
**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 March 31, 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 April 29, 2015 was 726,186,329.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical 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 the outcome or impact of pending or threatened litigation; and (5) 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 revenue 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 game 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; 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. 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.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

	At March 31, 2015	At December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,465	\$ 4,848
Short-term investments	5	10
Accounts receivable, net of allowances of \$234 and \$383 at March 31, 2015 and December 31, 2014, respectively	208	659
Inventories, net	102	123
Software development	358	452
Intellectual property licenses	5	5
Deferred income taxes, net	365	368
Other current assets	355	444
Total current assets	<u>5,863</u>	<u>6,909</u>
Long-term investments	9	9
Software development	46	20
Intellectual property licenses	18	18
Property and equipment, net	158	157
Other assets	138	85
Intangible assets, net	28	29
Trademark and trade names	433	433
Goodwill	7,084	7,086
Total assets	<u>\$ 13,777</u>	<u>\$ 14,746</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 123	\$ 325
Deferred revenues	1,161	1,797
Accrued expenses and other liabilities	615	592
Total current liabilities	<u>1,899</u>	<u>2,714</u>
Long-term debt, net	4,075	4,324
Deferred income taxes, net	124	114
Other liabilities	441	361
Total liabilities	<u>6,539</u>	<u>7,513</u>
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,154,580,858 and 1,150,605,926 shares issued at March 31, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	9,968	9,924
Less: Treasury stock, at cost, 428,676,471 shares at March 31, 2015 and December 31, 2014	(5,709)	(5,762)
Retained earnings	3,598	3,374
Accumulated other comprehensive income (loss)	(619)	(303)
Total shareholders' equity	<u>7,238</u>	<u>7,233</u>
Total liabilities and shareholders' equity	<u>\$ 13,777</u>	<u>\$ 14,746</u>

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

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

	For the Three Months Ended March 31,	
	2015	2014
Net revenues		
Product sales	\$ 784	\$ 769
Subscription, licensing, and other revenues	494	342
Total net revenues	<u>1,278</u>	<u>1,111</u>
Costs and expenses		
Cost of sales — product costs	209	225
Cost of sales — online	53	58
Cost of sales — software royalties and amortization	148	57
Cost of sales — intellectual property licenses	3	2
Product development	145	143
Sales and marketing	92	104
General and administrative	86	95
Total costs and expenses	<u>736</u>	<u>684</u>
Operating income	542	427
Interest and other expense, net	50	51
Income before income tax expense	492	376
Income tax expense	98	83
Net income	<u>\$ 394</u>	<u>\$ 293</u>
Earnings per common share		
Basic	<u>\$ 0.54</u>	<u>\$ 0.40</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.40</u>
Weighted-average number of shares outstanding		
Basic	723	709
Diluted	731	720
Dividends per common share	<u>\$ 0.23</u>	<u>\$ 0.20</u>

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

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

	For the Three Months Ended March 31,	
	2015	2014
Net income	\$ 394	\$ 293
Other comprehensive income (loss):		
Foreign currency translation adjustment	(330)	(5)
Unrealized gains on forward contracts designated as hedges, net of deferred income taxes of \$0 million for the three months ended March 31, 2015 and 2014	14	—
Other comprehensive income (loss)	\$ (316)	\$ (5)
Comprehensive income	<u>\$ 78</u>	<u>\$ 288</u>

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

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

	For the Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 394	\$ 293
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(3)	6
Provision for inventories	6	9
Depreciation and amortization	20	19
Amortization of capitalized software development costs and intellectual property licenses (1)	142	51
Amortization of debt discount and debt financing costs	2	2
Stock-based compensation expense (2)	23	29
Excess tax benefits from stock awards	(14)	(17)
Changes in operating assets and liabilities:		
Accounts receivable, net	438	290
Inventories	10	5
Software development and intellectual property licenses	(77)	(71)
Other assets	108	111
Deferred revenues	(567)	(298)
Accounts payable	(208)	(189)
Accrued expenses and other liabilities	(65)	(104)
Net cash provided by operating activities	209	136
Cash flows from investing activities:		
Proceeds from maturities of available-for-sale investments	—	21
Capital expenditures	(21)	(37)
Decrease in restricted cash	5	4
Net cash used in investing activities	(16)	(12)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	27	119
Tax payment related to net share settlements on restricted stock rights	(3)	(13)
Excess tax benefits from stock awards	14	17
Repayment of long-term debt	(250)	(375)
Net cash used in financing activities	(212)	(252)
Effect of foreign exchange rate changes on cash and cash equivalents	(364)	(3)
Net decrease in cash and cash equivalents	(383)	(131)
Cash and cash equivalents at beginning of period	4,848	4,410
Cash and cash equivalents at end of period	\$ 4,465	\$ 4,279

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2015
(Unaudited)
(Amounts and shares in millions)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2014	1,151	\$ —	(429)	\$ (5,762)	\$ 9,924	\$ 3,374	\$ (303)	\$ 7,233
Components of comprehensive income:								
Net income	—	—	—	—	—	394	—	394
Other comprehensive income (loss)	—	—	—	—	—	—	(316)	(316)
Issuance of common stock pursuant to employee stock options	2	—	—	—	27	—	—	27
Issuance of common stock pursuant to restricted stock rights	3	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(18)	—	—	(18)
Tax benefit associated with employee stock awards	—	—	—	—	13	—	—	13
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	22	—	—	22
Dividends (\$0.23 per common share)	—	—	—	—	—	(170)	—	(170)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 9)	—	—	—	53	—	—	—	53
Balance at March 31, 2015	1,155	\$ —	(429)	\$ (5,709)	\$ 9,968	\$ 3,598	\$ (619)	\$ 7,238

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

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.

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 (together with ASAC, the “ASAC Entities”). 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 further 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; we did not receive any proceeds.

As of March 31, 2015, we had approximately 726 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® and Skylanders® 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.

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(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 new free-to-play online hero brawler that is currently in closed beta testing.

(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 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.

2. Inventories, Net

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

	At March 31, 2015	At December 31, 2014
Finished goods	\$ 90	\$ 112
Purchased parts and components	12	11
Inventories, net	<u>\$ 102</u>	<u>\$ 123</u>

Inventory reserves were \$50 million and \$52 million at March 31, 2015 and December 31, 2014, respectively.

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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 March 31, 2015	At December 31, 2014
Internally developed software costs	\$ 247	\$ 262
Payments made to third-party software developers	157	210
Total software development costs	<u>\$ 404</u>	<u>\$ 472</u>
Intellectual property licenses	\$ 23	\$ 23

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

	For the Three Months Ended March 31,	
	2015	2014
Amortization of capitalized software development costs and intellectual property licenses	\$ 147	\$ 58

4. Intangible Assets, Net

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

	At March 31, 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	\$ (92)	\$ 6
Internally-developed franchises	11 - 12 years	309	(287)	22
Total definite-lived intangible assets		<u>\$ 407</u>	<u>\$ (379)</u>	<u>\$ 28</u>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				<u>\$ 433</u>

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	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>

Amortization expense of intangible assets was \$1 million and \$2 million for the three months ended March 31, 2015 and 2014, respectively.

At March 31, 2015, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2015 (remaining nine months)	\$ 10
2016	8
2017	5
2018	3
2019	2
Total	<u>\$ 28</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.

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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 March 31, 2015 Using				Balance Sheet Classification
	As of March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial Assets:					
Recurring fair value measurements:					
Money market funds	\$ 4,271	\$ 4,271	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
Foreign currency forward contracts designated as hedges	14	—	14	—	Other current assets
Auction rate securities ("ARS")	9	—	—	9	Long-term investments
Total recurring fair value measurements	\$ 4,328	\$ 4,305	\$ 14	\$ 9	

	Fair Value Measurements at December 31, 2014 Using				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
Total recurring fair value measurements	\$ 4,524	\$ 4,515	\$ —	\$ 9	

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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 March 31, 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	—	—
Balance at March 31, 2015	<u>\$ 9</u>	<u>\$ 9</u>

	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	—	—
Balance at March 31, 2014	<u>\$ 9</u>	<u>\$ 9</u>

- (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 March 31, 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 with maturities of generally less than one year. We report the fair value of these contracts within “Other current assets” or “Other current liabilities” 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 investment income (expense), net” in our condensed consolidated statements of operations, depending on the nature of the underlying transactions.

At March 31, 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 months ended March 31, 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 \$213 million at March 31, 2015. During the three months ended March 31, 2015, there was no ineffectiveness relating to these hedges. The net unrealized gains of approximately \$14 million related to these contracts at March 31, 2015 are expected to be reclassified into earnings within the next twelve months. We did not have any outstanding foreign currency forward contracts designated as cash flow hedges at December 31, 2014, or for the three months ended March 31, 2014.

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 months ended March 31, 2015 and 2014, there were no impairment charges related to assets that are measured on a non-recurring basis.

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 are no letters of credit issued and outstanding as of March 31, 2015 and 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”) rate for an interest period of one month plus 1.00%, or (B) LIBOR. LIBOR borrowings under the Term Loan will be subject to a LIBOR floor of 0.75%. At March 31, 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 investment income (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.

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The terms of the Credit Agreement required 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 70% 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 March 31, 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 March 31, 2015.

Interest on the Notes is payable semi-annually in arrears on March 15 and September 15 of each year. As of March 31, 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. 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 investment income (expense), net" in our condensed consolidated statement of operations.

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

	March 31, 2015		
	Gross Carrying Amount	Unamortized Discount	Net Carrying Amount
Term Loan	\$ 1,869	\$ (10)	\$ 1,859
2021 Notes	1,500	(22)	1,478
2023 Notes	750	(12)	738
Total long-term debt	<u>\$ 4,119</u>	<u>\$ (44)</u>	<u>\$ 4,075</u>

	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	<u>\$ 4,369</u>	<u>\$ (45)</u>	<u>\$ 4,324</u>

For the three months ended March 31, 2015 and March 31, 2014, interest expense was \$49 million and \$51 million, respectively, amortization of the debt discount for the Credit Facilities and Notes was \$1 million and \$2 million, respectively, and commitment fees for the Revolver were not material.

As of March 31, 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 nine months)	\$ —
2016	—
2017	—
2018	—
2019	—
Thereafter	4,119
Total	<u>\$ 4,119</u>

As of March 31, 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 \$1,599 million and \$819 million, respectively, as of March 31, 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 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 months ended March 31, 2015 and 2014, this amount was not material.

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7. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) at March 31, 2015 and 2014, were as follows (amounts in millions):

	For the Three Months Ended March 31, 2015			Total
	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Unrealized gain on forward contracts	
Balance at December 31, 2014	\$ (304)	\$ 1	\$ —	\$ (303)
Other comprehensive income (loss) before reclassifications	(330)	—	14	(316)
Balance at March 31, 2015	<u>\$ (634)</u>	<u>\$ 1</u>	<u>\$ 14</u>	<u>\$ (619)</u>
	For the Three Months Ended March 31, 2014			Total
	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Unrealized gain on forward contracts	
Balance at December 31, 2013	\$ 67	\$ 1	\$ —	\$ 68
Other comprehensive income (loss) before reclassifications	(5)	—	—	(5)
Balance at March 31, 2014	<u>\$ 62</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 63</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.

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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 months ended March 31, 2015 and 2014 are presented below (amounts in millions):

	Three Months Ended March 31,			
	2015		2014	
	Net revenues		Income (loss) from operations before income tax expense	
Activision	\$ 303	\$ 237	\$ 66	\$ 2
Blizzard	352	462	139	239
Distribution	48	73	(1)	(1)
Operating segments total	703	772	204	240
Reconciliation to consolidated net revenues / consolidated income before income tax expense:				
Net effect from deferral of net revenues and related cost of sales	575	339	362	219
Stock-based compensation expense	—	—	(23)	(30)
Amortization of intangible assets	—	—	(1)	(2)
Consolidated net revenues / operating income	<u>\$ 1,278</u>	<u>\$ 1,111</u>	\$ 542	\$ 427
Interest and other expense, net			50	51
Consolidated income before income tax expense			<u>\$ 492</u>	<u>\$ 376</u>

Geographic information presented below for the three months ended March 31, 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 March 31,	
	2015	2014
Net revenues by geographic region:		
North America	\$ 704	\$ 563
Europe	464	462
Asia Pacific	110	86
Total consolidated net revenues	<u>\$ 1,278</u>	<u>\$ 1,111</u>

The Company's net revenues in the U.S. were 53%, and 48% of consolidated net revenues for the three months ended March 31, 2015 and 2014, respectively. The Company's net revenues in the U.K. were 12% and 15% of consolidated net revenues for the three months ended March 31, 2015 and 2014, respectively. The Company's net revenues in France were 8% and 13% of consolidated net revenues for the three months ended March 31, 2015 and 2014, respectively. No other country's net revenues exceeded 10% of consolidated net revenues.

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

	Three Months Ended March 31,	
	2015	2014
Net revenues by platform:		
Console	\$ 758	\$ 654
Online (1)	272	201
PC	114	100
Mobile and other(2)	86	83
Total Activision Blizzard net revenues	1,230	1,038
Distribution	48	73
Total consolidated net revenues	\$ 1,278	\$ 1,111

- (1) Revenues from online consist 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 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 March 31, 2015 and December 31, 2014 were as follows (amounts in millions):

	At March 31,	At December 31,
	2015	2014
Long-lived assets* by geographic region:		
North America	\$ 129	\$ 122
Europe	24	29
Asia Pacific	5	6
Total long-lived assets by geographic region	\$ 158	\$ 157

*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.

We did not have any single external customers that accounted for 10% or more of consolidated net revenues for the three months ended March 31, 2015 and 2014.

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 \$98 million for the three months ended March 31, 2015 reflects an effective tax rate of 19.9%, which is lower than the effective tax rate of 22.1% for the three months ended March 31, 2014. This decrease is primarily due to an increase in the amount of foreign earnings, which are taxed at relatively lower statutory rates, as compared to domestic earnings, which are taxed at relatively higher statutory rates, in the estimated effective annual tax rate.

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The effective tax rate of 19.9% for the three months ended March 31, 2015 differed from the U.S. statutory rate of 35.0%, primarily due to the tax benefit from foreign earnings taxed at relatively lower statutory rates, recognition of California research and development credits, and the federal domestic production deductions, 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 months ended March 31, 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. Additionally, the IRS is currently reviewing our application for an advanced pricing agreement ("APA") with respect to the transfer pricing methodology that would be used by the Company for tax years 2010 through 2024. If ongoing discussions with the IRS result in an APA, this 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 an agreement is reached and the relevant periods thereafter.

In addition, Vivendi Games' tax return for the 2008 tax year is under examination by the Internal Revenue Service 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. Although the final resolution of the Company's global tax disputes is uncertain, 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 three months ended March 31, 2015, we utilized \$152 million of the NOL, which resulted in a tax benefit of \$53 million, and a corresponding reserve was established as the position did not meet the "more-likely-than-not" standard. As of March 31, 2015, an indemnification asset of \$121 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 March 31,	
	2015	2014
Numerator:		
Consolidated net income	\$ 394	\$ 293
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	(3)	(3)
Numerator for basic and diluted earnings per common share — income available to common shareholders	\$ 387	\$ 285
Denominator:		
Denominator for basic earnings per common share - weighted-average common shares outstanding	723	709
Effect of potential dilutive common shares under the treasury stock method:	8	11
Denominator for diluted earnings per common share - weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	731	720
Basic earnings per common share	<u>\$ 0.54</u>	<u>\$ 0.40</u>
Diluted earnings per common share	<u>\$ 0.53</u>	<u>\$ 0.40</u>

Certain of our unvested restricted stock rights (including certain restricted stock units, restricted stock awards, and performance shares) met the definition of participating securities 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 months ended March 31, 2015 and 2014, on a weighted-average basis, we had outstanding unvested restricted stock rights with respect to 10 million and 17 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 and 3 million shares are not included in the computation of diluted earnings per share for the three months ended March 31, 2015 and 2014, respectively, as their respective performance measures had not yet been met.

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 6 million and 3 million shares of common stock were not included in the calculation of diluted earnings per common share for the three months ended March 31, 2015 and 2014, respectively, as the effect of their inclusion would be anti-dilutive.

11. Capital Transactions*Repurchase Programs*

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 March 31, 2015, we have not repurchased any shares under this program.

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Dividend

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. As such, we have included \$170 million of dividends payable in “Accrued expense and other liabilities” and “Other liabilities” on our condensed consolidated balance sheet as of March 31, 2015.

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 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

On August 1, 2013, a purported shareholder of the Company filed a shareholder derivative action in the Superior Court of the State of California, County of Los Angeles, captioned *Miller v. Kotick, et al.*, No. BC517086. The complaint names our Board of Directors and Vivendi as defendants, and the Company as a nominal defendant. The complaint alleges that our Board of Directors committed breaches of fiduciary duties, waste of corporate assets and unjust enrichment in connection with Vivendi’s sale of its stake in the Company and that Vivendi also breached its fiduciary duties. The plaintiff further alleges that demand by it on our Board of Directors to institute action would be futile because a majority of our Board of Directors is not independent and a majority of the individual defendants face a substantial likelihood of liability for approving the transactions contemplated by the Stock Purchase Agreement. The complaint seeks, among other things, damages sustained by the Company, rescission of the transactions contemplated by the Stock Purchase Agreement, an order restricting our Chief Executive Officer and our Chairman from purchasing additional shares of our common stock and an order directing us to take necessary actions to improve and reform our corporate governance and internal procedures to comply with applicable law, including ordering a shareholder vote on certain amendments to our by-laws or charter that would require half of our Board of Directors to be independent of Messrs. Kotick and Kelly and Vivendi and a proposal to appoint a new independent Chairman of the Board of Directors. On January 28, 2014, the parties filed a stipulation and proposed order temporarily staying the California action. On February 6, 2014, the court entered the order granting a stay of the California action.

In addition, on August 14, 2013, we received a letter dated August 9, 2013, from a shareholder seeking, pursuant to Section 220 of the Delaware General Corporation Law, to inspect the books and records of the Company to ascertain whether the Purchase Transaction and Private Sale were in the best interests of the Company. In response to that request, we provided the stockholder with certain materials under a confidentiality agreement. On September 11, 2013, a complaint was filed under seal by the same stockholder in the Court of Chancery of the State of Delaware in an action captioned *Pacchia v. Kotick et al.*, C.A. No. 8884-VCL. A public version of that complaint was filed on September 16, 2013. The allegations in the complaint were substantially similar to the allegations in the above referenced matter filed on August 1, 2013. On October 25, 2013, Pacchia filed an amended complaint under seal. The amended complaint added claims on behalf of an alleged class of Activision stockholders other than the Company’s Chief Executive Officer and Chairman, Vivendi, ASAC, investors in ASAC and other stockholders affiliated with the investors of ASAC. The added class claims are against the Company’s Chief Executive Officer and Chairman, the Vivendi affiliated directors, the members of the special committee of the Board of Directors formed in connection with the Company’s consideration of the transactions with Vivendi and ASAC, and Vivendi for breach of fiduciary duty, as well as aiding and abetting a

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breach of fiduciary duty against ASAC. The amended complaint removed the derivative claims for waste of corporate assets and disgorgement but continued to allege derivative claims for breach of fiduciary duties. The amended complaint seeks, among other things, certification of a class, damages, reformation of the Private Sale, and disgorgement of any alleged profits received by the Company's Chief Executive Officer, Chairman and ASAC. On October 29, 2013, Pacchia filed a motion to consolidate the *Pacchia* case with the *Hayes* case described below. On November 2, 2013, the Court of Chancery consolidated the *Pacchia* and *Hayes* cases and ordered the plaintiffs to file supplemental papers related to determining lead plaintiff and lead counsel no later than November 8, 2013. On December 3, 2013, the court selected Pacchia as lead plaintiff. Pacchia filed a second amended complaint on December 11, 2013, and Activision filed an answer on January 31, 2014. Also on January 31, 2014, the special committee, ASAC, Messrs. Kotick and Kelly, Vivendi and the Vivendi-affiliated directors each filed motions to dismiss certain claims in the second amended complaint. On February 21, 2014, Pacchia filed a third amended complaint under seal. In response to Pacchia's filing of a third amended complaint, the special committee, ASAC, Messrs. Kotick and Kelly, Vivendi and the Vivendi-affiliated directors each filed motions to dismiss certain claims in the third amended complaint. On June 6, 2014, the Court of Chancery denied the defendants' motions to dismiss such claims, with the exception of a breach of contract claim. Subsequently, Pacchia filed a fourth amended complaint containing substantially all of his prior claims, but with the addition of new allegations gleaned from discovery in the matter. ASAC filed a motion to dismiss the re-pleaded breach of contract claim and the other defendants filed answers in response to the fourth amended complaint.

On September 11, 2013, another stockholder of the Company filed a putative class action and stockholder derivative action in the Court of Chancery of the State of Delaware, captioned *Hayes v. Activision Blizzard, Inc., et al.*, No. 8885-VCL. The complaint names our Board of Directors, Vivendi, New VH, the ASAC Entities, Davis Selected Advisers, L.P. ("Davis") and Fidelity Management & Research Co. ("FMR") as defendants, and the Company as a nominal defendant. The complaint alleges that the defendants violated certain provisions of our Amended and Restated Certificate of Incorporation by failing to submit the matters contemplated by the Stock Purchase Agreement for approval by a majority of our stockholders (other than Vivendi and its controlled affiliates); that our Board of Directors committed breaches of their fiduciary duties in approving the Stock Purchase Agreement; that Vivendi violated fiduciary duties owed to other stockholders of the Company in entering into the Stock Purchase Agreement; that our Chief Executive Officer and our Chairman usurped a corporate opportunity from the Company; that our Board of Directors and Vivendi have engaged in actions to entrench our Board of Directors and officers in their offices; that the ASAC Entities, Davis and FMR aided and abetted breaches of fiduciary duties by the Board of Directors and Vivendi; and that our Chief Executive Officer and our Chairman, the ASAC Entities, Davis and FMR will be unjustly enriched through the Private Sale. The complaint seeks, among other things, the rescission of the Private Sale; an order requiring the transfer to the Company of all or part of the shares that are the subject of the Private Sale; an order implementing measures to eliminate or mitigate the alleged entrenching effects of the Private Sale; an order requiring our Chief Executive Officer and our Chairman, the ASAC Entities, Davis and FMR to disgorge to the Company the amounts by which they have allegedly been unjustly enriched; and alleged damages sustained by the class and the Company. In addition, the stockholder sought a temporary restraining order preventing the defendants from consummating the transactions contemplated by the Stock Purchase Agreement without stockholder approval. Following a hearing on the motion for a temporary restraining order, on September 18, 2013, the Court of Chancery issued a preliminary injunction order, enjoining the consummation of the transactions contemplated by the Stock Purchase Agreement pending (a) the issuance of a final decision after a trial on the merits; (b) receipt of a favorable Activision Blizzard stockholder vote on the transactions contemplated by the Stock Purchase Agreement under Section 9.1(b) of our Amended and Restated Certificate of Incorporation or (c) modification of such preliminary injunction order by the Court of Chancery or the Delaware Supreme Court. On September 20, 2013, the Court of Chancery certified its order issuing the preliminary injunction for interlocutory appeal to the Delaware Supreme Court. The defendants moved the Delaware Supreme Court to accept and hear the appeal on an expedited basis. On September 23, 2013, the Delaware Supreme Court accepted the appeal of the Court of Chancery's decision and granted the defendant's motion to hear the appeal on an expedited basis.

Following a hearing on October 10, 2013, the Delaware Supreme Court reversed the Court of Chancery's order issuing a preliminary injunction, and determined that the Stock Purchase Agreement was not a merger, business combination or similar transaction that would require a vote of Activision's unaffiliated stockholders under the charter.

On October 29, 2013, an amended complaint was filed. It added factual allegations but no new claims or relief. Also on October 29, 2013, Hayes filed a motion to consolidate the *Hayes* case with the *Pacchia* case. As noted above, on November 2, 2013, the Court of Chancery consolidated the *Pacchia* and *Hayes* cases and ordered the plaintiffs to file supplemental papers related to determining lead plaintiff and lead counsel no later than November 8, 2013. See the discussion above related to the *Pacchia* matter (now the consolidated matter) for any further updates to the status of the litigation.

Further, on September 18, 2013, the Company received a letter from another purported stockholder of the Company, Milton Pfeiffer, seeking, pursuant to Section 220 of the Delaware General Corporation Law, to inspect the books and records of the Company to investigate potential wrongdoing or mismanagement in connection with the approval of the Stock Purchase Agreement. On November 11, 2013, Pfeiffer filed a lawsuit in the Court of Chancery of the State of Delaware pursuant to Delaware Section 220 containing claims similar to *Hayes*, *Pacchia* and *Miller*. The Company answered on November 27, 2013. On January 21, 2014, the Court of Chancery entered the parties' stipulation and order of dismissal.

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On December 17, 2013, the Company received a letter from Mark Benston requesting certain books and records of the Company pursuant to Section 220 of the Delaware General Corporation Law. Benston is represented by the same law firm as Pfeiffer. On January 2, 2014, Benston filed a lawsuit in the Court of Chancery of the State of Delaware pursuant to Delaware Section 220 containing claims similar to *Hayes, Pacchia, Pfeiffer and Miller*. The Company answered on January 17, 2014. On February 14, 2014, the Court of Chancery entered the parties' stipulation and order of dismissal.

On March 14, 2014, Benston filed a putative class action and derivative complaint in the Court of Chancery, captioned *Benston v. Vivendi S.A. et al.*, No. 9447-VCL. The complaint makes claims similar to *Hayes, Pacchia, Pfeiffer and Miller*, but also adds J.P. Morgan Chase & Co. and J.P. Morgan Securities LLC as defendants and a so-called *Brophy* claim for insider trading against certain of the defendants. Benston and his attorneys petitioned the Court of Chancery to appoint them as co-lead plaintiff and co-lead counsel, respectively, for purposes of pursuing the *Brophy* claim as part of the consolidated *Pacchia* litigation. On June 6, 2014, the Court of Chancery denied Benston's motion for a leadership role in the consolidated *Pacchia* litigation. As a result, Pacchia continues to serve as the lead plaintiff in the consolidated cases.

Certain of defendants filed a motion to dismiss the breach of contract claim set forth in the Fourth Amended Complaint. Pacchia obtained leave to file a Fifth Amended Complaint, which adds additional color to his allegations of wrongdoing based on information learned in discovery, including with respect to the appointment and subsequent election of several of the directors to our Board of Directors. For the most part, fact and expert discovery was completed in the *Pacchia* matter, including the exchange of expert damage and other reports. Pacchia's expert's reports allege damages to the Company in excess of \$540 million and to the purported class in excess of \$640 million, in addition to disgorgement claims, which could, in theory, exceed \$1 billion. Defendants' experts' reports maintain there are no damages to the Company or to the purported class because the Purchase Transaction and the Private Sale were the best transactions available to the parties and the alternate transactions hypothesized by the plaintiff were inferior.

For the quarter ended September 30, 2014, we accrued a loss contingency in our consolidated financial statements in connection with this matter. The accrual related to potential liabilities associated with legal fees, costs and expenses for services already received prior to the quarter's end, where such fees, costs and expenses had not yet been paid at the quarter's end, and the Company's potential contribution toward the potential settlement of the matter. Although the Company has D&O insurance in connection with the consolidated litigation in a total amount up to \$200 million, various insurers have raised arguments that they believe give them the right to deny coverage for a portion of these fees, costs and expenses, as well as for all or a portion of the ultimate liability which may occur in settlement or at trial. Under our Amended and Restated Certificate of Incorporation and certain agreements with members of our Board of Directors, the Company has indemnification obligations to the director defendants to advance fees, costs and expenses and to pay liabilities which arise in connection with their service to the Company, in each case, to the maximum extent permitted by Delaware law. In light of these indemnification obligations and the positions taken by the parties and the various insurers, we determined that a liability was probable and estimable, and accordingly, an accrual was required, as of the quarter ended September 30, 2014.

On November 19, 2014, the Company announced that an agreement had been reached to settle the *Pacchia* matter. The Company believes the settlement agreement, which acknowledges no wrongdoing on the part of any party, is in the best interest of the Company and all of its shareholders. Pursuant to the settlement agreement, multiple insurance companies, along with various defendants, will pay \$275 million to a settlement fund ("Settlement Fund"). Payment of reasonable and customary fees and costs of plaintiff's attorney, likely not to exceed \$72.5 million, will be made from the Settlement Fund. The remaining balance of the Settlement Fund, likely to be at least \$202.5 million, will be paid to the Company and will be recorded within "Shareholders' equity" in our consolidated balance sheet. Other terms of the settlement agreement include the addition of two unaffiliated persons to the Company's Board of Directors, an adjustment of certain voting rights and a global release of claims against the defendants. On December 29, 2014, the Company filed a Current Report on Form 8-K, describing and attaching the Stipulation of Compromise and Settlement, which was filed with the Delaware Chancery Court with respect to the settlement of the *Pacchia* matter (the "Stipulation"). Pursuant to the Stipulation, the Company has notified the applicable shareholders of the settlement agreement. Applicable shareholders were provided an opportunity to object to the settlement, which is subject to approval by the Delaware Chancery Court.

Objections to the Stipulation have been filed by several shareholders. The plaintiff in the *Hayes* matter has objected to the settlement on the grounds that a portion of the \$275 million Settlement Fund should be reallocated to the members of the class, that the amount of any attorney's fee award should be reduced and that the court should deny any "special award" to the plaintiff in the *Pacchia* matter. In the absence of such a reallocation, Hayes argues the court should deny approval of the settlement and appoint Hayes and his counsel to lead the class-based claims. Hayes also contends the notice of settlement provided by the Company is inadequate. The Company disputes this allegation. The plaintiffs in the *Benston* and *Pfeiffer* matters have also filed applications to the court requesting that their counsel receive an attorney's fee award of \$7.25 million to be paid out of the attorneys' fees contemplated by the proposed Settlement. Certain defendants have also filed objections to the \$50,000 "special award" requested by the *Pacchia* plaintiff. The Delaware Court of Chancery held a hearing on March 4, 2015, to consider the approval of the Stipulation, and a decision by the court is expected on or before June 2, 2015.

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Since the Stipulation does not require the Company to pay any liability on behalf of its defendant directors, the Company reversed the accrual described above as of December 31, 2014. The reversal of the accrual was partially offset by a new accrual for liabilities associated with legal fees, costs and expenses for services already received prior to the year's end, where such fees, costs and expenses had not yet been paid at the year's end.

Due to the inherent uncertainties of litigation, including the possibility that the Delaware Chancery Court does not approve the Stipulation, other potential outcomes are reasonably possible, including outcomes which could include an increase in the Company's liability. The Company believes the possibility that this lawsuit will have a material impact on the Company's business, financial condition, results of operation or liquidity is remote. However, if this assessment is incorrect, then an unfavorable resolution of this lawsuit could have a material adverse effect on the Company's business, financial condition, results of operation or liquidity, particularly in the period in which any potential liabilities may be recognized.

We believe that the defendants have meritorious defenses. If the Delaware Chancery Court does not approve the Stipulation and the parties are not otherwise able to settle the matter subsequently, then we believe the defendants intend to defend the lawsuit and other related cases vigorously at trial. However, these lawsuits and any other lawsuits are subject to inherent uncertainties and the actual outcome and costs will depend upon many unknown factors. The outcome of litigation is necessarily uncertain, and the Company could be forced to expend significant resources in the defense of these lawsuits and the Company and the defendants may not prevail. The Company also may be subject to additional claims in connection with the Purchase Transaction and Private Sale. Monitoring and defending against legal actions is time consuming for our management and detracts from our ability to fully focus our internal resources on our business.

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 Vivendi. 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 a waiver and acknowledgement 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.

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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.

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, 2017 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.

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:

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® and Skylanders® 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.

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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 new free-to-play online hero brawler that is currently in closed beta testing.

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 March 31, 2015, Activision Blizzard had net revenues of \$1.3 billion, as compared to net revenues of \$1.1 billion for the same period in 2014. For the three months ended March 31, 2015, Activision Blizzard had earnings per diluted share of \$0.53, as compared to earnings per diluted share of \$0.40 for the same period in 2014.

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. As such, we have included \$170 million of dividends payable in “Accrued expense and other liabilities” and “Other liabilities” on our condensed consolidated balance sheet as of March 31, 2015.

According to The NPD Group with respect to North America, GfK Chart-Track with respect to Europe, and Activision Blizzard internal estimates, including toys and accessories, during the first quarter of 2015:

- Activision had two of the top five videogame franchises in North America and Europe.
- *Skylanders Trap Team* was the #1 console title globally.

Activision Blizzard Recent 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.
- On January 13, 2015, Blizzard began closed beta for *Heroes of the Storm*, its upcoming free-to-play online team brawler featuring iconic heroes from Blizzard games.
- 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 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. *Ascendance* is expected to be released on other platforms in the second quarter of 2015.
- On April 2, 2015, Blizzard released *Blackrock Mountain*™, the latest addition to *Hearthstone: Heroes of Warcraft* content.
- 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 began open beta for the action role-playing game *Diablo III: Reaper of Souls* in China.

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 March 31, 2015, the combined installed base of PS4 and Xbox One hardware was approximately 26 million units, as compared to the combined installed base of PS3 and Xbox 360 hardware of approximately 123 million units.

When new console platforms are announced or introduced into the market, consumers may 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 may slow or even decline until new platforms are introduced and achieve wide consumer acceptance. 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, which may not sell at premium prices, and to develop and market products for next-generation platforms, which may have a smaller installed base until the next-generation platforms achieve wide consumer acceptance. 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. In the long term, we expect the next-generation consoles to drive industry growth and expand our opportunities.

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), generally for a one-time fee. We also offer subscription-based services and other value-added services for *World of Warcraft* and microtransactions for *Hearthstone: Heroes of Warcraft*, all of which are digitally delivered and hosted by Battle.net. We have further plans to introduce games based on some of our most successful franchises which operate online on a free-to-play model with microtransactions, including Blizzard's *Heroes of the Storm* and Activision's *Call of Duty Online*, which both entered beta during the three months ended March 31, 2015.

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

According to Activision Blizzard internal estimates, overall market digital gaming revenues for the three months ended March 31, 2015 increased by approximately 19% as compared to the same period in 2014. The primary drivers of the increase in digital gaming revenues were increases in consumer purchases of full games via digital channels and an increase in mobile gaming revenues. 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 digital online channels revenues in the subsequent year.

For the three months ended March 31, 2015, revenues through digital online channels increased by \$202 million, as compared to the same period in 2014, and represented 45% of our total consolidated net revenues, as compared to 34% 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 March 31, 2015 increased by \$11 million, as compared to the same period in 2014, and represented 76% of our total non-GAAP net revenues, as compared to 68% for the same period in 2014.

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Conditions in the Retail Distribution Channels

Conditions in the retail distribution channels of the interactive entertainment industry continued to be challenging during the first three months of 2015. In North America and Europe, retail sales of video games declined by 3%, as compared to the same period in 2014, according to The NPD Group and GfK Chart-Track. The continued shift of video game purchases to digital distribution channels has impacted the ongoing decline in retail console software sales.

Further, while the new console cycle has started strongly and demand for next-generation games was higher than expected, the demand for prior-generation games declined at a faster pace than the growth of sales for next-generation titles, resulting in the overall decline in sales in the retail distribution channels. According to The NPD Group and GfK Chart-Track, retail sales from prior-generation platform games declined by 51% for the three months ended March 31, 2015, as compared to the same period in 2014. However, the increase in digitally distributed games, including full-game downloads, add-on content, and free-to-play games, has partially offset the negative trends in the retail distribution channels.

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.

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 (together with ASAC, the “ASAC Entities”). 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 further 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; we did not receive any proceeds.

As of March 31, 2015, we had approximately 726 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.”

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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 March 31,			
	2015		2014	
Net revenues:				
Product sales	\$ 784	61%	\$ 769	69%
Subscription, licensing, and other revenues	494	39	342	31
Total net revenues	<u>1,278</u>	<u>100</u>	<u>1,111</u>	<u>100</u>
Costs and expenses:				
Cost of sales — product costs	209	16	225	20
Cost of sales — online	53	4	58	5
Cost of sales — software royalties and amortization	148	12	57	5
Cost of sales — intellectual property licenses	3	—	2	—
Product development	145	11	143	13
Sales and marketing	92	7	104	9
General and administrative	86	7	95	9
Total costs and expenses	<u>736</u>	<u>57</u>	<u>684</u>	<u>61</u>
Operating income	542	43	427	39
Interest and other expense, net	50	4	51	5
Income before income tax expense	492	39	376	34
Income tax expense	98	8	83	7
Net income	<u>\$ 394</u>	<u>31%</u>	<u>\$ 293</u>	<u>27%</u>

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.

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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 months ended March 31, 2015 and 2014 are presented in the table below (amounts in millions):

	Three Months Ended March 31,		
	2015	2014	Increase / (Decrease)
Segment net revenues:			
Activision	\$ 303	\$ 237	\$ 66
Blizzard	352	462	(110)
Distribution	48	73	(25)
Operating segment net revenues total	<u>703</u>	<u>772</u>	<u>(69)</u>
Reconciliation to consolidated net revenues:			
Net effect from deferral of net revenues	575	339	
Consolidated net revenues	<u>\$ 1,278</u>	<u>\$ 1,111</u>	
Segment income from operations:			
Activision	\$ 66	\$ 2	\$ 64
Blizzard	139	239	(100)
Distribution	(1)	(1)	—
Operating segment income from operations total	<u>204</u>	<u>240</u>	<u>(36)</u>
Reconciliation to consolidated operating income and consolidated income before income tax expense:			
Net effect from deferral of net revenues and related cost of sales	362	219	
Stock-based compensation expense	(23)	(30)	
Amortization of intangible assets	(1)	(2)	
Consolidated operating income	542	427	
Interest and other expense, net	<u>50</u>	<u>51</u>	
Consolidated income before income tax expense	<u>\$ 492</u>	<u>\$ 376</u>	

Segment Net Revenues

Activision

Activision's net revenues increased for the three months ended March 31, 2015, as compared to 2014, primarily due to higher sales of *Call of Duty: Advanced Warfare* and its two downloadable content packs released during the three months ended March 31, 2015, *Havoc* and *Ascendance*, as compared to *Call of Duty: Ghosts* and its downloadable content pack released during the same period in 2014, revenues from *Call of Duty: Advanced Warfare's* new digital content known as "Supply Drops", as well as revenues from *Destiny* and its first expansion pack *The Dark Below*. These increases were partially offset by a decrease in revenues from the Skylanders franchise.

Blizzard

Blizzard's net revenues decreased for the three months ended March 31, 2015, as compared to 2014, primarily due to revenues included in the three months ended March 31, 2014 from *Diablo III: Reaper of Souls™*, which was released in March 2014, and lower revenues from *World of Warcraft* due to the impact of foreign exchange rates. The decreases were partially offset by revenues during the three months ended March 31, 2015 from *Heroes of the Storm*.

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At March 31, 2015, the global subscriber* base for World of Warcraft was approximately 7.1 million, compared to over 10 million subscribers at December 31, 2014, and approximately 7.6 million subscribers at March 31, 2014. As we have seen following past expansion releases, subscribership declined in the first quarter of 2015 following the release of the latest expansion pack, *Warlords of Draenor*TM, in the fourth quarter of 2014. The subscriber decline was primarily attributable to the East, with a smaller relative decrease in the West. In general, the average revenue per subscriber is lower in the East than in the West (where the “East” includes China, Taiwan, and South Korea, and the “West” includes North America, Europe, Australia, and Latin America). *World of Warcraft*’s revenue performance at constant foreign exchange rates has been more stable, driven by continued strong uptake on value added services, and price increases in select regions, which partially offset subscriber declines, particularly in the East. Going forward, Blizzard expects to continue delivering new game content in all regions that is intended to further appeal to the gaming community.

Distribution

Distribution’s net revenues decreased for the three months ended March 31, 2015, as compared to 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 months ended March 31, 2015, as compared to 2014, primarily due to higher revenues, as described above.

Blizzard

Blizzard’s operating income decreased for the three months ended March 31, 2015, as compared to 2014, primarily due to lower revenues, as described above, partially offset by lower sales and marketing spending due to the timing of our title releases. In the first quarter of 2014, we had higher sales and marketing spending to support the launch of *Diablo III: Reaper of Souls*.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$68 million on Activision Blizzard’s segment net revenues for the three months ended March 31, 2015, as compared to the same period 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.

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 revenue 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.

* *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 cancelled subscriptions, and expired prepaid cards. Subscribers in licensees’ territories are defined along the same rules.

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The following table provides reconciliation between GAAP and non-GAAP net revenues by distribution channel for the three months ended March 31, 2015 and 2014 (amounts in millions):

	For the Three Months Ended March 31,		
	2015	2014	Increase/ (decrease)
GAAP net revenues by distribution channel			
Retail channels	\$ 649	\$ 659	\$ (10)
Digital online channels (1)	581	379	202
Total Activision and Blizzard	1,230	1,038	192
Distribution	48	73	(25)
Total consolidated GAAP net revenues	1,278	1,111	167
Change in deferred net revenues (2)			
Retail channels	(532)	(487)	(45)
Digital online channels (1)	(43)	148	(191)
Total changes in deferred net revenues	(575)	(339)	(236)
Non-GAAP net revenues by distribution channel			
Retail channels	117	172	(55)
Digital online channels (1)	538	527	11
Total Activision and Blizzard	655	699	(44)
Distribution	48	73	(25)
Total non-GAAP net revenues (3)	\$ 703	\$ 772	\$ (69)

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

The decrease in GAAP net revenues from retail channels for the three months ended March 31, 2015, as compared to 2014, was primarily due to lower recognition of deferred revenues from *Call of Duty: Advanced Warfare*, as compared to *Call of Duty: Ghosts*, a decrease in our Distribution segment revenues, lower recognition of deferred revenues from Call of Duty catalog titles, and lower revenues from the Skylanders franchise. The decreases were largely offset by revenues from *Destiny*, which was released in September 2014.

The increase in GAAP net revenues from digital online channels for the three months ended March 31, 2015, as compared to 2014, was primarily due to the recognition of deferred revenues from *World of Warcraft: Warlords of Draenor*, which was released in November 2014, revenues from *Destiny* and its first expansion pack, *The Dark Below*, without a comparable release in the prior period, and revenues from *Hearthstone: Heroes of Warcraft* and its first expansion pack, *Hearthstone: Heroes of Warcraft – Goblins vs Gnomes™*, which was released in December 2014 and did not have a comparable release in the prior period, higher digital download revenues from the Call of Duty franchise, and revenues from *Heroes of the Storm*.

The decrease in non-GAAP net revenues from retail channels for the three months ended March 31, 2015, as compared to 2014, was primarily due to lower revenues from *Diablo III: Reaper of Souls*, which was released on PC in March 2014, a decrease in our Distribution segment revenues, and lower revenues from *Skylanders Trap Team*, which was released in the fourth quarter of 2014, as compared to *Skylanders SWAP Force™*, which was released in the fourth quarter of 2013. The decreases were partially offset by higher revenues from *Call of Duty: Advanced Warfare*, as compared to *Call of Duty: Ghosts*.

The increase in non-GAAP net revenues from digital online channels for the three months ended March 31, 2015, as compared to 2014, was primarily due to revenues from higher digital downloads from the Call of Duty franchise, driven by *Call of Duty: Advanced Warfare*, revenues from *Heroes of the Storm*, and revenues from *Destiny* and its first expansion pack, *The Dark Below*. These increases were partially offset by lower revenues from *Diablo III: Reaper of Souls*, which was released on PC in March 2014, and from *World of Warcraft* value-added services.

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Consolidated Results

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the three months ended March 31, 2015 and 2014 (amounts in millions):

	For the Three Months Ended March 31,		
	2015	2014	Increase/ (decrease)
Geographic region net revenues:			
North America	\$ 704	\$ 563	\$ 141
Europe	464	462	2
Asia Pacific	110	86	24
Consolidated net revenues	\$ 1,278	\$ 1,111	\$ 167

The increase/(decrease) in deferred revenues recognized by geographic region for the three months ended March 31, 2015 and 2014 was as follows (amounts in millions):

	For the Three Months Ended March 31,		
	2015	2014	Increase/ (Decrease)
Increase/(decrease) in deferred revenues recognized by geographic region:			
North America	\$ 350	\$ 233	\$ 117
Europe	196	125	71
Asia Pacific	29	(19)	48
Total impact on consolidated net revenues	575	339	236

Consolidated net revenues in all regions increased for the three months ended March 31, 2015, as compared to 2014. As previously discussed, the increase in the Company's consolidated net revenues in 2015, as compared to the same period in 2014, was mainly due to revenues from the launch of *Destiny* and its first expansion pack, *The Dark Below*, which were released in September and December 2014, respectively, recognition of deferred revenues from *World of Warcraft: Warlords of Draenor*, which was released in November 2014, and from *Hearthstone: Heroes of Warcraft — Goblins vs Gnomes*, the first expansion pack for *Hearthstone: Heroes of Warcraft*, which was released in December 2014, and revenues from *Heroes of the Storm*. The increases were partially offset by lower revenues recognized from the Call of Duty and Skylanders franchises. For Europe, the increase was largely offset by the negative foreign exchange impact, and the decrease in our Distribution segment revenues.

For all regions, the increase in deferred revenues recognized for the three months ended March 31, 2015, as compared to 2014, was primarily attributed to recognition of deferred revenues from *Destiny* and *The Dark Below*, from *Diablo III: Reaper of Souls*, which was released on PC in March 2014, from *Diablo III: Reaper of Souls — Ultimate Evil Edition™*, which was released on consoles in August 2014, and from *World of Warcraft: Warlords of Draenor*, which was released in November 2014. The increase was partially offset by lower revenues recognized from the Call of Duty franchise and from *Diablo III* for the PS3 and the Xbox 360, which was released in September 2013, as well as from the deferral of revenues from *Heroes of the Storm*.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$107 million on our consolidated net revenues for the three months ended March 31, 2015, as compared to the same period 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.

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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 months ended March 31, 2015 and 2014 (amounts in millions):

	<u>Three Months Ended March 31, 2015</u>	<u>% of total (3) consolidated net revs.</u>	<u>Three Months Ended March 31, 2014</u>	<u>% of total (3) consolidated net revs.</u>	<u>Increase/ (Decrease)</u>
Platform net revenues:					
Online (1)	\$ 272	21%	\$ 201	18%	\$ 71
PC	114	9	100	9	14
Next-generation (PS4, Xbox One, Wii U)	434	34	108	10	326
Prior-generation (PS3, Xbox 360, Wii)	324	25	546	49	(222)
Total Console	758	59	654	59	104
Mobile and other (2)	86	7	83	7	3
Total Activision Blizzard	1,230	96	1,038	93	192
Distribution	48	4	73	7	(25)
Total consolidated net revenues	\$ 1,278	100%	\$ 1,111	100%	\$ 167

The increase / (decrease) in deferred revenues recognized by platform for the three months ended March 31, 2015 and 2014 was as follows (amounts in millions):

	<u>For the Three Months Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
Increase/(decrease) in deferred revenues recognized by platform:			
Online (1)	\$ 63	\$ (26)	\$ 89
PC	(13)	(139)	126
Next-generation (PS4, Xbox One, Wii U)	301	76	225
Prior-generation (PS3, Xbox 360, Wii)	225	428	(203)
Total console	526	504	22
Mobile and other (2)	(1)	—	(1)
Total impact on consolidated net revenues	\$ 575	\$ 339	\$ 236

- (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.

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Net revenues from online increased for the three months ended March 31, 2015, as compared to 2014, primarily due to recognition of previously deferred revenues from *World of Warcraft: Warlords of Draenor*, which was released in November 2014, and from value-added services driven by the launch of the *World of Warcraft* paid character boost.

Net revenues from PC increased for the three months ended March 31, 2015, as compared to 2014, due to revenues from *Hearthstone: Heroes of Warcraft* and *Heroes of the Storm*.

Net revenues from next-generation consoles increased for the three months ended March 31, 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.

Net revenues from prior-generation consoles decreased for the three months ended March 31, 2015, as compared to 2014, primarily due to lower revenues recognized from the Call of Duty franchise, from the Skylanders franchise, and from the transition of players from prior-generation to next-generation platforms. The decreases were partially offset by revenues from the Destiny franchise.

Net revenues from mobile and other increased slightly for the three months ended March 31, 2015, as compared to 2014, primarily due to an increase in mobile and tablet platform revenues from the release of *Hearthstone: Heroes of Warcraft* on the iPad and Android tablets in April and December 2014, respectively, and the release of its first expansion pack, *Hearthstone: Heroes of Warcraft – Goblins vs Gnomes*. The increase was partially offset by lower revenues from sales of standalone toys and accessories from the Skylanders franchise.

Deferred revenues recognized for online increased for the three months ended March 31, 2015, as compared to 2014, primarily due to revenues from *World of Warcraft: Warlords of Draenor* and from value-added services revenues for *World of Warcraft*, primarily from the paid character boost.

Deferred revenues recognized for PC increased for the three months ended March 31, 2015, as compared to 2014, primarily due to the deferral of revenues from *Diablo III: Reaper of Souls* and *Hearthstone: Heroes of Warcraft* upon their respective releases in the first quarter of 2014. The increase was partially offset by the deferral of revenue for the three months ended March 31, 2015 from *Heroes of the Storm*.

The increase in deferred revenues recognized for next-generation consoles for the three months ended March 31, 2015, as compared to 2014, was due to the increased number of titles released for the next-generation console platforms, as well as increasing consumer adoption of the PS4 and Xbox One, as discussed above.

The decrease in deferred revenues recognized for prior-generation consoles for the three months ended March 31, 2015, as compared to 2014, was primarily due to the increasing consumer adoption of the next-generation consoles.

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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 months ended March 31, 2015 and 2014 (amounts in millions):

	March 31, 2015	% of consolidated net revs.	March 31, 2014	% of consolidated net revs.	Increase (Decrease)
Product costs	\$ 209	16%	\$ 225	20%	\$ (16)
Online	53	4	58	5	(5)
Software royalties and amortization	148	12	57	5	91
Intellectual property licenses	3	—	2	—	1
Total cost of sales	<u>\$ 413</u>	<u>32%</u>	<u>\$ 342</u>	<u>30%</u>	<u>\$ 71</u>

Total cost of sales for the three months ended March 31, 2015 increased as compared to the same period in 2014, reflecting the increase in consolidated net revenues. Cost of sales — product costs decreased primarily due to lower revenues from the Distribution segment, which typically has higher product costs. Cost of sales—software royalties and amortization increased primarily due to the amortization of deferred royalties for *Destiny* with no comparable amortization in the three months ended March 31, 2014.

Product Development (amounts in millions)

	March 31, 2015	% of consolidated net revs.	March 31, 2014	% of consolidated net revs.	Increase (Decrease)
Product development	\$ 145	11%	\$ 143	13%	\$ 2

Product development costs did not significantly change for the three months ended March 31, 2015, as compared to 2014.

Sales and Marketing (amounts in millions)

	March 31, 2015	% of consolidated net revs.	March 31, 2014	% of consolidated net revs.	Increase (Decrease)
Sales and marketing	\$ 92	7%	\$ 104	9%	\$ (12)

Sales and marketing expenses decreased for the three months ended March 31, 2015, as compared to 2014, primarily driven by the timing of marketing spending for our title releases. Sales and marketing activities during the first quarter of 2014 were mainly to support the launch of *Diablo III: Reaper of Souls*, and there was no comparable investment during the first quarter of 2015. The decrease was partially offset by the media spending for the Guitar Hero® franchise and *Heroes of the Storm* in anticipation of upcoming releases.

General and Administrative (amounts in millions)

	March 31, 2015	% of consolidated net revs.	March 31, 2014	% of consolidated net revs.	Increase (Decrease)
General and administrative	\$ 86	7%	\$ 95	9%	\$ (9)

General and administrative expenses decreased for the three months ended March 31, 2015, as compared to 2014, primarily due to a favorable foreign exchange impact on revaluation, and lower stock compensation expense for the three months ended March 31, 2015.

[Table of Contents](#)*Interest and Other Expense, Net (amounts in millions)*

	<u>March 31, 2015</u>	<u>% of consolidated net revs.</u>	<u>March 31, 2014</u>	<u>% of consolidated net revs.</u>	<u>Increase (Decrease)</u>
Interest and other expense, net	\$ 50	4%	\$ 51	5%	\$ (1)

Interest and other expense, net, did not significantly change for the three months ended March 31, 2015, as compared to the same period in 2014.

Income Tax Expense (amounts in millions)

	<u>March 31, 2015</u>	<u>% of Pretax income</u>	<u>March 31, 2014</u>	<u>% of Pretax income</u>	<u>Increase (Decrease)</u>
Income tax expense	\$ 98	19.9%	\$ 83	22.1%	\$ 15

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 \$98 million for the three months ended March 31, 2015 reflects an effective tax rate of 19.9%, which is lower than the effective tax rate of 22.1% for the three months ended March 31, 2014. This decrease is primarily due to an increase in the amount of foreign earnings, which are taxed at relatively lower statutory rates, as compared to domestic earnings, which are taxed at relatively higher statutory rates, in the estimated effective annual tax rate.

The effective tax rate of 19.9% for the three months ended March 31, 2015 differed from the U.S. statutory rate of 35.0%, primarily due to the tax benefit from foreign earnings taxed at relatively lower statutory rates, recognition of California research and development credits, and the federal domestic production deductions, 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 months ended March 31, 2015 and will be dependent, in part, on our profitability for the remainder of the year, as well as the other factors described above.

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The Internal Revenue Service (“IRS”) is currently examining Activision Blizzard’s federal tax returns for the 2008 through 2011 tax years. Additionally, the IRS is currently reviewing our application for an advanced pricing agreement (“APA”) with respect to the transfer pricing methodology that would be used by the Company for tax years 2010 through 2024. If ongoing discussions with the IRS result in an APA, this 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 an agreement is reached and the relevant periods thereafter.

In addition, Vivendi Games’ tax return for the 2008 tax year is under examination by the Internal Revenue Service 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. Although the final resolution of the Company’s global tax disputes is uncertain, 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, which generally consist 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 three months ended March 31, 2015, we utilized \$152 million of the NOL, which resulted in a benefit of \$53 million, and a corresponding reserve was established as the position did not meet the “more-likely-than-not” standard. As of March 31, 2015, an indemnification asset of \$121 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).

Liquidity and Capital Resources

Sources of Liquidity (amounts in millions)

	At March 31, 2015	At December 31, 2014	Increase (Decrease)
Cash and cash equivalents	\$ 4,465	\$ 4,848	\$ (383)
Short-term investments	5	10	(5)
	<u>\$ 4,470</u>	<u>\$ 4,858</u>	<u>\$ (388)</u>

Percentage of total assets	32%	33%
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	For the Three Months Ended March 31,		
	2015	2014	Increase (Decrease)
Cash flows provided by operating activities	\$ 209	\$ 136	\$ 73
Cash flows used in investing activities	(16)	(12)	(4)
Cash flows used in financing activities	(212)	(252)	40
Effect of foreign exchange rate changes	(364)	(3)	(361)
Net decrease in cash and cash equivalents	<u>\$ (383)</u>	<u>\$ (131)</u>	<u>\$ (252)</u>

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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 three months ended March 31, 2015, as compared to the same period in 2014, primarily due to higher net income for the period and changes in our working capital accounts, including higher cash receipts due to higher accounts receivable balances from the prior period, partially offset by higher payment of bonuses for the three months ended March 31, 2015, as compared to the same period in 2014.

Cash Flows Used in Investing Activities

The primary drivers of cash flows provided 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 \$16 million for the three months ended March 31, 2015, as compared to cash flows used in investing activities of \$12 million for the three months ended March 31, 2014. The decrease in cash flows was primarily due to a decrease in investments maturing in the three months ended March 31, 2015, as compared to the prior year. This was partially offset by lower capital expenditure during the three months ended March 31, 2015.

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 three months ended March 31, 2015, as compared to the same period in 2014, primarily due to a 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. Partially offsetting the impact of this lower repayment amount was a decrease in proceeds from the issuance of common stock to employees — with proceeds of \$27 million in the three months ended March 31, 2015, compared to \$119 million for the three months ended March 31, 2014.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a negative impact of \$364 million and \$3 million on our cash and cash equivalents for the three months ended March 31, 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 March 31, 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 (\$4.0 billion at March 31, 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; funding of dividends; and payments related to debt obligations.

As of March 31, 2015, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$3.5 billion, as compared to \$3.6 billion as of December 31, 2014. 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.

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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 March 31, 2015, the Notes had a carrying value of \$2.2 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 are no letters of credit issued and outstanding as of March 31, 2015 and December 31, 2014.

As of March 31, 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”) rate for an interest period of one month plus 1.00%, or (B) LIBOR. Further, LIBOR borrowings under the Term Loan will be subject to a LIBOR floor of 0.75%. At March 31, 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 required 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 March 31, 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 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 March 31, 2015.

Capital Expenditures

For the year ending December 31, 2015, we anticipate total capital expenditures of approximately \$100 million, primarily for computer hardware and software purchases. Through the first three months of 2015, we made aggregate capital expenditures of \$23 million.

Off-balance Sheet Arrangements

At March 31, 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 operation, liquidity, capital expenditures, or capital resources.

Financial Disclosure

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

Our Disclosure Committee, which operates under the Board 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 three months ended March 31, 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.

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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, 2017 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.

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 with maturities of generally less than one year. 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" or "Other current liabilities" 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 investment income (expense), net" in our condensed consolidated statements of operations, depending on the nature of the underlying transactions.

At March 31, 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 months ended March 31, 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 \$213 million at March 31, 2015. During the three months ended March 31, 2015, there was no ineffectiveness relating to these hedges. The net unrealized gains of approximately \$14 million related to these contracts at March 31, 2015 are expected to be reclassified into earnings within the next twelve months. We did not have any outstanding foreign currency forward contracts designated as cash flow hedges at December 31, 2014, or for the three months ended March 31, 2014.

In the absence of the hedging activities described above, for the three months ended March 31, 2015, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines of our net income of approximately \$31 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.

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 March 31, 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.

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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 March 31, 2015, our \$4.47 billion of cash and cash equivalents were comprised primarily of money market funds. At March 31, 2015, our \$5 million of short-term investments included \$5 million of restricted cash. We also had \$9 million in auction rate securities at fair value classified as long-term investments at March 31, 2015. The Company has determined that, based on the composition of our investment portfolio as of March 31, 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 March 31, 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 March 31, 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.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of March 31, 2015, of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2015.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Changes in Internal Control Over Financial Reporting.

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

Part II. Other Information

Item 1. Legal Proceedings

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

On August 1, 2013, a purported shareholder of the Company filed a shareholder derivative action in the Superior Court of the State of California, County of Los Angeles, captioned *Miller v. Kotick, et al.*, No. BC517086. The complaint names our Board of Directors and Vivendi as defendants, and the Company as a nominal defendant. The complaint alleges that our Board of Directors committed breaches of fiduciary duties, waste of corporate assets and unjust enrichment in connection with Vivendi's sale of its stake in the Company and that Vivendi also breached its fiduciary duties. The plaintiff further alleges that demand by it on our Board of Directors to institute action would be futile because a majority of our Board of Directors is not independent and a majority of the individual defendants face a substantial likelihood of liability for approving the transactions contemplated by the Stock Purchase Agreement. The complaint seeks, among other things, damages sustained by the Company, rescission of the transactions contemplated by the Stock Purchase Agreement, an order restricting our Chief Executive Officer and our Chairman from purchasing additional shares of our common stock and an order directing us to take necessary actions to improve and reform our corporate governance and internal procedures to comply with applicable law, including ordering a shareholder vote on certain amendments to our by-laws or charter that would require half of our Board of Directors to be independent of Messrs. Kotick and Kelly and Vivendi and a proposal to appoint a new independent Chairman of the Board of Directors. On January 28, 2014, the parties filed a stipulation and proposed order temporarily staying the California action. On February 6, 2014, the court entered the order granting a stay of the California action.

In addition, on August 14, 2013, we received a letter dated August 9, 2013, from a shareholder seeking, pursuant to Section 220 of the Delaware General Corporation Law, to inspect the books and records of the Company to ascertain whether the Purchase Transaction and Private Sale were in the best interests of the Company. In response to that request, we provided the stockholder with certain materials under a confidentiality agreement. On September 11, 2013, a complaint was filed under seal by the same stockholder in the Court of Chancery of the State of Delaware in an action captioned *Pacchia v. Kotick et al.*, C.A. No. 8884-VCL. A public version of that complaint was filed on September 16, 2013. The allegations in the complaint were substantially similar to the allegations in the above referenced matter filed on August 1, 2013. On October 25, 2013, Pacchia filed an amended complaint under seal. The amended complaint added claims on behalf of an alleged class of Activision stockholders other than the Company's Chief Executive Officer and Chairman, Vivendi, ASAC, investors in ASAC and other stockholders affiliated with the investors of ASAC. The added class claims are against the Company's Chief Executive Officer and Chairman, the Vivendi affiliated directors, the members of the special committee of the Board of Directors formed in connection with the Company's consideration of the transactions with Vivendi and ASAC, and Vivendi for breach of fiduciary duty, as well as aiding and abetting a breach of fiduciary duty against ASAC. The amended complaint removed the derivative claims for waste of corporate assets and disgorgement but continued to allege derivative claims for breach of fiduciary duties. The amended complaint seeks, among other things, certification of a class, damages, reformation of the Private Sale, and disgorgement of any alleged profits received by the Company's Chief Executive Officer, Chairman and ASAC. On October 29, 2013, Pacchia filed a motion to consolidate the *Pacchia* case with the *Hayes* case described below. On November 2, 2013, the Court of Chancery consolidated the *Pacchia* and *Hayes* cases and ordered the plaintiffs to file supplemental papers related to determining lead plaintiff and lead counsel no later than November 8, 2013. On December 3, 2013, the court selected Pacchia as lead plaintiff. Pacchia filed a second amended complaint on December 11, 2013, and Activision filed an answer on January 31, 2014. Also on January 31, 2014, the special committee, ASAC, Messrs. Kotick and Kelly, Vivendi and the Vivendi-affiliated directors each filed motions to dismiss certain claims in the second amended complaint. On February 21, 2014, Pacchia filed a third amended complaint under seal. In response to Pacchia's filing of a third amended complaint, the special committee, ASAC, Messrs. Kotick and Kelly, Vivendi and the Vivendi-affiliated directors each filed motions to dismiss certain claims in the third amended complaint. On June 6, 2014, the Court of Chancery denied the defendants' motions to dismiss such claims, with the exception of a breach of contract claim. Subsequently, Pacchia filed a fourth amended complaint containing substantially all of his prior claims, but with the addition of new allegations gleaned from discovery in the matter. ASAC filed a motion to dismiss the re-pleaded breach of contract claim and the other defendants filed answers in response to the fourth amended complaint.

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On September 11, 2013, another stockholder of the Company filed a putative class action and stockholder derivative action in the Court of Chancery of the State of Delaware, captioned *Hayes v. Activision Blizzard, Inc., et al.*, No. 8885-VCL. The complaint names our Board of Directors, Vivendi, New VH, the ASAC Entities, Davis Selected Advisers, L.P. (“Davis”) and Fidelity Management & Research Co. (“FMR”) as defendants, and the Company as a nominal defendant. The complaint alleges that the defendants violated certain provisions of our Amended and Restated Certificate of Incorporation by failing to submit the matters contemplated by the Stock Purchase Agreement for approval by a majority of our stockholders (other than Vivendi and its controlled affiliates); that our Board of Directors committed breaches of their fiduciary duties in approving the Stock Purchase Agreement; that Vivendi violated fiduciary duties owed to other stockholders of the Company in entering into the Stock Purchase Agreement; that our Chief Executive Officer and our Chairman usurped a corporate opportunity from the Company; that our Board of Directors and Vivendi have engaged in actions to entrench our Board of Directors and officers in their offices; that the ASAC Entities, Davis and FMR aided and abetted breaches of fiduciary duties by the Board of Directors and Vivendi; and that our Chief Executive Officer and our Chairman, the ASAC Entities, Davis and FMR will be unjustly enriched through the Private Sale. The complaint seeks, among other things, the rescission of the Private Sale; an order requiring the transfer to the Company of all or part of the shares that are the subject of the Private Sale; an order implementing measures to eliminate or mitigate the alleged entrenching effects of the Private Sale; an order requiring our Chief Executive Officer and our Chairman, the ASAC Entities, Davis and FMR to disgorge to the Company the amounts by which they have allegedly been unjustly enriched; and alleged damages sustained by the class and the Company. In addition, the stockholder sought a temporary restraining order preventing the defendants from consummating the transactions contemplated by the Stock Purchase Agreement without stockholder approval. Following a hearing on the motion for a temporary restraining order, on September 18, 2013, the Court of Chancery issued a preliminary injunction order, enjoining the consummation of the transactions contemplated by the Stock Purchase Agreement pending (a) the issuance of a final decision after a trial on the merits; (b) receipt of a favorable Activision Blizzard stockholder vote on the transactions contemplated by the Stock Purchase Agreement under Section 9.1(b) of our Amended and Restated Certificate of Incorporation or (c) modification of such preliminary injunction order by the Court of Chancery or the Delaware Supreme Court. On September 20, 2013, the Court of Chancery certified its order issuing the preliminary injunction for interlocutory appeal to the Delaware Supreme Court. The defendants moved the Delaware Supreme Court to accept and hear the appeal on an expedited basis. On September 23, 2013, the Delaware Supreme Court accepted the appeal of the Court of Chancery’s decision and granted the defendant’s motion to hear the appeal on an expedited basis.

Following a hearing on October 10, 2013, the Delaware Supreme Court reversed the Court of Chancery’s order issuing a preliminary injunction, and determined that the Stock Purchase Agreement was not a merger, business combination or similar transaction that would require a vote of Activision’s unaffiliated stockholders under the charter.

On October 29, 2013, an amended complaint was filed. It added factual allegations but no new claims or relief. Also on October 29, 2013, Hayes filed a motion to consolidate the *Hayes* case with the *Pacchia* case. As noted above, on November 2, 2013, the Court of Chancery consolidated the *Pacchia* and *Hayes* cases and ordered the plaintiffs to file supplemental papers related to determining lead plaintiff and lead counsel no later than November 8, 2013. See the discussion above related to the *Pacchia* matter (now the consolidated matter) for any further updates to the status of the litigation.

Further, on September 18, 2013, the Company received a letter from another purported stockholder of the Company, Milton Pfeiffer, seeking, pursuant to Section 220 of the Delaware General Corporation Law, to inspect the books and records of the Company to investigate potential wrongdoing or mismanagement in connection with the approval of the Stock Purchase Agreement. On November 11, 2013, Pfeiffer filed a lawsuit in the Court of Chancery of the State of Delaware pursuant to Delaware Section 220 containing claims similar to *Hayes*, *Pacchia* and *Miller*. The Company answered on November 27, 2013. On January 21, 2014, the Court of Chancery entered the parties’ stipulation and order of dismissal.

On December 17, 2013, the Company received a letter from Mark Benston requesting certain books and records of the Company pursuant to Section 220 of the Delaware General Corporation Law. Benston is represented by the same law firm as Pfeiffer. On January 2, 2014, Benston filed a lawsuit in the Court of Chancery of the State of Delaware pursuant to Delaware Section 220 containing claims similar to *Hayes*, *Pacchia*, *Pfeiffer* and *Miller*. The Company answered on January 17, 2014. On February 14, 2014, the Court of Chancery entered the parties’ stipulation and order of dismissal.

On March 14, 2014, Benston filed a putative class action and derivative complaint in the Court of Chancery, captioned *Benston v. Vivendi S.A. et al.*, No. 9447-VCL. The complaint makes claims similar to *Hayes*, *Pacchia*, *Pfeiffer* and *Miller*, but also adds J.P. Morgan Chase & Co. and J.P. Morgan Securities LLC as defendants and a so-called *Brophy* claim for insider trading against certain of the defendants. Benston and his attorneys petitioned the Court of Chancery to appoint them as co-lead plaintiff and co-lead counsel, respectively, for purposes of pursuing the *Brophy* claim as part of the consolidated *Pacchia* litigation. On June 6, 2014, the Court of Chancery denied Benston’s motion for a leadership role in the consolidated *Pacchia* litigation. As a result, *Pacchia* continues to serve as the lead plaintiff in the consolidated cases.

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Certain of defendants filed a motion to dismiss the breach of contract claim set forth in the Fourth Amended Complaint. Pacchia obtained leave to file a Fifth Amended Complaint, which adds additional color to his allegations of wrongdoing based on information learned in discovery, including with respect to the appointment and subsequent election of several of the directors to our Board of Directors. For the most part, fact and expert discovery was completed in the *Pacchia* matter, including the exchange of expert damage and other reports. Pacchia's expert's reports allege damages to the Company in excess of \$540 million and to the purported class in excess of \$640 million, in addition to disgorgement claims, which could, in theory, exceed \$1 billion. Defendants' experts' reports maintain there are no damages to the Company or to the purported class because the Purchase Transaction and the Private Sale were the best transactions available to the parties and the alternate transactions hypothesized by the plaintiff were inferior.

For the quarter ended September 30, 2014, we accrued a loss contingency in our consolidated financial statements in connection with this matter. The accrual related to potential liabilities associated with legal fees, costs and expenses for services already received prior to the quarter's end, where such fees, costs and expenses had not yet been paid at the quarter's end, and the Company's potential contribution toward the potential settlement of the matter. Although the Company has D&O insurance in connection with the consolidated litigation in a total amount up to \$200 million, various insurers have raised arguments that they believe give them the right to deny coverage for a portion of these fees, costs and expenses, as well as for all or a portion of the ultimate liability which may occur in settlement or at trial. Under our Amended and Restated Certificate of Incorporation and certain agreements with members of our Board of Directors, the Company has indemnification obligations to the director defendants to advance fees, costs and expenses and to pay liabilities which arise in connection with their service to the Company, in each case, to the maximum extent permitted by Delaware law. In light of these indemnification obligations and the positions taken by the parties and the various insurers, we determined that a liability was probable and estimable, and accordingly, an accrual was required, as of the quarter ended September 30, 2014.

On November 19, 2014, the Company announced that an agreement had been reached to settle the *Pacchia* matter. The Company believes the settlement agreement, which acknowledges no wrongdoing on the part of any party, is in the best interest of the Company and all of its shareholders. Pursuant to the settlement agreement, multiple insurance companies, along with various defendants, will pay \$275 million to a settlement fund ("Settlement Fund"). Payment of reasonable and customary fees and costs of plaintiff's attorney, likely not to exceed \$72.5 million, will be made from the Settlement Fund. The remaining balance of the Settlement Fund, likely to be at least \$202.5 million, will be paid to the Company and will be recorded within "Shareholders' equity" in our consolidated balance sheet. Other terms of the settlement agreement include the addition of two unaffiliated persons to the Company's Board of Directors, an adjustment of certain voting rights and a global release of claims against the defendants. On December 29, 2014, the Company filed a Current Report on Form 8-K, describing and attaching the Stipulation of Compromise and Settlement, which was filed with the Delaware Chancery Court with respect to the settlement of the *Pacchia* matter (the "Stipulation"). Pursuant to the Stipulation, the Company has notified the applicable shareholders of the settlement agreement. Applicable shareholders were provided an opportunity to object to the settlement, which is subject to approval by the Delaware Chancery Court.

Objections to the Stipulation have been filed by several shareholders. The plaintiff in the *Hayes* matter has objected to the settlement on the grounds that a portion of the \$275 million Settlement Fund should be reallocated to the members of the class, that the amount of any attorney's fee award should be reduced and that the court should deny any "special award" to the plaintiff in the *Pacchia* matter. In the absence of such a reallocation, Hayes argues the court should deny approval of the settlement and appoint Hayes and his counsel to lead the class-based claims. Hayes also contends the notice of settlement provided by the Company is inadequate. The Company disputes this allegation. The plaintiffs in the *Benston* and *Pfeiffer* matters have also filed applications to the court requesting that their counsel receive an attorney's fee award of \$7.25 million to be paid out of the attorneys' fees contemplated by the proposed Settlement. Certain defendants have also filed objections to the \$50,000 "special award" requested by the *Pacchia* plaintiff. The Delaware Court of Chancery held a hearing on March 4, 2015, to consider the approval of the Stipulation, and a decision by the court is expected on or before June 2, 2015.

Since the Stipulation does not require the Company to pay any liability on behalf of its defendant directors, the Company reversed the accrual described above as of December 31, 2014. The reversal of the accrual was partially offset by a new accrual for liabilities associated with legal fees, costs and expenses for services already received prior to the year's end, where such fees, costs and expenses had not yet been paid at the year's end.

Due to the inherent uncertainties of litigation, including the possibility that the Delaware Chancery Court does not approve the Stipulation, other potential outcomes are reasonably possible, including outcomes which could include an increase in the Company's liability. The Company believes the possibility that this lawsuit will have a material impact on the Company's business, financial condition, results of operation or liquidity is remote. However, if this assessment is incorrect, then an unfavorable resolution of this lawsuit could have a material adverse effect on the Company's business, financial condition, results of operation or liquidity, particularly in the period in which any potential liabilities may be recognized.

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We believe that the defendants have meritorious defenses. If the Delaware Chancery Court does not approve the Stipulation and the parties are not otherwise able to settle the matter subsequently, then we believe the defendants intend to defend the lawsuit and other related cases vigorously at trial. However, these lawsuits and any other lawsuits are subject to inherent uncertainties and the actual outcome and costs will depend upon many unknown factors. The outcome of litigation is necessarily uncertain, and the Company could be forced to expend significant resources in the defense of these lawsuits and the Company and the defendants may not prevail. The Company also may be subject to additional claims in connection with the Purchase Transaction and Private Sale. Monitoring and defending against legal actions is time consuming for our management and detracts from our ability to fully focus our internal resources on our business.

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.

Item 6. Exhibits

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

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: May 6, 2015

ACTIVISION BLIZZARD, INC.

/s/ DENNIS DURKIN

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

/s/ STEPHEN WEREB

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

EXHIBIT INDEX

Exhibit Number	Exhibit
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*	Amendment, dated as of October 30, 2014, to Employment Agreement between Humam Sakhnini and the Company.
10.2*	Notice of Stock Option Award, dated as of November 14, 2014, to Humam Sakhnini.
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 March 31, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and March 31, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2015 and March 31, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and March 31, 2014; (v) Condensed Consolidated Statement of Changes in Shareholders' Equity for the three months ended March 31, 2015; and (vi) Notes to Condensed Consolidated Financial Statements.

**Amendment #1 to the Employment Agreement
Between Humam Sakhnini and Activision Blizzard, Inc.**

This Amendment #1 to the Employment Agreement (“*Amendment #1*”) is effective as of the date signed by the Employer, by and between Humam Sakhnini (“*Employee*” or “*you*”) and Activision Blizzard, Inc. (“*Activision Blizzard*” or the “*Employer*,” and, together with its subsidiaries, the “*Activision Blizzard Group*”). All capitalized terms shall have the same meaning set forth in the Employment Agreement (as defined below).

RECITALS:

Employee and Employer entered into an Employment Agreement dated as of January 9, 2012, (the “*Employment Agreement*”). Employee and Employer desire to amend the Employment Agreement in certain respects as set forth herein.

AGREEMENT:

The parties hereby agree to amend the terms of the Employment Agreement. Except as specifically set forth in this Amendment #1, the Employment Agreement shall remain unmodified and in full force and effect. If any term or provision of the Employment Agreement is contradictory to, or inconsistent with, any term or provision of this Amendment #1, then the terms of this Amendment #1 shall in all events control. The amended terms are as follows:

1. **Term of Employment.** In Section 1(a), the entire paragraph is deleted and replaced with the following: “The term of your employment under this Agreement (the “*Term*”) shall commence on February 1, 2012 (the “*Effective Date*”) and shall end on March 31, 2017 (the “*Expiration Date*”) (or such earlier date on which your employment is terminated under Section 9). The Employer shall once have the option to extend the Term by up to one year by notifying you in writing of its intent to do so at least six (6) months prior to the original Expiration Date. The final date of any such extended Term shall thereafter be referred to as the “*Expiration Date*” for purposes of this Agreement and the Term shall end on such date (or such earlier date on which your employment is terminated). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.”

2. **Compensation.** In Section 2(b), the entire paragraph is deleted and replaced with the following: “Commencing March 1, 2015, you shall receive a base salary (“*Base Salary*”) of \$700,000, which shall be paid in accordance with the Employer’s payroll policies. Beginning in 2016, your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.”

3. **Compensation.** Section 2(e) is hereby added to the Employment Agreement and shall read as follows:

“(e) Subject to the approval of the Compensation Committee, Activision Blizzard shall grant to you equity awards with a total target grant value of \$3,250,000 (and a total grant value

of \$3,737,500 if the 2014 Maximum PSU Grant Value (as defined below) were achieved) as follows:

- (i) Activision Blizzard shall grant to you non-qualified stock options to purchase shares of Activision Blizzard's common stock with a total grant value of approximately \$1,300,000 (the "**2014 Options**"). The actual number of stock options awarded to you on the grant date shall be determined based on the official closing price of Activision Blizzard's common stock on the effective date of the grant, as reported by NASDAQ (the "**Grant Date Price**"), and an applicable binomial factor selected by the company. The number of stock options awarded shall be rounded to the nearest whole number, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. The 2014 Options shall be awarded with an exercise price that is equal to the Grant Date Price. Finally, two-thirds of the 2014 Options shall vest on March 30, 2017, and one-third of the 2014 Options shall vest on March 30, 2018, in each case, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.

- (ii) Activision Blizzard shall grant to you performance-vesting restricted share units which represent the conditional right to receive shares of Activision Blizzard's common stock (the "**2014 Performance Share Units**"), with a target value at the time of grant of approximately \$1,950,000 (the "**2014 Target PSU Grant Value**"). The actual number of 2014 Performance Share Units awarded to you on the grant date shall be equal to the 2014 Target PSU Grant Value divided by the Grant Date Price (it being recognized that if the maximum performance objectives are met for all of the 2014 Performance Share Units, the value of the shares received upon vesting for all of the 2014 Performance Share Units would have been \$2,437,500 at the time of grant of the 2014 Performance Share Units, representing 125% of the 2014 Target PSU Grant Value (the "**2014 Maximum PSU Grant Value**"). The number of 2014 Performance Share Units awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in its sole discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. Subject to your remaining employed by the Activision Blizzard Group through the applicable vesting dates, the actual number of shares of Activision Blizzard's common stock ("**Shares**") that shall be received on each of the applicable vesting dates is determined as follows:
 - a. One-third of the 2014 Performance Share Units (the "**First Tranche 2014 Performance Share Units**") shall vest on March 30, 2017, if, and only if, the Compensation Committee determines that non-GAAP operating income ("**2015 OI**") for Activision Blizzard is 85% or more of the annual operating plan operating income objective established by the Board of Directors (the "**2015 AOP**").

OI Objective) for Activision Blizzard (the “**2015 Performance Objective**”) for 2015. If the 2015 OI is less than 85% of the 2015 AOP OI Objective, then the First Tranche 2014 Performance Share Units will not vest and shall be forfeited. If the 2015 OI is 85% or more of the 2015 AOP OI Objective, the number of Shares that shall be received with regard to the First Tranche 2014 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of First Tranche 2014 Performance Share Units; and (2) the ratio of the 2015 OI to the 2015 AOP OI Objective, up to a maximum of 125%.

- b. One-third of the 2014 Performance Share Units (the “**Second Tranche 2014 Performance Share Units**”) shall vest on March 30, 2017, if, and only if, the Compensation Committee determines that non-GAAP operating income (“**2016 OI**”) for Activision Blizzard is 85% or more of the annual operating plan operating income objective established by the Board of Directors (the “**2016 AOP OI Objective**”) for Activision Blizzard (the “**2016 Performance Objective**”) for 2016. If the 2016 OI is less than 85% of the 2016 AOP OI Objective, then the Second Tranche 2014 Performance Share Units will not vest and shall be forfeited. If the 2016 OI is 85% or more of the 2016 AOP OI Objective, the number of Shares that shall be received with regard to the Second Tranche 2014 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Second Tranche 2014 Performance Share Units; and (2) the ratio of the 2016 OI to the 2016 AOP OI Objective, up to a maximum of 125%.
- c. One-third of the 2014 Performance Share Units (the “**Third Tranche 2014 Performance Share Units**”) shall vest on March 30, 2018, if, and only if, the Compensation Committee determines that non-GAAP operating income (“**2017 OI**”) for Activision Blizzard is 85% or more than the annual operating plan operating income objective established by the Board of Directors (“**2017 AOP OI Objective**”) for Activision Blizzard (the “**2017 Performance Objective**”) for 2017. If the 2017 OI is less than 85% of the 2017 AOP OI Objective, then the Third Tranche 2014 Performance Share Units will not vest and shall be forfeited. If the 2017 OI is 85% or more of the 2017 AOP OI Objective, the number of Shares that shall be received with regard to the Third Tranche 2014 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Third Tranche 2014 Performance Share Units; and (2) the ratio of the 2017 OI to the 2017 AOP OI Objective, up to a maximum of 125%.

Collectively, the 2014 Options and the 2014 Performance Share Units shall be referred to as the “**2014 Equity Awards**”. You acknowledge that the grant of 2014 Equity Awards pursuant to this

Section 2(e) is expressly conditioned upon approval by the Compensation Committee and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The 2014 Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the “*Incentive Plan*”), the Employer’s Executive Stock Ownership Guidelines (including, but not limited to, all of the limitations on equity awards described therein) which are attached as Exhibit B, and Activision Blizzard’s standard forms of award agreement. In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. These Equity Awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.”

4. **Entire Agreement.** In Section 11(a), the first sentence is deleted and replaced with the following: “This Agreement, the Proprietary Information Agreement, and the Activision Blizzard Group Dispute Resolution Agreement (the “*Dispute Resolution Agreement*”, as referenced in Section 11(k) below), supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard Group, and no amendment or modification of these agreements shall be binding unless it is set forth in a writing signed by both the Employer and you.”

5. **Arbitration.** Section 11(k) is deleted and replaced with the following: “Except as otherwise provided in this Agreement, both parties agree that any dispute or controversy between them will be settled by final and binding arbitration pursuant to the terms of the Dispute Resolution Agreement (attached hereto as Exhibit C).”

AGREED AND ACCEPTED:

Employer

ACTIVISION BLIZZARD, INC.

By: /s/ Chris B. Walther
Chris B. Walther
Chief Legal Officer

Date: 10/30/14

Employee

/s/ Human Sakhnini
Humam Sakhnini

Date: 10/20/14

Executive Stock Ownership Guidelines

Dispute Resolution Agreement

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: **Humam Sakhini**
- Total number of Shares purchasable upon exercise of the Stock Option awarded: **215,210**
- Exercise Price: **US\$20.10** per Share
- Date of Grant: **November 14, 2014**
- Expiration Date: **November 14, 2024**
- Grant ID: **01400119**
- 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 will vest and become exercisable as follows, provided you remain continuously employed by the Company or one of its subsidiaries through the applicable vesting date:

Date of Vesting	No. of Shares Vesting at Vesting Date
March 30, 2017	143,475
March 30, 2018	71,735

- *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.*

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/ Chris B. Walther

Chris B. Walther
Chief Legal Officer

Date: 12/15/2014

ACCEPTED AND AGREED:

/s/ Humam Sakhini

Humam Sakhini

Date: 12/16/2014

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

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

(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.

(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.

(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

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,

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

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) 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.

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: May 6, 2015

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

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: May 6, 2015

/s/ DENNIS DURKIN
Dennis Durkin
*Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

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

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended March 31, 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: May 6, 2015

/s/ ROBERT A. KOTICK
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.

**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 March 31, 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: May 6, 2015

/s/ DENNIS DURKIN
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.
