

Activision Blizzard, Inc.
Form 10-K
March 03, 2014

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the Fiscal Year Ended December 31, 2013

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

90405

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(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.000001 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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 Act). Yes No

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 28, 2013 (based on the closing sale price as reported on the NASDAQ) was \$5,992,872,321.

The number of shares of the registrant's Common Stock outstanding at February 24, 2014 was 712,370,652.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission with respect to the 2014 Annual Meeting of Shareholders which is expected to be held on June 5, 2014, are incorporated by reference into Part III of this Annual Report.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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PART I

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future financial or operating performance; (4) statements about the impact of the recently consummated transactions involving the repurchase of shares from Vivendi, S.A., and the debt financing related thereto; and (5) statements of assumptions underlying such statements. Activision Blizzard, Inc. generally uses words such as "outlook," "forecast," "will," "could," "should," "would," "to be," "plans," "believes," "may," "expects," "intends," "anticipates," "estimate," "future," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "upcoming" and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risks, 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 from expectations stated in forward-looking statements. Some of the risk factors that could cause our actual results to differ from those stated in forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of this Report. The forward-looking statements contained herein are based upon information available to us as of the date of this Annual Report on Form 10-K 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.

Item 1. BUSINESS

Overview

Activision Blizzard is a worldwide publisher of online, personal computer ("PC"), video game console, handheld, mobile and tablet games. The terms "Activision Blizzard," the "Company," "we," "us," and "our" are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. Through Activision Publishing, Inc. ("Activision"), we are a leading international developer and publisher of interactive software products and content, with a focus on developing and publishing video games on various consoles, handheld platforms and the PC platform, primarily based on internally developed properties, as well as some licensed properties. 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 "current-generation"); the PC; the Nintendo 3DS ("3DS"), Nintendo Dual Screen ("DS") and Sony PlayStation Vita handheld game systems; and other handheld and mobile devices. Through Blizzard Entertainment, Inc. ("Blizzard"), we are the leading publisher of online subscription-based games in the massively multiplayer online role-playing game ("MMORPG") category. Blizzard also internally develops and publishes PC and console games and maintains a proprietary online-game related service, Battle.net®.

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Our Activision business involves the development, marketing, and sale of products through retail channels or digital downloads, which are principally based on our internally developed intellectual properties, as well as some licensed properties. Activision continues to focus its efforts in the areas we believe have the most opportunity for growth and higher profitability, while reducing investments in areas we believe have less profit potential and limited growth opportunities. To that end, investments are being focused on proven intellectual properties to develop deep, high-quality content that offers engaging online gaming experiences. One of our leading franchises is Call of Duty®, which launched in 2003. Call of Duty is the best-selling Western interactive franchise since its launch, with over \$9 billion of life-to-date revenues. In 2013, Activision released the latest installment in the franchise, *Call of Duty: Ghosts*, which, in the fourth quarter of 2013, in North America and Europe combined, was the #1 best-selling game title overall and #1 best-selling game on the next-generation PS4 and Xbox One console platforms. Activision is currently developing sequels and additional content to build on the continued success of the Call of Duty franchise and we expect to expand the franchise into China.

While focusing on our proven intellectual properties is one of Activision's priorities, we also continue to make strategic investments in developing new intellectual properties that we believe have the potential to be successful in the long term. For example, in 2011, we debuted a new internally developed franchise with the release of *Skylanders Spyro's Adventure*®. We launched the first sequel, *Skylanders Giants*, in October 2012, and the newest installment, *Skylanders SWAP Force*™, in October 2013. Games in the Skylanders franchise combine the use of toys with video games to deliver innovative game play experiences to our audiences. According to The NPD Group, GfK Chart-Track, and internal estimates, the Skylanders franchise, including toys and accessories, had generated more than \$2 billion in worldwide life-to-date revenues at retail as of December 31, 2013. Additionally, we have established a long-term alliance with Bungie, the developer of game franchises including *Halo*, *Myth* and *Marathon*, and expect to release Bungie's next big action game universe, *Destiny*, in September 2014.

Blizzard is a development studio and publisher best known as the creator of the World of Warcraft® franchise, as well as the multiple award winning Diablo® and StarCraft® franchises. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; value-added services such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* gameplay; retail sales of physical "boxed" products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft*, *Diablo III*, and *StarCraft II* products. Blizzard has released four expansion packs to World of Warcraft: *World of Warcraft: The Burning Crusade*®, *World of Warcraft: Wrath of the Lich King*®, *World of Warcraft: Cataclysm*®, and *World of Warcraft: Mists of Pandaria*®. In July 2010, the Company launched the sequel to *StarCraft*, *StarCraft II: Wings of Liberty*®. In conjunction with this release, Blizzard launched a new version of its 24/7 online gaming service, Battle.net, facilitating the creation of user generated content, digital distribution and online social connectivity among *World of Warcraft*, *StarCraft II*, and *Diablo III* players. Blizzard also released its first *StarCraft II* expansion pack, *StarCraft II: Heart of the Swarm*®, in March 2013. In May 2012, Blizzard released *Diablo III*, which sold more than 12 million copies sold worldwide through December 31, 2012. In September 2013, Blizzard released *Diablo III* for the PS3 and Xbox 360, and confirmed plans to adapt the game for the PS4. In addition, Blizzard developed *Hearthstone: Heroes of Warcraft*, a free-to-play digital collectible card game, which was released in closed beta in August 2013 and open beta in January 2014, and is currently developing *Heroes of the Storm*, a new free-to-play online hero brawler.

Revenues associated with the Call of Duty, Skylanders and World of Warcraft franchises combined accounted for 80%, 72% and 73% of our consolidated net revenues for the years ended December 31, 2013, 2012, and 2011, respectively.

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The Activision Blizzard Distribution ("Distribution") business 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.

The Company's Formation, Business Combination with Vivendi Games and Recently Consummated Share Repurchase from Vivendi

Activision, Inc. was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992.

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and Vivendi became a majority shareholder of Activision Blizzard. Activision Blizzard is a public company traded on the NASDAQ under the ticker symbol "ATVI."

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 on July 25, 2013, with Vivendi and ASAC II LP ("ASAC"), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi ("New VH"), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of \$5.83 billion, or \$13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the "Purchase Transaction"). The repurchased shares were recorded in "Treasury Stock" in our consolidated balance sheet.

Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of Activision Blizzard 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.

As of December 31, 2013, (i) we had 704 million shares of common stock issued and outstanding, approximately 64% of which was held by the public, (ii) Vivendi held 83 million shares, or approximately 12% of the outstanding shares of our common stock, and (iii) ASAC held 172 million shares, or approximately 24% of the outstanding shares of our common stock.

Our Strategy

Our objective is to continue to be a worldwide leader in the development, publishing, and distribution of high-quality interactive entertainment software, online content and services that deliver highly satisfying entertainment experiences.

Continue to Improve Profitability. We continually strive to manage risk and increase our operating efficiency with the goal of increased profitability. We believe the key factors affecting our future profitability will be the success of proven franchises and genres, cost discipline, and our ability to benefit from the continued growth of online and digital revenue opportunities.

Create Shareholder Value. We continue to focus on enhancing shareholder returns through profitable operations and strong cash flows. As a result, we expect to continue to achieve long-term growth and to deliver returns to our shareholders.

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Grow Through Continued Strategic Acquisitions and Alliances. We intend to continue to evaluate the expansion of our resources and intellectual properties library through acquisitions, strategic relationships, and key licensing transactions. We will also continue to invest in, and build on, existing alliances and relationships. In addition, we will continue to evaluate opportunities to increase our proven development expertise through the acquisition of, or investment in, selected experienced software development firms.

Focus on Delivery of Digital Content and Online Services. We continue to shift towards digital delivery of content and to establish and develop direct and long-term relationships with our gamers. We will also continue to support, maintain and enhance the online communities for our games and franchises, such as the World of Warcraft and Call of Duty online communities. We believe that focusing our efforts on online product innovations, such as additional online content, services and social connectivity, provides lasting value to our global communities of players. In addition, we are exploring new business models for digital delivery of content, including offering free-to-play games with monetization through in-game microtransactions.

Competition

We compete for the leisure time and discretionary spending of consumers with other interactive entertainment companies, as well as with providers of different forms of entertainment, such as motion pictures, television, social networking, online casual entertainment and music.

The interactive entertainment industry is intensely competitive and new interactive entertainment software products and platforms are regularly introduced. Our competitors vary in size from small companies with limited resources to large corporations who may have greater financial, marketing, and product development resources than we have. Due to their different focuses and allocation of resources, certain of our competitors may spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees for licenses, and pay more to third-party software developers than we do. In addition, competitors with large product lines and popular titles typically have greater leverage with retailers, distributors, and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles. We believe that the main competitive factors in the interactive entertainment industry include: product features, game quality, and playability; brand name recognition; compatibility of products with popular platforms; access to distribution channels; online capability and functionality; ease of use; price; marketing support; and quality of customer service.

We compete primarily with other publishers of PC, online and video game console interactive entertainment software. In addition to third-party software competitors, integrated video game console hardware and software companies, such as Microsoft, Nintendo, and Sony, compete directly with us in the development of software titles for their respective platforms. Further, a number of software publishers have developed and commercialized, or are currently developing, online games for use by consumers over the Internet, and we expect new competitors to continue to emerge in the MMORPG and microtransaction-based game categories, as well as in the growing "toys to life" category. Lastly, we compete with publishers of mobile games, who may be narrowly focused on publishing games for handheld and mobile devices.

Employees

At December 31, 2013, we had approximately 6,900 total full-time and part-time employees. At December 31, 2013, approximately 110 of our full-time employees were subject to fixed-term employment agreements with us. These agreements generally commit the employees to employment terms of between one and five years from the commencement of their respective agreements. Most of

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the employees subject to these agreements are executive officers or key members of the product development, sales, or marketing divisions. These individuals perform services for us as executives, directors, producers, associate producers, computer programmers, game designers, sales directors, or marketing product managers. In our experience, entering into employment agreements with these employees reduces our turnover during the development, production and distribution phases of our entertainment software products and allows us to plan more effectively for future development and marketing activities. Some employees outside of the United States are also party to employment agreements that do not specify a fixed term.

The majority of our employees in France, Germany, Spain, and Italy are subject to collective agreements as a part of normal business practices in those countries. In addition, certain employees in France and Germany are subject to collective bargaining agreements. To date, we have not experienced any labor-related work stoppages.

Intellectual Property

Like other entertainment companies, our business is significantly dependent on the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of copyrighted software code, patented technology, and other technology and trade secrets that we use to develop our games and to make them run properly. Other intellectual property is in the form of copyrighted audio-visual elements that consumers can see, hear and interact with when they are playing our games.

We develop some of our products from wholly-owned intellectual properties that we create within our own studios. We also acquire the rights to include proprietary intellectual property in our products through acquisitions. In addition, we obtain intellectual property through licenses and service agreements. These agreements typically limit our use of the licensed rights in products for specific time periods. In addition, our products that play on game consoles and handheld platforms include technology that is owned by the console or wireless device manufacturer, and is licensed non-exclusively to us for use. We also license technology from providers other than console manufacturers. While we may have renewal rights for some licenses, our business is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights on reasonable terms and at reasonable rates.

We actively engage in enforcement and other activities to protect our intellectual property. We typically own the copyright to the software code in our products. Moreover, we own or license the brand or title name trademark under which our products are marketed. We register copyrights, trademarks and patents in the United States and in other countries as appropriate.

We often distribute our PC products using copy protection technology or other technological protection measures to prevent piracy and the use of unauthorized copies of our products. In addition, console manufacturers typically incorporate technological protections and other security measures in their consoles in an effort to prevent the use of unlicensed products. We are actively engaged in enforcement and other activities to protect against unauthorized copying and piracy, including monitoring online channels for distribution of pirated copies, and participating in various enforcement initiatives, education programs and legislative activity around the world.

Significant Customers

We did not have any single customer that accounted for 10% or more of our consolidated net revenues for the years ended December 31, 2013 or 2011. We had one customer, GameStop, that accounted for approximately 10% of our consolidated net revenues for the year ended December 31, 2012. We had one customer, Wal-Mart, that accounted for 24% and 20% of consolidated gross receivables at December 31, 2013 and 2012, respectively.

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Operating Segments

We have three operating segments: (i) Activision Publishing, Inc. and its subsidiaries publishing interactive entertainment software products and downloadable content, (ii) Blizzard Entertainment, Inc. and its subsidiaries publishing real-time strategy games, role-playing games and online subscription-based games in the MMORPG category, and (iii) Activision Blizzard Distribution distributing interactive entertainment software and hardware products. See Note 14 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for certain additional information regarding operating segments.

Activision Business Overview

Strategy

Create, Acquire and Maintain Strong Franchises. Activision focuses on development and publishing activities, principally for products and content that are, or have the potential to become, franchises with sustainable mass consumer appeal and recognition. It is our experience that these products and content can then serve as the basis for sequels, prequels and related new products and content that can be released over an extended period of time. We believe that the publishing and distribution of products and content based on proven franchises enhances predictability of revenues and the probability of high unit volume sales and operating profits. Our successful intellectual properties include the Call of Duty and Skylanders franchises, and we intend to continue development of owned franchises in the future. We also have an exclusive 10-year alliance with Bungie, a developer of successful game franchises, to bring Bungie's next big action game universe, *Destiny*, to market.

Execute Disciplined Product Selection and Development Processes. The success of our publishing business depends, in significant part, on our ability to develop high-quality games that will generate high unit volume sales. Our publishing units have implemented a formal control process for the selection, development, production and quality assurance of our products. We apply this process, which we refer to as the "Greenlight Process," to all of our products, whether they are externally or internally developed. The Greenlight Process includes in-depth reviews of each project at several important stages of development by a team that includes many of our highest-ranking operating managers and enables coordination among our sales, marketing and development staff at each step in the process.

We develop our products using a combination of our internal development resources and external development resources acting under contract with us. We typically select our external developers based on their track records and expertise in producing products in the same category. One developer will often produce the same game for multiple platforms and will produce sequels to the original game. We believe that selecting and using development resources in this manner allows us to leverage the particular expertise of our internal and external development resources, which we believe enhances the quality of our products and accelerates the timing of releases.

Focused Product Offerings, Diversity in Platforms and Geographies. We believe Activision has aligned its product offerings and cost structure to position the business for long-term growth. Through our online-enabled products and content, we believe we are best positioned to take advantage of retail and digital distribution channels that allow us to deliver content to a broad range of gamers, ranging from children to adults and from core gamers to mass-market consumers and to "value" buyers seeking budget-priced software, in a variety of geographies. Presently, the majority of products that we develop, publish and distribute operate on the PS4, PS3, Xbox One, Xbox 360, Wii U, and Wii console systems, and the PC.

In addition, emerging and rapidly growing online-enabled platforms, in which we will support in-game integration and bring together online experience and gameplay, will continue to be a focus. We typically offer our products for use on multiple platforms to reduce the risks associated with any single

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platform, spread our costs over a larger installed hardware base, and increase unit sales. We intend to continue to offer both online and packaged software and games with localized content in different geographies.

Products

In recent years, Activision has been best known for its success in the first-person action category from its internally-developed intellectual property, Call of Duty. The Call of Duty franchise has achieved over \$9 billion life-to-date revenues and has an active global community of millions of players. Our latest release, *Call of Duty: Ghosts*, was released on November 5, 2013, and, in North America and Europe combined, was the #1 best-selling title in both units and dollars and the #1 best-selling game on the next-generation PS4 and Xbox One console platforms in the fourth quarter of 2013.

During 2013, Activision released four collections of downloadable content packs for *Call of Duty: Black Ops II*, as well as micro-downloadable content which allows gamers to personalize their experience within the game. In the first quarter of 2014, we released *Onslaught*, the first downloadable content pack for *Call of Duty: Ghosts* ("*Onslaught*"), on certain platforms.

On October 13, 2013, Activision launched *Skylanders SWAP Force*, the third title in our Skylanders franchise, an internally-developed intellectual property that combines the use of toys with video games to deliver innovative game play experiences to our audiences. Specifically, the game involves "smart toys" consisting of action figures and an electronic "portal" which, when used together, allow a player to store and access information about each of his or her toy character's performance in the game. We sell the toys both bundled with the software for the titles and on a stand-alone basis. According to The NPD Group, GfK Chart-Track, and internal estimates, the Skylanders franchise, including toys and accessories, had generated more than \$2 billion in worldwide life-to-date retail sales as of December 31, 2013.

Activision also develops products spanning other genres, including first-person action, action/adventure, role-playing, simulation and strategy.

Product Development and Support

Activision develops and produces titles using a model in which a core group of creative, production and technical professionals, in coordination with our marketing, finance and other departments, has responsibility for the entire development and production process, including the supervision and coordination of internal and external resources. This team assembles the necessary creative elements to complete a title using, where appropriate, outside programmers, artists, animators, scriptwriters, musicians and songwriters, sound effects and special effects experts, and sound and video studios. Activision believes that this model allows us to supplement internal expertise with top-quality external resources on an as-needed basis.

In addition, Activision often engages independent third-party developers to create products on Activision's behalf. We may either own or have rights to commercially exploit these products. In other circumstances, a third-party developer may retain ownership of the intellectual property and/or technology included in the product, or reserve certain exploitation rights with respect thereto. Activision typically selects these independent third-party developers based on their expertise in developing products in a specific category for specific platforms. Each of our third-party developers is under contract with us, either for a single or multiple titles. From time to time, Activision also acquires the license rights to publish and/or distribute software products that are, or will be, independently created by third-party developers. In such cases, the agreements with these developers typically provide us with exclusive publishing and/or distribution rights for a specific period of time, often for specified platforms and territories. In either case, Activision often has the ability to publish and/or distribute sequels, conversions, enhancements, and add-ons to the product initially being produced by the

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independent developer and Activision frequently has the right to engage the services of the original developer with regard to further product development.

In consideration for the services that independent third-party developers provide, the developers receive a royalty, which is generally based on net sales or operating income of the developed products. Typically, developers also receive an advance, which Activision recoups from the royalties otherwise payable to the developers. The advance generally is paid in "milestone" stages. The payment at each stage is tied to the completion and delivery of a detailed performance milestone. Working with independent developers allows us to reduce our fixed development costs, share development risks with the third-party developers, take advantage of the third-party developers' expertise in connection with certain categories of products or certain platforms, and gain access to proprietary development technologies.

In April 2010, Activision entered into a long-term exclusive relationship with Bungie, the developer of game franchises including *Halo*, *Myth* and *Marathon*, to bring Bungie's next big action game universe, *Destiny*, to market. Under the terms of the agreement, Activision will have exclusive, worldwide rights to publish and distribute all future Bungie games based on *Destiny* on multiple platforms and devices over a ten-year period from the first release of the franchise. Activision currently expects to release *Destiny* in September 2014.

Activision provides various forms of product support to both our internally and externally developed titles. Activision quality assurance personnel are involved throughout the development and production of each title published. Activision subjects all such products to extensive testing before release to ensure compatibility with all appropriate hardware systems and configurations and to minimize the number of bugs and other defects found in the products. To support our products after release, Activision generally provides 24-hour online access to customer service representatives, as well as live telephone operators who answer the help lines during regular business hours.

Marketing, Sales, and Distribution

Activision's marketing efforts include activities on the Internet (including on Facebook, Twitter, YouTube and other online social networks and websites), public relations, print and broadcast advertising, coordinated in-store and industry promotions (including merchandising and point of purchase displays), participation in cooperative advertising programs, direct response vehicles, and product sampling through demonstration software distributed through the Internet or the digital online services provided by Microsoft, Nintendo, and Sony. From time to time, we also receive marketing support from hardware manufacturers, mass appeal consumer products related to a game, and retailers in connection with their own promotional efforts. In addition, certain of our products contain software that enables customers to "electronically register" their purchases with us online, which allows us to connect with our gamers directly.

We believe that our strong proven franchises and genres generate a loyal and devoted customer base that continues to purchase our sequels as a result of their dedication to the franchise and satisfaction from previous product purchases. We therefore market these sequels, expansion packs and downloadable content toward the established customer base as well as to broader audiences. In addition, we believe that we derive benefits for our licensed properties from the marketing and promotional activities undertaken by the underlying intellectual property owners, in addition to our own marketing efforts.

North American Sales and Distribution. Our products are available for sale or rental in thousands of retail outlets in North America. Our North American retail customers include, among others, Amazon, Best Buy, GameStop, Target, Toys "R" Us and Wal-Mart.

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In the United States ("U.S.") and Canada, our products are primarily sold on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores, as well to consumers through direct digital purchases. We believe that a direct relationship with retailers results in more effective inventory management, merchandising and communications than would be possible through indirect relationships. We have implemented electronic data interchange linkages with many of our retailers to facilitate the placing and shipping of orders. We also sell our products to a limited number of distributors.

International Sales and Distribution. Our products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements, and through our wholly-owned European distribution subsidiaries, as well to consumers through direct digital purchases. We conduct our international publishing activities through offices in the United Kingdom ("U.K."), Germany, France, Italy, Spain, Norway, the Netherlands, Sweden, Australia and Ireland. We often seek to maximize our worldwide revenues and profits by releasing high-quality foreign language releases concurrently with English language releases and by continuing to expand the number of direct selling relationships we maintain with key retailers in major territories.

Digital Distribution. Online and digital distribution channels are continuing to grow. Some of our products and content are sold in a digital format, which allows consumers to purchase and download the content at their convenience directly to their PC, console system or wireless device. We partner with digital distributors to utilize this growing method of distribution. We also make available to our customers value-added downloadable content to enhance their gaming experience through the digital online services provided by Microsoft, Nintendo, and Sony. In addition, we are exploring new business models involving digital distribution, including offering free-to-play games with monetization through in-game microtransactions.

Manufacturing

Activision prepares a set of master program copies, documentation and packaging materials for our products for each hardware platform on which the product will be released. With respect to products for use on the Microsoft, Nintendo, and Sony systems, our disk duplication, packaging, printing, manufacturing, warehousing, assembly and shipping are performed by third-party subcontractors and Activision-owned distribution facilities.

To maintain protection over their hardware technologies, Microsoft, Nintendo, and Sony generally specify or control the manufacturing and assembly of finished products and license their hardware technologies to us. We deliver the master materials to the licensor or its approved replicator, which then manufactures finished goods and delivers them to us for distribution under our label. At the time our product unit orders are filled by the manufacturer, we become responsible for the costs of manufacturing and the applicable per unit royalty on such units, even if the units do not ultimately sell.

Blizzard Business Overview

Strategy

Maintain and Build upon Our Leadership Position in the Subscription-Based MMORPG Category and PC Online Categories. Blizzard plans to maintain and build upon our leadership position in the subscription-based MMORPG category by regularly providing new content, game features and online services to further solidify the loyalty of our subscriber base, as well as to expand our global game footprint to new geographies.

We believe that the PC will remain a vibrant online platform throughout the world. The large global PC installed base and the continuing development of broadband connectivity facilitates online games and community experiences while creating access to new potential customers.

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Products

World of Warcraft, the leading subscription-based MMORPG, was initially launched in November 2004 and today is available in many countries and regions including Argentina, Australia, Brazil, Canada, Chile, China, Europe (including Russia), Mexico, New Zealand, South Korea, Southeast Asia, the U.S., and the regions of Hong Kong, Macau and Taiwan. As of December 31, 2013, approximately 7.8 million gamers worldwide were subscribed* to play Blizzard's *World of Warcraft*. *World of Warcraft* is available in various languages based on the regions in which it is played and has earned awards and praise from publications around the world. Since the first release of *World of Warcraft*, Blizzard has launched four expansion packs in all regions in which the game is supported. Those expansion packs are *World of Warcraft: The Burning Crusade*, which was first available in January 2007, *World of Warcraft: Wrath of the Lich King*, which was first available in November 2008, *World of Warcraft: Cataclysm*, which was first available in December 2010, and *World of Warcraft: Mists of Pandaria*, which was first available in September 2012.

In May 2012, Blizzard released *Diablo III* for the PC at retail and through digital distribution channels in Argentina, Australia, Brazil, Canada, Chile, Europe (including Russia), Mexico, New Zealand, South Korea, Southeast Asia, the U.S., and the regions of Hong Kong, Macau, and Taiwan. In September 2013, Blizzard released *Diablo III* for the PS3 and Xbox 360 platforms. Currently, there is an auction house which allows players to sell items won in *Diablo III* for real money to other players, but the auction house will be discontinued in March 2014.

Additionally, in July 2010, Blizzard launched the sequel to *StarCraft*, *StarCraft II: Wings of Liberty*, simultaneously around the world, including Argentina, Australia, Brazil, Chile, Europe (including Russia), Indonesia, Malaysia, New Zealand, North America, the Philippines, Singapore, South Korea, Thailand, and the regions of Hong Kong, Macau and Taiwan. In conjunction with the release of *StarCraft II: Wings of Liberty*, Blizzard launched a new version of its 24/7 online gaming service, Battle.net, which provides user-generated content, digital distribution and online social connectivity among *World of Warcraft*, *StarCraft II*, and *Diablo III* players. In March 2013, Blizzard released the first expansion pack to *StarCraft II*, *StarCraft II: Heart of the Swarm*.

In August 2013, Blizzard released the closed beta version of *Hearthstone: Heroes of Warcraft*, a free-to-play digital collectible card game. The open beta version of the game was released in January 2014.

Product Development and Support

As a development studio and the creator and publisher of the World of Warcraft, Diablo and StarCraft franchises, Blizzard focuses on creating well-designed, high-quality games. Product development is handled internally by a strong core group of talented designers, producers, programmers, artists, and sound engineers. To maintain its current subscribers and attract new subscribers, Blizzard continues to develop new expansions and patches to upgrade *World of Warcraft*. In addition to its headquarters in Irvine, California, Blizzard maintains offices in or around Austin, Texas; Paris, France; Cork, Ireland; Seoul, South Korea; Singapore; Shanghai, China; and Taipei, Taiwan to provide 24/7 game support to *World of Warcraft* players in their native language, enhance online community management, and tailor marketing initiatives to specific regions.

*

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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Marketing, Sales, and Distribution

Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; value-added services such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* gameplay; retail sales of physical "boxed" products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft*, *Diablo III*, and *StarCraft II* products. Many of our services and products are digitally enabled, which allows us to take advantage of these rapidly growing channels and to reinforce Blizzard's long-term relationships with its gamers. In addition, Blizzard operates the online game service, Battle.net, which attracts millions of active players, making it one of the largest online-game related services in the world. Battle.net powers *Diablo III*, *StarCraft II: Heart of the Swarm* and *World of Warcraft*, and is expected to power future releases. The service offers players advanced communications features, social networking, player matching and digital content delivery and is designed to allow people to connect regardless of what Blizzard game they are playing.

Distribution Business Overview

We distribute interactive entertainment hardware and software products in Europe through our European distribution subsidiaries: Centresoft, in the U.K., and NBG, in Germany. These subsidiaries act as wholesalers in the distribution of products and also provide packaging, logistical and sales services. They provide services to our publishing operations and to various third-party publishers, including Microsoft, Nintendo, and Sony. Centresoft is Sony's preferred distributor of PlayStation products to the independent retail sector of the U.K.

We entered into the distribution business to obtain distribution capacity in Europe for our own products, while supporting the distribution infrastructure with third-party sales, and to diversify our operations in the European market. Centresoft and our other distribution subsidiaries operate in accordance with strict confidentiality procedures to provide independent services to various third-party publishers.

Additional Financial Information

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for certain additional information regarding operating segments and geographic areas. See the Critical Accounting Policies section under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our practices with regard to several working capital items, such as rights of returns, and inventory practices. See the Management's Overview of Business Trends under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the impact of seasonality on our business.

Available Information

Our website located at <http://www.activisionblizzard.com> allows access free-of-charge to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The information found on our website is not a part of, and is not incorporated by reference into, this or any other report that we file with or furnish to the Securities and Exchange Commission ("SEC").

The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 (information on the operation of the

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Public Reference Room is available by calling the SEC at 1-800-SEC-0330). The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 1A. RISK FACTORS

We wish to caution the reader that the following important risk factors, and those risk factors described elsewhere in this report or in our other filings with the Securities and Exchange Commission, could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere. These risks are not presented in order of importance or probability of occurrence. Further, the risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Any of these risks may have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

Risks related to our business

We depend on a relatively small number of franchises for a significant portion of our revenues and profits.

A significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises and these products are responsible for a disproportionately high percentage of our profits. For example, our three largest franchises in 2013 Call of Duty, Skylanders and World of Warcraft accounted for approximately 80% of our net revenues, and a significantly higher percentage of our operating income, for the year. We expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Transitions in console platforms could adversely affect the market for interactive entertainment software.

Nintendo introduced its next-generation console, the Wii U, in 2012, and Sony and Microsoft each launched its next-generation console the PS4 and Xbox One, respectively in November 2013. We are developing and publishing games for these next-generation console systems. When new console platforms are announced or introduced into the market, consumers typically reduce their purchases of game console entertainment software products for current console platforms in anticipation of new platforms becoming available. During these periods, sales of the game console entertainment software products we publish may slow or even decline until new platforms are introduced and achieve wide consumer acceptance. Platform transitions may have a comparable impact on sales of downloadable content, amplifying the impact on our revenues. This decline may not be offset by increased sales of products for the new console platforms. Conversely, actions we take to curtail the reduction of purchases of products for current console platforms during the transition may harm sales of products we publish for next-generation platforms. In addition, as console hardware moves through its life cycle, hardware manufacturers typically enact price reductions and decreasing prices may put downward pressure on software prices. During platform transitions, we may simultaneously incur costs both in continuing to develop and market new titles for current-generation video game platforms, which may not sell at premium prices, and also in developing products for next-generation platforms, which may not generate immediate or near-term revenue. As a result, our business and operating results may be more volatile and difficult to predict during platform transitions than during other times, and such volatility may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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If we do not consistently deliver high-quality titles, or if consumers prefer competing products, our sales could suffer.

While many new products are regularly introduced in our industry, increasingly only a relatively small number of titles account for a significant portion of net revenue, and an even greater portion of net profit. It is difficult to produce high-quality products and to predict, prior to production and distribution, what products will be well-received, even if they are well-reviewed, high-quality titles. Competitors often develop titles that imitate or compete with our best-selling titles, and take sales away from them or reduce our ability to charge the same prices we have historically charged for those titles. Products published by our competitors may take a larger share of consumer spending than anticipated, which could cause our product sales to fall below expectations. Consumers may lose interest in a genre of games we produce. If we do not continue to develop consistently high-quality and well-received products, or if our competitors develop more successful products or offer competitive products at lower prices, our revenues, margins and profitability could decline. The increased importance of downloadable content to our business amplifies these risks, as downloadable content for poorly-received titles typically generates lower-than-expected sales. In addition, our own best-selling products could compete with our other titles, reducing sales for those other titles. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well-received, could harm our reputation and increase the likelihood that our future products will not be well-received.

If general economic conditions decline, demand for our products could decline.

Our products involve discretionary spending on the part of consumers. Consumers are generally more willing to make discretionary purchases, including purchases of products like ours, during periods in which favorable economic conditions prevail. As a result, our products are sensitive to general economic conditions and economic cycles. A reduction or shift in domestic or international consumer spending could result in an increase in our selling and promotional expenses, in an effort to offset that reduction, and could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

The uncertainty of worldwide economic conditions makes budgeting and forecasting very difficult.

We are unable to predict worldwide economic conditions, and all of the effects those conditions may have on our business. In particular, the uncertainty of future worldwide economic conditions subjects our forecasts to heightened risks and uncertainties.

We have taken on significant debt, which could adversely affect our business, cash flows, financial condition or results of operations.

In connection with the Purchase Transaction, we entered into a credit agreement (the "Credit Agreement") for a \$2.5 billion secured term loan facility (the "Term Loan") and a \$250 million secured revolving credit facility (the "Revolver" and, together with the Term Loan, the "Credit Facilities," as described in further detail under " Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources") and 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" as described in further detail under " Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources"). Historically, the Company has maintained extremely low levels of debt. The increased debt burden could have important consequences, including: increasing our vulnerability to general adverse economic and industry conditions; limiting our flexibility in planning for, or reacting to, changes in our business and our industry; requiring the dedication of a substantial portion of any cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund our operations, growth

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strategy, working capital, capital expenditures, future business opportunities and other general corporate purposes; exposing us to the risk of increased interest rates with respect to any borrowings that are at variable rates of interest; restricting us from making strategic acquisitions or causing us to make non-strategic divestitures; limiting our ability to obtain additional financing for working capital, capital expenditures, research and development, debt service requirements, acquisitions and general corporate or other purposes; limiting our ability to adjust to changing market conditions; and placing us at a competitive disadvantage relative to our competitors who are less highly leveraged. The realization of any of the foregoing risks may materially adversely affect our business, cash flows, financial condition or results of operations.

The agreements governing our debt contain various covenants that impose restrictions on us that may affect our ability to operate our business.

Agreements governing our indebtedness, including the indenture governing the Notes and the Credit Agreement, impose operating and financial restrictions on our activities. These restrictions require us to comply with or maintain certain financial tests and ratios. In addition, the indenture and credit agreement limit or prohibit our ability to, among other things:

incur additional debt and 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, 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.

These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities.

Further, various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants. Failure to comply with any of the covenants in our financing agreements could result in a default under those agreements and under other agreements containing cross-default provisions. Such a default would permit lenders to accelerate the maturity of the debt under these agreements and to foreclose upon any collateral securing the debt. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our obligations under the indenture governing the Notes or the Credit Agreement. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing. We cannot assure you that we will be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements or that we will be able to refinance our debt on terms acceptable to us, or at all.

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We may not be able to borrow funds under our five-year revolving credit facility if we are not able to meet the conditions to borrowing under that facility.

We view our Revolver as a source of available liquidity. This facility contains various conditions, covenants and representations with which we must be in compliance in order to borrow funds. We have not borrowed under the Revolver to date, but if we wish to do so, there can be no assurance that we will be in compliance with these conditions, covenants and representations at such time.

A substantial portion of our revenues and profitability depends on the success of our Call of Duty franchise in the first-person action game category.

Activision Blizzard is a leading global developer, publisher and distributor in terms of revenues in the first-person action game category, primarily due to the popularity of Activision's Call of Duty franchise. Revenues from the Call of Duty franchise comprise a significant portion of our consolidated revenues. To remain a leader in the first-person action game category, it is important that we continue to develop new games in the Call of Duty franchise that are favorably received by both our existing consumer base and new consumers. A number of software publishers have developed and commercialized, or are currently developing, first-person action games which pose a threat to the popularity of Call of Duty, and we expect new competitors to continue to emerge in the first-person action category. If consumer demand for Call of Duty games declines and we have not introduced new first-person action games or added other sources of revenue, or if consumer preferences trend away from first-person action games, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely effected.

A substantial portion of our revenues and profitability depends on the success of our Skylanders franchise in the "toys to life" game category.

Activision Blizzard is the leading global developer, publisher and distributor in terms of revenues in the "toys to life" game category, due to the popularity of Activision's Skylanders franchise. To remain a leader in the "toys to life" game category, it is important that we continue to develop new games in the Skylanders franchise that are favorably received by both our existing consumer base and new consumers. Other software publishers have developed, or are currently developing, "toys to life" games which pose a threat to the popularity of the franchise, and we expect new competitors to continue to emerge in the "toys to life" category. If consumer demand for Skylanders games declines and we have not introduced new "toys to life" games or added other sources of revenue, or if consumer preferences trend away from "toys to life" games, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely effected.

Sales of titles in our Skylanders franchise may be affected by the availability of toys, increasing our exposure to imbalances between projected and actual demand.

Titles in our Skylanders franchise involve "smart toys," consisting of action figures and an electronic "portal," which, when used together, allow a player to store and access information about his or her toy character's performance in the game. We sell the toys both bundled with the software for the title and on a stand-alone basis. Consumers may not want to buy the related software if they cannot also buy the "smart toys." If we underestimate demand or otherwise are unable to produce sufficient quantities of toys of an acceptable quality or allocate too few toys to geographic markets where demand exceeds supply, we will forego revenue. This may also create greater opportunities for competitors to develop competitive product offerings. In addition, if we overestimate demand and make too many toys, or allocate too many toys to geographic markets where there is insufficient demand, we may incur unrecoverable manufacturing costs for unsold units as well as for unsold game software. In either case, unsound toy manufacturing or allocation decisions may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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The importance to our business of the "smart toys" related to titles in our Skylanders franchise exposes us to hardware manufacturing and shipping risks, including availability of sufficient third-party manufacturing capacity and increases in manufacturing and shipping costs.

The manufacturers of "smart toys" involved in our Skylanders franchise are located in China. Anything that impacts our ability to import these products or the ability of those manufacturers to produce or otherwise supply us with toys meeting our quality and safety standards or increases the manufacturers' costs of production, including the utilization of any such manufacturer's capacity by another company, changes in safety, environmental or other regulations applicable to the toys and the manufacturing thereof, natural or manmade disasters that disrupt manufacturing, transportation or communications, labor shortages, civil unrest or issues generally negatively impacting international companies operating in China, increases in the price of petroleum or other raw materials, increases in fuel prices and other shipping costs, and increases in local labor costs in China, may adversely impact our ability to supply those toys to the market and the prices we must pay for those toys, and therefore our business, financial condition, results of operations, profitability, cash flows or liquidity. Moreover, the failure of those manufacturers to consistently deliver action figures and portals meeting the quality and safety standards we require could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

A substantial portion of our revenues and profitability depends on the subscription-based massively multiplayer online role-playing game category. If we do not maintain our leadership position in this category, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected.

Blizzard is the leading global developer, publisher and distributor in terms of subscriber base and revenues in the subscription-based MMORPG category, due to the popularity of Blizzard's World of Warcraft franchise. To remain the leader in the subscription-based MMORPG category, it is important that Blizzard continues to refresh *World of Warcraft* or develops new MMORPG products that are favorably received by both our existing consumer base and new consumers. A number of software publishers have developed and commercialized, or are currently developing, online games for use by consumers over the Internet which pose a threat to the popularity of *World of Warcraft*, and we expect new competitors to continue to emerge in the MMORPG and other similar competing categories.

A substantial portion of our revenues is generated by subscription fees paid by consumers who play *World of Warcraft*. Typically, *World of Warcraft* subscribers purchase one to six month memberships that are cancelable, without penalty, at the end of the membership period. Recently, we have seen a decline in *World of Warcraft* subscribership; at December 31, 2013, the number of worldwide subscribers for *World of Warcraft* was 7.8 million, compared to 9.6 million at December 31, 2012. A further decrease in the number of overall subscribers for *World of Warcraft* could substantially harm our operating results. If consumer demand for World of Warcraft games continues to decline and we do not introduce new MMORPG products or add other sources of revenue, or if new technologies, play patterns or genres are developed that replace MMORPGs, consumer preferences trend away from MMORPGs or new business models emerge that offer MMORPG gameplay for free or at a substantial discount to current MMORPG subscription fees, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely effected. Additionally, if general economic conditions decline, consumers may decrease their discretionary spending on entertainment items such as MMORPGs and users may choose not to renew their *World of Warcraft* subscriptions.

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Our business is highly dependent on the success, timely release and availability of new video game platforms and on the continued availability of, and support for, existing video game platforms, as well as our ability to develop commercially successful products for these platforms.

We derive a substantial portion of our revenues from the sale of products for play on video game platforms manufactured by third parties, such as Microsoft's Xbox One and Xbox 360, Nintendo's Wii U and Wii, and Sony's PS4 and PS3. For example, sales of products for consoles accounted for 52% of our consolidated net revenues in 2013. The success of our business is driven in large part by our ability to accurately predict which platforms will be successful in the marketplace, our ability to develop commercially successful products for these platforms, the availability of an adequate supply of these video game platforms and the continued support for these platforms by their manufacturers. We must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which we are developing products may be delayed, may not have functionality upgrades that are sufficient to be well-received by consumers, may not be well-received by retailers, may not be adequately supported by its manufacturer or otherwise not succeed or may have a shorter life cycle than anticipated. Alternatively, a platform for which we have not devoted significant resources could be more successful than initially anticipated, causing us to miss a meaningful revenue opportunity. Additionally, if the platforms for which we are developing products are not released when anticipated, do not attain wide acceptance, are not available in adequate quantities to meet consumer demand, do not function as anticipated or are not adequately supported by their manufacturers, we may be unable to fully recover our investment in developing those products, and our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely effected.

We must make significant expenditures to develop products for new platforms that may not be successful.

We must make substantial product development and other investments in a particular platform well in advance of introduction of the platform and may be required to realign our product portfolio and development efforts in response to market changes. Furthermore, development costs for new console platforms are greater than those costs for current console platforms. If increased costs are not offset by higher revenues and other cost efficiencies, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially affected. If the platforms for which we develop new software products or modify existing products do not attain significant market penetration, we may not be able to recover our development costs, which could be significant, and our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely effected.

Platform licensors are our competitors and frequently control the manufacturing of, and have broad approval rights over, our console and handheld interactive entertainment products.

Generally, when we develop interactive entertainment software products for hardware platforms offered by Microsoft, Nintendo, or Sony, the products are manufactured exclusively by that hardware manufacturer or their approved replicator.

The agreements with these manufacturers include certain provisions, such as approval rights over all software products and related promotional materials and the ability to change the fee they charge for the manufacturing of products, which allow them substantial influence over the cost and the release schedule of such interactive entertainment software products. In addition, because each of the manufacturers is also a publisher of games for its own hardware platforms and manufactures products for all of its other licensees, a manufacturer may give priority to its own products or those of our competitors in the event of insufficient manufacturing capacity. Accordingly, Microsoft, Nintendo or Sony could cause unanticipated delays in the release of our products as well as increases to projected development, manufacturing, marketing or distribution costs, any of which could have a material

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adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

In addition, platform licensors control our ability to provide online game capabilities for console platform products and, in large part, establish the financial terms and/or pricing on which these products and services are offered to consumers. Currently, Microsoft provides online capabilities for the Xbox One and Xbox 360, Nintendo provides online capabilities for the Wii U and Wii, and Sony provides online capabilities for the PS4 and PS3. In each case, compatibility code and/or the consent of the licensor are required for us to include online capabilities in its console products. The failure or refusal of licensors to approve our products could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our platform licensors set the royalty rates and other fees that must be paid to publish games for their platforms or distribute games on their networks, and therefore have significant influence on our costs.

We pay a licensing fee to the hardware manufacturer for each copy of a product manufactured for that manufacturer's game platform. In order to publish products for new hardware platforms, we must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee and/or price that we must pay in order to publish games for that platform. Similarly, the platform licensors control the pricing for games and additional content purchased over their networks. The control that platform licensors have over the fee structures and/or pricing for their platforms and online networks makes it difficult for us to predict our costs and profitability in the medium-to-long term. It is also possible that platform licensors will not renew our existing licenses. Any increase in fee structures and/or pricing, or nonrenewal of licenses, could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity, particularly for Activision, as the publishing of products for console systems is the largest portion of Activision's business.

If we do not continue to attract and retain skilled personnel, we will be unable to effectively conduct our business.

Our success depends to a significant extent on our ability to identify, hire, retain and utilize the abilities of qualified personnel, particularly personnel with the specialized skills needed to create the high-quality, well-received titles upon which our business is substantially dependent. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for employees with technical, marketing, sales, engineering, product development, creative and/or management skills. We may have difficulties in attracting and retaining skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain and utilize the services of key personnel, it could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If our games and services do not function as consumers expect, it may have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

If our games and services do not function as consumers expect, whether because they fail to work as advertised or otherwise, our sales may suffer. The risk that this may occur is particularly pronounced with respect to our games with online features, like *World of Warcraft* and *Call of Duty*, because they involve ongoing consumer expectations, which we may not be able to successfully satisfy. If our games and services do not function as consumers expect, it may have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

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The future success of our business depends on our ability to release popular products in a timely manner.

The life of any given console or handheld game product is relatively short and generally involves a relatively high level of sales during the first few months after the product's introduction, followed by a rapid decline in sales. Because revenues associated with an initial product launch generally constitute a high percentage of the total revenues associated with the life of a product, delays in product releases or disruptions following the commercial release of one or more new products could have a material adverse effect on our revenues and reputation and could cause our results of operations to be materially different from expectations. It is therefore important for us to continue to develop many high-quality new products that are popularly received and to release those products in a timely manner. If we are unable to continue to do so, it may have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

If we are unable to sustain premium pricing on current-generation or next-generation titles, our business, financial condition, results of operations, profitability, cash flows or liquidity could suffer materially.

If we are unable to continue to charge the same prices we have historically charged for current-generation titles for Microsoft's Xbox 360, Nintendo's Wii, and Sony's PS3, as well as for next-generation titles for Microsoft's Xbox One, Nintendo's Wii U, and Sony's PS4, whether due to competitive pressure, because retailers elect to price these products at a lower price or otherwise, it could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. Further, we make provisions for price migration and channel protection based upon certain assumed lowest prices and if competitive pressures force us to lower our prices below those levels, it could similarly have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If we fail to successfully manage our new product development, or if we fail to anticipate the issues associated with that development, it may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our business model is evolving and we believe that our growth will depend upon our ability to successfully develop and sell new types of products, including free-to-play games which are monetized through in-game microtransactions rather than an up-front fee, and to otherwise expand the methods by which we reach our consumers, including via digital distribution. Developing new products and distribution channels requires substantial up-front expenditures. If such products or distribution channels do not achieve expected acceptance or generate sufficient revenues upon introduction, whether because of competition or otherwise, we may not be able to recover the substantial development and marketing costs associated with those products and distribution channels. In addition, expanding our business model will add complexity to our business and require us to effectively adapt our business and management processes to address the unique challenges and different requirements of any new areas in which we operate, which we may not be able to do, for lack of institutional expertise or otherwise. If any of these occur, it may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our industry is subject to rapid technological change, and if we do not adapt to, and appropriately allocate our new resources among, emerging technologies, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially affected.

Technology changes rapidly in the interactive entertainment industry. We must continually anticipate and adapt our products to emerging technologies in order to keep those products competitive. When we choose to incorporate a new technology into a product or to develop a product for a new platform, operating system or media format, we often are required to make a substantial investment prior to the introduction of the product. If we invest in the development of interactive

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entertainment products incorporating a new technology or for a new platform that does not achieve significant commercial success, our revenues from those products likely will be lower than we anticipated and may not cover our development costs. Further, our competitors may adapt to an emerging technology more quickly or effectively than we do, creating products that are technologically superior to ours, more appealing to consumers, or both. If, on the other hand, we elect not to pursue the development of products incorporating a new technology or for new platforms that achieve significant commercial success, it may have adverse consequences. It may take significant time and resources to shift product development resources to that technology or platform and may be more difficult to compete against existing products incorporating that technology or for that platform. For example, digital content delivery is increasingly important in our industry, requiring us to develop or acquire the expertise in such delivery method needed to remain competitive. Any failure to successfully adapt to, and appropriately allocate resources among, emerging technologies could have a material adverse effect on our business, results of operations, profitability, cash flows or liquidity.

The increasing importance of digital sales to our business exposes us to the risks of that business model, including greater competition.

The proportion of our revenues derived from digital content delivery, as compared to traditional retail sales, continues to increase. The increased importance of digital content delivery in our industry increases our potential competition, as the minimum capital needed to produce and publish a digitally delivered game may be significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console. This will also require us to dedicate capital to developing and implementing alternative marketing strategies, which we may not do successfully. It may also reduce overall demand for our distribution services. If either occurs, it could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. In addition, a continuing shift to digital delivery could result in a deprioritization of our products by traditional retailers, giving rise to the same material adverse effects.

If we are unable to successfully develop or market owned intellectual property, we may publish fewer successful titles and our revenues may decline.

Some of our products are based on intellectual property that we have developed internally or acquired from third parties. Consumers have historically preferred titles which are part of established franchises to titles based on new intellectual property, and if new intellectual property does not gain consumer acceptance, whether because we are unable to successfully create consumer appeal and brand recognition or otherwise, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected. Further, if the popularity of our owned intellectual property declines, we may have to write off the unrecovered portion of the underlying intellectual property assets and revenues and operating income from these intellectual properties may decline quickly, either of which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Competition within, and to, the interactive entertainment industry is intense, and competitors may succeed in reducing our sales.

We compete with other publishers of PC and video game console interactive entertainment software. Those competitors vary in size from small companies with limited resources to very large corporations with significantly greater financial, marketing and product development resources than we have. Those competitors are located both within the United States and, increasingly, in international jurisdictions. For example, integrated video game console hardware and software companies such as Microsoft, Nintendo, and Sony, compete directly with us in the development of software titles for their respective platforms. Our competitors may spend more money and time on developing and testing

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products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for motion picture, television, sports, music and character properties, pay more to software developers, or develop more commercially successful products for the PC or video game platforms than we do. In addition, competitors with large product lines and popular titles typically have greater leverage with retailers, distributors and other customers, who may be willing to promote titles with less consumer appeal in return for access to those competitors' more popular titles.

We also compete with other forms of interactive entertainment, such as games developed for use by consumers on handheld and mobile devices or social networking sites, most of which are currently free to play. Increased consumer acceptance and availability of such games or other online games, consumer acceptance and availability of technology which allows users to play games on televisions without consoles, or technological advances in online game software or the Internet could result in a decline in sales of our platform-based software.

Additionally, we compete with other forms of entertainment and leisure activities. For example, the overall growth in the use of the Internet and online services such as social networking sites by consumers may pose a competitive threat if consumers and potential consumers spend less of their available time using interactive entertainment software and more using the Internet, including those online services. The types of competition described herein could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If we are unable to maintain or acquire licenses to intellectual property, we may publish fewer successful titles and revenues may decline.

Some of our products are based on intellectual property and other character or story rights licensed from third parties. These license and distribution agreements are limited in scope and time, and we may not be able to renew licenses when they expire or include new products in existing licenses. The failure of intellectual property we license to be, or remain, popularly received could impact consumer acceptance of those products in which we include the intellectual property. Such lack of acceptance could result in the write-off of the unrecovered portion of acquired intellectual property assets, and could otherwise have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

The development of high-quality products requires substantial up-front expenditures, and we may not be able to recover those costs for our future products.

Consumer preferences for games are usually cyclical and difficult to predict, and even the most successful titles remain popular for only limited periods of time, unless refreshed with new content or otherwise enhanced. In order to remain competitive, we must continuously develop new products or enhancements to existing products. The amount of lead time and cost involved in the development of high-quality products is increasing, and the longer the lead time involved in developing a product and the greater the allocation of financial resources to such product, the more critical it is that we accurately predict consumer demand for such product. If our future products do not achieve expected consumer acceptance or generate sufficient revenues upon introduction, we may not be able to recover the substantial development and marketing costs associated with those products, which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We may overestimate demand for a product, incurring unrecoverable manufacturing costs.

We pay a licensing fee to the hardware manufacturer for each copy of a product manufactured for that manufacturer's game platform, regardless of whether that product is sold. If we overestimate demand and make too many physical "boxed" copies of any title, we will incur unrecoverable

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manufacturing costs for unsold units, which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We are exposed to seasonality in the sale of our products.

The interactive entertainment industry is highly seasonal, with the highest levels of consumer demand occurring during the year-end holiday buying season in the fourth quarter of the year. As a result, our sales have historically been highest during the second half of the year, particularly for our Activision segment. Receivables and credit risk are likewise higher during the second half of the year, as customers stock up on our products for the holiday season. Delays in development, licensor approvals or manufacturing can affect the timing of the release of products, causing us to miss key selling periods such as the year-end holiday buying season, and could otherwise have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If our proprietary online game service, Battle.net, does not function properly, our business may be negatively impacted.

If Blizzard's proprietary online game service, Battle.net, does not function as anticipated, Blizzard's games may be completely unavailable or Blizzard may be prevented from delivering content digitally, which could result in a loss of sales for Blizzard's games. Further, any disruption in Battle.net's services could have an adverse impact on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

We depend on servers to operate our games with online features, such as World of Warcraft and Call of Duty, and our digital service with online features. If we were to lose server functionality, for any reason, our business could suffer.

Our business relies on the continuous operation of data servers. Although we strive to maintain more than sufficient server capacity, and provide for active redundancy in the event of limited hardware failure, any broad-based catastrophic server malfunction, a significant intrusion by hackers that circumvents security measures, or a failure of disaster recovery service would likely interrupt the operation of *World of Warcraft* or degrade or interrupt the functionality of other games of ours with online features, such as *Call of Duty*, and could result in the loss of sales for such games (including subscription-based sales for *World of Warcraft*). An extended interruption of service could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

We must project our future server needs and make advance purchases of servers or server capacity to accommodate expected business demands. If we underestimate the amount of server capacity our business requires or if our business were to grow more quickly than expected, our consumers may experience service problems, such as slow or interrupted gaming access. Insufficient server capacity may result in decreased sales, a loss of our consumer base and adverse consequences to our reputation. Conversely, if we overestimate the amount of server capacity required by our business, we may incur additional operating costs. Any of these risks could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We may not accurately predict the amount of Internet bandwidth or computational resources necessary to sustain our online gaming businesses.

Our online gaming businesses are dependent on the availability of sufficient Internet bandwidth and computational resources. If the price of either such resource increases, we may not be able to increase our prices or subscriber levels to compensate for such costs, which may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or

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liquidity. Because of the importance of our online business to our revenues and results of operations, our ability to access adequate bandwidth and online computational resources to support our business is critical.

To secure access to such resources, we have entered into arrangements with several providers to secure future capacity, some of which involve long-term contracts. If the price of such resource were to decrease, our contractual commitments to pay higher prices could affect our ability to compete with other publishers of interactive software products paying lower prices. Further, because we purchase additional capacity based on anticipated growth, our capacity is sometimes larger than necessary to sustain our existing needs. If our projected online business growth is delayed or does not occur, we will incur larger expenses for such resources than necessary. Conversely, if we underestimate the amount of bandwidth that our online business requires, and our purchased capacity is insufficient to meet demand, our business, financial condition, results of operations, profitability, cash flows or liquidity could be adversely affected.

We may be involved in legal proceedings that may result in material adverse outcomes.

From time to time, we may be involved in claims, suits, government investigations, audits and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property, competition and antitrust matters, privacy matters, tax matters, labor and employment matters, unclaimed property matters, compliance and commercial claims. Such claims, suits, government investigations, audits and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in substantial fines and penalties, criminal sanctions, consent decrees or orders preventing us from offering certain features, functionalities, products or services, requiring us to change our development process or other business practices. Any of these risks could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Legal proceedings relating to the Purchase Transaction and Private Sale may result in adverse outcomes.

We are currently subject to various claims in connection with the Purchase Transaction and Private Sale (each of which is as described in further detail under " Management's Discussion and Analysis of Financial Condition and Results of Operations Business Overview"), and in the future may be subject to additional claims related thereto. Such proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, 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 activities. In addition, we may incur substantial legal fees and costs in connection with litigation and, although coverage may be available under relevant insurance policies, coverage could be denied or prove to be insufficient. Under our Amended and Restated Certificate of Incorporation and the indemnification agreements that we have entered into with our officers and directors, the Company may be required in certain circumstances to indemnify and advance expenses to them in connection with their participation in proceedings arising out of their service to us. There can be no assurance that any of these payments will not be material. A decision adverse to the Company on these actions could result in the reformation of the Stockholders Agreement (as described in further detail under "Legal Proceedings") and could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

We may be subject to intellectual property claims.

As the number of interactive entertainment software products increases and the features and content of these products continue to overlap, software developers have increasingly become subject to

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infringement claims. Further, many of our products are highly realistic and feature materials that are based on real world examples, which may also be the subject of intellectual property infringement claims of others. In addition, our products often utilize complex, cutting-edge technology that may become subject to emerging intellectual property rights of others. Although we take steps to avoid knowingly violating the intellectual property rights of others, it is possible that third parties still may claim infringement, particularly since there are an increasing number of companies which focus their efforts exclusively on enforcing their patent rights.

From time to time, we receive communications from third parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming, distracting to management and expensive to defend. Further, intellectual property litigation or claims could force us to do one or more of the following:

cease selling, incorporating, supporting or using products or services that incorporate the challenged intellectual property;

obtain a license from the holder of the infringed intellectual property, which if available at all, may not be available on commercially favorable terms;

redesign the affected interactive entertainment software products, which could result in additional costs, delay introduction and possibly reduce commercial appeal of the affected products; or

pay damages to the holder of the infringed intellectual property for past infringements.

Any of these actions could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Issues with Skylanders toys and accessories may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities.

We may experience issues with Skylanders toys and accessories that may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. Any of these activities could result in increased governmental scrutiny, harm to our reputation, reduced demand by consumers for our products, decreased willingness by our customers to purchase or provide marketing support for those products, denial or increased cost for insurance coverage, or additional safety and testing requirements. Such results could divert development and management resources and increase legal fees and other costs, and otherwise could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

Our products may be subject to legal claims.

In prior years, lawsuits have been filed against numerous video game companies, including against Activision Blizzard, by the families of victims of violence, alleging that the video games influence the behavior of the perpetrators of such violence. These lawsuits have been dismissed, but similar additional lawsuits may be filed in the future. Although our general liability insurance carrier has agreed to defend lawsuits of this nature with respect to the prior lawsuits, it is uncertain whether insurance carriers would do so in the future, or if such insurance carriers would cover all or any amounts for which we might be liable if such future lawsuits are not decided in our favor. Further, any such lawsuit could result in increased governmental scrutiny, harm to our reputation, reduced demand by consumers for our products, or decreased willingness by our customers to purchase or provide marketing support for those products. Such results could divert development and management resources, increase legal fees and other costs and have other material adverse consequences on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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Our products are subject to the threat of piracy and unauthorized copying, and inadequate intellectual property laws and other protections could prevent us from enforcing or defending our proprietary technologies. We may also face legal risks arising out of user-generated content.

We regard our software as proprietary and rely on a variety of methods, including a combination of copyright, patent, trademark and trade secret laws and employee and third-party nondisclosure agreements, to protect our proprietary rights. We own or license various copyrights, patents, trademarks and trade secrets. We are aware that some unauthorized copying occurs, and if a significantly greater amount of unauthorized copying of our software products were to occur, it could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Policing unauthorized sale, distribution and use of our products is difficult, and software piracy (including online piracy) is a persistent problem for us. Further, the laws of some countries in which our products are or may be distributed either do not protect our products and intellectual property rights to the same extent as the laws of the United States, or are poorly enforced. Legal protection of our rights may be ineffective in such countries. In addition, though we take steps to make the unauthorized sale, distribution and use of our products more difficult and to otherwise enforce and police our rights, as do the manufacturers of consoles on which our games are played, our efforts and the efforts of the console manufacturers may not be successful in controlling the piracy of our products in all instances. The proliferation of technology designed to circumvent the protection measures used in our products, the availability of broadband access to the Internet, the refusal of Internet service providers to remove infringing content in certain instances, the ability to download pirated copies of games from various Internet sites and peer-to-peer networks, and the widespread proliferation of Internet cafes using pirated copies of our products all have contributed to an expansion in piracy. Any of these risks could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Moreover, the existence of user-generated content for our products further diminishes our ability to protect our intellectual property rights and to avoid infringing intellectual property rights of others. We cannot be certain that existing intellectual property laws will provide adequate protection for our products in connection with emerging technologies. As a result, these risks could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We rely on independent third parties to develop some of our software products.

We rely on independent third-party software developers to develop some of our software products. Because we depend on these developers, we are subject to the following risks:

continuing strong demand for top-tier developers' resources, combined with the recognition they receive in connection with their work, may cause developers who worked for us in the past either to work for a competitor in the future or to renegotiate agreements with us on terms less favorable to us;

limited financial resources and business expertise and inability to retain skilled personnel may force developers out of business prior to completing products or require us to fund additional costs; and

a competitor may acquire the businesses of key developers or sign them to exclusive development arrangements and, in either case, we would not be able to continue to engage such developers' services for our products, except for any period of time for which those developers are contractually obligated to complete development for us.

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Increased competition for skilled third-party software developers also has compelled us to agree to make significant advance payments on royalties to game developers. If the products subject to these arrangements do not generate sufficient revenues to recover these royalty advances, we would have to write-off unrecovered portions of these payments, which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. Typically, we pay developers a royalty based on a percentage of net revenues from product sales, less agreed upon deductions, but from time to time, we have agreed to pay developers fixed per unit product royalties after royalty advances are fully recouped. To the extent that sales prices of products on which we have agreed to pay a fixed per unit royalty are marked down, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected.

Our sales may decline substantially without warning and in a brief period of time because a substantial portion of our sales are made to a relatively small number of key customers and because we do not have long-term contracts for the sale of our products.

In the United States and Canada, we have primarily sold our boxed products on a direct basis to mass-market retailers, consumer electronics stores, discount warehouses and game specialty stores. Our boxed products are sold internationally on a direct-to-retail basis, through third-party distribution and licensing arrangements and through our wholly-owned European distribution subsidiaries. Our sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments. The loss of, or significant reduction in sales to, any of Activision's principal retail customers or distributors could have adverse consequences. The concentration of sales in a small number of large customers also makes us more vulnerable to collection risk if one or more of these large customers becomes unable to pay for our products or seeks protection under the bankruptcy laws. In addition, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers. Any of these risks could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our business may be harmed if our distributors, retailers or other parties with which we do business cannot honor their existing credit arrangements, default on their obligations to us or seek protection under the bankruptcy laws.

We rely on various business partners for several important aspects of our business, including distribution of our products, product development and intellectual property licensing. Some of these business partners are highly-leveraged or small businesses that may be particularly vulnerable to difficult economic conditions. As a result of current economic conditions, we are subject to heightened counterparty risks, including the risks that our business partners may default on their obligations to us or seek protection under the bankruptcy laws.

For example, retailers and distributors in the interactive entertainment industry have from time to time experienced significant fluctuations in their businesses and a number of them have failed. We typically make sales to most retailers and some distributors on unsecured credit, with terms that vary depending upon the customer's credit history, solvency, credit limits and sales history, as well as whether sufficient credit insurance can be obtained. Challenging economic conditions may impair the ability of our customers to pay for products they have purchased, and as a result, our reserves for doubtful accounts and write-off of accounts receivable could increase and, even if increased, may turn out to be insufficient. Moreover, even in cases where we have insolvency risk insurance to protect against a customer's bankruptcy, insolvency or liquidation, this insurance typically contains a significant deductible and co-payment obligation, and does not cover all instances of non-payment. Further, the insolvency or business failure of other types of business partners could result in disruptions to the manufacturing or distribution of our products or the cancellation of contractual arrangements that we consider to be favorable. A payment default by, or the insolvency or business failure of, a significant

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business partner may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We may not be able to maintain our distribution relationships with key vendors and customers.

Our NBG and Centresoft subsidiaries distribute interactive entertainment software and hardware products and provide related services in Germany and the United Kingdom, respectively, and via export in other European countries for a variety of entertainment software publishers, many of which are our competitors, and hardware manufacturers. From time to time, these subsidiaries also maintain exclusive relationships to serve certain retail customers. These services are generally performed subject to limited-term arrangements. Although we expect to use reasonable efforts to retain these vendors and retail customer relationships, we may not be successful in this regard. The cancellation or non-renewal of one or more of these arrangements could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our business is subject to the risks and uncertainties of international trade.

We conduct business throughout the world, and we derive a substantial amount of revenues and profits from international trade, particularly from Europe, Asia and Australia. We expect that international sales will continue to account for a significant portion of our total revenues and profits in the future and, moreover, that our growth will depend on increased sales in emerging markets in Asia and elsewhere.

As such, we are, and may be increasingly, subject to risks inherent in foreign trade generally, as well as risks inherent in doing business in emerging markets, including increased tariffs and duties, compliance with economic sanctions, fluctuations in currency exchange rates, shipping delays, increases in transportation costs, international political, regulatory and economic developments and differing local business practices, all of which may impact operating margins or make it more difficult, if not impossible, for us to conduct business in foreign markets.

A deterioration in relations between either us or the United States and any country in which we have significant operations or sales, or the implementation of government regulations in such a country, including China in particular, could result in the adoption or expansion of trade restrictions, including economic sanctions, that could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. For instance, to operate in China, *World of Warcraft*, *StarCraft II*, *Call of Duty*TM *Online* and all other games must have regulatory approval. A decision by the Chinese government to revoke its approval for *World of Warcraft*, *StarCraft II* or *Call of Duty Online* or to decline to approve any products we desire to sell in China in the future could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. Additionally, in the past, legislation has been implemented in China that has required modifications to *World of Warcraft* and other software. The future implementation of similar laws or regulations in China or any other country in which we have operations or sales may require engineering modifications to our products that are not cost-effective, if even feasible at all, or could degrade the consumer experience to the point where consumers cease to purchase such products.

We are also subject to risks that our operations outside the United States could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act or other similar anti-bribery laws. While we have policies and procedures intended to secure compliance with these laws, our employees, contractors, representatives or agents may take actions that violate our policies. Moreover, it may be more difficult to oversee the conduct of any such persons who are not our employees, potentially exposing us to greater risk from their actions, which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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In addition, cultural differences may affect consumer preferences and limit the international popularity of titles that are popular in the U.S or require us to modify the content of the games or the method by which we charge our customers for the games in order to be successful. If we do not correctly assess consumer preferences in the countries in which we sell our products, or if the other risks discussed herein come to fruition, it may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Changes in tax rates or exposure to additional tax liabilities could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We are subject to income taxes in the United States and in various other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, and in the ordinary course of business there are many transactions and calculations where the ultimate tax determination is uncertain. We are required to estimate future taxes. Although we currently believe our tax estimates are reasonable, the estimation process is inherently uncertain, and such estimates are not binding on tax authorities. Further, our effective tax rate could be adversely affected by a variety of factors, including changes in our business, including the mix of earnings in countries with differing statutory tax rates, changes in tax elections, and changes in applicable tax laws. Additionally, tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Should the ultimate tax liability exceed estimates, our income tax provision and net income could be materially adversely affected.

We earn a significant amount of our operating income, and hold a significant portion of our cash and investments, outside the United States. Any repatriation of funds currently held in foreign jurisdictions would likely result in higher effective tax rates for the Company. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether, or in what form, this proposed legislation will pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

We are also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property, and goods and services taxes, in both the United States and various other jurisdictions. Tax authorities regularly examine these non-income taxes. The outcomes from these examinations, changes in the business, changes in applicable tax rules or other tax matters may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Fluctuations in currency exchange rates may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We transact business in various currencies other than the U.S. dollar and have significant international sales and expenses denominated in currencies other than the U.S. dollar, subjecting us to currency exchange rate risks. A substantial portion of our international sales and expenses are denominated in local currencies, including certain major currencies, such as the Euro and British pound, and emerging market currencies, such as the South Korean won and Chinese renminbi, which could fluctuate against the U.S. dollar. We have, in the past, utilized currency derivative contracts to hedge certain foreign exchange exposures, with hedge maturities of generally less than 12 months, as well as managing these exposures with natural offsets. We may also hedge non-U.S. dollar earnings from time to time. However, there can be no assurance that we will continue these programs, or that we will be successful in managing exposure to currency exchange rate risks whether or not we do so.

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Our reported financial results could be adversely affected by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

Our reported financial results are impacted by the accounting policies promulgated by the SEC and national accounting standards bodies and the methods, estimates and judgments that we use in applying our accounting policies. Policies affecting software revenue recognition have and could further significantly affect the way we report revenues related to our products and services. We recognize all of the revenues from bundled sales (*i.e.*, packaged goods video games that include an online service component) on a deferred basis over an estimated service period for such games. In addition, we defer the costs of sales of those titles. We expect that an increasing number of our games will be online-enabled in the future and that we could be required to recognize the related revenues over an extended period of time rather than at the time of sale. Further, as we increase our downloadable content and add new features to our online services, our estimate of the service period may change and we could be required to recognize revenues, and defer related costs, over a longer period of time. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and taxes, could have an adverse effect on our reported net revenues, net income and earnings per share under accounting principles generally accepted in the United States in any given period.

We may permit our customers to return products and to receive pricing concessions which could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We are exposed to the risk of product returns and price protection with respect to our distributors and retailers. In some cases, return policies allow distributors and retailers to return defective, shelf-worn, damaged and certain other products in accordance with terms granted. Price protection, when granted and applicable, allows these distributors and retailers a credit against amounts owed with respect to merchandise unsold by them. We may permit product returns from, or grant price protection to, our customers under certain conditions. These conditions may include compliance with applicable payment terms, delivery of weekly inventory and sales information and consistent participation in the launches of premium title releases. We may also consider other factors, including the facilitation of slow-moving inventory and other industry factors. When we offer price protection, it may be offered with respect to a particular product to all of our retail customers who meet the applicable conditions. Activision also offers a 90-day limited warranty to its consumer end users that Activision products will be free from manufacturing defects. Although we maintain a reserve for returns and price protection, and although we may place limits on product returns and price protection, we could be forced to accept substantial product returns and provide substantial price protection to maintain our relationships with retailers and our access to distribution channels. Product returns and price protection that exceed our reserves could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. We face similar issues and risks, including exposure to risk of chargebacks, with respect to consumer end users to whom we sell products directly, whether through Battle.net or otherwise.

We may face difficulty obtaining access to the retail shelf space necessary to market and sell our products effectively.

Retailers typically have a limited amount of shelf space and promotional resources, and there is intense competition among consumer interactive entertainment software products for high-quality retail shelf space and promotional support from retailers. To the extent that the number of products and platforms increase, competition for shelf space may intensify and may require us to increase our marketing expenditures. Those issues are exacerbated to the extent any of our products involve physical goods in addition to software and, as such, require additional shelf space, like the titles in our

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Skylanders franchise, which include both action figures and an electronic "portal". Retailers with limited shelf space typically devote the most and highest quality shelf space to those products expected to be best sellers. We cannot be certain that our new products will consistently achieve such "best seller" status. Due to increased competition for limited shelf space, retailers and distributors are in an increasingly better position to negotiate favorable terms of sale, including price discounts, price protection, marketing and display fees and product return policies. Our products constitute a relatively small percentage of most retailers' sales volume. We cannot be certain that retailers will continue to purchase our products or provide those products with adequate levels of shelf space and promotional support on acceptable terms. A failure in this regard may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If our marketing and advertising efforts fail to resonate with our consumers, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected.

Our products are marketed worldwide through a diverse spectrum of advertising and promotional programs. Our ability to sell our products and services is dependent in part upon the success of these programs. If the marketing for our products and services fails to resonate with our consumers, during the critical holiday season or during other key selling periods or otherwise, or advertising rates or other media placement costs increase, these factors could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Increased sales of used video games could lower our sales.

Certain of our larger customers sell used video games, which are generally priced lower than new video games and do not result in any revenues to the publisher of the games. Sales of used video games could negatively affect our sales of new video games and have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

Our products are subject to ratings by the Entertainment Software Rating Board in the U.S. and similar agencies in international jurisdictions. Our failure to obtain our target ratings for our products could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

The Entertainment Software Rating Board (the "ESRB") is a self-regulatory body based in the United States that provides consumers of interactive entertainment software with ratings information, including information on the content in such software, such as violence, nudity or sexual content contained in software titles. Certain countries other than the United States have also established content rating systems as prerequisites for product sales in those countries. In some countries, a company may be required to modify its products to comply with the requirements of the rating systems, which could delay or disrupt the release of any given product, or may prevent its sale altogether in certain territories. The ESRB rating categories are "Early Childhood" (*i.e.*, content is intended for young children), "Everyone" (*i.e.*, content is generally suitable for all ages), "Everyone 10+" (*i.e.*, content is generally suitable for ages 10 and up), "Teen" (*i.e.*, content is generally suitable for ages 13 and up), "Mature" (*i.e.*, content is generally suitable for ages 17 and up) and "Adults Only" (*i.e.*, content is generally only suitable for adults ages 18 and up). Certain of our most significant titles have received a "Mature" rating. If we are unable to obtain the ratings we have targeted for our products as a result of changes in a content rating organization's ratings standards or for other reasons, including the adoption of legislation in this area, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected.

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Our business, products, and distribution are subject to increasing regulation of content in key territories. If we do not successfully respond to these regulations, our business, financial condition, results of operations, profitability, cash flows or liquidity could be materially adversely affected.

Legislation is continually being introduced, and litigation and regulatory enforcement actions are taking place, that may affect the way in which we, and other industry participants, may offer content and features, and distribute and advertise our products. For example, privacy laws and regulatory guidance in many countries impose various restrictions on online and mobile advertising, as well as the collection, storage and use of personally identifiable information. We may be required to modify certain of our product development processes or alter our marketing strategies to comply with such regulations, which could be costly or delay the release of our products. In addition, many foreign countries, such as China and Germany, have laws that permit governmental entities to restrict the content and/or advertising of interactive entertainment software or prohibit certain types of content. Further, legislation which attempts to restrict marketing or distribution of such products because of the content therein has been introduced at one time or another at the federal and state levels in the United States. There is on-going risk of enhanced regulation of video game marketing, content or sales. These laws and regulations vary by territory and may be inconsistent with one another, imposing conflicting or uncertain restrictions. The adoption and enforcement of legislation which restricts the marketing, content or sales of our products in countries in which we do business may harm the sales of our products, as the products we are able to offer to our customers and the size of the potential market for our products may be limited. Failure to comply with any applicable legislation may also result in government-imposed fines or other penalties. Moreover, the increased public dialog concerning video games may have an adverse impact on our reputation and consumers' willingness to purchase our products. Any of these risks may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

If our products contain defects, our business and reputation could be harmed significantly.

Software products as complex as the ones we publish may contain undetected errors and defects. This risk is often higher when such products are first introduced or when new versions are first released. Failure to avoid, or to timely detect and correct, such errors or defects could result in loss of, or delay in, consumer acceptance, and could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

A substantial portion of World of Warcraft's subscribers pay their subscription fees using credit cards. Credit card or other fraud could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

A substantial portion of the subscription revenues generated by *World of Warcraft* is paid by subscribers using credit cards. At times, there may be attempts to use fraudulently obtained credit card numbers to pay for *World of Warcraft* upgrades or subscriptions. Additionally, the credit card numbers and other sensitive or personally identifiable information of *World of Warcraft's* subscribers and Battle.net account holders are maintained in a proprietary database that may be subject to malicious intrusion by hackers or otherwise compromised internally or externally. As fraudulent schemes become more sophisticated, it may become more difficult and more costly for us to detect credit card or other fraud and we may be required to incur costs to implement additional security measures to protect subscriber information. An increase in credit card or other fraud could have adverse consequences. In addition, we may be subject to legal claims or legal proceedings, including regulatory investigations and actions, if there is loss, disclosure or misappropriation of or access to our customers' credit card or other sensitive or personally identifiable information. Any of these risks may have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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Data breaches involving the source code for our products or customer, consumer or employee data stored by us could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

In the course of our day-to-day business, we create, store and/or use commercially sensitive information, such as the source code and game assets for our interactive entertainment software products and confidential information with respect to our customers, consumers and employees. A malicious intrusion by hackers or other breach of the systems on which such source code and assets, account information (including personally identifiable information) and other sensitive data is stored could lead to piracy of our software, fraudulent activity, disclosure or misappropriation of, or access to, our customers', consumers' or employees' personally identifiable information or our own sensitive business data. A data intrusion into a server for a game with online features, such as *World of Warcraft* or *Call of Duty*, or for Battle.net could also disrupt the operation of such game or platform. If we are subject to data security breaches, we may have a loss in sales or subscriptions or be forced to pay damages or incur other costs, including from the implementation of additional security measures, or suffer reputational damage. In addition, we may be subject to legal claims or proceedings in connection with data security breaches, including regulatory investigations and actions. The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We rely on complex information technology systems and networks to operate our business. Any significant system or network disruption could have a negative impact on our operations, sales and operating results.

We rely on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are within Activision Blizzard and some of which are outsourced. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to computer viruses, security breach, energy blackouts, natural disasters, terrorism, war and telecommunication failures. We may also face sophisticated attacks aimed at compromising our intellectual property and our customer information, referred to as advanced persistent threats. We plan to implement a number of additional significant business systems upgrades in 2014 and beyond which, if defective or improperly installed or implemented, may result in a business disruption. In addition, we currently rely on a number of older legacy information systems that are harder to maintain. A system failure or security breach could negatively impact our operations and financial results. We may incur additional costs to remedy the damages caused by these disruptions or security breaches.

Our results of operations or reputation may be harmed as a result of offensive consumer-posted content.

We are subject to risks associated with the collaborative online features in our games which allow consumers to post narrative comment, in real time, that is visible to other players. From time to time, objectionable and offensive consumer content may be posted to a gaming or other site with online chat features or game forums which allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content. We may also be subject to consumer backlash from comments made in response to postings we make on social media sites such as Facebook, YouTube and Twitter. The occurrence of any of these events could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

If one or more of our titles were found to contain objectionable undisclosed content, our business could suffer.

Throughout the history of the interactive entertainment industry, many interactive software products have been designed to include certain hidden content and gameplay features that are

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accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. In some cases, such undisclosed content or features have been considered to be objectionable. In a few cases, the ESRB has reacted to discoveries of such undisclosed content and features by requiring the recall of the game, changing the rating or associated content descriptors originally assigned to the product, requiring the publisher to change the game or game packaging and/or imposing fines on the publisher. Retailers have on occasion reacted to the discovery of such undisclosed content by removing these games from their shelves, refusing to sell them and demanding that their publishers accept them as product returns. Likewise, some interactive entertainment software consumers have reacted to the revelation of undisclosed content by refusing to purchase such games, demanding refunds for games they have already purchased, refraining from buying other games published by the company whose game contained the objectionable material, and, on at least one occasion, filing a lawsuit against the publisher of the product containing such content.

We have implemented preventive measures designed to reduce the possibility of objectionable undisclosed content from appearing in the interactive software products we publish. Nonetheless, these preventive measures are subject to human error, circumvention, overriding and reasonable resource constraints. If an interactive software product we publish is found to contain undisclosed content, we could be subject to any of these consequences, which could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

We may not be able to adequately adjust our cost structure in a timely fashion in response to a sudden decrease in demand.

In the event of a significant decline in demand for one or more of our products, we may not be able to reduce personnel or make other changes to our cost structure without disrupting our operations or incurring costs. Further, we may not be able to implement such actions in a timely manner, if at all, to offset an immediate shortfall in revenue and profit. Moreover, cost-reduction actions may decrease our employee morale and result in the failure to execute upon our business plan due to the loss of employees or impact our ability to retain or recruit key employees. In addition, any such action may involve the risk that our senior management's attention will be excessively diverted from our other operations. The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We engage in strategic transactions and may encounter difficulties in integrating acquired businesses or otherwise realizing the anticipated benefits of the transactions.

As part of our business strategy, from time to time, we acquire, make investments in, or enter into strategic alliances and joint ventures with complementary businesses. These transactions may involve significant risks and uncertainties, including: (A) in the case of an acquisition, (i) the difficulty in integrating the acquired business and operations in an efficient and effective manner, (ii) any liabilities assumed as part of the acquisition, and (iii) the potential loss of key employees of the acquired businesses, and, (B) in the case of an investment, alliance or joint venture, our ability to cooperate with our partner. If any such transaction involves an entity outside of the United States, it may also subject us to the risks and uncertainties of international trade, including the risk that our operations outside the United States could be conducted by our employees, contractors, representatives or agents in ways that violate anti-bribery laws. Further, any such transaction may involve the risk that our senior management's attention will be excessively diverted from our other operations, the risk that our industry does not evolve as anticipated and that any intellectual property or personnel skills acquired do not prove to be those needed for our future success, and the risk that our strategic objectives, cost savings or other anticipated benefits are otherwise not achieved. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

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Our involvement in joint ventures and other similar arrangements decreases our ability to manage risk.

We conduct some of our operations through joint ventures in which we share control with our joint venture partners. Although we enter into joint venture and other similar arrangements in order to share risks with our partners, these arrangements may also decrease our ability to manage risk. As with any joint venture or similar arrangement, differences in views among the participants may result in delayed decisions or in failures to agree on major issues. There is the risk that our partners may at any time have economic, business or legal interests or goals that are inconsistent with ours. There is also risk that our partners may be unable to meet their economic or other obligations and we may be required to fulfill those obligations alone. Failure by us, or an entity in which we have a joint venture or similar interest, to adequately manage the risks associated with any joint ventures or similar arrangements could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity.

We may seek to enter into additional joint ventures or similar arrangements with other entities. We cannot assure that we will undertake such ventures or, if undertaken, that such ventures will be successful or produce the anticipated benefits.

Historically, our stock price has been highly volatile.

The trading price of our common stock has been, and could continue to be, subject to wide fluctuations in response to many factors, including for example, but without limitation:

quarter-to-quarter variations in results of operations;

the announcement of new products;

the announcement of lower prices on competing products;

product development or release schedules;

general conditions in the computer, software, entertainment, media or electronics industries, or in the worldwide economy;

announcements of developments in the overall worldwide market for interactive entertainment, including announcements of industry sales data;

the timing of the introduction of new platforms and delays in the actual release of new platforms;

hardware manufacturers' announcements of price changes for hardware platforms;

consumer acceptance of hardware platforms;

consumer spending trends;

the outcome of lawsuits or regulatory investigations in which we may become involved;

changes in earnings estimates or buy/sell recommendations by analysts;

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sales or acquisitions of common stock by our directors or executive management, or by ASAC or Vivendi or their respective affiliates; and

investor perceptions and expectations regarding our products, plans and strategic position, and those of our competitors and customers.

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Subject to certain limitations, ASAC and Vivendi may sell common stock, which could cause our stock price to decrease.

We have two large shareholders ASAC and Vivendi either of which may, during certain periods of time and subject to certain limitations, sell some or all of the shares of our stock that it owns, including pursuant to a registered underwritten public offering under the Securities Act of 1933, as amended (the "Securities Act"), or in accordance with Rule 144 under the Securities Act. Further, both ASAC and Vivendi have the right to require us to register all or a portion of its shares, under certain conditions. The sale of a substantial number of shares of common stock by one of our shareholders within a short period of time could cause our stock price to decrease, and make it more difficult for us to raise funds through future offerings of shares of our common stock.

Catastrophic events may disrupt our business.

Our corporate headquarters and our primary corporate disaster center are located in the Los Angeles, California area and our disaster recovery data center is in Las Vegas, Nevada, each of which is near a major earthquake fault. A major earthquake or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems, or otherwise prevents us from conducting our normal business operations, could require significant expenditures to resume operations and have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity. While we maintain insurance coverage for some of these events, the potential liabilities associated with such events could exceed the insurance coverage we maintain. Further, our system redundancy may be ineffective or inadequate and our disaster recovery planning may not be sufficient for all eventualities. Any such event could also limit the ability of retailers, distributors or our other customers to sell or distribute our products.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal corporate and administrative offices are located at 3100 Ocean Park Boulevard, Santa Monica, California. Other significant leased facilities include: our Blizzard offices located in Irvine, California and our North America distribution warehouse located in Fresno, California.

The following is a summary of the principal leased offices we maintained as of December 31, 2013:

Type of Leased Facility	North America	Europe	Asia	Total
	Square footage of leased properties			
Corporate Offices	139,085	11,044		150,129
Activision Product Development & Publishing Facilities (Activision segment)	811,983	64,991	24,554	901,528
Blizzard Product Development & Publishing Facilities (Blizzard segment)	514,590	118,140	75,960	708,690
Distribution Facilities (Distribution segment)		165,458		165,458
Sales offices	13,345	46,779	7,317	67,441
Total	1,479,003	406,412	107,831	1,993,246

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In total, we lease 51 facilities in the following 18 countries: Australia, Brazil, Canada, China, Denmark, France, Germany, Ireland, Italy, Mexico, the Netherlands, Singapore, South Korea, Spain, Sweden, Taiwan, the United Kingdom, and the United States. We anticipate no difficulty in extending the leases of our facilities or obtaining comparable facilities in suitable locations, as needed, and we consider our facilities to be adequate for our current needs. The only facilities currently owned by the Company are two European warehouses utilized by the Distribution segment, located in Burglengenfeld, Germany and Venlo, the Netherlands.

Item 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims. SEC regulations govern the disclosure of legal proceedings in periodic reports and FASB 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 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.

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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 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. Responses to the complaint are due on March 4, 2014. The trial is scheduled for December 2014.

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, ASAC, the General Partner of ASAC, 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

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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.

We believe that the defendants have meritorious defenses and intend to defend each of these lawsuits vigorously. 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 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 activities. In addition, the Company may incur substantial legal fees and costs in connection with litigation and, although coverage may be available under relevant insurance policies, coverage could be denied or prove to be insufficient. Under our Amended and Restated Certificate of Incorporation and

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the indemnification agreements that the Company has entered into with our officers and directors, the Company may be required in certain circumstances to indemnify and advance expenses to them in connection with their participation in proceedings arising out of their service to us. There can be no assurance that any of these payments will not be material.

The Company is not currently able to estimate the range of possible losses or costs to us from these lawsuits and related indemnification obligations, as they are in the early stages and it cannot be determined how long it may take to resolve these matters. Moreover, the Company cannot be certain what the impact on our operations or financial position will be if any of the purported stockholder plaintiffs are successful in having the Stockholders Agreement dated October 11, 2013 among the Company, ASAC and, for limited purposes, Messrs. Kotick and Kelly (the "Stockholders Agreement") reformed. It is possible that the Company could, in the future, establish reserves, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to the Company on these actions could result in the reformation of the Stockholders Agreement and could have a material adverse effect on our business, reputation, financial condition, results of operations, profitability, cash flows or liquidity.

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 4. MINE SAFETY DISCLOSURES

Not applicable

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information and Holders*

Our common stock is quoted on the NASDAQ National Market under the symbol "ATVI."

The following table sets forth, for the periods indicated, the high and low reported sale prices for our common stock. At February 24, 2014, there were 1,718 holders of record of our common stock.

	High	Low
2012		
First Quarter Ended March 31, 2012	\$ 12.95	\$ 11.54
Second Quarter Ended June 30, 2012	13.00	11.32
Third Quarter Ended September 30, 2012	12.57	11.00
Fourth Quarter Ended December 31, 2012	11.74	10.45
2013		
First Quarter Ended March 31, 2013	\$ 15.08	\$ 10.75
Second Quarter Ended June 30, 2013	16.11	13.27
Third Quarter Ended September 30, 2013	18.43	14.14
Fourth Quarter Ended December 31, 2013	18.40	16.06
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Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Activision Blizzard Inc. under the Exchange Act or the Securities Act.

The graph below matches the cumulative five-year total return of holders of our common stock with the cumulative total returns of the NASDAQ Composite index and the RDG Technology Composite index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was \$100 on December 31, 2008 and tracks each such investment through December 31, 2013.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Activision Blizzard, Inc., the NASDAQ Composite Index,
and the RDG Technology Composite Index

*
\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/08	12/09	12/10	12/11	12/12	12/13
Activision Blizzard, Inc.	100.00	128.59	145.97	146.75	128.32	218.29
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
RDG Technology Composite	100.00	160.94	181.64	181.83	208.18	274.77

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Cash Dividends

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 February 7, 2013, our Board of Directors declared a cash dividend of \$0.19 per common share, payable on May 15, 2013, to shareholders of record at the close of business on March 20, 2013. On May 15, 2013, we made an aggregate cash dividend payment of \$212 million to such shareholders. On May 31, 2013, the Company made dividend equivalent payments of \$4 million related to that cash dividend to the holders of restricted stock units.

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On February 9, 2012, our Board of Directors declared a cash dividend of \$0.18 per common share, payable on May 16, 2012, to shareholders of record at the close of business on March 21, 2012. On May 16, 2012, we made an aggregate cash dividend payment of \$201 million to such shareholders. On June 1, 2012, the Company made dividend equivalent payments of \$3 million related to that cash dividend to the holders of restricted stock units.

Future dividends will depend upon our earnings, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors. Further, agreements governing our indebtedness, including the indenture governing the Notes and the Credit Agreement, as described in Note 12 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, limit our ability to pay distributions or dividends with certain exceptions. There can be no assurances that dividends will be declared in the future.

10b5-1 Stock Trading Plans

The Company's directors and employees may, at a time they are not aware of material non-public information, enter into plans ("Rule 10b5-1 Plans") to purchase or sell shares of our common stock that satisfy the requirements of Exchange Act Rule 10b5-1. Rule 10b5-1 permits trading on a pre-arranged, "automatic-pilot" basis, subject to certain conditions, including that the person for whom the plan is created (or anyone else aware of material non-public information acting on such person's behalf) not exercise any subsequent influence regarding the amount, price and dates of transactions under the plan. In addition, any such plan of the Company's directors and employees is required to be established and maintained in accordance with the Company's "Policy on Establishing and Maintaining 10b5-1 Trading Plans."

Rule 10b-5-1 Plans permit persons whose ability to purchase or sell our common stock may otherwise be substantially restricted (by quarterly and special stock-trading blackouts and by their possession from time to time of material nonpublic information) to engage in pre-arranged trading. Trades under a Rule 10b5-1 Plan by our directors and employees are not necessarily indicative of their respective opinions of our current or potential future performance at the time of the trade. Trades by our directors and executive officers pursuant to a Rule 10b5-1 Plan will be disclosed publicly through Form 144 and Form 4 filings with the SEC, in accordance with applicable laws, rules and regulations.

Issuer Purchase of Equity Securities

On February 2, 2012, our Board of Directors authorized a stock repurchase program pursuant to which we were authorized to repurchase up to \$1 billion of the Company's common stock from time to time on the open market or in private transactions, including structured or accelerated transactions, on terms and conditions to be determined by the Company. The 2012 stock repurchase program expired on March 31, 2013. No repurchase of common stock occurred under this program in 2013.

On October 11, 2013, we repurchased 428,676,471 shares of our common stock, pursuant to a stock purchase agreement (the "Stock Purchase Agreement") we entered into on July 25, 2013, with Vivendi and ASAC II LP, an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi, which was the direct owner of 428,676,471 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"). The repurchased shares were recorded in "Treasury Stock" in our consolidated balance sheet.

The following table provides the number of shares purchased and the average price paid per share during each quarter of 2013, the total number of shares purchased as part of our publicly announced

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share repurchase programs, and the approximate dollar value of shares that could still be purchased under our stock repurchase program as of the end of each relevant period.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
January 1, 2013 - March 31, 2013	45,006(1)	\$ 14.37		\$
April 1, 2013 - June 30, 2013				
July 1, 2013 - September 30, 2013				
October 1, 2013 - October 31, 2013	428,676,471(2)	13.60		
November 1, 2013 - November 30, 2013				
December 1, 2013 - December 31, 2013				
Subtotal for the fourth quarter of 2013	428,676,471	13.60		
 Total	 428,721,477	 \$ 13.60		

-
- (1) Consists of transactions under the Company's equity compensation plans involving the delivery to the Company of shares of our common stock, with an average value of \$14.37 per share as of the date of delivery, to satisfy tax withholding obligations in connection with the vesting of restricted stock awards to our employees.
- (2) Consists of the repurchase of 428,676,471 shares of our common stock from Vivendi as a part of the Purchase Transaction, as described above.

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The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data presented below at and for each of the years in the five-year period ended December 31, 2013 is derived from our Consolidated Financial Statements. All amounts set forth in the following tables are in millions, except per share data.

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data:					
Net Revenues	\$ 4,583	\$ 4,856	\$ 4,755	\$ 4,447	\$ 4,279
Net income (loss)	1,010	1,149	1,085	418(1)	113(2)
Basic net income (loss) per share	0.96	1.01	0.93	0.34	0.09
Diluted net income (loss) per share	0.95	1.01	0.92	0.33	0.09
Cash dividends declared per share(3)	0.19	0.18	0.165	0.15	
Balance Sheet Data:					
Total assets	\$ 14,012	\$ 14,200	\$ 13,277	\$ 13,447	\$ 13,742
Total debt, net(4)	4,693				

- (1) In the fourth quarter of 2010, we recorded \$326 million of impairment charges within our Activision segment. These charges consisted of impairments of \$67 million, \$9 million and \$250 million to license agreements, game engines and internally developed franchises intangible assets, respectively.
- (2) In the fourth quarter of 2009, we recorded \$409 million of impairment charges within our Activision segment. These charges consisted of impairments of \$24 million, \$12 million and \$373 million to license agreements, game engines and internally developed franchise intangible assets, respectively.
- (3) On February 7, 2013, our Board of Directors declared a cash dividend of \$0.19 per share, payable on May 15, 2013, to shareholders of record at the close of business on March 20, 2013. On February 9, 2012, our Board of Directors declared a cash dividend of \$0.18 per share, payable on May 16, 2012, to shareholders of record at the close of business on March 21, 2012. On February 9, 2011, our Board of Directors declared a cash dividend of \$0.165 per share, payable on May 11, 2011, to shareholders of record at the close of business on March 16, 2011. On February 10, 2010, our Board of Directors declared a cash dividend of \$0.15 per share, payable on April 2, 2010, to shareholders of record at the close of business on February 22, 2010. Prior to the cash dividend declared in February 2010, the Company had never paid a cash dividend.
- (4) In connection with the Purchase Transaction, on September 19, 2013, we issued \$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"). On October 11, 2013, we entered into a \$2.5 billion secured term loan facility (the "Term Loan"), maturing in October 2020. The carrying values of the Notes and Term Loan are presented net of unamortized debt discount fees.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

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

The Company's Formation and Recently Consummated Share Repurchase and Related Debt Financing

Activision, Inc. was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992.

On July 9, 2008, a business combination (the "Business Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC, was consummated. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. ("Activision Blizzard") and Vivendi became a majority shareholder of Activision Blizzard. Activision Blizzard is a public company traded on the NASDAQ under the ticker symbol "ATVI."

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 on July 25, 2013, with Vivendi and ASAC II LP ("ASAC"), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi ("New VH"), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of \$5.83 billion, or \$13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the "Purchase Transaction"). The Purchase Transaction was funded with a combination of \$1.2 billion of cash on hand, the net proceeds from a \$2.5 billion secured term loan facility, maturing in October 2020 (the "Term Loan"), and the net proceeds from the issuance of \$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"). Refer to Note 12 of the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, and Other Liquidity and Capital Resources for additional information. The repurchased shares were recorded in "Treasury Stock" in our consolidated balance sheet.

Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of Activision Blizzard 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.

As of December 31, 2013, (i) we had 704 million shares of common stock issued and outstanding, approximately 64% of which was held by the public, (ii) Vivendi held 83 million shares, or approximately 12% of the outstanding shares of our common stock, and (iii) ASAC held 172 million shares, or approximately 24% of the outstanding shares of our common stock.

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The Company's Operations

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 international developer and publisher of interactive software products and content, including games from the Call of Duty® and Skylanders franchises. Activision develops games primarily based on internally-developed properties, as well as some licensed intellectual properties. We sell games through both retail channels and digital downloads. 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 "current-generation"); the PC; the Nintendo 3DS ("3DS"), Nintendo Dual Screen ("DS"), and Sony PlayStation Vita handheld game systems; and other handheld and mobile devices.

Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") is a leader in the subscription-based massively multi-player online role-playing game ("MMORPG") 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 and iPad, including games in the multiple-award winning Diablo® and StarCraft® franchises. In September 2013, Blizzard released *Diablo III* for the PS3 and Xbox 360, and confirmed plans to adapt the game for the PS4. 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 realm transfers, faction changes and other character customizations within the *World of Warcraft* gameplay; retail sales of physical "boxed" products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft*, *Diablo III* and *StarCraft II* products. In addition, Blizzard developed *Hearthstone : Heroes of Warcraft*, a free-to-play digital collectible card game, which was released in closed beta in August 2013 and in open beta in January 2014, and is currently developing *Heroes of the Storm*, a new free-to-play online hero brawler.

Activision Blizzard Distribution

Activision Blizzard Distribution ("Distribution") consists of operations in Europe that provide warehousing, logistical and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Business Results and Highlights

In 2013, Activision Blizzard's consolidated net revenues were \$4.6 billion and consolidated operating income was \$1.4 billion, as compared to net revenues of \$4.9 billion and operating income of \$1.5 billion in 2012. Despite lower net revenues and operating income in 2013, as compared to 2012, we generated comparable cash flows from operating activities of approximately \$1.3 billion in both 2013 and 2012.

As a result of the Purchase Transaction, on October 11, 2013, we reduced our common shares outstanding by approximately 429 million shares, which resulted in a lower weighted-average share

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count for the remainder of the fiscal year. For the year ended December 31, 2013, interest expense of \$58 million, fees and expenses related to the Purchase Transaction and related debt financings of \$79 million, and their associated tax benefits of \$45 million were included in our consolidated net income, partially offsetting the earnings per share benefits from the reduction in our share count. For details of our debt arrangements, our interest expense, and cash paid for interest, refer to Note 12, Note 17, and Note 21, respectively, of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Inclusive of these impacts, the company's net income was \$1.0 billion and earnings per common share was \$0.95 in 2013, in comparison to net income of \$1.1 billion and earnings per common share of \$1.01 in 2012.

According to The NPD Group with respect to North America, GfK Chart-Track with respect to Europe, and Activision Blizzard internal estimates, during 2013:

In North America and Europe combined, Activision Publishing was the #1 console and handheld publisher for the calendar year with the #2 and #3 best-selling franchises *Call of Duty* and *Skylanders*, including toys and accessories.

In North America and Europe combined, including toys and accessories, Activision Publishing had four of the top 10 titles overall.

For the fourth quarter, in aggregate across all platforms in the U.S. and Europe combined, Activision Publishing's *Call of Duty: Ghosts* was the #1 best-selling title in both units and dollars and the #1 best-selling game on the next-generation PS4 and Xbox One console platforms in both units and dollars. Additionally, for the calendar year, *Call of Duty: Black Ops II* was the #9 best-selling title in both units and dollars.

In North America and Europe combined, *Skylanders Giants*, including toys and accessories, was the #4 best-selling handheld and console game in dollars overall and *Skylanders SWAP Force*, including toys and accessories, was the #6 best-selling handheld and console game in dollars overall.

As of December 31, 2013, the *Skylanders* franchise had generated, life-to-date, more than \$2 billion in worldwide retail sales, including toys and accessories, and Activision had sold approximately 175 million *Skylanders* toys worldwide.

In North America, Blizzard Entertainment's *StarCraft II: Heart of the Swarm*® was the #1 best-selling PC game.

As of December 31, 2013, Blizzard Entertainment's *World of Warcraft* remains the #1 subscription-based MMORPG, with approximately 7.8 million subscribers.

Product Release Highlights

Games and digital downloadable content released during the year ended December 31, 2013 included:

Call of Duty: Black Ops II Revolution (digital downloadable content)

Call of Duty: Black Ops II Uprising (digital downloadable content)

Call of Duty: Black Ops II Vengeance (digital downloadable content)

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Call of Duty: Black Ops II Apocalypse (digital downloadable content)

Call of Duty: Ghosts

Deadpool

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Diablo III for the PS3 and Xbox 360

Hearthstone: Heroes of Warcraft (closed beta)

Skylanders SWAP Force

StarCraft II: Heart of the Swarm

The Walking Dead : Survival Instinct

On January 21, 2014, Blizzard released *Hearthstone: Heroes of Warcraft* in open beta.

In the first quarter of 2014, we released *Onslaught*, the first downloadable content pack for *Call of Duty: Ghosts* ("*Onslaught*"), on certain platforms.

Diablo III: Reaper of Souls, the first expansion pack to Blizzard's action role-playing game *Diablo III*, is expected to be available in stores and online beginning on March 25, 2014.

International Operations

International sales are a fundamental part of our business. Net revenues from international sales accounted for approximately 47%, 50%, and 50% of our total consolidated net revenues for the years ended December 31, 2013, 2012 and 2011, respectively. In addition to our United States ("U.S.") operations, we maintain significant operations in Canada, the United Kingdom ("U.K."), France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China. An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Management's Overview of Business Trends

Online Content and Digital Downloads

We provide our products through both retail channels and digital online delivery methods. Many of our video games that are available through retailers as physical "boxed" software products, such as DVDs, are also available by direct digital download over the Internet (from our websites and websites 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 for *World of Warcraft*, which are digitally delivered and hosted by Blizzard's proprietary online-game related service, Battle.net.

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

For the year ended December 31, 2013, revenues through digital online channels increased by \$22 million, as compared to 2012, and represented 34% of our total consolidated net revenues in 2013, as compared to 32% in 2012. This increase was mainly attributable to the strong performance of digital downloadable content for *Call of Duty: Black Ops II* (such as downloadable content packs, and micro-downloadable content ("micro-DLC") which allows players to personalize their in-game experience), the continued strong performance of *Call of Duty: Black Ops II*, and recognition of deferred revenues from *World of Warcraft: Mists of Pandaria*, which was released in 2012, without a comparable release from Blizzard in 2013. On a non-GAAP basis (which excludes the impact of deferred revenues), revenues through digital online channels decreased by \$34 million, as compared to 2012, and represented 36% of our total non-GAAP net revenues in 2013 as compared to 32% in 2012. The

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decrease in revenues through digital online channels was primarily due to the releases of *Diablo III* and *World of Warcraft: Mists of Pandaria* in 2012, partially offset by the strong performance of digital downloadable content for *Call of Duty: Black Ops II* in 2013. Digital online channel revenues were a greater portion of total non-GAAP revenues in 2013, given the relatively lower decrease in digital online channel revenues compared to the decrease in retail channel revenues, versus the prior year.

Our sales of digital downloadable content are driven in part by our sales of retail products. Lower revenues in our retail distribution channel in the current year might impact our digital online channel revenues in the subsequent year. Digital revenues remain an important part of our business, and we continue to focus on and develop products 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.

Over the next few years, we plan to introduce games, based on some of our most successful franchises, that operate on a free-to-play model with microtransactions. These games include Blizzard's *Hearthstone: Heroes of Warcraft*, Blizzard's *Heroes of the Storm*, and *Call of Duty Online*.

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

Console Platform Transition

The current generation of game consoles began with Microsoft's launch of the Xbox 360 in November 2005, and continued in 2006 when Nintendo and Sony launched the Wii and the PS3, respectively. The installed base of current-generation hardware in the U.S. and Europe was approximately 195 million units as of December 31, 2013, as compared to 184 million units at December 31, 2012, according to The NPD Group, with respect to North America, and GfK Chart-Track, with respect to Europe, representing an overall increase of 6% in units year-over-year. The growth was larger for the high-definition platforms, with the installed base of PS3 and Xbox 360 hardware units increasing 9% year-over-year, while the installed base of Wii hardware units increased only 2% year-over-year.

In November 2012, Nintendo released the Wii U, and in November 2013, Sony released the PS4 and Microsoft released the Xbox One, their respective next-generation game consoles and entertainment systems. As of December 31, 2013, according to The NPD Group and GfK Chart-Track, the installed base of next-generation hardware in the U.S. and Europe was approximately 10 million units.

While the new console cycle has started strongly and demand for next-generation games was higher than expected, we expect that this will result in a lower-than-expected demand for current-generation games. For example, we experienced slower sales of our 2013 fourth-quarter launch of *Call of Duty: Ghosts*, as compared to sales of our 2012 fourth-quarter launch of *Call of Duty: Black Ops II*, which we believe is partly attributable to the console platform transition.

When new console platforms are announced or introduced into the market, consumers may reduce their purchases of game console software products for current 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. Platform transitions may have a comparable impact on sales of downloadable content, amplifying the impact on our revenue. During platform transitions, we simultaneously incur costs to develop and market new titles for current-generation video game platforms, which may not sell at premium prices, and to develop and market products for next-generation platforms, which may not generate immediate or near-term revenues. We continually monitor console hardware sales and manage our product delivery on each of the current- and next-generation platforms in a manner we believe to

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be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development. Long term, we expect the new consoles to drive industry growth and expand our opportunities.

Conditions in the Retail Distribution Channels

Conditions in the retail channels of the interactive entertainment industry remained challenging during 2013. In North America and Europe, retail sales within the industry experienced a combined overall decrease of approximately 7% in 2013, as compared to 2012, according to The NPD Group and GfK Chart-Track. The declines in the North American and European retail channels were impacted by fewer releases and catalog sales in 2013 as compared to 2012. In addition, the decline in sales to the retail channels continues to be more pronounced for casual titles on the Nintendo Wii and handheld platforms (down over 29% year-over-year), than titles on high-definition platforms (i.e., Xbox 360 and PS3).

Despite the 7% decrease in retail sales in North America and Europe for the overall industry, according to The NPD Group, GfK Chart-Track and the Company's internal estimates, sales of the industry's top five titles (including accessory packs and figures) grew 20% in 2013, as compared to 2012. The increase in retail sales of the top five titles was mainly driven by the release of a top title by a competitor in the third quarter of 2013. This further demonstrated the concentration of revenues in the top titles, particularly for high-definition platforms, which experienced year-over-year growth, while non-premier titles experienced declines. The Company's results have been less impacted by the general declining trends in retail compared to our competitors because of our greater focus on premier top titles and a more focused overall slate of titles.

Concentration of Top Titles

The concentration of retail revenues among key titles has continued as a trend in the overall interactive software industry. According to The NPD Group, the top 10 titles accounted for 38% of the sales in the U.S. video game industry in 2013 as compared to 30% in 2012. Similarly, a significant portion of our revenues has historically been derived from video games based on a few popular franchises and these video games are responsible for a disproportionately high percentage of our profits. For example, our three largest franchises in 2013 Call of Duty, Skylanders and World of Warcraft accounted for approximately 80% of our net revenues, and a significantly higher percentage of our operating income, for the year.

We expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of the industry and our revenues and profits.

Seasonality

The interactive entertainment industry is highly seasonal. We have historically experienced our highest sales volume in the year-end holiday buying season, which occurs in the fourth quarter. We defer the recognition of a significant amount of net revenues, related to our software titles containing online functionality that constitutes a more-than-inconsequential separate service deliverable, over an extended period of time (i.e., typically five months to less than a year). As a result, the quarter in which we generate the highest sales volume may be different than the quarter in which we recognize the highest amount of net revenues. Our results can also vary based on a number of factors including, but not limited to, title release date, consumer demand, market conditions and shipment schedules.

Outlook

We expect to have a strong product pipeline in 2014, and to have at least three major releases from Blizzard. In January 2014, the open beta version of *Hearthstone: Heroes of Warcraft* was released.

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On March 25, 2014, Blizzard plans to launch the PC expansion pack *Diablo III: Reaper of Souls*, and later in the year, Blizzard is expected to deliver another major game release. Activision plans to debut *Destiny* in September 2014 and new games in the Call of Duty and Skylanders franchises in the fourth quarter of 2014. However, we remain cautious on industry trends, particularly the ongoing console platform transition, which is expected to have a continuing impact on our digital downloadable content business model for *Call of Duty: Ghosts*, as well as other major releases on the current-generation of console platforms.

Looking forward, the above discussed factors, such as the ongoing console platform transition, the increasing concentration of top titles in the interactive entertainment industry, and global economic conditions, could negatively impact our short-term results. We will continue to invest in our established franchises, as well as new titles we think have the potential to drive our growth over the long-term.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,					
	2013		2012		2011	
Net revenues:						
Product sales	\$ 3,201	70%	\$ 3,620	75%	\$ 3,257	68%
Subscription, licensing, and other revenues	1,382	30	1,236	25	1,498	32
Total net revenues	4,583	100	4,856	100	4,755	100
Costs and expenses:						
Cost of sales product costs	1,053	23	1,116	23	1,134	24
Cost of sales online subscriptions	204	4	263	5	255	5
Cost of sales software royalties and amortization	187	4	194	4	218	5
Cost of sales intellectual property licenses	87	2	89	2	165	3
Product development	584	13	604	12	629	13
Sales and marketing	606	13	578	12	545	11
General and administrative	490	11	561	12	456	10
Restructuring					25	1
Total costs and expenses	3,211	70	3,405	70	3,427	72
Operating income	1,372	30	1,451	30	1,328	28
Interest and other investment income (expense), net	(53)	(1)	7		3	
Income before income tax expense	1,319	29	1,458	30	1,331	28
Income tax expense	309	7	309	6	246	5
Net income	\$ 1,010	22%	\$ 1,149	24%	\$ 1,085	23%

Operating Segment Results

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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 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 years ended December 31, 2013, 2012, and 2011 are presented in the table below (amounts in millions):

	For the Years Ended December 31,				
	2013	2012	2011	Increase/ (decrease) 2013 v 2012	Increase/ (decrease) 2012 v 2011
Segment net revenues:					
Activision	\$ 2,895	\$ 3,072	\$ 2,828	\$ (177)	\$ 244
Blizzard	1,124	1,609	1,243	(485)	366
Distribution	323	306	418	17	(112)
Operating segment net revenues total	4,342	4,987	4,489	(645)	498
Reconciliation to consolidated net revenues:					
Net effect from deferral of net revenues	241	(131)	266	372	(397)
Consolidated net revenues	\$ 4,583	\$ 4,856	\$ 4,755	\$ (273)	\$ 101
Segment income from operations:					
Activision	\$ 971	\$ 970	\$ 851	\$ 1	\$ 119
Blizzard	376	717	496	(341)	221
Distribution	8	11	11	(3)	
Operating segment income from operations total	1,355	1,698	1,358	(343)	340
Reconciliation to consolidated operating income and consolidated income before income tax expense:					
Net effect from deferral of net revenues and related cost of sales	229	(91)	183	320	(274)
Stock-based compensation expense	(110)	(126)	(103)	16	(23)
Restructuring			(26)		26
Amortization of intangible assets	(23)	(30)	(72)	7	42
Impairment of goodwill			(12)		12
Fees and other expenses related to the Purchase Transaction and related debt financings	(79)			(79)	
Consolidated operating income	1,372	1,451	1,328	(79)	123
Interest and other investment income (expense), net	(53)	7	3	(60)	4
Consolidated income before income tax expense	\$ 1,319	\$ 1,458	\$ 1,331	\$ (139)	\$ 127

For a better understanding of the differences in presentation between our segment results and the consolidated results, the following explains the nature of each reconciling item.

Net Effect from Deferral of Net Revenues and Related Cost of Sales

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

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are required to recognize revenues from these titles over the estimated service periods, which range from five months to less than one year. The related costs of sales are deferred and recognized when the related revenues are recognized. In the operating segment results table, we present the amount of net revenues and related costs of sales separately for each period as a result of this accounting treatment.

Stock-Based Compensation Expense

We expense our stock-based awards using the grant date fair value over the vesting periods of the stock awards. In the case of liability awards, the liability is subject to revaluation based on the stock price at the end of the relevant period. Included within this stock-based compensation are the net effects of capitalization, deferral, and amortization.

Restructuring

On February 3, 2011, the Company's Board of Directors authorized a restructuring plan (the "2011 Restructuring") involving a focus on the development and publication of a reduced slate of titles on a going-forward basis. The 2011 Restructuring included the discontinuation of the development of music-based games, the closure of the related business unit and the cancellation of other titles then in production, along with a related reduction in studio headcount and corporate overhead. The costs related to the 2011 Restructuring activities included severance costs, facility exit costs, and exit costs from the cancellation of projects. The 2011 Restructuring charges for the year ended December 31, 2011 were \$25 million, which is reflected in a separate caption "Restructuring expenses" on our consolidated statement of operations. The 2011 Restructuring was completed as of December 31, 2011 and we do not expect to incur significant additional restructuring expenses relating thereto.

In 2008, we implemented an organizational restructuring plan as a result of the Business Combination. This organizational restructuring was to integrate different operations and to streamline the combined Activision Blizzard organization. The costs related to the restructuring activities included severance costs, facility exit costs, write-offs of assets and liabilities, and exit costs from the cancellation of projects. For the year ended December 31, 2011, expense related to the organizational restructuring was \$1 million and has been reflected in the "General and administrative expense" in the consolidated statement of operations. The organizational restructuring activities as a result of the Business Combination were completed as of December 31, 2011 and we do not expect to incur additional restructuring expenses relating thereto.

Amortization of Intangible Assets

All of our intangible assets are the result of the Business Combination and other acquisitions. We amortize the intangible assets over their estimated useful lives based on the pattern of consumption of the underlying economic benefits. The amount presented in the table represents the effect of the amortization of intangible assets as well as other purchase price accounting adjustments, where applicable, in our consolidated statements of operations.

Impairment of Goodwill

We recorded a non-cash charge of \$12 million related to the impairment of goodwill of our Distribution reporting unit for the year ended December 31, 2011, reflecting a continuing shift in the distribution of interactive entertainment software from retail distribution channels to digital distribution channels.

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Fees and Other Expenses Related to the Purchase Transaction and Related Debt Financings

We incurred fees and other expenses, such as legal, banking and professional services fees, related to the Purchase Transaction and related debt financings. Such expenses are not reviewed by the CODM as part of segment performance.

Segment Net Revenues

Activision

Activision's net revenues decreased for 2013, as compared to 2012, primarily due to lower launch revenues from *Call of Duty: Ghosts* in the fourth quarter of 2013 as compared to launch revenues from *Call of Duty: Black Ops II* in the fourth quarter of 2012, lower revenues from our value business due to its more focused slate of titles, and lower revenues from the Skylanders franchise. These decreases were partially offset by higher revenues from digital downloadable content from *Call of Duty: Black Ops II* as compared to the performance of downloadable content packs from *Call of Duty: Modern Warfare 3*.

In 2012, net revenues increased, as compared to 2011, primarily due to revenues from the Skylanders franchise (both from the launch of *Skylanders Giants* in the fourth quarter of 2012 and full-year revenues from *Skylanders Spyro's Adventure*, which was launched in the fourth quarter of 2011). The increase was partially offset by lower revenues from the Call of Duty franchise, primarily from lower catalog sales and lower revenues from downloadable content packs for *Call of Duty: Modern Warfare® 3*, though these decreases were partially mitigated by the strong performance from *Call of Duty: Black Ops II*, which launched in the fourth quarter of 2012.

Blizzard

Blizzard's net revenues decreased for 2013, as compared to 2012, primarily due to the release of *Diablo III* in May 2012, without a comparable release in the current year, lower revenues from the World of Warcraft franchise, and the release *World of Warcraft: Mists of Pandaria* in September 2012, without a comparable release in the current year. The decreases were partially offset by the release of *StarCraft II: Heart of the Swarm* in March 2013, the release of *Diablo III* for the PS3 and Xbox 360 in September 2013, and revenues from *Hearthstone: Heroes of Warcraft* during its closed beta.

At December 31, 2013, the worldwide subscriber* base for World of Warcraft was approximately 7.8 million, compared to approximately 7.6 million at September 30, 2013, and down from approximately 9.6 million subscribers at December 31, 2012, with the majority of the decline from the East (where the "East" includes China, Taiwan, and South Korea, and the "West" includes North America, Europe, Australia, and Latin America). In general, the average revenue per subscriber is lower in the East than in the West. The subscriber base at December 31, 2013 benefitted from gamer enthusiasm generated at BlizzCon, Blizzard's convention to celebrate its global player communities, and the promotion of retail products and referral programs during the fourth quarter of 2013. Since December 31, 2010, when the subscriber base reached a new peak of more than 12 million, subscriber levels have trended downward. Looking forward, Blizzard Entertainment expects to continue to deliver new game content in all regions that is intended to further appeal to the gaming community.

*

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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Blizzard's net revenues increased for 2012, as compared to 2011, primarily due to the release of *Diablo III* in May 2012 and *World of Warcraft: Mists of Pandaria* in September 2012. The increase in net revenues was partially offset by lower subscription revenues from *World of Warcraft* due to a lower subscriber base.

Distribution

Distribution's net revenues increased in 2013, as compared to 2012, primarily due to revenues from the distribution of newly introduced next-generation hardware in 2013.

Distribution's net revenues decreased in 2012, as compared to 2011, primarily due to a weaker U.K. market in which the majority of the distribution business is transacted.

Segment Income from Operations

Activision

Despite lower revenues, Activision's operating income in 2013 was comparable to 2012, primarily due to the strength of the higher margin digital business associated with *Call of Duty: Black Ops II* digital downloadable content, a smaller but more profitable slate of releases from our value business, and lower general and administrative costs, primarily resulting from lower legal-related expenses (including legal-related accruals, settlements and fees), partially offset by higher sales and marketing activities to support the Call of Duty and Skylanders franchises.

Activision's operating income increased in 2012, as compared to 2011, primarily due to higher net revenues, and lower sales and marketing costs. The increase was partially offset by higher costs of sales as a result of higher net revenues, higher product development costs, and higher general and administrative costs, primarily resulting from legal-related expenses (including legal-related accruals, settlements and fees) and additional accrued bonuses based on our 2012 financial performance.

Blizzard

Blizzard's operating income decreased in 2013, as compared to 2012, primarily due to lower revenues and less capitalization of product development costs, partially offset by lower sales and marketing costs based on fewer titles released in 2013 and lower general and administrative costs from lower accrued bonuses based on our 2013 financial performance.

Blizzard's operating income increased in 2012, as compared to 2011, primarily due to higher revenues. The increase was partially offset by higher cost of sales as a result of higher net revenues, higher sales and marketing costs to support the launch of *Diablo III* and *World of Warcraft: Mists of Pandaria*, and higher general and administrative costs from additional accrued bonuses based on our 2012 financial performance.

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

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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.

Results of Operations Years Ended December 31, 2013, 2012, and 2011

Non-GAAP Financial Measures

The following table provides reconciliation between GAAP and non-GAAP net revenues by distribution channel for the years ended December 31, 2013, 2012, and 2011 (amounts in millions):

	For the Years Ended December 31,						
	2013	2012	2011	Increase/ (decrease) 2013 v 2012	Increase/ (decrease) 2012 v 2011	% Change 2013 v 2012	% Change 2012 v 2011
GAAP net revenues by distribution channel							
Retail channels	\$ 2,701	\$ 3,013	\$ 2,697	\$ (312)	\$ 316	(10)%	12%
Digital online channels(1)	1,559	1,537	1,640	22	(103)	1	(6)
Total Activision and Blizzard	4,260	4,550	4,337	(290)	213	(6)	5
Distribution	323	306	418	17	(112)	6	(27)
Total consolidated GAAP net revenues	4,583	4,856	4,755	(273)	101	(6)	2
Change in deferred net revenues(2)							
Retail channels	(247)	69	(185)	(316)	254	(458)	(137)
Digital online channels(1)	6	62	(81)	(56)	143	(90)	(177)
Total changes in deferred net revenues	(241)	131	(266)	(372)	397	(284)	(149)
Non-GAAP net revenues by distribution channel							
Retail channels	2,454	3,082	2,512	(628)	570	(20)	23
Digital online channels(1)	1,565	1,599	1,559	(34)	40	(2)	3
Total Activision and Blizzard	4,019	4,681	4,071	(662)	610	(14)	15
Distribution	323	306	418	17	(112)	6	(27)
Total non-GAAP net revenues(3)	\$ 4,342	\$ 4,987	\$ 4,489	\$ (645)	\$ 498	(13)%	11%

- (1) We define revenues from digital online channels as revenues from subscriptions and memberships, 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.

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The decrease in GAAP net revenues from retail channels for 2013, as compared to 2012, was primarily due to lower revenues from *Diablo III* for the PC, which was released in May 2012, lower revenues from our value business due to its more focused slate of titles, lower revenues from the launch of *Call of Duty: Ghosts* as compared to the launch of *Call of Duty: Black Ops II*, which was released in November 2012, and lower revenues from our Skylanders franchise. The decreases were partially offset by revenues from the release of *Diablo III* for the PS3 and Xbox 360 in September 2013, revenues from *StarCraft II: Heart of the Swarm*, which was released in March 2013, and the recognition of previously deferred revenues from *World of Warcraft: Mists of Pandaria*, which was released in September 2012.

The increase in GAAP net revenues from retail channels for 2012, as compared to 2011, was the result of sales from the Skylanders franchise (both from the launch of *Skylanders Giants* in the fourth quarter of 2012 and the full-year revenues from *Skylanders Spyro's Adventure*, which was launched in the fourth quarter of 2011) and revenues from *Diablo III* and *World of Warcraft: Mists of Pandaria*. The increase was partially offset by lower catalog sales of Call of Duty as well as other titles, and lower catalog revenues generated from *World of Warcraft: Cataclysm* and *StarCraft II: Wings of Liberty*, which were released in 2010.

The increase in GAAP net revenues from digital online channels for 2013, as compared to 2012, was primarily due to higher revenues from the current year releases of *Call of Duty: Black Ops II* digital downloadable content, as compared to *Call of Duty: Modern Warfare 3* downloadable content packs, stronger revenues from *Call of Duty: Black Ops II*, as compared to *Call of Duty: Modern Warfare 3*, recognition of previously deferred revenues from *World of Warcraft: Mists of Pandaria*, and revenues from *StarCraft II: Heart of the Swarm*, which was released in March 2013. The increases were partially offset by lower revenues from *Diablo III* for the PC, which was released in May 2012, lower subscription and value-added services revenues from the World of Warcraft franchise due to a lower number of subscribers as compared to same period in 2012, and lower revenues from our Call of Duty catalog titles.

The decrease in GAAP net revenues from digital online channels for 2012, as compared to 2011, was primarily due to lower revenues from *World of Warcraft* subscriptions and lower net revenues from Call of Duty downloadable content packs released in 2012 for *Call of Duty: Modern Warfare 3*, in comparison to downloadable content packs released in 2011 for *Call of Duty: Black Ops*. The decrease was partially offset by the full game download sales of *Diablo III* and *World of Warcraft: Mists of Pandaria*, and revenues from *Call of Duty Elite* memberships.

The decrease in non-GAAP net revenues from retail channels for 2013, as compared to 2012, was primarily due to lower revenues from *Diablo III* for the PC, which was released in May 2012, lower revenues from *Call of Duty: Ghosts* as compared to revenues in 2012 for *Call of Duty: Black Ops II*, fewer releases from our value business due to its more focused slate of titles, lower revenues from our Skylanders franchise and Call of Duty catalog titles, and lower sales from *World of Warcraft: Mists of Pandaria*, which was released in September 2012. The decreases were partially offset by sales from *Diablo III* for the PS3 and Xbox360, which was released in September 2013, as well as the sales from *StarCraft II: Heart of the Swarm*, which was released in March 2013.

The increase in non-GAAP net revenues from retail channels for 2012, as compared to 2011, was the result of sales from the Skylanders franchise (both from the launch of *Skylanders Giants* in the fourth quarter of 2012 and the full-year revenues from *Skylanders Spyro's Adventure*, which was launched in the fourth quarter of 2011), *Diablo III* and *World of Warcraft: Mists of Pandaria*. The increase was partially offset by lower catalog sales of Call of Duty titles as well as other titles, and lower catalog revenues generated from *World of Warcraft: Cataclysm* and *StarCraft II: Wings of Liberty*, which were released in 2010.

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The decrease in non-GAAP net revenues from digital online channels for 2013, as compared to 2012, was primarily due to lower revenues from *Diablo III* for the PC, which was released in May 2012, lower subscription and value-added services revenues from the World of Warcraft franchise due to a lower number of subscribers as compared to same periods in 2012, and lower revenues from *World of Warcraft: Mists of Pandaria*, which was released in September 2012. The decreases were partially offset by stronger revenues from the current year releases of *Call of Duty: Black Ops II* digital downloadable content, as compared to *Call of Duty: Modern Warfare 3* downloadable content packs, stronger catalog sales of *Call of Duty: Black Ops II* in 2013, as compared to catalog sales of *Call of Duty: Modern Warfare 3* in 2012, and revenues from *StarCraft II: Heart of the Swarm*, which was released in 2013.

The increase in non-GAAP net revenues from digital online channels for 2012, as compared to 2011, was attributable to sales of full game digital downloads from the launches of *World of Warcraft: Mists of Pandaria* and *Diablo III* (which were launched in 2012) and memberships revenues from *Call of Duty Elite* (which was launched in late November 2011). The increase was partially offset by lower revenues from *World of Warcraft* subscriptions and lower net revenues from *Call of Duty* downloadable content packs.

Consolidated Results

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the years ended December 31, 2013, 2012, and 2011 (amounts in millions):

	For the Years Ended December 31,						
	2013	2012	2011	Increase/ (decrease) 2013 v 2012	Increase/ (decrease) 2012 v 2011	% Change 2013 v 2012	% Change 2012 v 2011
Geographic region net revenues:							
North America	\$ 2,414	\$ 2,436	\$ 2,405	\$ (22)	\$ 31	(1)%	1%
Europe	1,826	1,968	1,990	(142)	(22)	(7)	(1)
Asia Pacific	343	452	360	(109)	92	(24)	26
Consolidated net revenues	\$ 4,583	\$ 4,856	\$ 4,755	\$ (273)	\$ 101	(6)	2

The increase/(decrease) in deferred revenues recognized by geographic region for the years ended December 31, 2013, 2012, and 2011 was as follows (amounts in millions):

	For the Years Ended December 31,					
	2013	2012	2011	Increase/ (Decrease) 2013 v 2012	Increase/ (Decrease) 2012 v 2011	
Deferred revenues recognized by geographic region:						
North America	\$ 108	\$ (78)	\$ 154	\$ 186	\$ (232)	
Europe	107	(28)	104	135	(132)	
Asia Pacific	26	(25)	8	51	(33)	
Total impact on consolidated net revenues	241	(131)	266	372	(397)	