

Activision Blizzard, Inc.
Form 10-Q
August 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended June 30, 2011

OR

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

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-4803544

(I.R.S. Employer Identification No.)

3100 Ocean Park Boulevard, Santa Monica, CA

(Address of principal executive offices)

90405

(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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The number of shares of the registrant's Common Stock outstanding at July 29, 2011 was 1,142,815,142.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future economic performance; and (4) statements of assumptions underlying such statements. We generally use words such as 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 risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. The forward-looking statements contained herein speak only at the date on which this Quarterly Report on Form 10-Q was first filed. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of Activision Blizzard's titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the current macroeconomic environment and market conditions within the video game industry, Activision Blizzard's ability to predict consumer preferences, including interest in specific genres such as first-person action and massively multiplayer online games and preferences among competing hardware platforms, the seasonal and cyclical nature of the interactive game market, changing business models including digital delivery of content, competition including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, rapid changes in technology and industry standards, litigation risks and associated costs, the effectiveness of Activision Blizzard's restructuring efforts, protection of proprietary rights, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality hit titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, and the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion, and the other factors identified in Risk Factors included in Part II, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010. The forward-looking statements contained herein are based upon information available to us as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard's names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard.

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Amounts in millions, except share data)

	At June 30, 2011	At December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,334	\$ 2,812
Short-term investments	610	696
Accounts receivable, net of allowances of \$251 million and \$377 million at June 30, 2011 and December 31, 2010, respectively	140	640
Inventories	93	112
Software development	126	147
Intellectual property licenses	43	45
Deferred income taxes, net	511	648
Other current assets	97	299
Total current assets	3,954	5,399
Long-term investments	25	23
Software development	90	55
Intellectual property licenses	16	28
Property and equipment, net	163	169
Other assets	17	15
Intangible assets, net	144	160
Trademark and trade names	433	433
Goodwill	7,130	7,132
Total assets	\$ 11,972	\$ 13,414
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 156	\$ 363
Deferred revenues	601	1,726
Accrued expenses and other liabilities	489	838
Total current liabilities	1,246	2,927
Deferred income taxes, net	97	120
Other liabilities	164	164
Total liabilities	1,507	3,211
Commitments and contingencies (Note 14)		
Shareholders equity:		

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Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,142,158,668 and 1,382,479,839 shares issued at June 30, 2011 and December 31, 2010, respectively

Additional paid-in capital	9,735	12,353
Less: Treasury stock, at cost, no shares and 199,159,987 shares at June 30, 2011 and December 31, 2010, respectively		(2,194)
Retained earnings	701	57
Accumulated other comprehensive income (loss)	29	(13)
Total shareholders' equity	10,465	10,203
Total liabilities and shareholders' equity	\$ 11,972	\$ 13,414

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

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

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues				
Product sales	\$ 768	\$ 643	\$ 1,829	\$ 1,629
Subscription, licensing, and other revenues	378	324	766	646
Total net revenues	1,146	967	2,595	2,275
Costs and expenses				
Cost of sales product costs	213	235	512	572
Cost of sales massively multi-player online role-playing game (MMORPG)	59	53	122	109
Cost of sales software royalties and amortization	47	51	109	150
Cost of sales intellectual property licenses	24	29	53	72
Product development	116	100	258	237
Sales and marketing	90	125	150	181
General and administrative	127	74	228	143
Restructuring	3		22	
Total costs and expenses	679	667	1,454	1,464
Operating income	467	300	1,141	811
Investment and other income, net	2	1	5	1
Income before income tax expense	469	301	1,146	812
Income tax expense	134	82	308	212
Net income	\$ 335	\$ 219	\$ 838	\$ 600
Earnings per common share				
Basic	\$ 0.29	\$ 0.18	\$ 0.71	\$ 0.48
Diluted	\$ 0.29	\$ 0.17	\$ 0.71	\$ 0.47
Weighted-average shares outstanding				
Basic	1,141	1,232	1,157	1,239
Diluted	1,150	1,248	1,166	1,254
Dividends per common share	\$	\$	\$ 0.165	\$ 0.15

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

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

(Unaudited)

(Amounts in millions)

	For the Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 838	\$ 600
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	119	81
Depreciation and amortization	52	59
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	124	142
Stock-based compensation expense (2)	43	61
Excess tax benefits from stock option exercises	(4)	(6)
Changes in operating assets and liabilities:		
Accounts receivable	518	525
Inventories	21	78
Software development and intellectual property licenses	(116)	(158)
Other assets	209	224
Deferred revenues	(1,164)	(936)
Accounts payable	(216)	(144)
Accrued expenses and other liabilities	(368)	(325)
Net cash provided by operating activities	56	201
Cash flows from investing activities:		
Proceeds from maturities of investments	374	188
Payment of contingent consideration	(3)	(4)
Purchases of short-term investments	(300)	(388)
Capital expenditures	(18)	(39)
Decrease in restricted cash	10	16
Net cash provided by (used in) investing activities	63	(227)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	26	30
Repurchase of common stock	(501)	(349)
Dividends paid	(192)	(187)
Excess tax benefits from stock option exercises	4	6
Net cash used in financing activities	(663)	(500)
Effect of foreign exchange rate changes on cash and cash equivalents	66	(28)
Net decrease in cash and cash equivalents	(478)	(554)
Cash and cash equivalents at beginning of period	2,812	2,768
Cash and cash equivalents at end of period	\$ 2,334	\$ 2,214

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

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the Six Months Ended June 30, 2011

(Unaudited)

(Amounts in millions)

	Common Stock		Additional	Treasury Stock		Retained	Accumulated	Total
	Shares	Amount	Paid-In	Shares	Amount	Earnings	Other	Shareholders
			Capital				Comprehensive	Equity
							Income (Loss)	
Balance at December 31, 2010	1,382	\$	\$ 12,353	(199)	\$ (2,194)	\$ 57	\$ (13)	\$ 10,203
Components of comprehensive income:								
Net income						838		838
Unrealized appreciation on investments, net of taxes								