Loans and will bear interest, at an annual rate equal to an applicable interest margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its "prime rate," (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate ("LIBOR") rate for an interest period of one month plus 1.00%, or (B) LIBOR. LIBOR borrowings under the Tranche B-2 Term Loan will be subject to a LIBOR floor of 0.75% and base rate will be subject to a floor of 1.75%. The applicable interest margin for Tranche B-2 Term Loans will be 3.00% for LIBOR borrowings and 2.00% for base rate borrowings. Voluntary prepayments of the Tranche B-2 Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months after the date of the initial funding of the Tranche B-2 Term Loans. The Tranche B-2 Term Loans will be secured by the same collateral and guaranteed by the same guarantors as the existing Term Loan. The other terms of the Tranche B-2 Term Loans are also generally the same as the terms of the existing Term Loan.

##### *Commitment Letter*

In conjunction with the Acquisition, the Company also entered into a commitment letter (the "Commitment Letter") with Bank of America, N.A. and Goldman Sachs Bank USA (the "Debt Financing Sources"). Pursuant to the Commitment Letter, subject to customary conditions, the Debt Financing Sources committed to provide the Company with the Tranche B-2 Term Loans on such modified terms as set forth therein (Tranche B-2 Term Loans as so

modified, the “Tranche A Term Loans”) in the same aggregate principal amount and for the same purpose as the original Tranche B-2 Term Loans. The Tranche A Term Loans will be effected via, and subject to the passing of, a second amendment to the Credit Agreement and will mature on October 11, 2020.

### *Cash Confirmation*

Under the Irish Takeover Rules, no financing condition to the Acquisition is permitted. As is customary, we have executed and delivered a cash confirmation representation letter to our financial advisor, in which we have given various representations, warranties and undertakings in relation to the sources and availability of the funding. In conjunction with the representation letter the Company has segregated \$3.56 billion in cash in separate bank accounts, where the cash is not accessible to the Company for operating cash needs, as its use has been administratively restricted for use in the consummation of the Acquisition.

All information included in the accompanying unaudited Condensed Consolidated Financial Statements and notes to Condensed Consolidated Financial Statements in this report reflects only our results, and does not reflect any impact of the proposed Acquisition, Amendment to the Credit Agreement, Commitment Letter, or Cash Confirmation.

## [Table of Contents](#)

### **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 of Directors-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 interviews with our senior management team, our legal 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 including Revenue Arrangements with Multiple Deliverables
- Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence
- Software Development Costs and Intellectual Property Licenses
- Income Taxes
- Fair Value Estimates (including Assessment of Impairment of Assets)
- Stock-Based Compensation

During the nine months ended September 30, 2015, there were no significant changes to the above critical accounting policies and estimates. 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, 2014, for a more complete discussion of our critical accounting policies and estimates.

## [Table of Contents](#)

### **Recently Issued Accounting Pronouncements**

#### *Revenue recognition*

In May 2014, the FASB issued new accounting guidance related to revenue recognition. The new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and

how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the adoption method as well as the impact of this new accounting guidance on our financial statements.

#### *Stock-based compensation*

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

#### *Consolidations*

In February 2015, the FASB issued new guidance related to consolidations. The new standard amends certain requirements for determining whether a variable interest entity must be consolidated. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

#### *Debt Issuance Costs*

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs in financial statements. The new standard requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2015. The new guidance will be applied retrospectively to each prior period presented. The adoption of this guidance will not have a material impact on our financial statements.

#### *Internal-Use Software*

In April 2015, the FASB issued new guidance related to internal-use software. The new standard relates to a customer's accounting for fees paid in cloud computing arrangements. The amendment provides guidance for customers to determine whether such arrangements include software licenses. If a cloud arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

#### *Inventory*

In July 2015, the FASB issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard is effective for fiscal years beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

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## [Table of Contents](#)

### **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 foreign currency exchange rates and interest rates.

#### **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. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won and Swedish krona. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, net income and cash flows from our international operations. Similarly, our revenues, operating expenses, net income and cash flows will increase for our international operations if the U.S. dollar weakens against foreign currencies. Since we have significant international sales, but incur the majority of our costs in the U.S., the impact of foreign currency fluctuations, particularly the strengthening of the U.S. dollar may have an asymmetric and disproportional impact on our business. We monitor currency volatility throughout the year.

To mitigate our foreign currency risk resulting from our foreign currency-denominated monetary assets, liabilities and earnings and our foreign currency risk related to functional currency-equivalent cash flows resulting from our intercompany transactions, we periodically enter into currency derivative contracts, principally forward contracts. The counterparties for our currency derivative contracts are large and reputable commercial or investment banks. We report the fair value of these contracts within "Other current assets," "Accrued expense and other liabilities," "Other assets," or "Other liabilities," as applicable, in our condensed consolidated balance sheets based on the prevailing exchange rates of the various hedged currencies as of the end of the relevant period.

We do not hold or purchase any foreign currency forward contracts for trading or speculative purposes.

#### *Foreign Currency Forward Contracts Not Designated as Hedges*

For foreign currency forward contracts entered into to mitigate risk from foreign currency-denominated monetary assets, liabilities, and earnings that are not designated as hedging instruments in accordance with FASB Accounting Standards Codification (“ASC”) Topic 815, changes in the estimated fair value of these derivatives are recorded within “General and administrative expenses” and “Interest and other expense, net” in our condensed consolidated statements of operations, depending on the nature of the underlying transactions. These forward contracts generally have a maturity of less than one year.

At September 30, 2015 there were no outstanding foreign currency forward contracts not designated as hedges. At December 31, 2014, there was one outstanding foreign currency forward contract not designated as a hedge; the notional amount of that foreign currency forward contract was \$11 million and the fair value was not material. For the three and nine months ended September 30, 2015 and 2014, pre-tax net losses related to these forward contracts were not material.

#### *Foreign Currency Forward Contracts Designated as Hedges*

For foreign currency forward contracts entered into to hedge forecasted intercompany cash flows that are subject to foreign currency risk and which we designated as cash flow hedges in accordance with ASC Topic 815, we assess the effectiveness of these cash flow hedges at inception and on an ongoing basis to determine if the hedges are effective at providing offsetting changes in cash flows of the hedged items. We record the effective portion of changes in the estimated fair value of these derivatives in “Accumulated other comprehensive income (loss)” and subsequently reclassify the related amount of accumulated other comprehensive income (loss) to earnings within “General and administrative expense” when the hedged item impacts earnings. We measure hedge ineffectiveness, if any, and if it is determined that a derivative has ceased to be a highly effective hedge, we will discontinue hedge accounting for the derivative.

The gross notional amount of all outstanding foreign currency forward contracts designated as cash flow hedges was approximately \$336 million at September 30, 2015 and \$78 million at September 30, 2014. At December 31, 2014, there were no outstanding foreign currency forward contracts designated as cash flow hedges. The outstanding foreign currency forward contracts have maturities of 15 months or less. During the three and nine months ended September 30, 2015, there was no ineffectiveness relating to these hedges. At September 30, 2015, \$3 million of net unrealized gains related to these contracts are expected to be reclassified into earnings within the next twelve months.

In the absence of the hedging activities described above, for the nine months ended September 30, 2015, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines of our net income of approximately \$82 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in such manner and actual results may differ materially.

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#### [Table of Contents](#)

### **Interest Rate Risk**

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt under the Credit Facilities. We do not currently use derivative financial instruments to manage interest rate risk. As of September 30, 2015, a hypothetical interest rate change on our variable rate debt of one percent (100 basis points) would change interest expense on an annual basis by approximately \$19 million. Because we have a 0.75% LIBOR floor in our Term Loan, our interest expense will only increase if the underlying interest rate increases to a level that exceeds the LIBOR floor. This estimate does not include the effects of other actions that we may take in the future to mitigate this risk or any changes in our financial structure.

Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because 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, 2015, our \$4.37 billion of cash and cash equivalents were comprised primarily of money market funds. At September 30, 2015, our \$154 million of short-term investments included \$129 million of U.S. treasury and government-sponsored agency debt securities and \$25 million of restricted cash. We also had \$9 million in auction rate securities at fair value classified as long-term investments at September 30, 2015. The Company has determined that, based on the composition of our investment portfolio as of September 30, 2015, there was no material interest rate risk exposure to the Company’s consolidated financial condition, results of operations or liquidity as of that date.

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

#### **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 (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.

#### **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, 2015, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at September 30, 2015, 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.

## **Changes in Internal Control Over Financial Reporting.**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting at September 30, 2015, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at September 30, 2015, 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.

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## [Table of Contents](#)

### **Part II. Other Information**

#### **Item 1. Legal Proceedings**

We are subject to various legal proceedings and claims. SEC regulations govern disclosure of legal proceedings in periodic reports and ASC Topic 450 governs the disclosure of loss contingencies and accrual of loss contingencies in respect of litigation and other claims. We record an accrual for a potential loss when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. When the reasonable estimate of the potential loss is within a range of amounts, the minimum of the range of potential loss is accrued, unless a higher amount within the range is a better estimate than any other amount within the range. Moreover, even if an accrual is not required, we provide additional disclosure related to litigation and other claims when it is reasonably possible (*i.e.*, more than remote) that the outcomes of such litigation and other claims include potential material adverse impacts on us.

The outcomes of legal proceedings and other claims are subject to significant uncertainties, many of which are outside of our control. There is significant judgment required in the analysis of these matters, including the probability determination and whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Moreover, legal matters are inherently unpredictable and the timing of development of factors on which reasonable judgments and estimates can be based can be slow. As such, there can be no assurance that the final outcome of any legal matter will not materially and adversely affect our business, financial condition, results of operations, profitability, cash flows or liquidity.

#### *Purchase Transaction Matters*

In prior periods, the Company reported on litigation related to the Purchase Transaction. During the period ended June 30, 2015, the cases were resolved and dismissed with prejudice. As part of the resolution of the claims, we received a settlement payment of \$202 million in July 2015 from Vivendi, ASAC, and our insurers. We recorded the settlement within “Shareholders’ equity” in our condensed consolidated balance sheet as of September 30, 2015.

#### *Other Matters*

In addition, we are party to routine claims, suits, investigations, audits and other proceedings arising from the ordinary course of business, including with respect to intellectual property rights, contractual claims, labor and employment matters, regulatory matters, tax matters, unclaimed property matters, compliance matters, and collection matters. In the opinion of management, after consultation with legal counsel, such routine claims and lawsuits are not significant and we do not expect them to have a material adverse effect on our business, financial condition, results of operations, or liquidity.

#### **Item 1A. Risk Factors**

Various risks associated with our business are described in Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2014. In addition, the Company wishes to caution the reader that the following additional important risk could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

***We may fail to complete the proposed acquisition of King Digital Entertainment plc and, even if the acquisition is successfully completed, the anticipated benefits to our stockholders may not be realized.***

On November 2, 2015, we and King, a leading interactive mobile entertainment company incorporated under the laws of Ireland, entered into a Transaction Agreement under the terms of which we will acquire King (the “Acquisition”) and King will become a wholly-owned subsidiary of the Company. At the effective time of the Acquisition, King shareholders will become entitled to receive \$18.00 in cash in exchange for each King share they then hold. The transaction is subject to customary closing conditions, including the approval by King’s shareholders, sanction of the Irish High Court, as well as certain regulatory approvals, and is expected to close by Spring of calendar year 2016.

There can be no assurance that King’s stockholders, the Irish High Court or the relevant regulators will approve the Acquisition. If the transaction is unable to be consummated, then we will not receive the expected benefits of the transaction. Moreover, uncertainty arising during the pendency of the proposed Acquisition, including as a result of any delays in obtaining needed approval, might hamper King’s ability to retain key employees or could result in our or King’s employees losing focus on operations or other matters, which could adversely impact the combined company. Failure to complete, or delays in completing, the proposed Acquisition for any reason could negatively impact King’s relationships with customers, its stock price and its future business and financial results.

Furthermore, even in the event that the proposed Acquisition is successfully completed, there can be no assurance that the anticipated benefits to our stockholders will be realized if King’s business fails to perform as expected, the businesses of Activision Blizzard and King are not successfully integrated or the integration process results in a loss of or failure to attract, motivate or retain employees, the loss of consumers or customers, the disruption to either or both companies’ ongoing business, higher than expected integration costs or an overall post-completion integration process that takes longer than originally anticipated. Failure to complete or realize the benefits of the Acquisition could negatively impact our stock price and our future business and financial results after the Acquisition.



Additional risks associated with the Acquisition are described in “Cautionary Statement Regarding Forward-Looking Statements” from our Current Report on Form 8-K filed on November 3, 2015.

## Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are hereby incorporated by reference into this Quarterly Report on Form 10-Q.

50

[Table of Contents](#)

### 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, 2015

ACTIVISION BLIZZARD, INC.

/s/ DENNIS DURKIN

\_\_\_\_\_  
Dennis Durkin  
Chief Financial Officer and  
Principal Financial Officer of  
Activision Blizzard, Inc.

/s/ STEPHEN WEREB

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Stephen Werek  
Chief Accounting Officer and  
Principal Accounting Officer of  
Activision Blizzard, Inc.

51

[Table of Contents](#)

### EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>
2.1	Transaction Agreement, dated November 2, 2015, by and among King Digital Entertainment plc, ABS Partners C.V. and Activision Blizzard, Inc. (incorporated by reference to Exhibit 2.1 of the Company’s Form 8-K, filed November 3, 2015).
2.2	Appendix I to the Rule 2.5 Announcement (Conditions Appendix) (incorporated by reference to Exhibit 2.2 of the Company’s Form 8-K, filed November 3, 2015).
2.3	Expenses Reimbursement Agreement, dated November 2, 2015, by and between King Digital Entertainment plc and Activision Blizzard, Inc. (incorporated by reference to Exhibit 2.3 of the Company’s Form 8-K, filed November 3, 2015).
2.4	Form of Voting Undertaking executed by certain shareholders of King Digital Entertainment plc. (incorporated by reference to Exhibit 2.4 of the Company’s Form 8-K, filed November 3, 2015).
3.1	Third Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated June 5, 2014 (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K, filed June 6, 2014).
3.2	Second Amended and Restated Bylaws of the Company, adopted as of October 11, 2013 (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K, filed October 18, 2013).
10.1*	2015 Corporate Annual Incentive Plan.
10.2*	Notice of Stock Option Award, dated as of August 6, 2015 to Brian G. Kelly.
10.3	First Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company’s Form 8-K, filed November 3, 2015).
10.4	Commitment Letter, dated November 2, 2015, by and among Activision Blizzard, Inc., Bank of America, N.A. and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.2 of the Company’s Form 8-K, filed November 3, 2015).
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 Dennis Durkin 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 Dennis Durkin 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 Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase 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, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and September 30, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and September 30, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014; (v) Condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2015; and (vi) Notes to Condensed Consolidated Financial Statements.

Activision Blizzard, Inc.  
U.S. Corporate Annual Incentive Plan  
(effective Fiscal Year 2015)

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I. **Introduction:** Activision Blizzard, Inc. (“Activision Blizzard” or “Company”, and together with its subsidiaries, the “Activision Blizzard Group”), is the sponsor of this U.S. Corporate Annual Incentive Plan (“CAIP” or “Plan”). The Plan is completely discretionary, and Activision Blizzard acting through its executive management team pursuant to its then-current governance practices (which may include approval from the Compensation Committee of the Board of Directors of Activision Blizzard (the “Compensation Committee”), as applicable) always retains the authority to act within its discretion in all aspects of operating this Plan (even if not explicitly stated in any specific provision below). Although the provisions of the Plan as described below reflect the current methodology by which Activision Blizzard operates the Plan, Activision Blizzard retains the right to change, amend, or terminate the Plan at any time with or without notice, and regardless of whether or not work has been initiated or even completed with respect to goals or objectives. Activision Blizzard retains the exclusive right to interpret the Plan in its sole discretion, and its determination will be final and binding. Any and all exceptions to the operation of this Plan will be determined solely by the executive management team of the Company, pursuant to its then-current governance practices in effect at the time the decision is made.

II. **Effective Date and Location:** This Plan is effective as of Fiscal Year 2015, and shall remain effective until Activision Blizzard determines otherwise. The Plan is applicable only in the U.S.

III. **Eligibility:** Any U.S. employee (except as provided for in subparagraph A below) of the Activision Blizzard Group is eligible to receive an annual incentive bonus payment under the Plan for a “Plan Year”, if and only if each individual is allocated an award by the Company. For purposes of this Plan, a “Plan Year” will run concurrent with the fiscal year.<sup>1</sup> Since the incentive bonus rewards not only success, but also continued service and ongoing contributions to the Activision Blizzard Group, an employee is eligible to receive and may earn an incentive bonus payment only if he or she is employed with the Activision Blizzard Group on the incentive bonus payment date with respect to such bonus payment.

A. **Eligibility Exceptions:**

1) Employees who begin employment with the Activision Blizzard Group after September 30<sup>th</sup> are ineligible to participate for that Plan Year;

2) Temporary employees of the Activision Blizzard Group (whether or not party to a temporary employment agreement) are ineligible to participate; and

3) As a general principle, employees who participate in other Activision Blizzard Group bonus plans, such as a studio retention and incentive bonus plan or the Blizzard Entertainment Profit Sharing Plan, will not be allocated an award under this Plan.

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<sup>1</sup>As with all financial metrics, the Company reserves the full discretion to define the term associated with a fiscal year. Currently, Activision Blizzard’s fiscal year runs concurrent with the calendar year, but the Company retains the full discretion to change this in the future.

B. **No Entitlement:** No employee shall be entitled to a payment pursuant to this Plan under any circumstances unless and until a payment actually is made. Specifically, prior notification of the Plan itself or individual Plan eligibility, or prior participation in the Plan, does not create any entitlement to future participation.

IV. **Funding:**

A. **General:** The Plan will fund at a discretionary level determined by the Company for a Plan Year (hereinafter, the “Pool”) if the Compensation Committee determines that the Company’s actual operating income (“OI”, as defined by the Company) for that fiscal year equals or exceeds a percentage (to be determined by the Compensation Committee in Q1 of each fiscal year) of the target goal amount set forth in the Company’s annual operating plan (“AOP”) for the Plan Year (the “Company Cut-In”). The determination as to whether the Company Cut-In has been met is typically made by the Compensation Committee in the first quarter of the fiscal year following the Plan Year, or at a time determined by the Company pursuant to its then-current governance practices in effect. The Company retains the option of funding the Plan even in the event that it is determined that less than the Company Cut-In is achieved.

B. **Reservation:** In the event that any funds are set aside by the Company for the payment of bonuses under this Plan, the Company reserves the right not to allocate or not to pay out any portion of those funds. Should any funds from a Pool remain unallocated or unspent, Activision Blizzard also reserves the right to determine what Activision Blizzard may do with those funds, if anything, including without limitation, using those funds for other corporate purposes; no Participant or any beneficiary thereof will have any right or interest in or to any such assets or amounts.

V. Allocations: Typically an employee will be recommended for an incentive bonus award (or allocation) by his or her manager or management team. The nomination will require internal approval per the Company's then-current governance practices. Recommendations for a Plan Year generally are made in the first quarter of the following year, or at a time determined by the Company pursuant to its then-current governance practices in effect. To determine the incentive bonus award recommendation for each relevant employee, managers generally should consider the following:

A. Target Bonus: The Company normally provides each eligible employee (or "Participant") with a target bonus for each Plan Year ("Target Bonus") that is expressed as a percentage of his or her "Base Salary" (as defined in Paragraph V.A.2 below) for that year. Target Bonuses may vary from Participant to Participant depending on a Participant's job level or any other factor the Company deems to be relevant.

1) Modification of Target Bonus. The Company may opt to modify any Participant's Target Bonus at any time during the Plan Year, subject to the approval process provided for under the Company's then-current governance practices, at the Company's discretion or as required by the Company's then-current governance practices.

2) Base Salary: For purposes of this Plan, the Base Salary earned by a Participant for purposes of calculating an incentive bonus payment for a specific Plan Year will be defined by the Company in its discretion.

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Page 2

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B. Performance Metrics: The following performance metrics normally will be evaluated by managers (or as otherwise provided for by the Company's then-current governance practices) when determining the recommended level of payout for a Participant relative to his or her Target Bonus: 1) attainment of the Company's financial objectives; 2) attainment of relevant business financial objectives; and 3) attainment of the employee's individual performance objectives. Other factors may also be taken into consideration, as consistent with the Company's then-current governance practices. The specific financial and individual performance objectives to be utilized and the relative weighting of the various objectives may vary from Participant to Participant depending on the department or unit to which the Participant provides services, a Participant's job level, or any other factor the Company deems to be relevant. The Company, pursuant to its then-current governance practices, may modify any metrics assigned to a Participant at any time during the Plan Year

1) Corporate Financial Objectives: The Company's management (with the approval of the Compensation Committee) will establish financial performance objectives for Activision Blizzard with respect to each Plan Year. Following the close of each Plan Year, achievement of these financial objectives for that Plan Year normally will be confirmed by the Compensation Committee (usually in Q1 of the following year) or as is consistent with the Company's then-current governance practices.

2) Business Financial Objectives (Where Applicable): The Company's management (with the approval of the Compensation Committee where required by the Company's then-current governance practices) will establish financial performance objectives and associated achievement levels for various operating and business units, regions, teams, and territories (all as defined by the Company). Following the close of each Plan Year, achievement of these financial objectives for that Plan Year will be confirmed by the Compensation Committee (usually in Q1 of the following year) or as is consistent with the Company's then-current governance practices. In order for this metric to fund, a relevant organization must achieve a minimum percentage (to be determined by the Company) of its AOP financial target set by the Company (the "BU Cut-In"). For Plan Year 2015, the BU Cut-In is 75% of AOP OI for the relevant organization.

3) Individual Performance Objectives: Individual performance objectives normally will be developed by each Participant and his or her immediate manager (or management team) for each Plan Year; such objectives are subject to review pursuant to the Company's then-current governance practices. Following the close of each Plan Year, achievement of a Participant's personal objectives will be determined by the Participant's manager/management team, subject to the approval process provided for under the Company's then-current governance practices.

4) Achievement levels: The Participant's manager/management team may recommend and the Company may determine that a Participant does not receive an incentive bonus for that Plan Year, or receives an incentive bonus which is less than his or her Target Bonus, if the Company determines that i) one or more of the objectives in a Participant's Bonus Plan are not achieved; ii) the Participant's performance rating (provided in conjunction with the Company's performance review process) for a Plan Year is Below Expectations; iii) the Participant has violated any Company policy, procedure, rule, or regulation during his or her employment or any post-employment restrictions (where applicable, as discussed in Paragraph VIII.B. below); or iv) other reasons bear consideration, unless any of the above are prohibited by applicable law.

VI. Payments:

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Page 3

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A. Schedule: Incentive bonus payments, if any, will be paid in a lump sum, less applicable taxes and withholdings on a schedule to be determined by the Company.

B. Employment Required: Since the Plan rewards not only the achievement of pre-established goals that contribute to the Company's success, but also continued service and ongoing contributions to the Activision Blizzard Group, an employee

who is allocated an incentive bonus payment must be employed with the Activision Blizzard Group on the payment date of such incentive bonus payment, unless an exception is (i) provided for under the Company's then-current severance plan (if any), (ii) approved by Company management, pursuant to then-current governance practices, , or (iii) is otherwise required by law. For the avoidance of doubt, once an incentive bonus payment to an individual has been approved by the Company, in no event will such incentive bonus payment be made to an employee later than March 15 of the year following the applicable Plan Year based upon the current fiscal year (though the Company retains full discretion to change this should it modify the definition of a fiscal year).

VII. Appeal: If a Participant disagrees with the incentive bonus award allocation (if any) made to him or her pursuant to this Plan, the Participant must notify his or her manager or assigned HR Generalist of such dispute within 14 days after the date that the incentive bonus award allocation is communicated to him or her. To the extent no such notice is received by the Company within 14 days after the date such communication is made, such determination will conclusively be deemed final and binding on the Company and that Participant. If a notice is received within such 14-day period, then the manager or HR Generalist will promptly investigate the Participant's concerns and communicate back to the Participant a determination (which shall be made pursuant to the Company's then-current governance practices), and such determination shall be final and binding. Without limiting the generality of the foregoing, no Participant will have any right, unless provided otherwise by law, to inspect the books, records, budgets, business plans, financial data or financial statements of the Activision Blizzard Group to determine whether any financial determinations are correct with respect to any fiscal year.

VIII. Miscellaneous:

A. Modification or Termination of Plan: Activision Blizzard, as the sponsor of the Plan, reserves the right to change, amend, or terminate the Plan at any time with or without notice, and regardless of whether or not work has been initiated or even completed with respect to goals or objectives. Activision Blizzard reserves the right to suspend or terminate all payments in the event of change, amendment, or termination of the Plan. Activision Blizzard retains the exclusive right to interpret the Plan in its sole discretion, and its determination will be final and binding. Any prior course of dealings shall not be determinative in interpreting this Plan; no participant shall be entitled to rely on any past practices associated with administering the Plan (or any similar plans) to interpret this Plan.

B. At-Will Employment: Nothing contained in this Plan implies a contractual agreement between the Activision Blizzard Group and an employee or confers upon any such individual the right to continued employment. For individuals not employed pursuant to an employment agreement, this Plan in no way alters the at-will employment status of his or her employment. An employee or the Activision Blizzard Group may terminate employment at any time, with or without cause or notice, unless an employee's employment agreement states otherwise.

C. Conflicts: This Plan supersedes all prior oral or written communications on this same subject matter. To the extent that this Plan conflicts with the Activision Blizzard Group's policies,

procedures, rules, or regulations, the latter shall control. To the extent that this Plan may conflict with an employee's employment agreement with the Activision Blizzard Group, the terms of the employment agreement shall control.

D. Inapplicability of ERISA. This Plan is intended to be a "bonus program" and "payroll practice" and, as such, is not subject to the Employee Retirement Income Security Act of 1974, as amended.

E. 409A Compliance: To the extent applicable, it is intended that the Plan comply with the provisions of Sections 409A of the Internal Revenue Code, as amended. The Plan will be administered and interpreted in a manner consistent with this intent. Specifically, any provision that would cause the Plan 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).

F. Relationship to 2014 Incentive Plan and Section 162(m). This Plan is intended to be operated as a means to effect negative discretion with respect to Senior Executive Plan Bonuses, as defined in and granted under the Company's 2014 Incentive Plan (the "2014 Plan", or any other successor plan that is shareholder approved) and, when this Plan is used in connection with any Senior Executive Plan Bonus, this Plan shall be interpreted consistently with, and shall be subject to the terms and limitations of, the 2014 Plan and any actions taken by the Compensation Committee in connection with the award or payment of such Senior Executive Bonus Plan. In the event of any conflict between the terms of this Plan and the 2014 Plan with respect to any Senior Executive Plan Bonus, the terms of this Plan shall control, except where necessary to preserve the status of the Senior Executive Plan Bonus as "qualified performance-based compensation" under Section 162(m) of the Internal Revenue Code, as amended.

G. Taxation: The Activision Blizzard Group may withhold from any payments made under this Plan 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 an employee. Likewise, the Activision Blizzard Group may withhold payments hereunder or seek reimbursement from a Participant to recover improper payments or over-payments made.

H. Effect on Other Activision Blizzard Group Benefits Programs:

1) No incentive bonus payment under this Plan will be considered salary or other compensation paid to an employee for purposes of computing any benefits to which he or she may be entitled under any employee benefit or retirement plan which may be maintained by the Activision Blizzard Group from time to time, except for those benefit plans which explicitly provide for otherwise.

2) Participation in this Plan does not confer rights to participation in other programs which may be maintained by the Activision Blizzard Group from time to time, including but not limited to other annual or long-term incentive plans, non-qualified retirement or deferred compensation plans or other executive perquisite programs.

I. Non-Exclusivity. Neither the adoption of this Plan by the Company nor any provision of this Plan will be construed as creating any limitations on the power of the Company to adopt such additional compensation arrangements as it may deem desirable.

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Page 5

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J. Construction: 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 Plan. The masculine gender, wherever appearing in this Plan, will include the feminine gender and the singular will include the plural, unless the context clearly indicates to the contrary.

K. Governing Law: Except to the extent governed by federal law, this Plan shall be governed by and construed in accordance with the laws of the State of California, or, for individuals employed outside of California, the state in which an employee was last employed by the Activision Blizzard Group, without regard to conflict of law principles.

L. Severability: If any provision of this Plan is held to be illegal, invalid or unenforceable, such provisions shall be fully severable, the Plan shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Plan, and the remaining provisions of this Plan 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 Plan. Furthermore, in lieu of such illegal, invalid or unenforceable provision, a court or arbitrator shall add automatically as part of this Plan a legal and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

M. Assignment: This Plan and the rights and obligations hereunder shall not be assignable or transferable by any employee, unless provided for otherwise by Activision Blizzard in writing and signed by the Chief Executive Officer of Activision Blizzard. Activision Blizzard may assign this Plan or all or any part of its rights and obligations under this Plan at any time and following such assignment all references to Activision Blizzard shall be deemed to refer to such assignee and Activision Blizzard shall thereafter have no obligation under this Plan.

N. Successors: This Plan shall be binding on and inure to the benefit of Activision Blizzard and its successors and assigns, including successors by merger and operation of law.

ACTIVISION BLIZZARD, INC.

/s/ Thomas Tippl  
Thomas Tippl, Chief Operating Officer

9/2/15  
Date

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Page 6

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## ACTIVISION BLIZZARD, INC.

## 2014 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 G. Kelly**
- Total number of Shares purchasable upon exercise of the Stock Option awarded: **80,676**
- Exercise Price: **US\$28.71** per Share
- Date of Grant: **August 6, 2015**
- Expiration Date: **August 6, 2025**
- Grant ID: **01402060**
- 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 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting:* Except as otherwise provided under the Award Terms, the Stock Option awarded to you shall vest and become exercisable in full on July 28, 2016, if, and only if, the Committee determines that the Company’s non-GAAP earnings per share for 2015 is equal to or greater than the non-GAAP earnings per share objective for the Company set forth in the 2015 annual operating plan previously approved by the Committee (including with any modifications determined by the Committee) for all relevant compensation-related purposes, and provided you remain continuously employed by the Company or one of its subsidiaries through such date.
- ***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
- ***By accepting the Award, you are deemed to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Stock Option Award and the Award Terms.***

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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/ Humam Sakhnini

Humam Sakhnini  
Chief Strategy & Talent Officer

Date: September 9, 2015

**ACCEPTED AND AGREED:**

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**EXHIBIT A**  
**ACTIVISION BLIZZARD, INC.**  
**2014 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 any entity in the Company Group in effect at the time of the determination or (ii) if the Holder is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of “cause,” shall mean a good faith determination by the Company 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 conduct that causes, or has the potential to cause, harm to any entity in the Company Group, including its business reputation or financial condition; (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 confidentiality agreement with any entity in the Company Group; (E) was convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; 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 and its subsidiaries.

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

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

**“Disability”** (i) shall have the meaning given to such term in, or otherwise be determined in accordance with, any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time of the determination or (ii) if the Holder is not then party to any agreement or offer letter with any entity in the Company Group or

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any such agreement or offer letter does not contain a definition of “disability” or otherwise provide a method for determining whether the Holder is disabled, shall mean the Holder is receiving benefits under any long-term disability plan of the Company Group then in effect.

**“Employment Violation”** means any material breach by the Holder of his or her employment agreement with any entity in the Company Group 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 this definition).

**“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.

**“Exercise Rules and Regulations”** means (i) the Securities Act or any comparable federal securities law and all applicable state securities laws, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company’s certificate of incorporation or bylaws, and (iv) 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.

**“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 2014 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 (A) the sum of the sales price for all such Shares sold minus (B) the aggregate Exercise Price for such Shares; plus

A-2

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(ii) if the Holder has exercised any portion of the Stock Option during such Look-back Period and not sold all of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the greatest of the following, minus the Exercise Price: (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 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 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.

**“Securities Act”** means the Securities Act of 1933, as amended.

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

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

(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 11 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 court supervision and/or applicable law.

(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.

A-3

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(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 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 15 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 any entity in the Company Group 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.

A-4

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

(c) Other. Unless the Committee determines otherwise, in the event that the Holder's employment is terminated for any reason not addressed by Section 4(a) or 4(b) hereof, the 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 (or, if the

Holder is prohibited from exercising the Stock Option during some or all of the 30-day period following such termination date because such exercise would not be in compliance with the Exercise Rules and Regulations, whatever later date may be determined in accordance with a Committee-approved policy) 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, any entity in the Company Group shall have the right to ensure that all Withholding Taxes contemplated by this Section 5 are satisfied by (i) withholding from the Holder's compensation, (ii) withholding Shares otherwise then deliverable (in which case the Holder will be deemed to have been issued the full number of Shares purchased upon exercise of the Stock

A-5

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Option), and (iii) arranging for the sale, on the Holder's behalf, of Shares otherwise then deliverable. 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.

6. **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.**

7. **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.

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 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 9 hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other 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.

9. **Adjustments.** Notwithstanding anything to the contrary contained herein, pursuant to Section 13 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of the Holder that otherwise would 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), 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 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,

A-6

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hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. 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 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 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 or any comparable federal securities law or applicable state securities law.

11. Transferability. Subject to the terms of the Plan and only 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. Except as otherwise permitted under the Plan or this Section 11, the Stock Option shall not be transferable by the Holder other than by will or the laws of descent and distribution.

12. Employment Violation. The terms of this Section 12 shall apply to the Stock Option if the Holder is or becomes subject to an employment agreement with any entity in the Company Group. In the event of an Employment Violation, the Company shall have the right to require (a) the termination and cancellation of the Stock Option, whether vested or unvested, and (b) 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 (without 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.

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

(a) The Holder is responsible for complying with (i) any federal, state and local taxation laws applicable to the Holder in connection with the Award and (ii) all Exercise Rules and Regulations.

(b) The Award is subject to the terms and conditions of any policy requiring or permitting the Company to recover any gains realized by the Holder in connection with the

A-7

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Award, including, without limitation, the Policy on Recoupment of Performance-Based Compensation Related to Certain Financial Restatements.

14. 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, (a) 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 (b) 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, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by the Holder pursuant to Section 409A.

15. 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.”



16. 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 any entity in the Company Group or derogate from any right of any entity in the Company Group to retire, request the resignation of, or discharge the Holder at any time, with or without Cause.

17. 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 or 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. Venue and Governing Law.

A-8

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(a) For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the grant of the Stock Option or these Award Terms, the parties submit and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Los Angeles County, California or the federal courts of the United States for the Central District of California, and no other courts, regardless of where the grant of the Stock Option is made and/or to be performed.

(b) 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 the Holder and, to the extent applicable, the Holder's permitted assigns under Section 3(b) hereof and the Holder's estate or beneficiaries as determined by will or the laws of descent and distribution.

21. Notices.

(a) Any notice or other document which the Holder may be required or permitted to deliver to the Company 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 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. Notices shall be effective upon delivery.

(b) Any notice or other document which the Company may be required or permitted to deliver to the Holder 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 to the Holder at the address shown on any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time, or such other address as the Holder by notice to the Company may designate in writing from time to time. The Company may also, in its sole discretion, deliver any such document to the Holder electronically via an e-mail to the Holder at his or her Company-provided email address or through a notice delivered to such e-mail address that such document is available on a website established and maintained on behalf of the Company or a third party designated by the Company, including, without limitation, the Equity Account Administrator. Notices shall be effective upon delivery.

A-9

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22. 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 any entity in the Company Group in effect at the 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 any entity in the Company Group in effect at the time, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Holder's participation in the Plan, on the Stock Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to facilitate the administration of the Plan, and to require the Holder to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. **Waiver.** The Holder acknowledges that a waiver by the Company of a breach of any provision of these Award Terms shall not operate or be construed as a waiver of any other provision of these Award Terms, or of any subsequent breach by the Holder or any other holder of an equity award from the Company.

**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, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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, 2015

/s/ ROBERT A. KOTICK  
Robert A. Kotick  
*Chief Executive Officer and  
Principal Executive Officer of  
Activision Blizzard, Inc.*

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**CERTIFICATION**

I, Dennis Durkin, 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, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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, 2015

/s/ DENNIS DURKIN

Dennis Durkin

*Chief Financial Officer and  
Principal Financial Officer of  
Activision Blizzard, Inc.*

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**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 ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, Chief Executive Officer and Principal 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, 2015

/s/ ROBERT A. KOTICK

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Robert A. Kotick  
*Chief Executive Officer and  
Principal 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.

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**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 ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Durkin, Chief Financial Officer and Principal Financial 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, 2015

/s/ DENNIS DURKIN

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Dennis Durkin  
*Chief Financial Officer and  
Principal Financial 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.

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