

# ACTIVISION BLIZZARD, INC.

## FORM 10-Q (Quarterly Report)

Filed 08/03/17 for the Period Ending 06/30/17

Address	3100 OCEAN PARK BLVD SANTA MONICA, CA 90405
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Fiscal Year	12/31

**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, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's Common Stock outstanding at July 27, 2017 was 754,921,174.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Table of Contents

	<a href="#">Cautionary Statement</a>	3
<a href="#">PART I.</a>	<a href="#">FINANCIAL INFORMATION</a>	
<a href="#">Item 1.</a>	<a href="#">Financial Statements (Unaudited)</a>	
	<a href="#">Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</a>	4
	<a href="#">Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and June 30, 2016</a>	5
	<a href="#">Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and June 30, 2016</a>	6
	<a href="#">Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and June 30, 2016</a>	7
	<a href="#">Condensed Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2017</a>	8
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	9
<a href="#">Item 2.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	30
<a href="#">Item 3.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	56
<a href="#">Item 4.</a>	<a href="#">Controls and Procedures</a>	58
<a href="#">PART II.</a>	<a href="#">OTHER INFORMATION</a>	58
<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>	58
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	59
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>	59
	<a href="#">SIGNATURE</a>	60
	<a href="#">EXHIBIT INDEX</a>	61
	CERTIFICATIONS	

## CAUTIONARY STATEMENT

*This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical facts and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow, or other financial items; (2) statements of our plans and objectives, including those related to releases of products or services; (3) statements of future financial or operating performance; and (4) statements of assumptions underlying such statements. Activision Blizzard, Inc. generally uses words such as “outlook,” “forecast,” “will,” “could,” “should,” “would,” “to be,” “plan,” “plans,” “believes,” “may,” “might,” “expects,” “intends,” “intends as,” “anticipates,” “estimate,” “future,” “positioned,” “potential,” “project,” “remain,” “scheduled,” “set to,” “subject to,” “upcoming” and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risks, reflect management’s current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict.*

*The company cautions that a number of important factors could cause Activision Blizzard, Inc.’s actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Such factors include, but are not limited to: sales levels of Activision Blizzard, Inc.’s titles, products, and services; concentration of revenue among a small number of titles; Activision Blizzard, Inc.’s ability to predict consumer preferences, including interest in specific genres and preferences among platforms; the diversion of management time and attention to issues relating to the operations of our acquired or newly started businesses; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; the adoption rate and availability of new hardware (including peripherals) and related software; counterparty risks relating to customers, licensees, licensors, and manufacturers; maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, manufacturers, vendors, and third-party developers, including the ability to attract, retain, and develop key personnel and developers that can create high-quality titles, products, and services; risks relating to the expansion into new businesses, including the potential impact on our existing businesses; changing business models within the video game industry, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from other forms of entertainment; rapid changes in technology and industry standards; possible declines in software pricing; product returns and price protection; the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion; the seasonal and cyclical nature of the interactive entertainment market; the outcome of current or future tax disputes; litigation risks and associated costs; protection of proprietary rights; shifts in consumer spending trends; capital market risks; the impact of applicable regulations; domestic and international economic, financial, and political conditions and policies; tax rates and foreign exchange rates; the impact of the current macroeconomic environment; and the other factors identified in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.*

*The forward-looking statements contained herein are based on information available to Activision Blizzard, Inc. as of the date of this filing 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, Inc. All other product or service names are the property of their respective owners.*

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	<u>At June 30, 2017</u>	<u>At December 31, 2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,278	\$ 3,245
Accounts receivable, net of allowances of \$147 and \$261, at June 30, 2017 and December 31, 2016, respectively	360	732
Inventories, net	51	49
Software development	349	412
Other current assets	314	392
Total current assets	<u>4,352</u>	<u>4,830</u>
Software development	104	54
Property and equipment, net	246	258
Deferred income taxes, net	398	283
Other assets	466	401
Intangible assets, net	1,479	1,858
Goodwill	9,763	9,768
Total assets	<u>\$ 16,808</u>	<u>\$ 17,452</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 163	\$ 222
Deferred revenues	940	1,628
Accrued expenses and other liabilities	662	806
Total current liabilities	<u>1,765</u>	<u>2,656</u>
Long-term debt, net	4,387	4,887
Deferred income taxes, net	38	44
Other liabilities	903	746
Total liabilities	<u>7,093</u>	<u>8,333</u>
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,183,496,138 and 1,174,163,069 shares issued at June 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	10,606	10,442
Less: Treasury stock, at cost, 428,676,471 shares at June 30, 2017 and December 31, 2016	(5,563)	(5,563)
Retained earnings	5,312	4,869
Accumulated other comprehensive loss	(640)	(629)
Total shareholders' equity	<u>9,715</u>	<u>9,119</u>
Total liabilities and shareholders' equity	<u>\$ 16,808</u>	<u>\$ 17,452</u>

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

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

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net revenues</b>				
Product sales	\$ 481	\$ 501	\$ 989	\$ 1,145
Subscription, licensing, and other revenues	1,150	1,069	2,367	1,880
Total net revenues	1,631	1,570	3,356	3,025
<b>Costs and expenses</b>				
Cost of revenues—product sales:				
Product costs	130	149	273	318
Software royalties, amortization, and intellectual property licenses	75	80	163	208
Cost of revenues—subscription, licensing, and other revenues:				
Game operations and distribution costs	236	241	468	383
Software royalties, amortization, and intellectual property licenses	120	128	242	180
Product development	252	249	478	424
Sales and marketing	308	322	554	490
General and administrative	171	169	347	329
Total costs and expenses	1,292	1,338	2,525	2,332
Operating income	339	232	831	693
Interest and other expense (income), net	46	65	85	117
Income before income tax expense	293	167	746	576
Income tax expense	50	16	77	62
Net income	\$ 243	\$ 151	\$ 669	\$ 514
<b>Earnings per common share</b>				
Basic	\$ 0.32	\$ 0.20	\$ 0.89	\$ 0.69
Diluted	\$ 0.32	\$ 0.20	\$ 0.88	\$ 0.68
<b>Weighted-average number of shares outstanding</b>				
Basic	754	739	752	737
Diluted	764	753	763	751
Dividends per common share	\$ —	\$ —	\$ 0.30	\$ 0.26

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 243	\$ 151	\$ 669	\$ 514
Other comprehensive income (loss):				
Foreign currency translation adjustment	8	(16)	27	(20)
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	(22)	9	(37)	4
Realized gain on investments, net of tax	(1)	—	(1)	—
Total other comprehensive loss	\$ (15)	\$ (7)	\$ (11)	\$ (16)
Comprehensive income	<u>\$ 228</u>	<u>\$ 144</u>	<u>\$ 658</u>	<u>\$ 498</u>

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



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

	<b>For the Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 669	\$ 514
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Deferred income taxes	(103)	(115)
Provision for inventories	7	19
Depreciation and amortization	450	341
Amortization of capitalized software development costs and intellectual property licenses(1)	168	200
Amortization of debt discount, financing costs, and non-cash write-off due to extinguishment of debt	20	12
Share-based compensation expense(2)	71	75
Other	16	—
<b>Changes in operating assets and liabilities, net of effect from business acquisitions:</b>		
Accounts receivable, net	385	377
Inventories	(6)	13
Software development and intellectual property licenses	(154)	(207)
Other assets	(19)	129
Deferred revenues	(733)	(468)
Accounts payable	(68)	(112)
Accrued expenses and other liabilities	(27)	62
<b>Net cash provided by operating activities</b>	<b>676</b>	<b>840</b>
<b>Cash flows from investing activities:</b>		
Acquisition of King, net of cash acquired (see Note 14)	—	(4,588)
Release of cash in escrow	—	3,561
Capital expenditures	(52)	(71)
Other investing activities	11	(15)
<b>Net cash used in investing activities</b>	<b>(41)</b>	<b>(1,113)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock to employees	130	60
Tax payment related to net share settlements on restricted stock units	(36)	(69)
Dividends paid	(226)	(195)
Proceeds from debt issuances, net of discounts	3,741	2,520
Repayment of long-term debt	(4,251)	(1,566)
Debt financing costs related to debt issuances	(10)	(4)
<b>Net cash (used in) provided by financing activities</b>	<b>(652)</b>	<b>746</b>
Effect of foreign exchange rate changes on cash and cash equivalents	50	(25)
<b>Net increase in cash and cash equivalents</b>	<b>33</b>	<b>448</b>
Cash and cash equivalents at beginning of period	3,245	1,823
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,278</b>	<b>\$ 2,271</b>

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

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

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

**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Six Months Ended June 30, 2017**  
(Unaudited)  
(Amounts and shares in millions, except per share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2016</b>	<b>1,174</b>	<b>\$ —</b>	<b>(429)</b>	<b>\$ (5,563)</b>	<b>\$ 10,442</b>	<b>\$ 4,869</b>	<b>\$ (629)</b>	<b>\$ 9,119</b>
Components of comprehensive income:								
Net income	—	—	—	—	—	669	—	669
Other comprehensive loss	—	—	—	—	—	—	(11)	(11)
Issuance of common stock pursuant to employee stock options	8	—	—	—	130	—	—	130
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(37)	—	—	(37)
Share-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	71	—	—	71
Dividends (\$0.30 per common share)	—	—	—	—	—	(226)	—	(226)
<b>Balance at June 30, 2017</b>	<b>1,183</b>	<b>\$ —</b>	<b>(429)</b>	<b>\$ (5,563)</b>	<b>\$ 10,606</b>	<b>\$ 5,312</b>	<b>\$ (640)</b>	<b>\$ 9,715</b>

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

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

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

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services across all of the major gaming platforms, including video game consoles, personal computers (“PC”), and mobile devices. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

The Company was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992. We are the result of the 2008 business combination (the “Business Combination”) by and among the Company (then known as Activision, Inc.), Vivendi S.A. (“Vivendi”), and Vivendi Games, Inc. (“Vivendi Games”), an indirect wholly-owned subsidiary of Vivendi. In connection with the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc.

The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.”

***The King Acquisition***

On February 23, 2016 (the “King Closing Date”), we acquired King Digital Entertainment, a leading interactive mobile entertainment company (“King”), by purchasing all of its outstanding shares (the “King Acquisition”), as further described in Note 14. Our condensed consolidated financial statements include the operations of King commencing on the King Closing Date.

***Our Segments***

As part of the continued implementation of our esports strategy, we instituted changes to our internal organization and reporting structure such that the Major League Gaming (“MLG”) business now operates as a division of Blizzard Entertainment, Inc. (“Blizzard”). As such, commencing with the second quarter of 2017, MLG, which was previously a separate operating segment, is now a component of the Blizzard operating segment. MLG will be responsible for the operations of the Overwatch League™, along with other esports events, and will also continue to serve as a multi-platform network for Activision Blizzard esports content.

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

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

Activision Publishing, Inc. (“Activision”) is a leading global developer and publisher of interactive software products and entertainment content, particularly in console gaming. Activision primarily delivers content through retail channels or digital downloads, including full-game sales and in-game purchases, as well as licenses of software to third-party or related-party companies that distribute Activision products. Activision develops, markets, and sells products which are principally based on our internally-developed intellectual properties, as well as some licensed properties. We have also established a long-term alliance with Bungie to publish its game universe, Destiny.

Activision’s key product franchises include: Call of Duty®, a first-person shooter for the console and PC platforms; Destiny, an online universe of first-person action gameplay (which we call a “shared-world shooter”) currently for console platforms; and Skylanders®, a franchise geared towards children that brings physical toys to life digitally in the game, primarily for console platforms.

*(ii) Blizzard Entertainment, Inc.*

Blizzard is a leading global developer and publisher of interactive software products and entertainment content, particularly in PC gaming. Blizzard primarily delivers content through retail channels or digital downloads, including subscriptions, full-game sales, and in-game purchases, as well as licenses of software to third-party or related party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service which facilitates digital distribution of Blizzard content, online social connectivity across all Blizzard games, and the creation of user-generated content for Blizzard's games. Commencing with the second quarter of 2017, Blizzard also includes the activities of our MLG business, which is devoted to esports.

Blizzard's key product franchises include: World of Warcraft<sup>®</sup>, a subscription-based massive multi-player online role-playing game for the PC; StarCraft<sup>®</sup>, a real-time strategy PC franchise; Diablo<sup>®</sup>, an action role-playing franchise for the PC and console platforms; Hearthstone<sup>®</sup>, an online collectible card franchise for the PC and mobile platforms; Heroes of the Storm<sup>®</sup>, a free-to-play team brawler for the PC; and Overwatch<sup>®</sup>, a team-based first-person shooter for the PC and console platforms.

*(iii) King Digital Entertainment*

King is a leading global developer and publisher of interactive entertainment content and services, particularly on mobile platforms, such as Android and iOS. King also distributes its content and services on online social platforms, such as Facebook and the king.com websites. King's games are free-to-play, however, players can acquire in-game virtual items, either with virtual currency the players purchase or directly using real currency.

King's key product franchises, all of which are for the PC and mobile platforms, include: Candy Crush<sup>™</sup>, which features "match three" games; Farm Heroes<sup>™</sup>, which also features "match three" games; Pet Rescue<sup>™</sup>, which is a "clicker" game; and Bubble Witch<sup>™</sup>, which features "bubble shooter" games.

*Other*

We also engage in other businesses that do not represent reportable segments, including:

- the Activision Blizzard Studios ("Studios") business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in October 2016, released the first season of the animated TV series *Skylanders™ Academy* on Netflix; and
- the Activision Blizzard Distribution ("Distribution") business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

***Basis of Consolidation and Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been condensed or omitted if they substantially duplicate the disclosures contained in our annual audited consolidated financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

[Table of Contents](#)

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

The accompanying condensed consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to the current period presentation.

The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

**Supplemental Cash Flow Information: Non-cash Investing and Financing activities**

For the six months ended June 30, 2016, we had non-cash purchase price consideration of \$89 million related to vested and unvested stock options and awards that were assumed and replaced with Activision Blizzard equity or deferred cash awards in the King Acquisition. Refer to Note 14 for further discussion.

**2. Inventories, Net**

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

	<u>At June 30, 2017</u>	<u>At December 31, 2016</u>
Finished goods	\$ 42	\$ 40
Purchased parts and components	9	9
Inventories, net	<u>\$ 51</u>	<u>\$ 49</u>

At June 30, 2017, and December 31, 2016, inventory reserves were \$32 million and \$45 million, respectively.

**3. Software Development and Intellectual Property Licenses**

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

	<u>At June 30, 2017</u>	<u>At December 31, 2016</u>
Internally-developed software costs	\$ 232	\$ 277
Payments made to third-party software developers	221	189
Total software development costs	<u>\$ 453</u>	<u>\$ 466</u>

As of June 30, 2017, and December 31, 2016, intellectual property licenses were not material to our condensed consolidated balance sheets.

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

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Amortization of capitalized software development costs and intellectual property licenses	\$ 79	\$ 81	\$ 172	\$ 213

**4. Intangible Assets, Net**

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

	At June 30, 2017			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	\$ 1,154	\$ (728)	\$ 426
Developed software	2 - 5 years	601	(225)	376
Customer base	2 years	617	(421)	196
Trade names	7 - 10 years	54	(12)	42
Other	1 - 8 years	18	(12)	6
<b>Total definite-lived intangible assets</b>		<b>\$ 2,444</b>	<b>\$ (1,398)</b>	<b>\$ 1,046</b>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
<b>Total indefinite-lived intangible assets</b>				<b>\$ 433</b>
<b>Total intangible assets, net</b>				<b>\$ 1,479</b>

	At December 31, 2016			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	\$ 1,154	\$ (583)	\$ 571
Developed software	3 - 5 years	595	(145)	450
Customer base	2 years	617	(266)	351
Trade names	7 - 10 years	54	(8)	46
Other	1 - 8 years	18	(11)	7
<b>Total definite-lived intangible assets</b>		<b>\$ 2,438</b>	<b>\$ (1,013)</b>	<b>\$ 1,425</b>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
<b>Total indefinite-lived intangible assets</b>				<b>\$ 433</b>
<b>Total intangible assets, net</b>				<b>\$ 1,858</b>

Amortization expense of intangible assets was \$194 million and \$385 million for the three and six months ended June 30, 2017, respectively. Amortization expense of intangible assets was \$203 million and \$285 million for the three and six months ended June 30, 2016, respectively.

At June 30, 2017, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2017 (remaining six months)	\$ 374
2018	364
2019	216
2020	72
2021	11
Thereafter	9
<b>Total</b>	<b>\$ 1,046</b>

## 5. Goodwill

The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2017, are as follows (amounts in millions):

	<u>Activision</u>	<u>Blizzard (1)</u>	<u>King</u>	<u>Total</u>
Balance at December 31, 2016 (1)	\$ 6,903	\$ 190	\$ 2,675	\$ 9,768
Other	(5)	—	—	(5)
Balance at June 30, 2017	<u>\$ 6,898</u>	<u>\$ 190</u>	<u>\$ 2,675</u>	<u>\$ 9,763</u>

- (1) As a result of the change in our operating segments discussed in Note 1, goodwill of \$12 million previously reported within the Other segments is now included in the Blizzard reportable segment. The prior period balance has been revised to reflect this change.

## 6. Fair Value Measurements

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

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

**Fair Value Measurements on a Recurring Basis**

The table below segregates all of our financial assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date (amounts in millions):

	Fair Value Measurements at June 30, 2017 Using				Balance Sheet Classification
	As of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial Assets:</b>					
Recurring fair value measurements:					
Money market funds	\$ 2,925	\$ 2,925	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	47	47	—	—	Cash and cash equivalents
<b>Total recurring fair value measurements</b>	<b>\$ 2,972</b>	<b>\$ 2,972</b>	<b>\$ —</b>	<b>\$ —</b>	
<b>Financial liabilities:</b>					
Foreign currency forward contracts designated as hedges	\$ (9)	\$ —	\$ (9)	\$ —	Accrued expenses and other liabilities
	Fair Value Measurements at December 31, 2016 Using				Balance Sheet Classification
	As of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial Assets:</b>					
Recurring fair value measurements:					
Money market funds	\$ 2,921	\$ 2,921	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	38	38	—	—	Cash and cash equivalents
Foreign currency forward contracts designated as hedges	22	—	22	—	Other current assets
Auction rate securities (“ARS”)	9	—	—	9	Other assets
<b>Total recurring fair value measurements</b>	<b>\$ 2,990</b>	<b>\$ 2,959</b>	<b>\$ 22</b>	<b>\$ 9</b>	

ARS represented the only level 3 investment held by the Company as of December 31, 2016. During the six months ended June 30, 2017 we sold our ARS investment. The realized gain on the sale of this investment was not material.

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

At June 30, 2017 and December 31, 2016, we did not have any outstanding foreign currency forward contracts not designated as hedges.

*Foreign Currency Forward Contracts Designated as Hedges (“Cash Flow Hedges”)*

At June 30, 2017, the gross notional amount of outstanding Cash Flow Hedges was approximately \$356 million. The fair value of these contracts, all of which have remaining maturities of 12 months or less, was \$9 million of net unrealized losses. At June 30, 2017, we had approximately \$1 million of net realized but unrecognized gains recorded within “Accumulated other comprehensive income (loss)” associated with contracts that had settled but were deferred and will be amortized into earnings, along with the associated hedged revenues. Such amounts will be reclassified into earnings within the next 12 months.



At December 31, 2016, the gross notional amount of outstanding Cash Flow Hedges was approximately \$346 million. The fair value of these contracts was \$22 million of net unrealized gains as of December 31, 2016.

During the three and six months ended June 30, 2017 and 2016, there was no ineffectiveness relating to our Cash Flow Hedges. The amount of pre-tax net realized gains associated with these contracts that were reclassified out of “Accumulated other comprehensive income (loss)” and into earnings was not material.

#### ***Fair Value Measurements on a Non-Recurring Basis***

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

For the three and six months ended June 30, 2017 and 2016, there were no impairment charges related to assets that are measured on a non-recurring basis.

## **7. Debt**

### ***Credit Facilities***

At December 31, 2016, we had outstanding term loans “A” of approximately \$2.7 billion (the “2016 TLA”) and \$250 million available under a revolving credit facility (the “Revolver”) pursuant to a credit agreement executed on October 11, 2013 (as amended thereafter and from time to time, the “Credit Agreement”).

On February 3, 2017, we entered into a sixth amendment (the “Sixth Amendment”) to the Credit Agreement. The Sixth Amendment: (i) provided for a new tranche of term loans “A” in an aggregate principal amount of \$2.55 billion (the “2017 TLA”) and, together with the Revolver, the “Credit Facilities”) and (ii) released each of our subsidiary guarantors from their respective guarantees provided under the Credit Agreement. All proceeds of the 2017 TLA, together with additional cash on hand of \$139 million, were used to fully retire the 2016 TLA, including all accrued and unpaid interest thereon. The terms of the 2017 TLA, other than the absence of the subsidiary guarantees, are generally the same as the terms of the 2016 TLA. The fees incurred as a result of the Sixth Amendment were not material. At June 30, 2017, the 2017 TLA bore interest at 2.48%. The 2017 TLA will mature on August 23, 2021. We were in compliance with the terms of the Credit Facilities as of June 30, 2017. To date, we have not drawn on the Revolver.

During the six months ended June 30, 2017, we reduced our total outstanding term loan balances by \$1.7 billion. This included \$139 million of cash used to retire the 2016 TLA, as discussed above, along with prepayments on the 2017 TLA of \$361 million made on February 15, 2017 and \$1.2 billion made on May 26, 2017. The May prepayment was made using proceeds from a concurrent issuance of \$1.2 billion in notes, as discussed further below. As part of that refinancing, we wrote-off unamortized discount and deferred financing costs of \$12 million, which is included in “Interest and other expense (income), net” in the condensed consolidated statement of operations.

The prepayments made on our 2017 TLA have satisfied the remaining required quarterly principal repayments for the entire term of the Credit Agreement.

Refer to Note 11 contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for further details regarding our Credit Agreement, key terms, and amendments made to our Credit Agreement.

**Unsecured Senior Notes**

At December 31, 2016, we had the following unsecured senior notes outstanding:

- \$750 million of 6.125% unsecured senior notes due September 2023 that we issued on September 19, 2013 (the “2023 Notes”), in a private offering made in accordance with Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”); and
- \$650 million of 2.3% unsecured senior notes due September 2021 (the “Unregistered 2021 Notes”) and \$850 million of 3.4% unsecured senior notes due September 2026 (the “Unregistered 2026 Notes”) that we issued on September 19, 2016, in a private offering made in accordance with Rule 144A and Regulation S under the Securities Act.

In connection with the issuance of the Unregistered 2021 Notes and the Unregistered 2026 Notes, we entered into a registration rights agreement (the “Registration Rights Agreement”), among the Company, and the representatives of the initial purchasers of the Unregistered 2021 Notes and the Unregistered 2026 Notes. Under the Registration Rights Agreement, we were required to use commercially reasonable efforts to, within one year of the issue date of the Unregistered 2021 Notes and the Unregistered 2026 Notes, among other things, (1) file a registration statement with respect to an offer to exchange each series of the Unregistered 2021 Notes and the Unregistered 2026 Notes for new notes that were substantially identical in all material respects (except for the provisions relating to the transfer restrictions and payment of additional interest) (the “Exchange Offer”), and (2) cause that registration statement (the “Exchange Offer Registration Statement”) to be declared effective by the SEC under the Securities Act. The Exchange Offer Registration Statement was declared effective by the SEC on April 28, 2017 and we completed the Exchange Offer on June 1, 2017, such that all the Unregistered 2021 Notes and Unregistered 2026 Notes were exchanged for registered 2021 notes (the “2021 Notes”) and registered 2026 notes (the “2026 Notes”).

In addition, on May 26, 2017, in a public underwritten offering, we issued \$400 million of 2.6% unsecured senior notes due June 2022 (the “2022 Notes”), \$400 million of 3.4% unsecured senior notes due June 2027 (the “2027 Notes”), and \$400 million of 4.5% unsecured senior notes due June 2047 (the “2047 Notes”, and together with the 2021 Notes, the 2022 Notes, the 2023 Notes, the 2026 Notes, and the 2027 Notes, the “Notes”), which were outstanding at June 30, 2017.

We may redeem some or all of the 2022 Notes, the 2027 Notes and the 2047 Notes, in whole or in part, at any time on or after May 15, 2022, March 15, 2027 and December 15, 2046, respectively, and in each case at 100% of the aggregate principal amount thereof plus accrued and unpaid interest. In addition, we may redeem some or all of the 2022 Notes, the 2027 Notes, and the 2047 Notes prior to May 15, 2022, March 15, 2027 and December 15, 2046, respectively, and in each case at a price equal to 100% of the aggregate principal amount thereof plus a “make-whole” premium and accrued and unpaid interest.

Upon the occurrence of certain change of control events, we will be required to offer to repurchase the 2022 Notes, the 2027 Notes, and the 2047 Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest. These repurchase requirements are considered clearly and closely related to the 2022 Notes, the 2027 Notes, and the 2047 Notes and were not accounted for separately upon issuance.

The 2022 Notes, the 2027 Notes, and the 2047 Notes contain covenants that place restrictions in certain circumstances on, among other things, the incurrence of secured debt, entry into sale or leaseback transactions, and certain merger or consolidation transactions.

The Notes are general senior obligations of the Company and rank *pari passu* in right of payment to all of the Company’s existing and future senior indebtedness, including the Credit Facilities described above. The Notes are not secured and are effectively subordinated to any of the Company’s existing and future indebtedness that is secured. The Company was in compliance with the terms of each of the Notes as of June 30, 2017.

Interest is payable semi-annually in arrears on March 15 and September 15 of each year for the 2021 Notes, the 2023 Notes, and 2026 Notes, and payable semi-annually in arrears on June 15 and December 15 of each year for the 2022 Notes, the 2027 Notes, and 2047 Notes. Accrued interest payable is recorded within “Accrued expenses and other liabilities” in our condensed consolidated balance sheets. As of June 30, 2017 and December 31, 2016, we had accrued interest payable of \$30 million and \$25 million, respectively, related to the Notes.

Refer to Note 11 contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for further details regarding our key terms under our indentures that govern the 2021 Notes, the 2023 Notes, and the 2026 Notes.

**Interest Expense and Financing Costs**

Fees and discounts associated with the issuance of our debt instruments are recorded as debt discount, which reduces their respective carrying values, and is amortized over their respective terms. Amortization expense is recorded within “Interest and other expense (income), net” in our condensed consolidated statement of operations.

In connection with the May 2017 note issuances, we incurred approximately \$20 million of discounts and financing costs that were capitalized and recorded within “Long-term debt, net” in our condensed consolidated balance sheet.

For the three and six months ended June 30, 2017, interest expense was \$36 million and \$71 million, respectively; amortization of the debt discount and deferred financing costs was \$2 million and \$9 million, respectively; and commitment fees for the Revolver were not material. For the three and six months ended June 30, 2016, interest expense was \$55 million and \$107 million, respectively; amortization of the debt discount and deferred financing costs was \$8 million and \$13 million, respectively; and commitment fees for the Revolver were not material.

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

	<b>At June 30, 2017</b>		
	<b>Gross Carrying Amount</b>	<b>Unamortized Discount and Deferred Financing Costs</b>	<b>Net Carrying Amount</b>
2017 TLA	\$ 990	\$ (9)	\$ 981
2021 Notes	650	(5)	645
2022 Notes	400	(4)	396
2023 Notes	750	(10)	740
2026 Notes	850	(9)	841
2027 Notes	400	(6)	394
2047 Notes	400	(10)	390
Total long-term debt	<u>\$ 4,440</u>	<u>\$ (53)</u>	<u>\$ 4,387</u>

  

	<b>At December 31, 2016</b>		
	<b>Gross Carrying Amount</b>	<b>Unamortized Discount and Deferred Financing Costs</b>	<b>Net Carrying Amount</b>
2016 TLA	\$ 2,690	\$ (27)	\$ 2,663
2021 Notes	650	(5)	645
2023 Notes	750	(11)	739
2026 Notes	850	(10)	840
Total long-term debt	<u>\$ 4,940</u>	<u>\$ (53)</u>	<u>\$ 4,887</u>

[Table of Contents](#)

As of June 30, 2017, the scheduled maturities and contractual principal repayments of our debt for each of the five succeeding years are as follows (amounts in millions):

For the year ending December 31,	
2017 (remaining six months)	\$ —
2018	—
2019	—
2020	—
2021	1,640
Thereafter	2,800
Total	<u>\$ 4,440</u>

With the exception of the 2023 Notes, using Level 2 inputs (i.e., observable market prices in less-than-active markets), the carrying values of our debt instruments approximated their fair value as of June 30, 2017, as the interest rates are similar to current rates at which we can borrow funds over the selected interest periods. At June 30, 2017, based on Level 2 inputs, the fair value of the 2023 Notes was \$809 million.

At December 31, 2016, the carrying value of the 2016 TLA approximated its fair value, based on Level 2 inputs. At December 31, 2016, based on Level 2 inputs, the fair values of the 2021 Notes, 2023 Notes, and 2026 Notes were \$635 million, \$818 million, and \$808 million, respectively.

**8. Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) at June 30, 2017 and 2016, were as follows (amounts in millions):

	For the Six Months Ended June 30, 2017			Total
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on available-for-sale securities	
Balance at December 31, 2016	\$ (659)	\$ 29	\$ 1	\$ (629)
Other comprehensive income (loss) before reclassifications	11	(28)	1	(16)
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	16	(9)	(2)	5
Balance at June 30, 2017	<u>\$ (632)</u>	<u>\$ (8)</u>	<u>\$ —</u>	<u>\$ (640)</u>

  

	For the Six Months Ended June 30, 2016			Total
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on available-for-sale securities	
Balance at December 31, 2015	\$ (630)	\$ (4)	\$ 1	\$ (633)
Other comprehensive income (loss) before reclassifications	(20)	2	—	(18)
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	2	—	2
Balance at June 30, 2016	<u>\$ (650)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (649)</u>

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

**9. Operating Segments and Geographic Region**

Currently, we have three reportable segments. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker (“CODM”). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense; amortization of intangible assets as a result of purchase price accounting; fees and other expenses (including legal fees, expenses, and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring costs; and other non-cash charges. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto.

Our operating segments are also consistent with our internal organization structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments. As discussed in Note 1, commencing with the second quarter of 2017, we made changes to our operating segments which reflect the changes in our organization and reporting structure. Our MLG business, which was previously included in the non-reportable “Other segments,” is now presented within the Blizzard reportable operating segment. Prior period amounts have been revised to reflect this change. The change had no impact on consolidated net revenues or operating income.

Information on the reportable segments and reconciliations of total segment net revenues and total segment operating income to consolidated net revenues from external customers and consolidated income before income tax expense for the three and six months ended June 30, 2017 and 2016 are presented below (amounts in millions):

	<b>For the Three Months Ended June 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Net revenues</b>		<b>Operating income and income before income tax expense</b>	
Activision	\$ 316	\$ 332	\$ 87	\$ 88
Blizzard	566	741	225	329
King	480	484	164	176
Reportable segments total	<u>1,362</u>	<u>1,557</u>	<u>476</u>	<u>593</u>
<b>Reconciliation to consolidated net revenues / consolidated income before income tax expense:</b>				
Other segments (1)	56	52	(5)	(5)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues	213	(39)	105	(108)
Share-based compensation expense	—	—	(39)	(41)
Amortization of intangible assets	—	—	(194)	(203)
Fees and other expenses related to the King Acquisition (2)	—	—	(5)	(4)
Other non-cash charges (4)	—	—	1	—
Consolidated net revenues / operating income	<u>\$ 1,631</u>	<u>\$ 1,570</u>	<u>\$ 339</u>	<u>\$ 232</u>
Interest and other expense (income), net			46	65
Consolidated income before income tax expense			<u>\$ 293</u>	<u>\$ 167</u>

	For the Six Months Ended June 30,			
	2017	2016	2017	2016
	Net revenues		Operating income and income before income tax expense	
Activision	\$ 532	\$ 692	\$ 111	\$ 187
Blizzard	1,009	1,038	384	413
King	954	691	330	243
Reportable segments total	2,495	2,421	825	843
<b>Reconciliation to consolidated net revenues / consolidated income before income tax expense:</b>				
Other segments (1)	119	96	(3)	(3)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues	742	508	501	261
Share-based compensation expense	—	—	(73)	(85)
Amortization of intangible assets	—	—	(384)	(285)
Fees and other expenses related to the King Acquisition (2)	—	—	(9)	(38)
Restructuring costs (3)	—	—	(11)	—
Other non-cash charges (4)	—	—	(15)	—
Consolidated net revenues / operating income	<u>\$ 3,356</u>	<u>\$ 3,025</u>	<u>\$ 831</u>	<u>\$ 693</u>
Interest and other expense (income), net			85	117
Consolidated income before income tax expense			<u>\$ 746</u>	<u>\$ 576</u>

- (1) Other segments include other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Other segments also include unallocated corporate income and expenses.
- (2) Reflects fees and other expenses, such as legal, banking and professional services fees, primarily related to the King Acquisition and associated integration activities, inclusive of related debt financings.
- (3) Reflects restructuring charges incurred, primarily severance costs.
- (4) Reflects a non-cash accounting charge to reclassify certain cumulative translation gains (losses) into earnings due to the substantial liquidation of certain of our foreign entities.

[Table of Contents](#)

Geographic information presented below for the three and six months ended June 30, 2017 and 2016, is based on the location of the paying customer. Net revenues from external customers by geographic region were as follows (amounts in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues by geographic region:				
Americas	\$ 858	\$ 860	\$ 1,787	\$ 1,613
EMEA (1)	538	507	1,092	1,028
Asia Pacific	235	203	477	384
Total consolidated net revenues	\$ 1,631	\$ 1,570	\$ 3,356	\$ 3,025

(1) EMEA consists of the Europe, Middle East, and Africa geographic regions.

The Company's net revenues in the U.S. were 46% and 48% of consolidated net revenues for the three months ended June 30, 2017 and 2016, respectively. The Company's net revenues in the U.K. were 10% of consolidated net revenues for both the three months ended June 30, 2017 and 2016. No other country's net revenues exceeded 10% of consolidated net revenues for the three months ended June 30, 2017 or 2016.

The Company's net revenues in the U.S. were 47% of consolidated net revenues for both the six months ended June 30, 2017 and 2016. The Company's net revenues in the U.K. were 10% and 11% of consolidated net revenues for the six months ended June 30, 2017 and 2016, respectively. No other country's net revenues exceeded 10% of consolidated net revenues for the six months ended June 30, 2017 or 2016.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues by platform:				
Console	\$ 568	\$ 650	\$ 1,182	\$ 1,415
PC	508	411	1,072	811
Mobile and ancillary (1)	493	454	969	697
Other (2)	62	55	133	102
Total consolidated net revenues	\$ 1,631	\$ 1,570	\$ 3,356	\$ 3,025

(1) Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform specific game-related revenues, such as standalone sales of toys and accessories from our Skylanders franchise and other physical merchandise and accessories.

(2) Net revenues from Other include revenues from our Studios and Distribution businesses, as well as revenues from MLG.

Long-lived assets by geographic region at June 30, 2017 and December 31, 2016, were as follows (amounts in millions):

	At June 30, 2017	At December 31, 2016
Long-lived assets (1) by geographic region:		
Americas	\$ 153	\$ 154
EMEA	76	87
Asia Pacific	17	17
Total long-lived assets by geographic region	<u>\$ 246</u>	<u>\$ 258</u>

- (1) The only long-lived assets that we classify by region are our long-term tangible fixed assets, which consist of property, plant, and equipment assets; all other long-term assets are not allocated by location.

## 10. Income Taxes

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

The income tax expense of \$50 million for the three months ended June 30, 2017, reflects an effective tax rate of 17%, which is higher than the effective tax rate of 10% for the three months ended June 30, 2016. The increase is due to a decrease in excess tax benefits from share-based payments and an increase in reserves for uncertain tax positions, partially offset by a higher mix of foreign earnings taxed at relatively lower statutory rates.

The income tax expense of \$77 million for the six months ended June 30, 2017, reflects an effective tax rate of 10%, which is lower than the effective tax rate of 11% for the six months ended June 30, 2016. The decrease is due to an increase in excess tax benefits from share-based payments and a higher mix of foreign earnings taxed at relatively lower statutory rates, partially offset by an increase in reserves for uncertain tax positions.

The effective tax rate of 17% and 10% for the three and six months ended June 30, 2017, respectively, is lower than the U.S. statutory rate of 35%, primarily due to foreign earnings taxed at lower statutory rates, the recognition of excess tax benefits from share-based payments, and the recognition of federal and California research and development credits, partially offset by an increase in reserves for uncertain tax positions.

The Internal Revenue Service (“IRS”) is currently examining Activision Blizzard’s federal tax returns for the 2009, 2010, and 2011 tax years. During the second quarter of 2015, the Company transitioned the review of its transfer pricing methodology from the advanced pricing agreement review process to the IRS examination team. Their review could result in a different allocation of profits and losses under the Company’s transfer pricing agreements. Such allocation could have a positive or negative impact on our provision for uncertain tax positions for the period in which such a determination is reached and the relevant periods thereafter. The Company also has several state level and non-U.S. audits pending.



As part of purchase price accounting for the King Acquisition, the Company assumed \$74 million of uncertain tax positions, primarily related to the transfer pricing on King tax years occurring prior to the King Acquisition. The Company is currently in negotiations with the relevant jurisdictions and taxing authorities with respect to King's transfer pricing, which could result in a different allocation of profits and losses between the relevant jurisdictions.

Vivendi Games' results for the period from January 1, 2008 through July 9, 2008 are included in the consolidated federal and certain foreign state and local income tax returns filed by Vivendi or its affiliates, while Vivendi Games' results for the period from July 10, 2008 through December 31, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Activision Blizzard. IRS Appeals proceedings concerning Vivendi Games' tax return for the 2008 tax year were concluded during July 2016, but that year remains open to examination by other major taxing authorities. The resolution of the 2008 IRS Appeals process did not have a material impact to the Company's condensed consolidated financial statements.

Certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by tax authorities in various jurisdictions, including France. These proceedings may lead to adjustments or proposed adjustments to our taxes or provisions for uncertain tax positions. Such proceedings may have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations in the period or periods in which the matters are resolved or in which appropriate tax provisions are taken into account in our financial statements. If we were to receive a materially adverse assessment from a taxing jurisdiction, we would plan to vigorously contest it and consider all of our options, including the pursuit of judicial remedies.

The final resolution of the Company's global tax disputes is uncertain. There is significant judgment required in the analysis of disputes, including the probability determination and estimation of the potential exposure. Based on current information, in the opinion of the Company's management, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, except as noted above.

**11. Computation of Basic/Diluted Earnings Per Common Share**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Numerator:</b>				
Consolidated net income	\$ 243	\$ 151	\$ 669	\$ 514
Less: Distributed earnings to unvested share-based awards that participate in earnings	—	—	—	(2)
Less: Undistributed earnings allocated to unvested share-based awards that participate in earnings	—	(1)	—	(1)
Numerator for basic and diluted earnings per common share— income available to common shareholders	\$ 243	\$ 150	\$ 669	\$ 511
<b>Denominator:</b>				
Denominator for basic earnings per common share— weighted-average common shares outstanding	754	739	752	737
<b>Effect of potential dilutive common shares under the treasury stock method:</b>				
Employee stock options and awards	10	14	11	14
Denominator for diluted earnings per common share—weighted- average common shares outstanding plus dilutive common shares under the treasury stock method	764	753	763	751
Basic earnings per common share	\$ 0.32	\$ 0.20	\$ 0.89	\$ 0.69
Diluted earnings per common share	\$ 0.32	\$ 0.20	\$ 0.88	\$ 0.68

Certain of our unvested restricted stock units meet the definition of participating securities as they participate in earnings based on their rights to dividends or dividend equivalents. Therefore, we are required to use the two-class method in our computation of basic and diluted earnings per common share. For both the three and six months ended June 30, 2017, on a weighted-average basis, we had outstanding unvested restricted stock units of less than 1 million shares of common stock that are participating in earnings. For both the three and six months ended June 30, 2016, on a weighted-average basis, we had outstanding unvested restricted stock units of 3 million shares of common stock that participated in earnings.

The vesting of certain of our employee-related restricted stock units and options are contingent upon the satisfaction of pre-defined performance measures. These shares are included in the weighted-average dilutive common shares only if the performance measures are met as of the end of the reporting period. Approximately 9 million shares are not included in the computation of diluted earnings per share for both the three and six months ended June 30, 2017 as their respective performance measures had not yet been met. Approximately 10 million shares are not included in the computation of diluted earnings per share for both the three and six months ended June 30, 2016 as their respective performance measures had not yet been met.

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive. Therefore, options to acquire less than 1 million and 5 million shares of common stock were not included in the calculation of diluted earnings per common share for the three and six months ended June 30, 2017, respectively, and options to acquire 4 million shares of common stock were not included in the calculation of diluted earnings per common share for both the three and six months ended June 30, 2016, as the effect of their inclusion would be anti-dilutive.

## **12. Capital Transactions**

### ***Repurchase Program***

On February 2, 2017, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to \$1 billion of our common stock during the two-year period from February 13, 2017 through February 12, 2019. As of June 30, 2017, we have not repurchased any shares under this program.

### ***Dividends***

On February 2, 2017, our Board of Directors approved a cash dividend of \$0.30 per common share. On May 10, 2017, we made an aggregate cash dividend payment of \$226 million to shareholders of record at the close of business on March 30, 2017. On May 26, 2017, we made related dividend equivalent payments of less than \$1 million to certain holders of restricted stock units.

On February 2, 2016, our Board of Directors declared a cash dividend of \$0.26 per common share. On May 11, 2016, we made an aggregate cash dividend payment of \$192 million to shareholders of record at the close of business on March 30, 2016. On May 27, 2016, we made related dividend equivalent payments of \$3 million to certain holders of restricted stock units.

## **13. Commitments and Contingencies**

### ***Legal Proceedings***

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.

## **14. Acquisitions**

### ***King Digital Entertainment***

On February 23, 2016, we completed the King Acquisition, purchasing all of King's outstanding shares. As a result, King became a wholly-owned subsidiary of Activision Blizzard. King is a leading global developer and publisher of interactive entertainment content and services, particularly on mobile platforms, such as Android and iOS, and on online and social platforms, such as Facebook and the king.com websites. King's results of operations since the King Closing Date are included in our condensed consolidated financial statements.

We made this acquisition because we believe that the addition of King's highly-complementary mobile business positions us as a global leader in interactive entertainment across console, PC, and mobile platforms, as well as positioning us for future growth.

The aggregate purchase price of the King Acquisition was approximately \$5.8 billion, which was paid on the King Closing Date and funded primarily with \$3.6 billion of existing cash and \$2.2 billion of cash from new debt issued by the Company. We identified and recorded assets acquired and liabilities assumed at their estimated fair values at the King Closing Date and allocated the remaining value of approximately \$2.7 billion to goodwill.

The final purchase price allocation was as follows (amounts in millions):

	<u>February 23, 2016</u>	<u>Estimated useful lives</u>
Tangible assets and liabilities assumed:		
Cash and cash equivalents	\$ 1,151	
Accounts receivable	162	
Other current assets	72	
Property and equipment	57	2 - 7 years
Deferred income tax assets, net	27	
Other assets	47	
Accounts payable	(9)	
Accrued expenses and other liabilities	(272)	
Other liabilities	(110)	
Deferred income tax liabilities, net	(52)	
Intangible assets		
Internally-developed franchises	845	3 - 5 years
Customer base	609	2 years
Developed software	580	3 - 4 years
Trade name	46	7 years
Goodwill	2,675	
Total purchase price	<u>\$ 5,828</u>	

During the six months ended June 30, 2016, the Company incurred \$38 million of expenses related to the King Acquisition, which are included within “General and administrative” in the condensed consolidated statements of operations. In connection with the debt financing that occurred on the King Closing Date, we incurred \$38 million of discounts and financing costs that were capitalized and recorded within “Long-term debt, net” on our condensed consolidated balance sheet.

#### *Share-Based Compensation*

In connection with the King Acquisition, a majority of the outstanding King options and awards that were unvested as of the King Closing Date were converted into equivalent options and awards with respect to shares of the Company’s common stock, using an equity award exchange ratio calculated in accordance with the transaction agreement. As a result, replacement stock options and equity awards of 10 million and 3 million, respectively, were issued. The portion of the fair value related to pre-combination services of \$76 million was included in the purchase price, while the remaining fair value will be recognized over the remaining service periods. As of December 31, 2016, the future expense for the converted King unvested stock options and equity awards was approximately \$40 million, which will be recognized over a weighted average service period of approximately 1.6 years.

The remaining portion of outstanding unvested awards that were assumed were replaced with deferred cash awards. The cash proceeds were placed in an escrow-like account, with the cash releases occurring as future services are rendered in accordance with the awards’ original vesting schedules. The cash associated with these awards is recorded in “Other current assets” and “Other assets” in our condensed consolidated balance sheet. The portion of the fair value related to pre-combination services of \$22 million was included in the purchase price while the remaining fair value of approximately \$9 million will be recognized over the remaining service periods.

#### *Identifiable Intangible Assets Acquired and Goodwill*

The internally-developed franchises, customer base, developed software, and trade name intangible assets will be amortized to “Cost of revenues—subscription, licensing, and other revenues: Software royalties, amortization, and intellectual property licenses,” “Sales and marketing,” “Cost of revenues—subscription, licensing, and other revenues: Software royalties, amortization, and intellectual property licenses,” and “General and administrative,” respectively. The intangible assets will be amortized over their estimated useful lives in proportion to the economic benefits received.

The \$2.7 billion of goodwill recognized is primarily attributable to the benefits the Company expects to derive from accelerated expansion as an interactive entertainment provider in the mobile sector, future franchises, and technology, as well as the management team's proven ability to create future games and franchises. Approximately \$620 million of the goodwill is expected to be deductible for tax purposes in the U.S.

#### *King Net Revenue and Earnings*

The amount of net revenue and earnings attributable to King in the Company's condensed consolidated statement of operations during the three and six months ended June 30, 2016, the period of the King Acquisition, are included in the table below. The amounts presented represent the net revenues and earnings after adjustments for purchase price accounting, inclusive of amortization of intangible assets, share-based payments, and deferral of revenues and related cost of revenues.

<u>(in millions)</u>	<b>For the Three Months Ended June 30, 2016</b>		<b>For the Six Months Ended June 30, 2016</b>	
Net revenues	\$	458	\$	641
Net loss	\$	(49)	\$	(99)

#### *Pro Forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of the Company and King for the six months ended June 30, 2016, on a pro forma basis, as though the acquisition had occurred on January 1, 2015. The 2016 pro forma financial information presented includes the effects of adjustments related to amortization charges from acquired intangible assets, employee compensation from replacement equity awards issued in the King Acquisition and the profit-sharing bonus plan established as part of the King Acquisition, and interest expense from the new debt, among other adjustments. We also adjusted for Activision Blizzard and King non-recurring acquisition related costs of approximately \$64 million for the six months ended June 30, 2016.

The unaudited pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the King Acquisition, and any borrowings undertaken to finance the King Acquisition, had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

<u>(in millions)</u>	<b>For the Three Months Ended June 30, 2016</b>		<b>For the Six Months Ended June 30, 2016</b>	
Net revenues	\$	1,570	\$	3,305
Net income	\$	140	\$	470
Basic earnings per common share	\$	0.19	\$	0.63
Diluted earnings per common share	\$	0.19	\$	0.62

## **15. Recently Issued Accounting Pronouncements**

### ***Recently Adopted Accounting Pronouncements***

#### *Inventory*

In July 2015, the Financial Accounting Standards Board ("FASB") issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this new standard as of January 1, 2017, and applied it prospectively. The adoption of this guidance did not have a material impact on our financial statements.

***Recent Accounting Pronouncements Not Yet Adopted***

*Revenue Recognition*

In May 2014, the FASB issued new accounting guidance related to revenue recognition. The new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance, providing a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. This guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2017. We anticipate adopting the accounting standard on January 1, 2018, using the modified retrospective method, which recognizes the cumulative effect upon adoption as an adjustment to retained earnings at the adoption date.

As previously disclosed, we believe the adoption of the new revenue recognition standard may have a significant impact on the accounting for our sales of our games with significant online functionality for which we do not have vendor-specific objective evidence (“VSOE”) for unspecified future updates and ongoing online services provided. Under the current accounting standards, VSOE for undelivered elements is required. This requirement will be eliminated under the new standard. Accordingly, we will be required to recognize as revenue a portion of the sales price upon delivery of the software, as compared to the current requirement of recognizing the entire sales price ratably over an estimated offering period. We expect this difference to primarily impact revenues from our Call of Duty franchise. Many of our other franchises, such as Destiny, Overwatch, World of Warcraft, and Candy Crush, are hosted service arrangements and we do not expect any significant impact on the accounting for our sales of these games. Nonetheless, this difference may have a material impact on our consolidated financial statements upon adoption of the new guidance.

We are continuing to evaluate the additional impacts of this new accounting guidance on our financial statements and related disclosures.

*Leases*

In February 2016, the FASB issued new guidance related to the accounting for leases. The new standard will replace all current U.S. GAAP guidance on this topic. The new standard, among other things, requires a lessee to classify a lease as either an operating or financing lease, and lessees will need to recognize a lease liability and a right-of-use asset for their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment for initial direct costs, lease incentives received, and any prepaid lease payments. Operating leases will result in a straight-line expense pattern, while finance leases will result in a front-loaded expense pattern. Classification will be based on criteria that are largely similar to those applied in current lease accounting. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the impact of this new accounting guidance on our financial statements. Currently, we do not plan to early adopt this new standard.

*Financial Instruments*

In January 2016, the FASB issued new guidance related to the recognition and measurement of financial assets and financial liabilities. The new standard, amongst other things, generally requires companies to measure investments in other entities, except those accounted for under the equity method, at fair value and recognize any changes in fair value in net income. The new standard also simplifies the impairment assessment of equity investments without readily determinable fair values. The new standard is effective for fiscal years beginning after December 15, 2017, and the guidance should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity investments without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. We are evaluating the impact of this new accounting guidance on our financial statements.

*Statement of Cash Flows-Restricted Cash*

In November 2016, the FASB issued new guidance related to the classification of restricted cash in the statement of cash flows. The new standard requires that a statement of cash flows explain any change during the period in total cash, cash equivalents, and restricted cash. Therefore, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2018, and should be applied retrospectively. Early adoption is permitted.

We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements. We expect there would be a significant impact to the condensed consolidated statements of cash flows for 2016, as this period includes, as an investing activity, the \$3.6 billion movement in restricted cash resulting from the transfer of cash into escrow at December 31, 2015 to facilitate the King Acquisition and the subsequent release of that cash in 2016 in connection with the King Acquisition. Under this new standard, the restricted cash balance would be included in the beginning and ending total cash, cash equivalents, and restricted cash balances and, hence, would not be included as an investing activity in the statement of cash flows.

*Goodwill*

In January 2017, the FASB issued new guidance which eliminates Step 2 from the goodwill impairment test. Instead, if any entity forgoes a Step 0 test, an entity will be required to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit, as determined in Step 1 from the goodwill impairment test, with its carrying amount and recognize an impairment charge, if any, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019 and should be applied prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our consolidated financial statements.

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

### Business Overview

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services across all of the major gaming platforms, including video game consoles, personal computers (“PC”), and mobile devices. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

The Company was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992. We are the result of the 2008 business combination (the “Business Combination”) by and among the Company (then known as Activision, Inc.), Vivendi S.A. (“Vivendi”), and Vivendi Games, Inc., an indirect wholly-owned subsidiary of Vivendi. In connection with the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc.

The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.”

### The King Acquisition

On February 23, 2016 (the “King Closing Date”), we acquired King Digital Entertainment, a leading interactive mobile entertainment company (“King”), by purchasing all of its outstanding shares (the “King Acquisition”). We made this acquisition because we believe that the addition of King’s highly complementary mobile business positions us as a global leader in interactive entertainment across mobile, console, and PC platforms, as well as positioning us for future growth. The aggregate purchase price of approximately \$5.8 billion was funded primarily with \$3.6 billion of existing cash and \$2.2 billion of cash from new debt issued by the Company. King’s results of operations since the King Closing Date are included in our condensed consolidated financial statements.

### Our Segments

As part of the continued implementation of our esports strategy, we instituted changes to our internal organization and reporting structure such that the Major League Gaming (“MLG”) business now operates as a division of Blizzard Entertainment, Inc. (“Blizzard”). As such, commencing with the second quarter of 2017, MLG, which was previously a separate operating segment, is now a component of the Blizzard operating segment. MLG will be responsible for the operations of the Overwatch League™, along with other esports events, and will also continue to serve as a multi-platform network for Activision Blizzard esports content.

Based on our organizational structure, we conduct our business through three reportable segments as follows:

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

Activision Publishing, Inc. (“Activision”), is a leading global developer and publisher of interactive software products and entertainment content, particularly in console gaming. Activision primarily delivers content through retail channels or digital downloads, including full-game sales and in-game purchases, as well as licenses of software to third-party or related-party companies that distribute Activision products. Activision develops, markets and sells products which are principally based on our internally-developed intellectual properties, as well as some licensed properties. We have also established a long-term alliance with Bungie to publish its game universe, Destiny.

Activision’s key product franchises include: Call of Duty®, a first-person shooter for the console and PC platforms; Destiny, an online universe of first-person action gameplay (which we call a “shared-world shooter”) currently for console platforms; and Skylanders®, a franchise geared towards children that brings physical toys to life digitally in the game, primarily for console platforms.



*(ii) Blizzard Entertainment, Inc.*

Blizzard is a leading global developer and publisher of interactive software products and entertainment content, particularly in PC gaming. Blizzard primarily delivers content through retail channels or digital downloads, including subscriptions, full-game sales, and in-game purchases, as well as licenses of software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service which facilitates digital distribution of Blizzard content, online social connectivity across all Blizzard games, and the creation of user-generated content for Blizzard's games. Commencing with the second quarter of 2017, Blizzard also includes the activities of our MLG business, which is devoted to esports.

Blizzard's key product franchises include: World of Warcraft<sup>®</sup>, a subscription-based massive multi-player online role-playing game ("MMORPG") for the PC; StarCraft<sup>®</sup>, a real-time strategy PC franchise; Diablo<sup>®</sup>, an action role-playing franchise for the PC and console platforms; Hearthstone<sup>®</sup>, an online collectible card franchise for the PC and mobile platforms; Heroes of the Storm<sup>®</sup>, a free-to-play team brawler for the PC; and Overwatch<sup>®</sup>, a team-based first-person shooter for the PC and console platforms.

*(iii) King Digital Entertainment*

King is a leading global developer and publisher of interactive entertainment content and services, particularly on mobile platforms, such as Android and iOS. King also distributes its content and services on online social platforms, such as Facebook and the king.com websites. King's games are free-to-play, however, players can acquire in-game virtual items, either with virtual currency the players purchase, or directly using real currency.

King's key product franchises, all of which are for the PC and mobile platforms, include: Candy Crush<sup>™</sup>, which features "match three" games; Farm Heroes<sup>™</sup>, which also features "match three" games; Pet Rescue<sup>™</sup>, which is a "clicker" game; and Bubble Witch<sup>™</sup>, which features "bubble shooter" games.

*Other*

We also engage in other businesses that do not represent reportable segments, including:

- the Activision Blizzard Studios ("Studios") business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in October 2016, released the first season of the animated TV series *Skylanders<sup>™</sup> Academy* on Netflix; and
- the Activision Blizzard Distribution ("Distribution") business, which consists of operations in Europe that provide warehousing, logistics, 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**

***Financial Results***

During the three months ended June 30, 2017:

- consolidated net revenues increased 4% to \$1.63 billion and consolidated operating income increased 46% to \$339 million, as compared to consolidated net revenues of \$1.57 billion and consolidated operating income of \$232 million for the three months ended June 30, 2016;
- revenues from digital online channels increased 15% to \$1.31 billion, as compared to \$1.14 billion for the three months ended June 30, 2016;

## [Table of Contents](#)

- operating margin was 20.8%, as compared with 14.8% for the three months ended June 30, 2016, with the higher margin being primarily due to an increased percentage of revenues coming from higher-margin online digital channels;
- consolidated net income increased 61% to \$243 million, as compared to \$151 million for the three months ended June 30, 2016;
- consolidated net income included \$13 million of excess tax benefits from share-based payments, as compared to \$24 million for the three months ended June 30, 2016; and
- our diluted earnings per common share increased 60% to \$0.32, as compared to \$0.20 for the three months ended June 30, 2016.

During the six months ended June 30, 2017:

- consolidated net revenues increased 11% to \$3.36 billion and consolidated operating income increased 20% to \$831 million, as compared to consolidated net revenues of \$3.03 billion and consolidated operating income of \$693 million for the six months ended June 30, 2016;
- revenues from digital online channels increased 30% to \$2.69 billion, as compared to \$2.07 billion for the six months ended June 30, 2016;
- operating margin was 24.8%, as compared with 22.9% for the six months ended June 30, 2016, with the higher margin being primarily due to an increased percentage of revenues coming from higher-margin online digital channels;
- cash flows generated from operating activities were \$676 million, a decrease of 20%, as compared to \$840 million for the six months ended June 30, 2016;
- consolidated net income increased 30% to \$669 million, as compared to \$514 million for the six months ended June 30, 2016;
- consolidated net income included \$82 million of excess tax benefits from share-based payments, as compared to \$51 million for the six months ended June 30, 2016; and
- our diluted earnings per common share increased 29% to \$0.88, as compared to \$0.68 for the six months ended June 30, 2016.

Since certain of our games are hosted or include online functionality that represents an essential component of gameplay and, as a result, a more-than-inconsequential separate deliverable, we initially defer the software-related revenues from the sale of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. Net revenues for the three and six months ended June 30, 2017 include a net effect of \$213 million and \$742 million, respectively, from the recognition of deferred net revenues. Operating income for the three and six months ended June 30, 2017 includes a net effect of \$105 million and \$501 million, respectively, from the recognition of deferred net revenues and related cost of revenues.

### **Release Highlights**

Games and digital downloadable content that were released during the three months ended June 30, 2017 include:

- Activision's *Continuum*, the second downloadable content pack for *Call of Duty: Infinite Warfare*<sup>™</sup>;
- Activision's *Call of Duty: Black Ops III Zombies Chronicles*, a downloadable content pack of remastered zombies maps from *Call of Duty: World at War*, *Call of Duty: Black Ops*, and *Call of Duty: Black Ops II*;
- Activision's *Crash Bandicoot™ N. Sane Trilogy*, a remastered version for PlayStation 4 of the first three Crash Bandicoot games;
- Blizzard's *Journey to Un'Goro*<sup>™</sup>, the latest expansion to *Hearthstone*; and
- Blizzard's *Rise of the Necromancer*<sup>™</sup>, a downloadable content pack for *Diablo III*.

**Monthly Active Users: Measuring the Size of Our User Base**

We monitor monthly active users (“MAUs”) as a key measure of the overall size of our user base. MAUs are the number of individuals who played a particular game in a given month. We calculate average MAUs in a period by adding the total number of MAUs in each of the months in a given period and dividing that total by the number of months in the period. An individual who plays two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who plays the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who plays the same game on two platforms or devices in the relevant period would generally be counted as a single user.

The number of MAUs for a given period can be significantly impacted by the timing of new content releases, since new releases may cause a temporary surge in MAUs. Accordingly, although we believe that overall trending in the number of MAUs can be a meaningful performance metric, period-to-period fluctuations may not be indicative of longer-term trends. The following table details our average MAUs on a sequential quarterly basis for each of our reportable segments (amounts in millions):

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Activision	47	48	51	46	49	55
Blizzard	46	41	41	42	33	26
King	314	342	355	394	409	463
Total	407	431	447	482	491	544

Average MAUs decreased by 24 million, or 6%, for the quarter ended June 30, 2017, as compared to the quarter ended March 31, 2017. The decrease in King’s average MAUs is due to decreases across franchises reflecting the maturity of released titles, as well as a decrease in *Bubble Witch 3 Saga* MAUs during the current quarter given the title launched in the prior quarter. The increase in Blizzard’s average MAUs is due primarily to higher MAUs for the Hearthstone and Heroes of the Storm franchises, in part due to content and feature releases during the quarter.

Average MAUs decreased by 84 million, or 17%, for the quarter ended June 30, 2017, as compared to the quarter ended June 30, 2016. The decrease in King’s average MAUs is due to decreases across King’s franchises that are largely attributable to less engaged users leaving the network. This decrease is partially offset by the increase in Blizzard’s average MAUs, driven by the release of *Overwatch* in May 2016, along with higher MAUs for the Hearthstone and Heroes of the Storm franchises.

**Management’s Overview of Business Trends****Interactive Entertainment and Mobile Gaming Growth**

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate the total industry has grown, on average, 19% annually over the last four calendar years. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more commonplace across age groups and as more developing regions increasingly gain access to this form of entertainment.

Further, the wide adoption of smart phones globally and the free-to-play business model on those platforms has increased the total addressable market for gaming significantly. Smart phones and associated free-to-play games have introduced gaming to new age groups and new regions and allowed gaming to occur more widely outside the home. Mobile gaming is now estimated to be larger than console and PC gaming and continues to grow at a significant rate. King is a leading developer of mobile and free-to-play games. In addition, our other business units have mobile efforts underway that present the opportunity for us to drive additional player investment from our franchises.

### ***Opportunities to Expand Franchises Outside of Games***

Our fans spend significant time investing in our franchises through purchases of our game content, whether through purchases of full games or downloadable content, or via microtransactions. Given the passion our players have for our franchises, we believe there are emerging opportunities to drive player investment outside of game purchases. These opportunities include esports, film and television, and consumer products. Our efforts to build these additional opportunities are still relatively nascent, but we view them as potentially significant sources of future revenues.

As part of our efforts to take advantage of the esports opportunity, and as announced in July 2017, we completed the sale of the first Overwatch League™ teams for major global cities to seven entrepreneurs and leaders from esports and traditional sports. The Overwatch League is the first major global professional esports league with city-based teams.

### ***Concentration of Sales Among the Most Popular Franchises***

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 32% of the retail sales in the U.S. interactive entertainment industry in 2016. Similarly, a significant portion of our revenues have historically been derived from video games based on a few popular franchises and these video games were responsible for a disproportionately high percentage of our profits. For example, the Call of Duty, Candy Crush, World of Warcraft, and Overwatch franchises, collectively, accounted for 69% of our consolidated net revenues, and a significantly higher percentage of our operating income, for 2016.

The top titles in the industry are also becoming more consistent as players and revenues concentrate more heavily in established franchises. Each of the top 10 console franchises in 2016 was a previously established franchise. Similarly, according to U.S. rankings for the Apple App Store and Google Play Store, per App Annie Intelligence as of June 2017, the top 10 mobile games have an average tenure of 26 months.

In addition to investing in and developing sequels and content for our top titles, we are continually exploring additional ways to expand those franchises. Further, we invest in new properties in an effort to develop the future top franchises. In 2014, we released *Hearthstone* and *Destiny*, in 2015, we released *Heroes of the Storm*, and in 2016, we released *Overwatch*. There is no guarantee these investments will result in established franchises. Additionally, to diversify our portfolio of key franchises and increase our presence in the mobile market, on February 23, 2016, we acquired King.

Overall, we do expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our, and the industry's, revenues and profits in the near future. Accordingly, our ability to maintain our top franchises and our ability to successfully compete against our competitors' top franchises can significantly impact our performance.

### ***Recurring Revenue Business Models***

Increased consumer online connectivity has allowed us to offer players new investment opportunities and to shift our business to a more recurring and year-round model. Offering downloadable content and microtransactions, in addition to full games, allows our players to access and invest in new content throughout the year. This incremental content not only provides additional high-margin revenue, it can also increase engagement. Also, mobile games, and free-to-play games more broadly, are generally less seasonal.

**Consolidated Statements of Operations Data**

The following table sets forth condensed consolidated statements of operations data for the periods indicated in dollars and as a percentage of total net revenues, except for cost of revenues, which are presented as a percentage of associated revenues (amounts in millions):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017		2016		2017		2016	
<b>Net revenues</b>								
Product sales	\$ 481	29%	\$ 501	32%	\$ 989	29%	\$ 1,145	38%
Subscription, licensing, and other revenues	1,150	71	1,069	68	2,367	71	1,880	62
Total net revenues	1,631	100	1,570	100	3,356	100	3,025	100
<b>Costs and expenses:</b>								
Cost of revenues—product sales:								
Product costs	130	27	149	30	273	28	318	28
Software royalties, amortization, and intellectual property licenses	75	16	80	16	163	16	208	18
Cost of revenues—subscription, licensing, and other revenues:								
Game operations and distribution costs	236	21	241	23	468	20	383	20
Software royalties, amortization, and intellectual property licenses	120	10	128	12	242	10	180	10
Product development	252	15	249	16	478	14	424	14
Sales and marketing	308	19	322	21	554	17	490	16
General and administrative	171	10	169	11	347	10	329	11
Total costs and expenses	1,292	79	1,338	85	2,525	75	2,332	77
Operating income	339	21	232	15	831	25	693	23
Interest and other expense (income), net	46	3	65	4	85	3	117	4
Income before income tax expense	293	18	167	11	746	22	576	19
Income tax expense	50	3	16	1	77	2	62	2
Net income	\$ 243	15%	\$ 151	10%	\$ 669	20%	\$ 514	17%

**Consolidated Net Revenues**

The following table summarizes our consolidated net revenues and the increase/(decrease) in deferred net revenues recognized for the three and six months ended June 30, 2017 and 2016 (amounts in millions):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017	2016	Increase / (decrease)	% Change	2017	2016	Increase / (decrease)	% Change
Consolidated net revenues	\$ 1,631	\$ 1,570	\$ 61	4%	\$ 3,356	\$ 3,025	\$ 331	11%
Net effect from recognition (deferral) of deferred net revenues	213	(39)	252		742	508	234	

**Consolidated Net Revenues**

Q2 2017 vs. Q2 2016

The increase in consolidated net revenues for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to:

- higher revenues recognized from *Overwatch* , which was released in May 2016; and
- higher revenues recognized from *World of Warcraft* , driven by the release of *World of Warcraft: Legion*<sup>™</sup> in August 2016, with no comparable release in 2015.

The increase was partially offset by lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare* (which, when referred to herein, is inclusive of *Call of Duty: Modern Warfare* <sup>®</sup> *Remastered* ), which was released in November 2016, as compared to the performance of *Call of Duty: Black Ops III* , the comparable 2015 title.

YTD Q2 2017 vs. YTD Q2 2016

The increase in consolidated net revenues for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- higher revenues recognized from *Overwatch* ;
- higher revenues from King titles, driven by the Candy Crush franchise, as the current period includes King revenues for the full year-to-date period, while the comparable prior period only included King revenues for the partial period following the King Closing Date; and
- higher revenues recognized from *World of Warcraft* , driven by the release of *World of Warcraft: Legion*<sup>™</sup> in August 2016, with no comparable release in 2015 .

The increase was partially offset by lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, as compared to the performance of *Call of Duty: Black Ops III* .

**Change in Deferred Revenues Recognized**

Q2 2017 vs. Q2 2016

The increase in net deferred revenues recognized for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to higher deferred revenues recognized from *Overwatch*. The increase was partially offset by lower deferred revenues recognized from *Call of Duty: Infinite Warfare* , as compared to *Call of Duty: Black Ops III*.

YTD Q2 2017 vs. YTD Q2 2016

The increase in net deferred revenues recognized for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- net deferred revenues recognized from *Overwatch* in 2017 as compared to a net deferral of revenues in the comparable prior period due to *Overwatch* 's release in May 2016; and
- higher deferred revenues recognized from *World of Warcraft* , driven by deferred revenues recognized from *World of Warcraft: Legion* .

The increase was partially offset by lower deferred revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare* , as compared to *Call of Duty: Black Ops III*.

### ***Foreign Exchange Impact***

Changes in foreign exchange rates had a negative impact of \$28 million and \$61 million on Activision Blizzard's consolidated net revenues for the three and six months ended June 30, 2017, respectively, as compared to the impact on net revenues for the three and six months ended June 30, 2016. The changes are primarily due to changes in the value of the U.S. dollar relative to the Euro and British pound.

### **Operating Segment Results**

Currently, we have three reportable segments. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense; amortization of intangible assets as a result of purchase price accounting; fees and other expenses (including legal fees, expenses, and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring costs; and other non-cash charges. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto.

Our operating segments are also consistent with our internal organization structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments. As discussed in the "Business Overview" above, commencing with the second quarter of 2017, we made changes to our operating segments which reflect the changes in our organization and reporting structure. Our MLG business, which was previously included in the non-reportable "Other segments," is now presented within the Blizzard reportable operating segment. Prior period amounts have been revised to reflect this change. This change had no impact on consolidated net revenues or operating income.

[Table of Contents](#)

Information on the reportable segments and reconciliations of total segment net revenues and total segment operating income to consolidated net revenues from external customers and consolidated income before income tax expense for the three and six months ended June 30, 2017 and 2016 are presented in the table below (amounts in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Increase / (Decrease)	2017	2016	Increase / (Decrease)
<b>Segment net revenues:</b>						
Activision	\$ 316	\$ 332	\$ (16)	\$ 532	\$ 692	\$ (160)
Blizzard	566	741	(175)	1,009	1,038	(29)
King	480	484	(4)	954	691	263
Reportable segments net revenues total	<u>1,362</u>	<u>1,557</u>	<u>(195)</u>	<u>2,495</u>	<u>2,421</u>	<u>74</u>
<b>Reconciliation to consolidated net revenues:</b>						
Other segments (1)	56	52		119	96	
Net effect from recognition (deferral) of deferred net revenues (2)	213	(39)		742	508	
Consolidated net revenues	<u>\$ 1,631</u>	<u>\$ 1,570</u>		<u>\$ 3,356</u>	<u>\$ 3,025</u>	
<b>Segment income (loss) from operations:</b>						
Activision	\$ 87	\$ 88	\$ (1)	\$ 111	\$ 187	\$ (76)
Blizzard	225	329	(104)	384	413	(29)
King	164	176	(12)	330	243	87
Reportable segment income from operations total	<u>476</u>	<u>593</u>	<u>(117)</u>	<u>825</u>	<u>843</u>	<u>(18)</u>
<b>Reconciliation to consolidated operating income and consolidated income before income tax expense:</b>						
Other segments (1)	(5)	(5)		(3)	(3)	
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues	105	(108)		501	261	
Share-based compensation expense	(39)	(41)		(73)	(85)	
Amortization of intangible assets	(194)	(203)		(384)	(285)	
Fees and other expenses related to the King Acquisition (2)	(5)	(4)		(9)	(38)	
Restructuring costs (3)	—	—		(11)	—	
Other non-cash charges (4)	1	—		(15)	—	
Consolidated operating income	<u>339</u>	<u>232</u>		<u>831</u>	<u>693</u>	
Interest and other expense (income), net	46	65		85	117	
Consolidated income before income tax expense	<u>\$ 293</u>	<u>\$ 167</u>		<u>\$ 746</u>	<u>\$ 576</u>	

- (1) Other segments include other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Other segments also include unallocated corporate income and expenses.
- (2) Reflects fees and other expenses, such as legal, banking and professional services fees, primarily related to the King Acquisition and associated integration activities, inclusive of related debt financings.
- (3) Reflects restructuring charges incurred, primarily severance costs.
- (4) Reflects a non-cash accounting charge to reclassify certain cumulative translation losses into earnings due to the substantial liquidation of certain of our foreign entities.



**Segment Net Revenues**

*Activision*

Q2 2017 vs. Q2 2016

The decrease in Activision's net revenues for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower revenues from *Call of Duty: Infinite Warfare*, which was released in the fourth quarter of 2016, as compared to *Call of Duty: Black Ops III*, the comparable 2015 title.

The decrease was partially offset by:

- revenues from the *Call of Duty: Black Ops III* downloadable content pack, *Zombies Chronicles*, which was released in May 2017, with no comparable prior year release, as well as continued in-game microtransactions from *Call of Duty: Black Ops III*; and
- revenues from the release of the *Crash Bandicoot N. Sane Trilogy* in June 2017.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in Activision's net revenues for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers and partially offsetting factors as those for the three months ended June 30, 2017 discussed above.

*Blizzard*

Q2 2017 vs. Q2 2016

The decrease in Blizzard's net revenues for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower revenues from *Overwatch*, which was released in May 2016. The decrease was partially offset by the prior-year negative impact of a reserve established in the second quarter of 2016 due to a value-added tax (VAT) audit, with no comparable reserve established for the three months ended June 30, 2017.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in Blizzard's net revenues for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to lower revenues from *Overwatch*, partially offset by higher revenues from *World of Warcraft*.

*King*

Q2 2017 vs. Q2 2016

King's net revenues for the three months ended June 30, 2017, were comparable to net revenues for the three months ended June 30, 2016. This was driven by slight declines in revenues across King's various franchises, partially offset by higher revenues from the Bubble Witch franchise due to the release of *Bubble Witch 3 Saga* at the beginning of 2017.

YTD Q2 2017 vs. YTD Q2 2016

The increase in King's net revenues for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the current period including King revenues for the full year-to-date period, while the comparable prior period only included King revenues for the partial period following the King Closing Date.

**Segment Income from Operations**

*Activision*

Q2 2017 vs. Q2 2016

Activision's operating income for the three months ended June 30, 2017, was comparable to the three months ended June 30, 2016, despite the decrease in revenues discussed above. This was driven by:

- an increased percentage of revenues coming from higher-margin online digital channels;
- lower product development costs from the Skylanders franchise, as we do not have a new release title planned for 2017; and
- offset by, higher sales and marketing costs for the Destiny franchise given the expected *Destiny 2* release in September 2017, with no comparable release in the prior year.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in Activision's operating income for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the lower revenues discussed above. The decrease was also due to higher sales and marketing costs for the Destiny franchise given the expected *Destiny 2* release in September 2017, with no comparable release in the prior year.

The decrease was partially offset by:

- lower product development costs, driven by lower costs for the Skylanders franchise and lower accrued bonuses; and
- lower sales and marketing costs for the Skylanders franchise, as we do not have a new release title planned for 2017.

*Blizzard*

Q2 2017 vs. Q2 2016

The decrease in Blizzard's operating income for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to the lower revenues discussed above. This was partially offset by lower sales and marketing costs for *Overwatch* given its launch in May 2016.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in Blizzard's operating income for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to higher product development costs resulting from lower capitalization of software development costs due to the timing of game development cycles. This was partially offset by lower sales and marketing costs for *Overwatch* given its launch in May 2016.

**King**
Q2 2017 vs. Q2 2016

The decrease in King's operating income for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to slightly higher product development and sales and marketing costs, partially offset by lower professional services fees.

YTD Q2 2017 vs. YTD Q2 2016

The increase in King's operating income for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the current period including King's results of operations for the full year-to-date period, while the comparable prior period only included King's results of operations for the partial period following the King Closing Date.

**Foreign Exchange Impact**

Changes in foreign exchange rates had a negative impact of \$18 million and \$33 million on reportable segment net revenues for the three and six months ended June 30, 2017, respectively, as compared to the impact on reportable segment net revenues for the three and six months ended June 30, 2016. The changes are primarily due to changes in the value of the U.S. dollar relative to the Euro and British pound.

**Consolidated Results**
**Net Revenues by Distribution Channel**

The following table details our consolidated net revenues by distribution channel for the three and six months ended June 30, 2017 and 2016 (amounts in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Increase / (decrease)	2017	2016	Increase / (decrease)
Net revenues by distribution channel						
Digital online channels (1)	\$ 1,309	\$ 1,141	\$ 168	\$ 2,694	\$ 2,067	\$ 627
Retail channels	260	374	(114)	529	856	(327)
Other (2)	62	55	7	133	102	31
Total consolidated net revenues	<u>\$ 1,631</u>	<u>\$ 1,570</u>	<u>\$ 61</u>	<u>\$ 3,356</u>	<u>\$ 3,025</u>	<u>\$ 331</u>

The increase/(decrease) in deferred revenues recognized by distribution channel for the three and six months ended June 30, 2017 and 2016, was as follows (amounts in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Increase / (decrease)	2017	2016	Increase / (decrease)
Increase/(decrease) in deferred revenues recognized by distribution channel:						
Digital online channels (1)	\$ 31	\$ (261)	\$ 292	\$ 350	\$ (132)	\$ 482
Retail channels	180	222	(42)	385	640	(255)
Other (2)	2	—	2	7	—	7
Net effect from recognition (deferral) of deferred net revenues	<u>\$ 213</u>	<u>\$ (39)</u>	<u>\$ 252</u>	<u>\$ 742</u>	<u>\$ 508</u>	<u>\$ 234</u>

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

(2) Net revenues from Other include revenues from our Studios and Distribution businesses, as well as revenues from MLG.

## **Digital Online Channel Net Revenues**

### *Net Revenues*

#### Q2 2017 vs. Q2 2016

The increase in net revenues from digital online channels for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to:

- higher revenues recognized from *Overwatch*, which was released in May 2016; and
- higher revenues recognized from *World of Warcraft*, driven by the release of *World of Warcraft: Legion* in August 2016, with no comparable release in 2015.

#### YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues from digital online channels for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers as those for the three months ended June 30, 2017 discussed above. The increase was also due to higher revenues from King titles, driven by the Candy Crush franchise, as the current period includes King's revenues for the full year-to-date period, while the comparable prior period only included King's revenues for the partial period following the King Closing Date.

### *Change in Deferred Revenues Recognized*

#### Q2 2017 vs. Q2 2016

The increase in net deferred revenues recognized from digital online channels for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to higher deferred revenues recognized from *Overwatch*.

#### YTD Q2 2017 vs. YTD Q2 2016

The increase in net deferred revenues recognized from digital online channels for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- net deferred revenues recognized from *Overwatch* in 2017, as compared to a net deferral of revenues in the comparable prior period, due to *Overwatch*'s release in May 2016;
- higher deferred revenues recognized from the Call of Duty franchise (the weaker performance of *Call of Duty: Infinite Warfare* digital content in the current period as compared to *Call of Duty: Blacks Ops III* in the prior period has resulted in less deferrals of revenues from digital content in 2017 as compared to 2016 and, as a result, higher deferred revenues recognized in the current period); and
- higher deferred revenues recognized from *World of Warcraft*, driven by deferred revenues recognized from *World of Warcraft: Legion*.

**Retail Channel Net Revenues***Net Revenues*Q2 2017 vs. Q2 2016

The decrease in net revenues from retail channels for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, which was released in November 2016, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title. The decrease was partially offset by revenues from the release of the *Crash Bandicoot N. Sane Trilogy* in June 2016, which had no comparable prior year release.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in net revenues from retail channels for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers and partially offsetting factors as those for the three months ended June 30, 2017 discussed above.

*Change in Deferred Revenues Recognized*Q2 2017 vs. Q2 2016

The decrease in net deferred revenues recognized from retail channels for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower deferred revenues recognized from *Call of Duty: Infinite Warfare*, as compared to *Call of Duty: Black Ops III*. The decrease was partially offset by net deferred revenues recognized from *Overwatch* in 2017, as compared to a net deferral of revenues in the comparable prior period, due to *Overwatch*'s release in May 2016.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in net deferred revenues recognized from retail channels for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers and partially offsetting factors as those for the three months ended June 30, 2017 discussed above.

***Net Revenues by Geographic Region***

The following table details our consolidated net revenues by geographic region for the three and six months ended June 30, 2017 and 2016 (amounts in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Increase / (decrease)	2017	2016	Increase / (decrease)
Geographic region net revenues:						
Americas	\$ 858	\$ 860	\$ (2)	\$ 1,787	\$ 1,613	\$ 174
EMEA (1)	538	507	31	1,092	1,028	64
Asia Pacific	235	203	32	477	384	93
Consolidated net revenues	<u>\$ 1,631</u>	<u>\$ 1,570</u>	<u>\$ 61</u>	<u>\$ 3,356</u>	<u>\$ 3,025</u>	<u>\$ 331</u>

(1) EMEA consists of the Europe, Middle East, and Africa geographic regions.

*Americas*

Q2 2017 vs. Q2 2016

Net revenues in the Americas region for the three months ended June 30, 2017, were comparable to the three months ended June 30, 2016. Net revenues were comparable as the lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, which was released in November 2016, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title, were partially offset by higher revenues recognized from *Overwatch*, which was released in May 2016.

YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues in the Americas region for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- higher revenues from King titles, driven by the Candy Crush franchise, as the current period includes King's revenues for the full year-to-date period, while the comparable prior period only included King's revenues for the partial period following the King Closing Date;
- higher revenues recognized from *Overwatch*; and
- higher revenues recognized from *World of Warcraft*, driven by the release of *World of Warcraft: Legion* in August 2016, with no comparable release in 2015.

The increase was partially offset by lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, as compared to the performance of *Call of Duty: Black Ops III*.

*EMEA*

Q2 2017 vs. Q2 2016

The increase in net revenues in the EMEA region for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to:

- the prior-year negative impact of a reserve established in the second quarter of 2016 due to a value-added tax (VAT) audit, with no comparable reserve established for the three months ended June 30, 2017; and
- higher revenues recognized from *Overwatch*.

The increase was partially offset by lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, as compared to the performance of *Call of Duty: Black Ops III*.

YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues in the EMEA region for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers and partially offsetting factors as those for Americas region discussed above for the six months ended June 30, 2017.

*Asia Pacific*

Q2 2017 vs. Q2 2016

The increase in net revenues in the Asia Pacific region for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to higher revenues recognized from *Overwatch*.

YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues in the Asia Pacific region for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to higher revenues recognized from *Overwatch*.

**Net Revenues by Platform**

The following tables detail our consolidated net revenues by platform for the three and six months ended June 30, 2017 and 2016 (amounts in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Platform net revenues:						
Console	\$ 568	\$ 650	\$ (82)	\$ 1,182	\$ 1,415	\$ (233)
PC	508	411	97	1,072	811	261
Mobile and ancillary (1)	493	454	39	969	697	272
Other (2)	62	55	7	133	102	31
Total consolidated net revenues	\$ 1,631	\$ 1,570	\$ 61	\$ 3,356	\$ 3,025	\$ 331

(1) Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform-specific game-related revenues, such as standalone sales of toys and accessories from our Skylanders franchise and other physical merchandise and accessories.

(2) Net revenues from Other include revenues from our Studios and Distribution businesses, as well as revenues from MLG.

*Console*

Q2 2017 vs. Q2 2016

The decrease in net revenues from the console platform for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower revenues recognized from the Call of Duty franchise, primarily due to the performance of *Call of Duty: Infinite Warfare*, which was released in November 2016, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title. The decrease was partially offset by:

- higher revenues recognized from *Overwatch*, which was released in May 2016; and
- revenues from the release of the *Crash Bandicoot N. Sane Trilogy* in June 2017.

YTD Q2 2017 vs. YTD Q2 2016

The decrease in net revenues from the console platform for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers and partially offsetting factors as those for the three months ended June 30, 2017 discussed above. The decrease was also driven by lower revenues recognized from the Destiny franchise.

PC

Q2 2017 vs. Q2 2016

The increase in net revenues from the PC platform for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to:

- higher revenues recognized from *Overwatch* ; and
- higher revenues recognized from *World of Warcraft* , driven by the release of *World of Warcraft: Legion* in August 2016, with no comparable release in 2015.

YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues from the PC platform for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the same drivers as those for the three months ended June 30, 2017 discussed above.

Mobile and Ancillary

Q2 2017 vs. Q2 2016

The increase in net revenues from mobile and ancillary for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to higher revenues from the Bubble Witch franchise, driven by the release of *Bubble Witch 3 Saga* .

YTD Q2 2017 vs. YTD Q2 2016

The increase in net revenues from mobile and ancillary for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to higher revenues from King titles, driven by the Candy Crush franchise, as the current period includes King's revenues for the full year-to-date period, while the comparable prior period only included King's revenues for the partial period following the King Closing Date.



## Costs and Expenses

### Cost of Revenues

The following tables detail the components of cost of revenues in dollars and as a percentage of associated net revenues for the three and six months ended June 30, 2017 and 2016 (amounts in millions):

	Three Months Ended June 30, 2017	% of associated net revenues	Three Months Ended June 30, 2016	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	\$ 130	27%	\$ 149	30%	\$ (19)
Software royalties, amortization, and intellectual property licenses	75	16	80	16	(5)
Cost of revenues—subscription, licensing, and other revenues:					
Game operations and distribution costs	236	21	241	23	(5)
Software royalties, amortization, and intellectual property licenses	120	10	128	12	(8)
<b>Total cost of revenues</b>	<b>\$ 561</b>	<b>34%</b>	<b>\$ 598</b>	<b>38%</b>	<b>\$ (37)</b>

	Six Months Ended June 30, 2017	% of associated net revenues	Six Months Ended June 30, 2016	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	\$ 273	28%	\$ 318	28%	\$ (45)
Software royalties, amortization, and intellectual property licenses	163	16	208	18	(45)
Cost of revenues—subscription, licensing, and other revenues:					
Game operations and distribution costs	468	20	383	20	85
Software royalties, amortization, and intellectual property licenses	242	10	180	10	62
<b>Total cost of revenues</b>	<b>\$ 1,146</b>	<b>34%</b>	<b>\$ 1,089</b>	<b>36%</b>	<b>\$ 57</b>

### Cost of Revenues—Product Sales:

#### Q2 2017 vs. Q2 2016

The decrease in product costs for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to:

- lower product costs associated with the Skylanders franchise, which tends to have relatively higher product costs given the hardware components; and
- a relative increase in revenues coming from digital online channels, which typically have relatively lower product costs.

Software royalties, amortization, and intellectual property licenses related to product sales were comparable for the three months ended June 30, 2017 and the three months ended June 30, 2016.

#### YTD Q2 2017 vs. YTD Q2 2016

The decrease in product costs for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to the decrease in product sales for the period. This was partially offset by increased product costs resulting from the increased revenues of our relatively lower-margin Distribution business.

[Table of Contents](#)

The decrease in software royalties, amortization, and intellectual property licenses related to product sales for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- lower developer royalties and software amortization associated with the Destiny franchise, due to the timing of releases; and
- lower software amortization associated with *Guitar Hero*® *Live*, which was released in October 2015, with no comparable release in 2016.

The decrease was partially offset by software amortization from *World of Warcraft: Legion*, which was released in August 2016, with no comparable release in 2015.

*Cost of Revenues—Subscription, Licensing, and Other Revenues:*

Q2 2017 vs. Q2 2016

Game operations and distribution costs, and software royalties, amortization, and intellectual property licenses related to subscription, licensing, and other revenues for the three months ended June 30, 2017, were comparable to the three months ended June 30, 2016.

YTD Q2 2017 vs. YTD Q2 2016

The increase in game operations and distribution costs for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to higher online costs and platform provider fees associated with revenues from King, as the current period includes King's costs for a full year-to-date period, while the comparable prior period only included King's revenues and associated costs for the partial period following the King Closing Date.

The increase in software royalties, amortization, and intellectual property licenses related to subscription, licensing, and other revenues for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to a full year-to-date period amortization of internally-developed franchise intangible assets acquired in the King Acquisition, while the comparable prior period only included a partial period of amortization of internally-developed franchise intangible assets following the King Closing Date.

*Product Development (amounts in millions)*

	<b>June 30, 2017</b>		<b>% of consolidated net revenues</b>	<b>June 30, 2016</b>		<b>% of consolidated net revenues</b>	<b>Increase (Decrease)</b>
Three Months Ended	\$	252	15%	\$	249	16%	\$ 3
Six Months Ended	\$	478	14%	\$	424	14%	\$ 54

Q2 2017 vs. Q2 2016

Product development costs for the three months ended June 30, 2017, were comparable to the three months ended June 30, 2016.

YTD Q2 2017 vs. YTD Q2 2016

The increase in product development costs for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- higher Blizzard product development costs to support current and future releases and lower capitalization of software development costs due to the timing of game development cycles; and
- increased costs related to King, as the current period includes a full year-to-date period of costs, while the comparable prior period only included King's costs for the partial period following the King Closing Date.

The increase was partially offset by lower Activision product development costs, driven by lower accrued bonuses.

[Table of Contents](#)*Sales and Marketing (amounts in millions)*

	June 30, 2017	% of consolidated net revenues	June 30, 2016	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 308	19%	\$ 322	21%	\$ (14)
Six Months Ended	\$ 554	17%	\$ 490	16%	\$ 64

Q2 2017 vs. Q2 2016

The decrease in sales and marketing expenses for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, was primarily due to lower sales and marketing costs for *Overwatch* given it launched in May 2016. The decrease was partially offset by higher sales and marketing costs for the *Destiny* franchise given the expected *Destiny 2* release in September 2017, with no comparable release in the prior year.

YTD Q2 2017 vs. YTD Q2 2016

The increase in sales and marketing expenses for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- increased amortization of the customer base intangible assets acquired in the King Acquisition and increased sales and marketing costs to support King's titles, as the current period includes a full year-to-date period of costs, while the comparable prior period only included King's costs for the partial period following the King Closing Date; and
- higher sales and marketing costs for the *Destiny* franchise given the expected *Destiny 2* release in September 2017, with no comparable release in the prior year.

The increase was partially offset by lower sales and marketing costs for *Overwatch* given it launched in May 2016.

*General and Administrative (amounts in millions)*

	June 30, 2017	% of consolidated net revenues	June 30, 2016	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 171	10%	\$ 169	11%	\$ 2
Six Months Ended	\$ 347	10%	\$ 329	11%	\$ 18

Q2 2017 vs. Q2 2016

For the three months ended June 30, 2017, general and administrative expenses were comparable to the three months ended June 30, 2016.

YTD Q2 2017 vs. YTD Q2 2016

The increase in general and administrative expenses for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was primarily due to:

- increased personnel costs to support the growth of our business and expanding areas of opportunity; and
- the inclusion in the current period of a non-cash accounting charge to reclassify certain losses included in our cumulative translation adjustments into earnings due to the substantial liquidation of certain of our foreign entities.

The increase was partially offset by lower transaction costs, as the six months ended June 30, 2016 included the King Acquisition.

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

	June 30, 2017	% of consolidated net revenues	June 30, 2016	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 46	3%	\$ 65	4%	\$ (19)
Six Months Ended	\$ 85	3%	\$ 117	4%	\$ (32)

The decrease in interest and other expense (income), net for the three and six months ended June 30, 2017, as compared to the three and six months ended June 30, 2016, was primarily due to our lower total outstanding debt and lower interest rates on our current debt instruments as a result of our refinancing activities in 2016 and 2017.

The decreases were partially offset by write-offs of unamortized discount and deferred financing costs as a result of our debt refinancing and paydown activities. See further discussion below under “Liquidity and Capital Resources.”

*Income Tax Expense (amounts in millions)*

	June 30, 2017	% of pretax income	June 30, 2016	% of pretax income	Increase (Decrease)
Three Months Ended	\$ 50	17%	\$ 16	10%	\$ 34
Six Months Ended	\$ 77	10%	\$ 62	11%	\$ 15

The income tax expense of \$50 million for the three months ended June 30, 2017, reflects an effective tax rate of 17%, which is higher than the effective tax rate of 10% for the three months ended June 30, 2016. The increase is due to a decrease in excess tax benefits from share-based payments and an increase in reserves for uncertain tax positions, partially offset by a higher mix of foreign earnings taxed at relatively lower statutory rates.

The income tax expense of \$77 million for the six months ended June 30, 2017, reflects an effective tax rate of 10%, which is lower than the effective tax rate of 11% for the six months ended June 30, 2016. The decrease is due to an increase in excess tax benefits from share-based payments and a higher mix of foreign earnings taxed at relatively lower statutory rates, partially offset by an increase in reserves for uncertain tax positions.

The effective tax rate of 17% and 10% for the three and six months ended June 30, 2017, respectively, is lower than the U.S. statutory rate of 35%, primarily due to foreign earnings taxed at lower statutory rates, the recognition of excess tax benefits from share-based payments, and the recognition of federal and California research and development credits, partially offset by an increase in reserves for uncertain tax positions.

[Table of Contents](#)

Our effective tax rate differs from the statutory U.S. income tax rate due to the effect of state and local income taxes, tax rates in foreign jurisdictions, and certain nondeductible expenses. Our effective tax rate could fluctuate significantly from quarter to quarter based on recurring and nonrecurring factors including, but not limited to: variations in the estimated and actual level of pre-tax income or loss by jurisdiction; changes in the mix of income by tax jurisdiction (as taxes are levied at relatively lower statutory rates in foreign regions and relatively higher statutory rates in the U.S.); research and development credits; changes in enacted tax laws and regulations, rulings, and interpretations thereof, including with respect to tax credits, and state and local income taxes; developments in tax audits and other matters; recognition of excess tax benefits and tax deficiencies from share-based payments; and certain nondeductible expenses. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition, or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

Further information about our income taxes is provided in Note 10 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

### Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. In the near term, we expect our business to remain strong and to continue to generate significant operating cash flows. Our primary sources of liquidity, which are available to us to fund cash outflows such as our anticipated dividend payments, share repurchases, and scheduled debt maturities, include our cash and cash equivalents, short- and long-term investments, and cash flows provided by operating activities. With our cash and cash equivalents and short-term investments of \$3.3 billion at June 30, 2017, and the expected cash flows provided by our operating activities, we believe that we have sufficient liquidity to meet daily operations for the foreseeable future. We also believe that we have sufficient working capital (\$2.6 billion at June 30, 2017) to finance our operational and financing requirements for at least the next 12 months. Additionally, we have the availability of a \$250 million revolving credit facility.

As of June 30, 2017, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$2.1 billion, as compared to \$1.9 billion as of December 31, 2016. If the cash and cash equivalents held outside of the U.S. are needed in the future for our operations in the U.S., we would accrue and pay the required U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Furthermore, our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the fourth quarter due to seasonal and holiday-related sales patterns. On a continuing basis, we consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, joint ventures, share repurchases, and other structural changes. These transactions may result in future cash proceeds or payments.

#### Sources of Liquidity (amounts in millions)

	June 30, 2017	December 31, 2016	Increase (Decrease)
Cash and cash equivalents	\$ 3,278	\$ 3,245	\$ 33
Short-term investments	8	13	(5)
	<u>\$ 3,286</u>	<u>\$ 3,258</u>	<u>\$ 28</u>
Percentage of total assets	20%	19%	

	For the Six Months Ended June 30,		
	2017	2016	Increase (Decrease)
Net cash provided by operating activities	\$ 676	\$ 840	\$ (164)
Net cash used in investing activities	(41)	(1,113)	1,072
Net cash (used in) provided by financing activities	(652)	746	(1,398)
Effect of foreign exchange rate changes	50	(25)	75
Net increase in cash and cash equivalents	\$ 33	\$ 448	\$ (415)

*Net Cash Provided by Operating Activities*

The primary drivers of net cash flows associated with our operating activities include the collection of customer receivables generated from the sale of our products and services. These collections are typically partially offset by: payments to vendors for the manufacturing, distribution, and marketing of our products; payments for customer service support for our consumers; payments to third-party developers and intellectual property holders; payments for interest on our debt; payments for software development; payments for tax liabilities; and payments to our workforce.

Net cash provided by operating activities for the six months ended June 30, 2017 was \$676 million, as compared to \$840 million for the six months ended June 30, 2016. The decrease was primarily due to the timing of the launches of our games, as the prior period included cash flows from the launch of *Overwatch* in May 2016, with no comparable launch in the current period. The decrease was partially offset by:

- higher net income for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, along with larger adjustments to net income for non-cash charges, which were primarily associated with the amortization of the acquired intangibles in the King Acquisition; and
- changes in our working capital due to the timing of collections and payments.

*Net Cash Used in Investing Activities*

The primary drivers of net cash flows associated with investing activities typically include capital expenditures, changes in restricted cash balances, and cash used for acquisitions.

Net cash used in investing activities for the six months ended June 30, 2017 was \$41 million, as compared to \$1.1 billion for the six months ended June 30, 2016. The decrease in the cash used was primarily due to cash used for the King Acquisition in the six months ended June 30, 2016, with no comparable transaction in the current period.

*Net Cash (Used in) Provided by Financing Activities*

The primary drivers of net cash flows associated with financing activities typically include the proceeds from, and repayments of, our long-term debt and transactions involving our common stock, including the issuance of shares of common stock to employees upon the exercise of stock options, as well as the payment of dividends.

Net cash used in financing activities for the six months ended June 30, 2017 was \$652 million, as compared to net cash provided by financing activities of \$746 million for the six months ended June 30, 2016. The change was primarily attributed to our debt financing activities. For the six months ended June 30, 2017, we had net debt repayments of \$500 million, as compared to approximately \$950 million of net debt proceeds for the six months ended June 30, 2016. The cash flows used in financing activities for the six months ended June 30, 2017 were partially offset by higher proceeds from stock option exercises of \$130 million, as compared to \$60 million for the six months ended June 30, 2016.

*Effect of Foreign Exchange Rate Changes*

Changes in foreign exchange rates had a positive impact of \$50 million and a negative impact of \$25 million on our cash and cash equivalents for the six months ended June 30, 2017 and 2016, respectively. The change was primarily due to changes in the value of the U.S. dollar relative to the British pound and the Euro.

**Debt**

As of December 31, 2016, our total outstanding debt was \$4.9 billion, bearing interest at a weighted average rate of 2.92%.

On February 3, 2017, we entered into a sixth amendment (the “Sixth Amendment”) to our credit agreement, which was originally executed on October 11, 2013 (as amended thereafter and from time to time, the “Credit Agreement”). The Sixth Amendment: (i) provided for a new tranche of term loans “A” in an aggregate principal amount of \$2.55 billion (the “2017 TLA”) and (ii) released each of our subsidiary guarantors from their respective guarantees provided under the Credit Agreement. All proceeds of the 2017 TLA, together with additional cash on hand of \$139 million, were used to fully retire the term loans then outstanding (the “2016 TLA”) under the Credit Agreement, including all accrued and unpaid interest thereon. The terms of the 2017 TLA, other than the absence of the subsidiary guarantees, are generally the same as the terms of the 2016 TLA. The fees incurred as a result of the Sixth Amendment were not material. The 2017 TLA will mature on August 23, 2021.

On May 26, 2017, in a public underwritten offering, we issued three series of unsecured senior notes—\$400 million of 2.6% unsecured senior notes due June 2022, \$400 million of 3.4% unsecured senior notes due June 2027, and \$400 million of 4.5% unsecured senior notes due June 2047. The proceeds from these unsecured senior notes, together with cash on hand, were used to make a prepayment of \$1.2 billion on our 2017 TLA.

During the six months ended June 30, 2017, we reduced our total outstanding long-term debt by \$500 million. This included \$139 million of cash used to retire the 2016 TLA, as discussed above, along with a prepayment on the 2017 TLA of \$361 million. The prepayment made on our 2017 TLA satisfied the remaining required quarterly principal repayments for the entire term of the Credit Agreement.

As a result of the above activities, our total outstanding debt as of June 30, 2017 was \$4.4 billion, bearing interest at a weighted average rate of 3.52%. A summary of our debt as of June 30, 2017, is as follows (amounts in millions):

	<u>At June 30, 2017</u>		
	<u>Gross Carrying Amount</u>	<u>Unamortized Discount and Deferred Financing Costs</u>	<u>Net Carrying Amount</u>
2017 TLA	\$ 990	\$ (9)	\$ 981
2021 Notes	650	(5)	645
2022 Notes	400	(4)	396
2023 Notes	750	(10)	740
2026 Notes	850	(9)	841
2027 Notes	400	(6)	394
2047 Notes	400	(10)	390
Total long-term debt	<u>\$ 4,440</u>	<u>\$ (53)</u>	<u>\$ 4,387</u>

[Table of Contents](#)

A summary of our debt as of December 31, 2016, was as follows (amounts in millions):

	At December 31, 2016		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2016 TLA	\$ 2,690	\$ (27)	\$ 2,663
2021 Notes	650	(5)	645
2023 Notes	750	(11)	739
2026 Notes	850	(10)	840
Total long-term debt	<u>\$ 4,940</u>	<u>\$ (53)</u>	<u>\$ 4,887</u>

Refer to Note 7 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for further disclosures regarding our debt obligations.

### Dividends

On February 2, 2017, our Board of Directors approved a cash dividend of \$0.30 per common share. On May 10, 2017, we made an aggregate cash dividend payment of \$226 million to shareholders of record at the close of business on March 30, 2017. On May 26, 2017, we made related dividend equivalent payments of less than \$1 million to certain holders of restricted stock units.

### Capital Expenditures

For the year ending December 31, 2017, we anticipate total capital expenditures of approximately \$135 million, primarily for leasehold improvements, computer hardware, and software purchases. During the six months ended June 30, 2017, capital expenditures were \$52 million.

### Off-Balance Sheet Arrangements

At June 30, 2017 and December 31, 2016, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). These accounting principles require us to make certain estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that they are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments, and assumptions, and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results, include the following:

- Revenue Recognition including Revenue Arrangements with Multiple Deliverables;
- Allowances for Returns and Price Protection;
- Allowance for Inventory Obsolescence;
- Software Development Costs;
- Income Taxes;
- Fair Value Estimates (including Business Combinations and Assessment of Impairment of Assets); and
- Share-Based Payments.

During the six months ended June 30, 2017, there were no significant changes to the above critical accounting policies and estimates. Refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016, for a more complete discussion of our critical accounting policies and estimates.



## **Recently Issued Accounting Pronouncements**

Below are recently issued accounting pronouncements that were most significant to our accounting policy activities. For a detailed discussion of all relevant recently issued accounting pronouncements, see Note 15 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

### ***Recently Adopted Accounting Pronouncements***

#### *Inventory*

In July 2015, the Financial Accounting Standards Board (“FASB”) issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this new standard as of January 1, 2017, and applied it prospectively. The adoption of this guidance did not have a material impact on our financial statements.

### ***Recent Accounting Pronouncements Not Yet Adopted***

#### *Revenue Recognition*

In May 2014, the FASB issued new accounting guidance related to revenue recognition. The new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance, providing a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. This guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2017. We anticipate adopting the accounting standard on January 1, 2018, using the modified retrospective method, which recognizes the cumulative effect upon adoption as an adjustment to retained earnings at the adoption date.

As previously disclosed, we believe the adoption of the new revenue recognition standard may have a significant impact on the accounting for our sales of our games with significant online functionality for which we do not have vendor-specific objective evidence (“VSOE”) for unspecified future updates and ongoing online services provided. Under the current accounting standards, VSOE for undelivered elements is required. This requirement will be eliminated under the new standard. Accordingly, we will be required to recognize as revenue a portion of the sales price upon delivery of the software, as compared to the current requirement of recognizing the entire sales price ratably over an estimated offering period. We expect this difference to primarily impact revenues from our Call of Duty franchise. Many of our other franchises, such as Destiny, Overwatch, World of Warcraft, and Candy Crush, are hosted service arrangements and we do not expect any significant impact on the accounting for our sales of these games. Nonetheless, this difference may have a material impact on our consolidated financial statements upon adoption of the new guidance.

We are continuing to evaluate the additional impacts of this new accounting guidance on our financial statements and related disclosures.

*Leases*

In February 2016, the FASB issued new guidance related to the accounting for leases. The new standard will replace all current U.S. GAAP guidance on this topic. The new standard, among other things, requires a lessee to classify a lease as either an operating or financing lease, and lessees will need to recognize a lease liability and a right-of-use asset for their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment for initial direct costs, lease incentives received, and any prepaid lease payments. Operating leases will result in a straight-line expense pattern, while finance leases will result in a front-loaded expense pattern. Classification will be based on criteria that are largely similar to those applied in current lease accounting. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the impact of this new accounting guidance on our financial statements. Currently, we do not plan to early adopt this new standard.

*Statement of Cash Flows-Restricted Cash*

In November 2016, the FASB issued new guidance related to the classification of restricted cash in the statement of cash flows. The new standard requires that a statement of cash flows explain any change during the period in total cash, cash equivalents, and restricted cash. Therefore, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2018, and should be applied retrospectively. Early adoption is permitted.

We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements. We expect there would be a significant impact to the condensed consolidated statements of cash flows for 2016, as this period includes, as an investing activity, the \$3.6 billion movement in restricted cash resulting from the transfer of cash into escrow at December 31, 2015 to facilitate the King Acquisition and the subsequent release of that cash in 2016 in connection with the King Acquisition. Under this new standard, the restricted cash balance would be included in the beginning and ending total cash, cash equivalents, and restricted cash balances and, hence, would not be included as an investing activity in the statement of cash flows.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the potential loss arising from fluctuations in market rates and prices. Our market risk exposures primarily include fluctuations in foreign currency exchange rates and interest rates.

**Foreign Currency Exchange Rate Risk**

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include Euros, British pounds, Australian dollars, South Korean won, Chinese yuan, and Swedish krona. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions will result in reduced revenues, operating expenses, net income and cash flows from our international operations. Similarly, our revenues, operating expenses, net income, and cash flows will increase for our international operations if the U.S. dollar weakens against foreign currencies. Since we have significant international sales, but incur the majority of our costs in the United States, the impact of foreign currency fluctuations, particularly the strengthening of the U.S. dollar, may have an asymmetric and disproportional impact on our business. We monitor currency volatility throughout the year.

To mitigate our foreign currency risk resulting from our foreign currency-denominated monetary assets, liabilities, and earnings and our foreign currency risk related to functional currency-equivalent cash flows resulting from our intercompany transactions, we periodically enter into currency derivative contracts, principally forward contracts. These forward contracts generally have a maturity of less than one year. The counterparties for our currency derivative contracts are large and reputable commercial or investment banks.

The fair values of our foreign currency contracts are estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

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

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

At June 30, 2017 and December 31, 2016, we did not have any outstanding foreign currency forward contracts not designated as hedges.

***Foreign Currency Forward Contracts Designated as Hedges (“Cash Flow Hedges”)***

At June 30, 2017, the gross notional amount of outstanding Cash Flow Hedges was approximately \$356 million. The fair value of these contracts, all of which have remaining maturities of 12 months or less, was \$9 million of net unrealized losses. At June 30, 2017, we had approximately \$1 million of net realized but unrecognized gains recorded within “Accumulated other comprehensive income (loss)” associated with contracts that had settled but were deferred and will be amortized into earnings, along with the associated hedged revenues. Such amounts will be reclassified into earnings within the next 12 months.

At December 31, 2016, the gross notional amount of outstanding Cash Flow Hedges was approximately \$346 million. The fair value of these contracts was \$22 million of net unrealized gains as of December 31, 2016.

During the three and six months ended June 30, 2017 and 2016, there was no ineffectiveness relating to our Cash Flow Hedges and the amount of pre-tax net realized gains associated with these contracts that were reclassified out of “Accumulated other comprehensive income (loss)” and into earnings was not material.

In the absence of hedging activities for the six months ended June 30, 2017, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately \$63 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in this manner and actual results may differ materially.

**Interest Rate Risk**

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt under our Credit Agreement. We do not currently use derivative financial instruments to manage interest rate risk. As of June 30, 2017, and December 31, 2016, a hypothetical interest rate change on our variable rate debt of one percent (100 basis points) would have changed interest expense on an annual basis by approximately \$10 million and \$27 million, respectively. This estimate does not include a change in interest income from our investment portfolio that may result from such a hypothetical interest rate change, nor does it include the effects of other actions that we may take in the future to mitigate this risk, or any changes in our financial structure. Refer to Note 7 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for disclosures regarding interest rates associated with our debt obligations.

Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents, or short-term securities is more subject to market fluctuations than a portfolio of longer-term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer-term securities. At June 30, 2017, our \$3.28 billion of cash and cash equivalents was comprised primarily of money market funds.

The Company has determined that, based on the composition of our investment portfolio as of June 30, 2017, there was no material interest rate risk exposure to the Company’s consolidated financial condition, results of operations, or liquidity as of that date.

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

### **Definition and Limitations of Disclosure Controls and Procedures**

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is: (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at June 30, 2017, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at June 30, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

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

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2017. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at June 30, 2017, there have not been any changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

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

**Item 1A. Risk Factors**

Various risks associated with our business are described in Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2016.

**Item 6. Exhibits**

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

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 3, 2017

ACTIVISION BLIZZARD, INC.

/s/ SPENCER NEUMANN

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

/s/ STEPHEN WEREB

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

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit</b>
3.1	<a href="#">Third Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated June 5, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed June 6, 2014).</a>
3.2	<a href="#">Third Amended and Restated Bylaws of Activision Blizzard, Inc., adopted as of February 2, 2016 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed February 8, 2016).</a>
4.1	<a href="#">Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed May 26, 2017).</a>
4.2	<a href="#">Supplemental Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, including forms of certificates for the Company's 2.600% Notes due 2022, 3.400% Notes due 2027 and 4.500% Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).</a>
10.1*	<a href="#">Employment Agreement, dated May 5, 2017, between Activision Blizzard, Inc. and Spencer Neumann (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K, filed May 11, 2017).</a>
10.2*	<a href="#">Employment Agreement, dated May 5, 2017, between Activision Blizzard, Inc. and Thomas Tippl (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K, filed May 11, 2017).</a>
10.3*	<a href="#">Notice of Stock Option Award, dated as of May 8, 2017, to Michael Morhaime.</a>
10.4*	<a href="#">Employment Agreement, dated May 10, 2017, between Activision Blizzard, Inc. and Dennis Durkin (incorporated by reference to Exhibit 10.4 of the Company's Form 8-K, filed May 11, 2017).</a>
10.5*	<a href="#">Employment Agreement, dated May 10, 2017, between Activision Blizzard, Inc. and Collister Johnson (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed May 11, 2017).</a>
31.1	<a href="#">Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Spencer Neumann pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Spencer Neumann pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.

[Table of Contents](#)

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\*Indicates a management contract or compensatory plan, contract or arrangement in which a director or executive officer of the Company participates.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) condensed consolidated balance sheets at June 30, 2017 and December 31, 2016, (ii) condensed consolidated statements of operations for the three and six months ended June 30, 2017 and June 30, 2016, (iii) condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2017 and June 30, 2016, (iv) condensed consolidated statements of cash flows for the six months ended June 30, 2017 and June 30, 2016; (v) condensed consolidated statement of changes in shareholders' equity for the six months ended June 30, 2017; and (vi) notes to condensed consolidated financial statements.



**ACTIVISION BLIZZARD, INC.**  
**2014 INCENTIVE PLAN**  
**NOTICE OF STOCK OPTION AWARD**

You have been awarded an option to purchase Common Shares of Activision Blizzard, Inc. (the “Company”), as follows:

- Your name: **Michael Morhaime**
- Total number of Shares purchasable upon exercise of the Stock Option awarded: **241,953**
- Exercise Price: US \$ **53.99** per Share
- Date of Grant: **May 8, 2017**
- Expiration Date: **May 8, 2027**
- Grant ID: **01406935**
- Your Award of the Stock Option is governed by the terms and conditions set forth in:
  - this Notice of Stock Option Award;
  - the Stock Option Award Terms attached hereto as Exhibit A (the “Award Terms”); and
  - the Company’s 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting* : Except as otherwise provided under the Award Terms, the Stock Option awarded to you will vest and become exercisable as follows, provided you remain continuously employed by the Company or one of its subsidiaries through the applicable vesting date:

Date of Vesting	No. of Shares Vesting at Vesting Date
March 31, 2019	161,302
March 31, 2020	80,651

- ***Please sign and return to the Company this Notice of Stock Option Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.***
- ***Please return the signed Notice of Stock Option Award to the Company at:***

Activision Blizzard, Inc.  
 3100 Ocean Park Boulevard  
 Santa Monica, CA 90405  
 Attn: Stock Plan Administration

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- *The Stock Option is not intended to be an “incentive stock option,” as such term is defined in Section 422 of the Code.*
- *By accepting the Award, you are deemed to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Stock Option Award and the Award Terms.*

You should retain the enclosed duplicate copy of this Notice of Stock Option Award for your records.

Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

**ACTIVISION BLIZZARD, INC.**

/s/ Brian Stolz

\_\_\_\_\_  
Brian Stolz  
Chief People Officer

Date: 6/15/17

**ACCEPTED AND AGREED:**

/s/ Michael Morhaime

\_\_\_\_\_  
**Michael Morhaime**

Date: 7/11/17

**EXHIBIT A**

**ACTIVISION BLIZZARD, INC.**

**2014 INCENTIVE PLAN**

**STOCK OPTION AWARD TERMS**

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

**“Award”** means the award described on the Grant Notice.

**“Cause”** (i) shall have the meaning given to such term in any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time of the determination or (ii) if the Holder is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of “cause,” shall mean a good faith determination by the Company that the Holder (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other conduct that causes, or has the potential to cause, harm to any entity in the Company Group, including its business reputation or financial condition; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, proprietary information agreement or confidentiality agreement with any entity in the Company Group; (E) was convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (F) breached his or her fiduciary duties to the Company Group.

**“Common Shares”** means the shares of common stock, par value \$0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 9 hereof.

**“Company”** means Activision Blizzard, Inc. and any successor thereto.

**“Company Group”** means the Company and its subsidiaries.

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

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

**“Disability”** (i) shall have the meaning given to such term in, or otherwise be determined in accordance with, any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time of the determination or (ii) if the Holder is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of “disability” or otherwise provide a method for determining whether the Holder is disabled, shall mean the Holder is receiving benefits under any long-term disability plan of the Company Group then in effect.

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**“Employment Violation”** means any material breach by the Holder of his or her employment agreement with any entity in the Company Group for so long as the terms of such employment agreement shall apply to the Holder (with any breach of the post-termination obligations contained therein deemed to be material for purposes of this definition).

**“Equity Account Administrator”** means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company’s equity plans and programs, including the Plan.

**“Exercise Price”** means the Exercise Price set forth on the Grant Notice.

**“Exercise Rules and Regulations”** means (i) the Securities Act or any comparable federal securities law and all applicable state securities laws, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company’s certificate of incorporation or bylaws, and (iv) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction.

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

**“Grant Notice”** means the Notice of Stock Option Award to which these Award Terms are attached as Exhibit A.

**“Holder”** means the recipient of the Award named on the Grant Notice.

**“Look-back Period”** means, with respect to any Employment Violation by the Holder, the period beginning on the date which is 12 months prior to the date of such Employment Violation by the Holder and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

**“Option”** means the Stock Option to purchase Common Shares awarded to the Holder on the terms and conditions described in the Grant Notice and these Award Terms.

**“Plan”** means the 2014 Incentive Plan, as amended from time to time.

**“Recapture Amount”** means, with respect to any Employment Violation by the Holder, the gross gain realized or unrealized by the Holder upon all exercises of the Stock Option during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

- (i) if the Holder has exercised any portion of the Stock Option during such Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to (A) the sum of the sales price for all such Shares sold minus (B) the aggregate Exercise Price for such Shares; plus

(ii) if the Holder has exercised any portion of the Stock Option during such Look-back Period and not sold all of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the greatest of the following, minus the Exercise Price: (1) the Market Value per Share of Common Shares on the date of exercise, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under Section 12 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on NASDAQ for the 30 trading day period ending on the trading day immediately preceding the date of computation times (B) the number of Shares as to which the Stock Option was exercised and which were not sold.

“**Section 409A**” means Section 409A of the Code and the guidance and regulations promulgated thereunder.

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

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

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

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Expiration. The Stock Option shall expire on the Expiration Date and, after such expiration, shall no longer be exercisable.

3. Vesting and Exercise.

(a) Vesting Schedule. Except as otherwise set forth in these Award Terms, the Stock Option shall vest, and thereupon become exercisable, in accordance with the “Schedule for Vesting” set forth on the Grant Notice.

(b) Exercisable Only by the Holder. Except as otherwise permitted under the Plan or Section 11 hereof, the Stock Option may be exercised during the Holder's lifetime only by the Holder or, in the event of the Holder's legal incapacity to do so, by the Holder's guardian or legal representative acting on behalf of the Holder in a fiduciary capacity under court supervision and/or applicable law.

(c) Procedure for Exercise. The Stock Option may be exercised by the Holder as to all or any of the Shares as to which the Stock Option has vested (i) by following the procedures for exercise established by the Equity Account Administrator and posted on the Equity Account Administrator's website from time to time or (ii) with the Company's consent, by giving the Company written notice of exercise, in such form as may be prescribed by the Company from time to time, specifying the number of Shares to be purchased.

(d) Payment of Exercise Price. To be valid, any exercise of the Stock Option must be accompanied by full payment of the aggregate Exercise Price of the Shares being purchased. The Company shall determine the method or methods the Holder may use to make such payment, which may include any of the following: (i) by bank check or certified check or wire transfer of immediately available funds, (ii) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate Exercise Price of the Shares being purchased, (iii) by tendering previously owned shares (valued at their Market Value per Share as of the date of tender), (iv) through the withholding of Shares otherwise deliverable upon exercise, or (v) any combination of (i), (ii), (iii) or (iv) above or any other manner permitted pursuant to the Plan.

(e) No Fractional Shares. In no event may the Stock Option be exercised for a fraction of a Share.

(f) No Adjustment for Dividends or Other Rights. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date as of which the issuance or transfer of Shares to the person entitled thereto has been evidenced on the books and records of the Company pursuant to clause (ii) of Section 3(g) hereof following exercise of the Stock Option.

(g) Issuance and Delivery of Shares. As soon as practicable (and, in any event, within 30 days) after the valid exercise of the Stock Option, the Company shall (i) effect the issuance or transfer of the Shares purchased upon such exercise, (ii) cause the issuance or transfer of such Shares to be evidenced on the books and records of the Company, and (iii) cause such Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Shares and bearing such legend to be delivered to the person entitled thereto.

(h) Partial Exercise. If the Stock Option shall have been exercised with respect to less than all of the Shares purchasable upon exercise of the Stock Option, the Company shall make a notation in its books and records to reflect the partial exercise of the Stock Option and the number of Shares that thereafter remain available for purchase upon exercise of the Stock Option.

#### 4. Termination of Employment.

(a) Cause. Unless the Committee determines otherwise, in the event that (a) the Holder's employment is terminated by any entity in the Company Group for Cause or (b) if the Holder terminates his or her employment with the Company Group in breach of an employment agreement with any entity in the Company Group, as of the date of such termination of employment the Stock Option shall (i) cease to vest, if not then fully vested, (ii) no longer be exercisable, whether or not vested, and (iii) be immediately cancelled.

(b) Death or Disability. Unless the Committee determines otherwise, in the event that the Holder dies while employed by any entity in the Company Group or the Holder's employment with any entity in the Company Group is terminated due to the Holder's Disability, the Stock Option shall (i) cease to vest as of the date of the Holder's death or the first date of the Holder's Disability (as determined by the Committee), as the case may be, and (ii) to the extent vested as of the date of the Holder's death or the first date of the Holder's Disability, as the case may be, remain exercisable in accordance with these Award Terms until the earlier of (A) the first anniversary of the date of the Holder's death or termination of employment, as the case may be, and (B) the Expiration Date, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled. To the extent not vested as of the date of the Holder's death or the first date of the Holder's Disability, as the case may be, the Stock Option shall be immediately cancelled and shall no longer be exercisable.

(c) Other. Unless the Committee determines otherwise, in the event that the Holder's employment is terminated for any reason not addressed by Section 4(a) or 4(b) hereof, the Stock Option shall (i) cease to vest as of the date of such termination of employment and (ii) to the extent vested as of the date of such termination of employment, be exercisable in accordance with these Award Terms until the earlier of (A) (i) in the case of a termination by the Holder, the 30th day after the date of such termination of employment or (ii) in the case of a termination by the Company Group, the 90th day after the date of such termination of employment (or, in either case, if the Holder is prohibited from exercising the Stock Option during some or all of the 30-day or 90-day period, as the case may be, following such termination date because such exercise would not be in compliance with the Exercise Rules and Regulations, whatever later date may be determined in accordance with a Committee-approved policy) and (B) the Expiration Date, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled. To the extent not vested as of the date of such termination of service, the Stock Option shall be immediately cancelled and shall no longer be exercisable.

5. Tax Withholding.

(a) Regardless of any action the Company or the Employer takes with respect to any Withholding Taxes related to the Holder's participation in the Plan and legally applicable to the Holder, the Holder acknowledges that the ultimate liability for all Withholding Taxes is and remains the Holder's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Holder further acknowledges that the Company and/or the Employer (A) make no representations or undertakings regarding the treatment of any Withholding Taxes in connection with any aspect of the Stock Option, including, without limitation, the grant, vesting or exercise of the Stock Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (B) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Stock Option to reduce or eliminate the Holder's liability for Withholding Taxes or achieve any particular tax result. Further, if the Holder is subject to tax in more than one jurisdiction, the Holder acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Withholding Taxes in more than one jurisdiction. The Company shall have no obligation to deliver any Shares upon exercise of the Stock Option unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

(b) The Company shall determine the method or methods the Holder may use to satisfy any Withholding Taxes resulting from the exercise (in whole or in part) of the Stock Option, the issuance or transfer of any Shares upon exercise of the Stock Option or otherwise in connection with the Award at the time such Withholding Taxes become due, which may include any of the following: (i) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (ii) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate amount of such Withholding Taxes; (iii) through the withholding of Shares otherwise deliverable upon exercise; or (iv) by any combination of (i), (ii) or (iii) above. Further, any entity in the Company Group shall have the right to require the Holder to satisfy any Withholding Taxes contemplated by this Section 5 by any of the aforementioned methods or by withholding from the Holder's wages or other cash compensation.

(c) The Company Group may withhold or account for Withholding Taxes contemplated by this Section 5 by reference to applicable withholding rates, including minimum or maximum applicable statutory rates, and if the Company Group withholds more than the amount necessary to satisfy the liability, the Holder will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the obligation for Withholding Taxes is satisfied by withholding in Shares, for tax purposes the Holder will be deemed to have been issued the full number of Shares, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Withholding Taxes due as a result of any aspect of the Holder's participation in the Plan. No fractional Shares will be withheld or issued pursuant to the exercise of the Stock Option and the issuance of Withholding Taxes thereunder.

6. Deemed Agreement. **By accepting the Award, the Holder is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.**

7. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon exercise of the Stock Option such number of Common Shares as shall be required for issuance or delivery upon exercise thereof.

8. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of



the Holder taken as a whole without the Holder's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 9 hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to Section 409A.

9. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 13 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of the Holder that otherwise would result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

10. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Stock Option may not be exercised, and the Stock Option and Shares purchasable upon exercise of the Stock Option may not be purchased, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, the Stock Option or Shares with the SEC, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. The Holder shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act relating to the Stock Option or Shares, to issue or transfer the Stock Option or Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or resale of the Stock Option or Shares under the Securities Act or any comparable federal securities law or applicable state securities law.

11. Transferability. Subject to the terms of the Plan and only with the Company's consent, the Holder may transfer all or part of the Stock Option for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided further that the Holder will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms. Except as otherwise permitted under the Plan or this Section 11, the Stock Option shall not be transferable by the Holder other than by will or the laws of descent and distribution.

12. Employment Violation. The terms of this Section 12 shall apply to the Stock Option if the Holder is or becomes subject to an employment agreement with any entity in the Company Group. In the event of an Employment Violation, the Company shall have the right to require (a) the termination and cancellation of the Stock Option, whether vested or unvested, and (b) payment by the Holder to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by the Holder to the Company of the Recapture Amount, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of the Stock Option during the Look-back Period with respect to such Employment Violation (without any consideration from the Company in exchange therefor). Any such termination of the Stock Option and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate the Holder's employment if not already terminated and to seek injunctive relief and additional monetary damages.

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

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

(b) The Award is subject to the terms and conditions of any policy requiring or permitting the Company to recover any gains realized by the Holder in connection with the Award, including, without limitation, the Policy on Recoupment of Performance-Based Compensation Related to Certain Financial Restatements.

14. Section 409A. As the Exercise Price is equal to the fair market value of a Share on the Date of Grant, payments contemplated with respect to the Award are intended to be exempt from Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (a) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (b) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on the Holder or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of the Holder, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 13 does not create an obligation on the part of the Committee or the Company to make any such modification, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by the Holder pursuant to Section 409A.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Shares to bear a legend substantially as follows:

“THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE ‘ACT’), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT.”

16. No Right to Continued Employment. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon the Holder any right to be continued in the employ of any entity in the Company Group or derogate from any right of any entity in the Company Group to retire, request the resignation of, or discharge the Holder at any time, with or without Cause.

17. No Rights as Stockholder. No holder of the Stock Option shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth, in the Plan, the Grant Notice or these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Venue and Governing Law.

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

(b) To the extent that federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Holder and, to the extent applicable, the Holder’s permitted assigns under Section 3(b) hereof and the Holder’s estate or beneficiaries as determined by will or the laws of descent and distribution.

21. Notices.

(a) Any notice or other document which the Holder may be required or permitted to deliver to the Company pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: Stock Plan Administration, or such other address as the Company by notice to the Holder may designate in writing from time to time. Notices shall be effective upon delivery.

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

22. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of any employment agreement or offer letter between the Holder and any entity in the Company Group in effect at the time, the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

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

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

**CERTIFICATION**

I, Robert A. Kotick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

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

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**CERTIFICATION**

I, Spencer Neumann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ SPENCER NEUMANN

Spencer Neumann

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

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

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, Chief Executive Officer and Principal Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ ROBERT A. KOTICK

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Robert A. Kotick  
*Chief Executive Officer and  
Principal Executive Officer of  
Activision Blizzard, Inc.*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Spencer Neumann, Chief Financial Officer and Principal Financial Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ SPENCER NEUMANN

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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