2017 Annual Report

A record year in 2017

record net bookings[1]	**$7.2** billion	up 8% year-over-year
record digital net bookings[1]	**$5.4** billion	76% of total net bookings[1], up 4% year-over-year
record in-game net bookings[1]	**$4+** billion	
record non-GAAP EPS[2]	**$2.21**	
record operating cash flow	**$2.2** billion	

Cover: Activision Blizzard has the most talented, passionate and dedicated team in entertainment.

[1] Net bookings is an operating metric that is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others.

[2] Non-GAAP reconciliations are in the earnings release dated February 8, 2018, which is available on www.activisionblizzard.com

a virtuous cycle
the media company of the future

building blocks for growth

Core Interactive

- Bigger audiences
- Increasing engagement
- Growing monetization
- Driven by franchise innovation, always-on gameplay, and mobile expansion

Esports

- Franchises become even more enduring, like professional sports

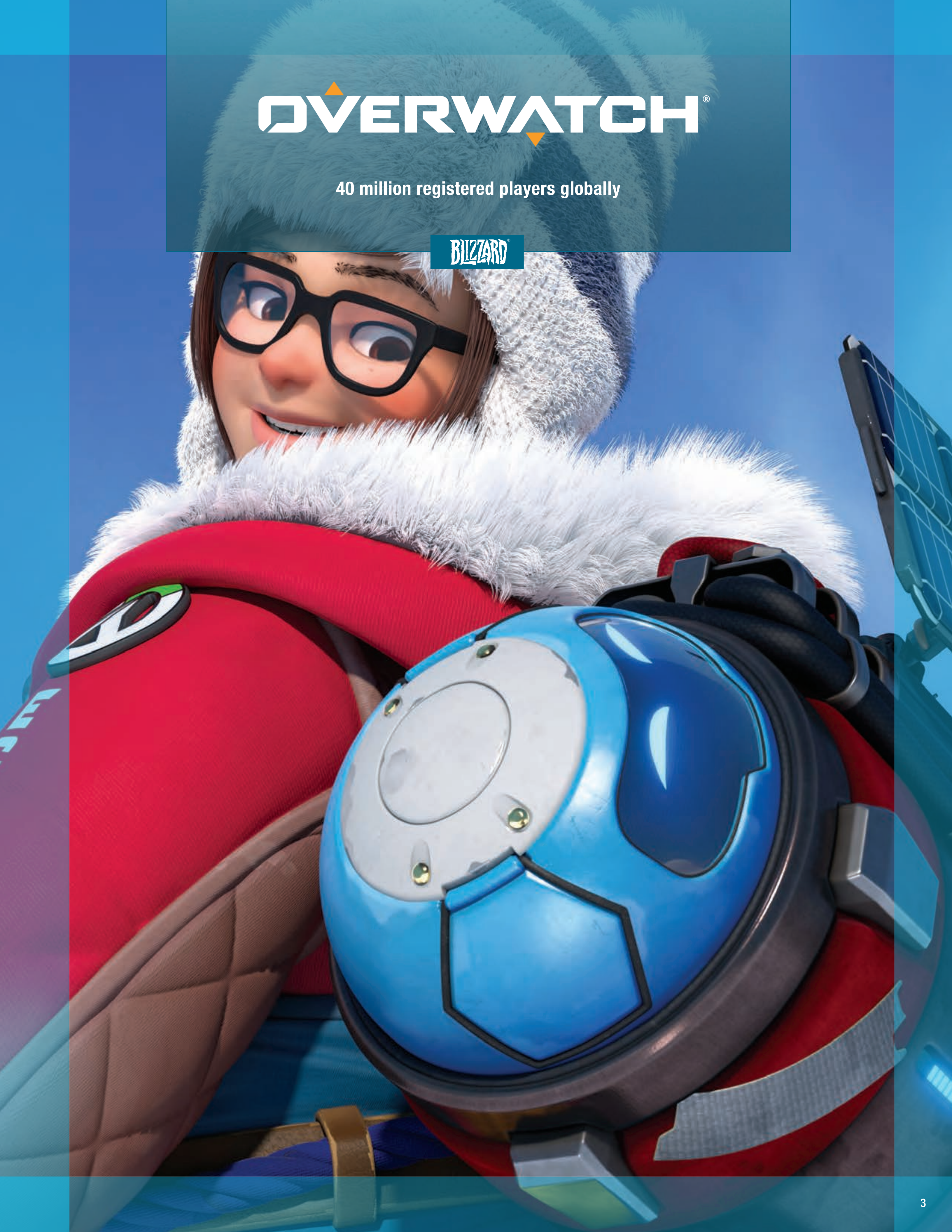
Digital Advertising

- Largest untapped digital ad opportunity
- Fuels growth across mobile and esports

The first global city-based esports league

OVERWATCH®

40 million registered players globally



World of Warcraft

7th expansion, Battle for Azeroth, launches in 2018

Blizzard

HEARTHSTONE

Record levels of MAUs[1] and time spent in 2017

[1] MAUs defined as number of individuals who accessed a particular game in a given month averaged across the number of months in a respective period. Refer to the definition included in the fourth quarter 2017 earnings release for additional details.


BLIZZARD
DIABLO


BLIZZARD
STARCRAFT


BLIZZARD
HEROES
OF THE STORM

CALL OF DUTY

Top grossing console game worldwide in 2017[1]

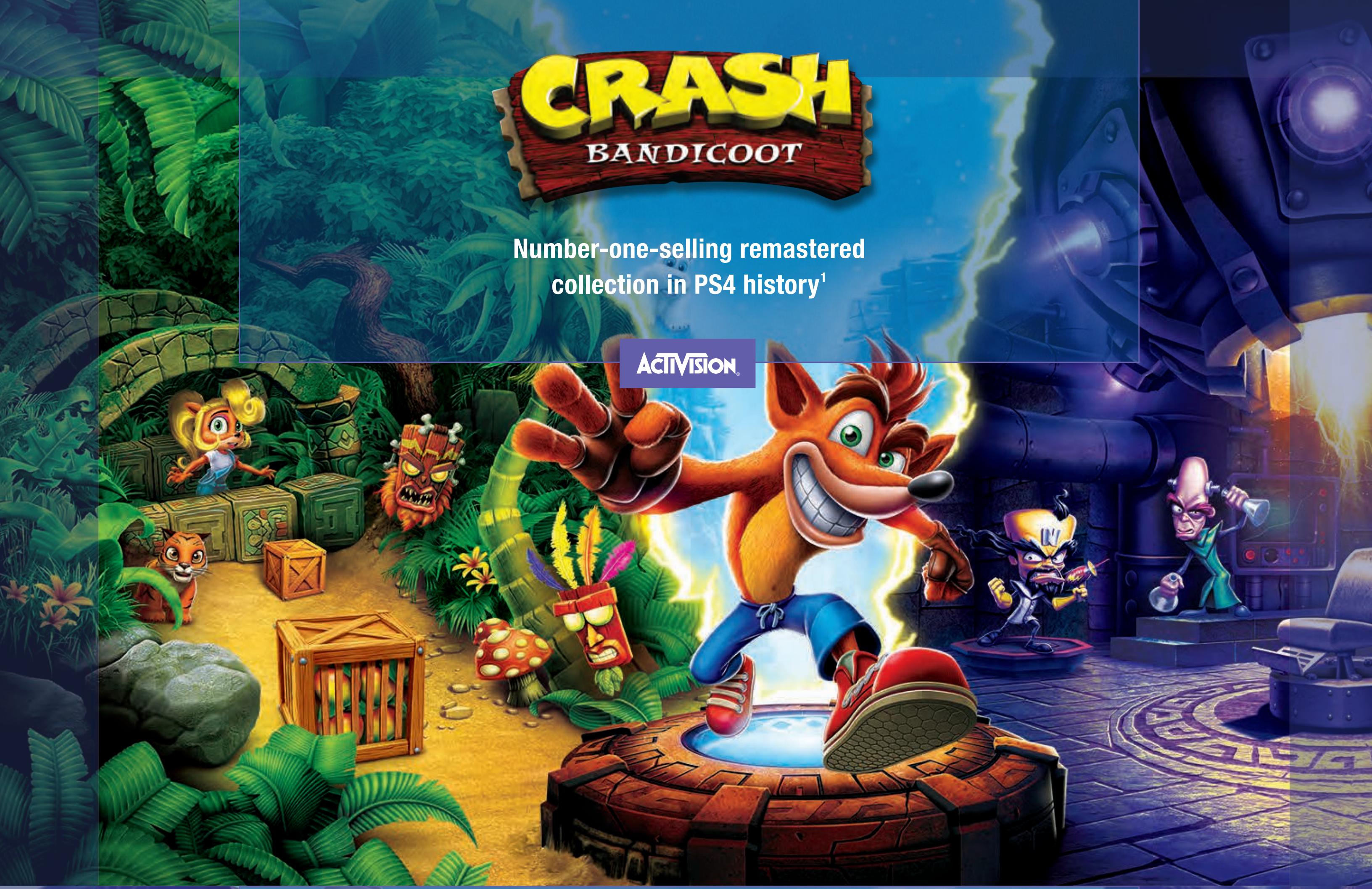
· · ·

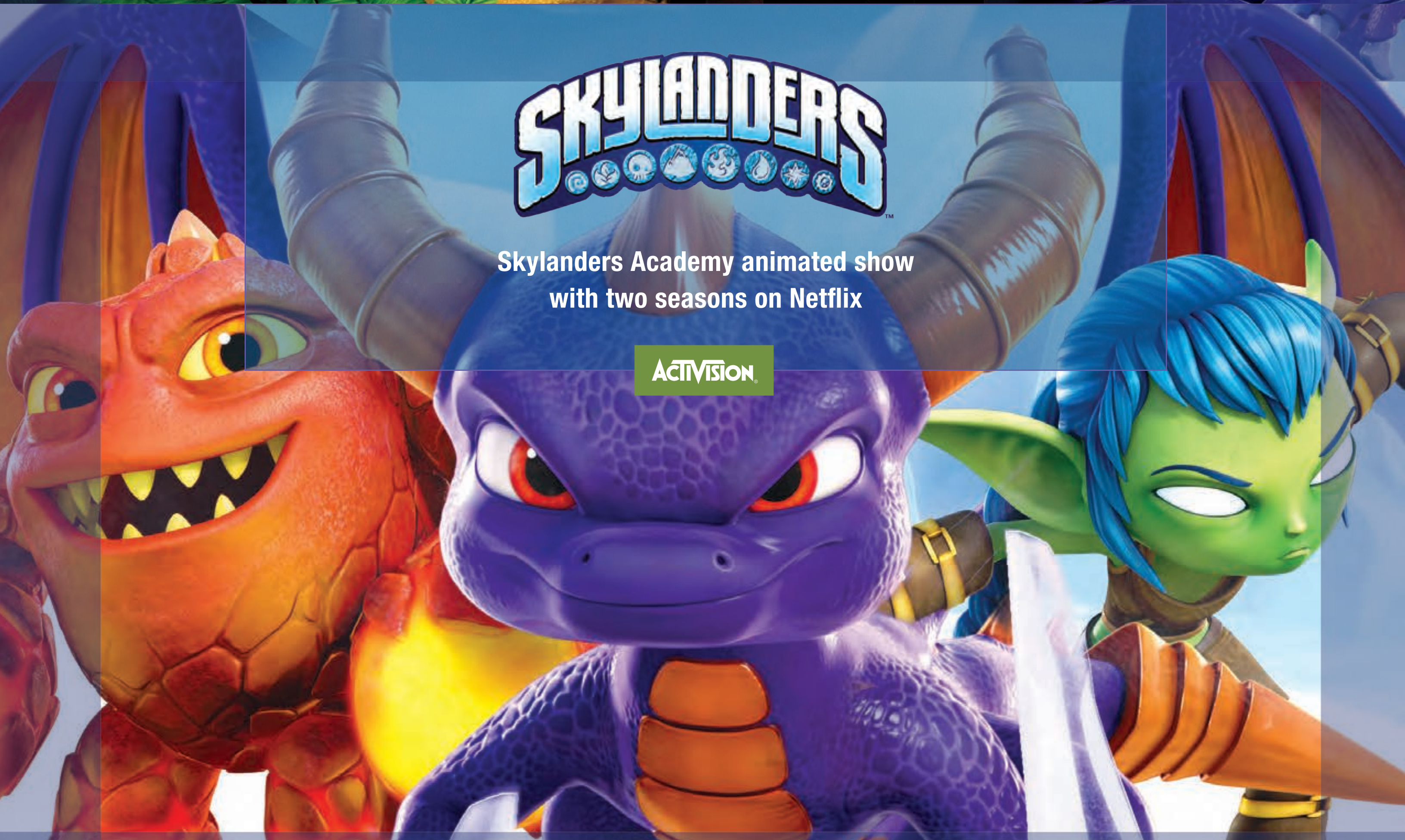
Top franchise globally for 8 of the last 9 years[1]

ACTIVISION

[1] Based on data from the NPD Group, GfK, GSD and internal estimates.

[1] Based on data from the NPD Group, GfK, GSD and internal estimates.





[1] Based on blog.us.playstation.com

2 of top-10 grossing mobile games for the 17th quarter in a row[1]

. . .

Candy Crush Saga and Candy Crush Soda Saga at #1 and #2, respectively in Q4 2017[1]

[1] Publisher ranking for U.S. Apple App Store and Google Play Store per App Annie Intelligence for Q4 2017.


King
Bubble Witch


FARM
Heroes


Pet
Rescue

MAJOR LEAGUE GAMING

A leader in creating and streaming premium live gaming events and serves as the foundation for Activision Blizzard's esports broadcasts

STUDIOS

Devoted to creating original content based on the company's extensive library of iconic and globally-recognized intellectual properties

CONSUMER PRODUCTS

Dedicated to providing our passionate communities with new ways to experience our franchises and characters in their everyday lives

Achieved record in-game net bookings[1] of $4+ billion, driven by live services, features, and content updates

Since 1991, when Brian Kelly and I purchased our stake in the company and were given the privilege of managing it, our book value per share has grown at a rate of over 31% compounded annually. $100 invested in our company 20 years ago would have been worth $4,650 at the end of 2017, over 11 times more than the S&P 500's $401 over the same period. In 2017, our share price increased 75 percent, 56 percentage points above the S&P 500. Our future prospects probably had more to do with this rise than our 2017 operating results.

In 2017, we had net bookings of $7.2 billion dollars, non-GAAP EPS of $2.21 and annual operating cash flow of $2.2 billion dollars (to truly understand all of these measures requires a careful reading of our Form 10-K, this is especially true for net bookings which is a new term for us).

While some of these results were records for the company they also highlight areas of opportunity. If we had owned King (creator of *Candy Crush* and one of the world's most successful mobile game companies) for a full year in 2016, our segment operating income would have been roughly flat year-over-year. Our non-GAAP EPS only grew 1% in 2017, while the S&P 500's EPS grew 12%. This includes benefits we received from foreign currency adjustments and lower interest expense which make the comparisons even less favorable.

The markets we serve grew faster than we did last year, but we are determined to change that over the next few years.

We have the most talented teams in entertainment, and they are hard at work creating exciting and innovative new content and experiences. We know there is more we can do to serve our players and spectators, and in turn, more we can do to drive growth for our stakeholders. 385 million people in 196 countries are deeply engaged with our franchises. Our players are spending almost an hour a day playing our games, and that doesn't include time spent watching our games.

All figures included in this letter are non-GAAP unless otherwise stated. For full GAAP to non-GAAP reconciliation, please see tables at the end of this annual report.

[1] Net bookings is an operating metric that is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others.

An increasingly diversified business, with over $2 billion in annual revenues on each of three interactive platforms – console, PC, and mobile

Through the strength of our deep library of intellectual property (perhaps the biggest in our industry and one of the oldest – dating back to 1979), we have unique opportunities to further engage and expand our player and spectator communities. We have just begun offering more traditional linear content, including professional esports programming, and we have much more interactive content to create and share with our players and our audiences. Harnessed as a global network, we have far more monthly active users[2] than ESPN and Netflix have subscribers. There are very few networks larger than ours and even fewer with the diversity of investment options for our audience members. Today we support subscription billing, pay-per-digital download, microtransactions like virtual item sales, virtual item sales in broadcast streams and unique digital advertising. We do this in almost every country in the world.

Our core games business is our engine for innovation and growth. Historically, our consumers – numbering in the tens of millions – have been in developed countries and largely reliant on expensive personal computers and video game consoles. Mobile gaming meaningfully expands our reach, potentially unlocking billions of players around the world and new opportunities for our consumers to play games outside of the home. Mobile devices are the main reason time spent gaming is expected to grow faster than time spent watching videos, listening to music, and even on social networks.

As the size and engagement of our communities grow, so does our opportunity to better serve them. More frequent content releases provide opportunities for our players to engage with our content more regularly and for longer. This creates new high-margin recurring revenue streams, which in turn enable us to invest in more compelling content. In 2017, we generated ~$4 billion of our ~$7 billion of net bookings from digital in-game content, and we believe this number will continue to increase. There is substantial room for growth given the passion and ongoing engagement of our players and given our focus on delivering unique value and continually exceeding player expectations.

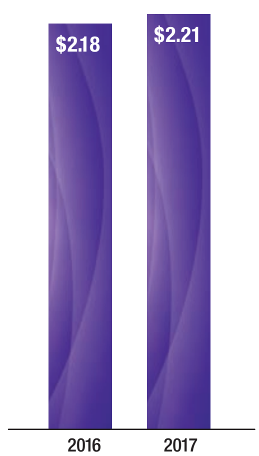
In addition to the growth profile of our core business, we also have meaningful

[1]Net bookings is an operating metric that is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others.

[2]Monthly Active Users is defined as number of individuals who accessed a particular game in a given month averaged across the number of months in a respective period. Refer to the definition included in the financial review herein for additional details.

Users now spend 50+ minutes per day across Activision, Blizzard, and King, in-line with some of the most engaging online connected platforms in the world

Record Non-GAAP Earnings Per Share



new opportunities to expand our franchises in areas like esports, in-game advertising, consumer products and linear media.

Our esports efforts have received a lot of attention. More than 335 million people around the world already watch esports, reflecting the unique appeal of organized, global competition. To date, for the *Overwatch League*, we have sold the first 12 teams for almost a quarter of a billion dollars, sold more than $100 million dollars of over the top broadcast rights and sponsorship sales and had more than 10 million spectators in the League's first week of operation. We have 40 million *Overwatch* players today and expect our league to eventually grow to 28 teams. The average age of our players is 22[3], and they play *Overwatch* all over the world.

By contrast, the NFL has around 40 million regular season spectators with an average age of 50. The NFL generates ~$12 billion in annual revenues through broadcast rights, ticketing, sponsorships and licensing. Compare this to esports audiences which are younger, growing, and especially attractive to advertisers, and it is easy to see why we are so enthusiastic about the opportunity. Importantly, because we own our IP and our own direct network for distribution, we have the unique ability to create value for spectators, professional players, team owners, brand partners, and shareholders.

Our expertise launching and growing the *Overwatch League* will allow us to launch additional professional esports initiatives. Later this year we intend to expand the number of *Overwatch* teams and launch team sales for the *Call of Duty* professional league. Over time we believe our esports initiatives could rival traditional sports for audience interest, advertisers, sponsors, ticket sales and merchandise sales (both virtual and physical).

We are pursuing several additional emerging categories of potential growth, including digital advertising. Gaming is one of the largest untapped opportunities for advertisers in the world. While companies like Google and Facebook have had success driving value with their large and engaged global platforms,

[3] Based on the average age of Overwatch PC players.

Generated record operating cash flow of $2.2 billion

2018 Dividend
($ per share)

advertising in games is in the first inning of opportunity. Our over 50 minutes of average daily time spent is on par with what many view as the engagement leader, Facebook. And our 385 million global users offer greater scale and reach than Twitter, Snapchat or Spotify.

We are developing our advertising experiences carefully, and our efforts will begin with King's hundreds of millions of players. In the future, we can unlock new advertising experiences across our portfolio, including advertising on our esports network which features live professional competitive content, the most valuable linear content in the world today.

As we pursue these efforts, we will remain guided by the principles that have allowed our company to carefully grow over the long-term:

- Delivering innovative and compelling entertainment experiences with continuous investment in our franchises and community;
- Focusing on the largest and most promising opportunities;
- Recruiting, rewarding and retaining diverse world-class talent, emphasizing our shared common values; and
- Remaining disciplined in our commitment to deliver shareholder value.

From all of us at Activision Blizzard, thank you for your continued support. We are grateful for the capital you provide and respectful of our responsibility to invest it carefully. We hope to continue providing returns commensurate with the risks we take. We recognize that you have many places you can invest your capital and as we have for 27 years, we hope to continue to provide superior returns for all our stakeholders.

With appreciation,

Bobby Kotick
President and Chief Executive Officer
Activision Blizzard

Brian Kelly
Chairman of the Board
Activision Blizzard

SELECTED FINANCIAL DATA

The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report. The selected consolidated financial data presented below at and for each of the years in the five-year period ended December 31, 2017 is derived from our Consolidated Financial Statements and include the operations of King Digital Entertainment (“King”) commencing on February 23, 2016 (the “King Closing Date”). All amounts set forth in the following tables are in millions, except per share data.

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Statement of Operations Data:					
Net revenues	$7,017	$6,608	$4,664	$4,408	$4,583
Net income(1)	273	966	892	835	1,010
Basic net income per share	0.36	1.30	1.21	1.14	0.96
Diluted net income per share	0.36	1.28	1.19	1.13	0.95
Cash dividends declared per share	0.30	0.26	0.23	0.20	0.19
Operating cash flows	$2,213	$2,155	$1,259	$1,331	$1,293
Balance Sheet Data:					
Cash and investments(2)	$4,775	$3,271	$1,840	$4,867	$4,452
Total assets	18,668	17,452	15,246	14,637	13,947
Long-term debt, net(3)	4,390	4,887	4,074	4,319	4,687
Long-term debt, gross	4,440	4,940	4,119	4,369	4,744
Net debt(4)	—	1,669	2,279	—	292

(1) Net income includes the impact of significant discrete tax-related impacts, including incremental income tax expense due to the application of tax reform legislation known as the Tax Cuts and Jobs Act (the "U.S. Tax Reform Act") that was enacted in the United States. See further discussion in Note 15 of the notes to consolidated financial statements included in this Annual Report.

(2) Cash and investments consists of cash and cash equivalents along with short-term and long-term investments. We had short-term investments of $62 million and did not have any long-term investments as of December 31, 2017. We had short-term and long-term investments of $13 million and $13 million, respectively, as of December 31, 2016, $8 million and $9 million, respectively, as of December 31, 2015, $10 million and $9 million, respectively, as of December 31, 2014, and $33 million and $9 million, respectively, as of December 31, 2013. Cash and investments as of December 31, 2015 excludes $3,561 million of cash placed in escrow for the acquisition of King.

(3) For discussion on our debt obligations, see Note 11 of the notes to consolidated financial statements included in this Annual Report.

(4) Net debt is defined as long-term debt, gross less cash and investments.

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 on video game consoles, personal computers ("PC"), and mobile devices. We also operate esports events and leagues and create film and television content based on our games.

The King Acquisition

On February 23, 2016, we completed the acquisition of King for an aggregate purchase price of approximately $5.8 billion (the "King Acquisition"), as further described in Note 20 of the notes to the consolidated financial statements. Our consolidated financial statements include the operations of King commencing on the King Closing Date.

Reportable 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 is 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 other Activision Blizzard esports content. Based upon our organizational structure, we conduct our business through three reportable segments as follows:

(i) Activision

Activision Publishing, Inc. ("Activision"), is a leading global developer and publisher of interactive software products and entertainment content, particularly for the console platform. Activision primarily delivers content through retail and digital channels, including full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision develops, markets, and sells products 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, and Destiny, an online universe of first-person action gameplay (which we call a "shared-world shooter") for the console and PC platforms. Call of Duty, Activision's leading franchise, has been the number one console franchise globally for eight of the last nine years, based on data from The NPD Group, GfK Chart-Track, and GSD, and our internal estimates.

(ii) Blizzard

Blizzard is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net®, which facilitates digital distribution of Blizzard content, along with Activision's *Destiny 2* PC content, online social connectivity, and the creation of user-generated content. As noted above, Blizzard also includes the activities of our MLG business, which is 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 other Activision Blizzard esports content.

Blizzard's key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing game ("MMORPG") for PC; StarCraft®, a real-time strategy PC franchise; Diablo®, an action role-playing franchise for the PC and console platforms; Hearthstone®, an online collectible card franchise for the PC and mobile platforms; Heroes of the Storm®, a free-to-play team brawler for PC; and Overwatch®, a team-based first-person shooter for the PC and console platforms. World of Warcraft, which was initially launched in November 2004, is the leading subscription-based MMORPG in the world.

(iii) King

King is a leading global developer and publisher of interactive entertainment content and services, particularly on mobile platforms, such as Google Inc.'s ("Google") Android and Apple Inc.'s ("Apple") iOS. King also distributes its content and services on the PC platform, primarily via Facebook, Inc. ("Facebook"). King's games are free to play, however, players can acquire in-game items, either with virtual currency the players purchase or directly using real currency.

King's key product franchises, all of which are for the mobile and PC platforms, include: Candy Crush™, which features "match three" games; Farm Heroes™, which also features "match three" games; and Bubble Witch™, which features "bubble shooter" games. King had two of the top 10 highest-grossing titles in the U.S. mobile app stores for the last 17 quarters in a row, according to App Annie Intelligence and internal estimates for the Apple App Store and the Google Play Store combined.

Other

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

- the Studios business, which is devoted to creating original film and television content based on our extensive library of globally recognized intellectual properties; and
- the 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

The Company's 2017 financial highlights include:

- consolidated net revenues increased 6% to $7.0 billion and consolidated operating income decreased 7% to $1.3 billion, as compared to consolidated net revenues of $6.6 billion and consolidated operating income of $1.4 billion in 2016;
- revenues from digital online channels increased 13% to $5.5 billion, or 78% of consolidated net revenues, as compared to $4.9 billion, or 74% of consolidated net revenues, in 2016;
- operating margin was 18.7%, as compared to 21.4% in 2016;
- cash flows from operating activities of approximately $2.21 billion, an increase of 3%, as compared to $2.16 billion in 2016;
- consolidated net income decreased 72% to $273 million, as compared to $966 million in 2016, primarily driven by the impact of significant discrete tax-related impacts, including incremental income tax expense due to the impacts from the U.S. Tax Reform Act, as discussed in "Consolidated Results" below;
- consolidated net income included $113 million of excess tax benefits from share-based payments, as compared to $81 million in 2016; and
- diluted earnings per common share decreased 72% to $0.36, as compared to $1.28 in 2016, primarily driven by incremental income tax expense due to the impacts from the U.S. Tax Reform Act.

Since certain of our games are hosted online 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 and operating income for the year ended December 31, 2017, include a net effect of $139 million and $71 million, respectively, from the deferrals of net revenues and related cost of revenues.

Release Highlights

Games and downloadable content that were released during 2017, include:

- Activision's four downloadable content packs for *Call of Duty: Infinite Warfare*™; and one downloadable content pack for *Call of Duty: Modern Warfare® Remastered*;
- 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 of the first three Crash Bandicoot games for Playstation 4;
- Activision's *Destiny 2*, the sequel to *Destiny*, and *Curse of Osiris*, the first expansion to *Destiny 2*;
- Activision's *Call of Duty: WWII;*
- Blizzard's latest expansions to *Hearthstone—Journey to Un'Goro*™, *Knights of the Frozen Throne*™, and *Kobolds and Catacombs*™;
- Blizzard's *Rise of the Necromancer*™, a downloadable content pack for *Diablo III*; and
- King's *Bubble Witch 3 Saga*™.

We also completed the sale of 12 teams for the Overwatch League, the first major global professional esports league with city-based teams. The first preseason matches occurred in December 2017 and the inaugural regular season started in January 2018.

International Sales

International sales are a fundamental part of our business. An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Net revenues from international sales accounted for approximately 55%, 55%, and 52% of our total consolidated net revenues for the years ended December 31, 2017, 2016, and 2015, respectively. The majority of our net revenues from foreign countries are generated by consumers in Australia, Canada, China, France, Germany, Italy, Japan, South Korea, Spain, Sweden, and the United Kingdom. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Operating Metrics

The following operating metrics are key performance indicators that we use to evaluate our business.

Monthly Active Users

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 accessed 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 accesses two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who accesses the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who accesses 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):

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Activision	55	49	47	48	51	46
Blizzard	40	42	46	41	41	42
King	290	293	314	342	355	394
Total	385	384	407	431	447	482

Average MAUs for the quarter ended December 31, 2017 were comparable to the quarter ended September 30, 2017. The decrease in King's and Blizzard's average MAUs is partially offset by an increase in Activision's average MAUs driven by the Call of Duty franchise due to the launch of *Call of Duty: WWII* in November 2017.

Average MAUs decreased by 62 million, or 14%, for the quarter ended December 31, 2017, as compared to the quarter ended December 31, 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 and maturity of titles.

Net Bookings

We monitor net bookings as a key operating metric in evaluating the performance of our business. Net bookings is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others. Net bookings were as follows (amounts in millions):

	For the years ended December 31,			Increase (Decrease)	Increase (Decrease)
	2017	2016	2015	2017 v 2016	2016 v 2015
Net bookings	$7,156	$6,599	$4,621	$557	$1,978

2017 vs. 2016

The increase in net bookings for 2017, as compared to 2016, was primarily due to:

- higher net bookings from King titles, as 2017 includes King net bookings for the full year, while 2016 only included King net bookings for the partial period following the King Closing Date, as well as higher net bookings from the Candy Crush franchise, due to in-game events and features;
- higher net bookings from the Destiny franchise, driven by the release of *Destiny 2* in September 2017;
- higher net bookings from *Call of Duty: WWII*, which was released in November 2017, as compared to *Call of Duty: Infinite Warfare* (which, when referred to herein, is inclusive of *Call of Duty: Modern Warfare Remastered*), the comparable 2016 title;
- higher net bookings from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions; and
- net bookings from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017.

The increase was partially offset by:

- lower net bookings from *Call of Duty: Infinite Warfare*, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title;
- lower net bookings from *Overwatch*, which was released in May 2016;

- lower net bookings from *World of Warcraft*, driven by the release of *World of Warcraft: Legion*™ in August 2016, with no comparable release in 2017; and

- lower net bookings from the Skylanders® franchise, due to the release of *Skylanders Imaginators* in October 2016, with no comparable release in 2017.

2016 vs. 2015

The increase in net bookings for 2016, as compared to 2015, was primarily due to:

- new net bookings from King titles following the King Closing Date, primarily driven by the Candy Crush franchise;

- net bookings from *Overwatch*, which was released in May 2016;

- higher net bookings from digital content associated with *Call of Duty: Black Ops III*, which was released in November 2015, as compared to *Call of Duty: Advanced Warfare*, the comparable 2014 title; and

- higher net bookings 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 net bookings from *Call of Duty: Infinite Warfare*, which was released in November 2016, as compared to *Call of Duty: Black Ops III*, the comparable 2015 title;

- lower net bookings from the Destiny franchise, as there were two expansion packs in 2015—*House of Wolves* and *The Taken King*—but only one in 2016—*Rise of Iron*;

- lower net bookings from *Skylanders Imaginators*, which was released in October 2016, as compared to *Skylanders Superchargers*, the comparable 2015 title, as well as lower net bookings from standalone toys and accessories from the Skylanders franchise in 2016; and

- lower net bookings from *Guitar Hero® Live*, which was released in 2015, with no comparable release in 2016.

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, 18% over the last three years. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more common place across age groups and as more developing regions 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 by introducing gaming to new age groups and new regions and allowing 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 and our other business units have mobile efforts underway that present the opportunity for us to expand the reach of, and 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 additional engagement and investment in our franchises outside of games. These opportunities include esports, film and television, and consumer products. Our efforts to build these adjacent 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, during 2017 we completed the sale of 12 teams for the Overwatch League. The Overwatch League is the first major global professional esports league with city-based teams. The first preseason matches occurred in December 2017 and the inaugural regular season started in January 2018.

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 entertainment industry. According to The NPD Group, the top 10 titles accounted for 36% of the retail sales in the U.S. interactive entertainment industry in 2017. Similarly, a significant portion of our revenues has 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 66% of our consolidated net revenues—and a significantly higher percentage of our operating income—for 2017.

The top titles in the industry are also becoming more consistent as players and revenues concentrate more heavily in established franchises. Of the top 10 console franchises in 2017, all 10 are from established franchises. Similarly, according to U.S rankings for the Apple App Store and Google Play store per App Annie Intelligence as of December 2017, the top 10 mobile games have an average tenure of 22 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, while there is no guarantee of success, we invest in new properties in an effort to develop future top franchises. In 2014, we released *Hearthstone* and *Destiny*, in 2015, we released *Heroes of the Storm*, and in 2016, we released *Overwatch*. Additionally, to diversify our portfolio of key franchises and increase our presence in the mobile market, on February 23, 2016, we completed the King Acquisition.

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 and Seasonality

Increased consumer online connectivity has allowed us to offer players new investment opportunities and to shift our business further towards a more consistently 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 revenues, it can also increase player engagement. Also, mobile games, and free-to-play games more broadly, are generally less seasonal.

While our business is transitioning to a year-round engagement model, the interactive entertainment industry remains somewhat seasonal. We have historically experienced our highest sales volume, particularly for Activision, in the year-end holiday buying season, which occurs in the fourth quarter. Following the acquisition of King, which focuses on free-to-play games which are generally less seasonal, and as we otherwise make the shift to a year-round model, less of our revenues are generated during the fourth quarter. For our reportable segments—Activision, Blizzard, and King—the percentage of our revenue represented by the fourth quarter in each of 2017 and 2016 was 36%, as compared to 46% in 2015.

Expected Upcoming Releases

We expect to release *World of Warcraft: Battle for Azeroth* and our latest Call of Duty game in the second half of 2018. In addition, we expect to deliver ongoing content for our various franchises, including expansion packs for *Hearthstone* and *Destiny 2*, in-game events for *Overwatch*, and map packs for *Call of Duty: WWII*, as well as releases of remastered versions of titles from our library of IP. We also expect to release at least two new mobile titles during 2018, including a social casino game from King.

We will also continue to invest in new opportunities, including new titles across our platforms, and continue to build on our advertising and esports initiatives.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,					
	2017		2016		2015	
Net revenues						
Product sales	$2,110	30%	$2,196	33%	$2,447	52%
Subscription, licensing, and other revenues	4,907	70	4,412	67	2,217	48
Total net revenues	7,017	100	6,608	100	4,664	100
Costs and expenses						
Cost of revenues—product sales:						
Product costs	733	35	741	34	872	36
Software royalties, amortization, and intellectual property licenses	300	14	331	15	370	15
Cost of revenues—subscription, licensing, and other:						
Game operations and distribution costs	984	20	851	19	274	12
Software royalties, amortization, and intellectual property licenses	484	10	471	11	69	3
Product development	1,069	15	958	14	646	14
Sales and marketing	1,378	20	1,210	18	734	16
General and administrative	760	11	634	10	380	8
Total costs and expenses	5,708	81	5,196	79	3,345	72
Operating income	1,309	19	1,412	21	1,319	28
Interest and other expense (income), net	146	2	214	3	198	4
Loss on extinguishment of debt(1)	12	—	92	1	—	—
Income before income tax expense	1,151	16	1,106	17	1,121	24
Income tax expense	878	13	140	2	229	5
Net income	$273	4%	$966	15%	$892	19%

(1) Represents the loss on extinguishment of debt we recognized associated with our refinancing activities. The 2017 loss on extinguishment is comprised of a $12 million write-off of unamortized discount and deferred financing costs associated with refinancing activities on our tranche of term loans "A" and the 2016 loss on extinguishment was comprised of a premium payment of $63 million and a write-off of unamortized discount and financing costs of $29 million associated with the extinguishment of certain term loan and senior note facilities through our refinancing activities.

Consolidated Net Revenues

The following table summarizes our consolidated net revenues and the increase/(decrease) in deferred revenues recognized (amounts in millions):

	For the Years Ended December 31,						
	2017	2016	2015	Increase/ (decrease) 2017 v 2016	Increase/ (decrease) 2016 v 2015	% Change 2017 v 2016	% Change 2016 v 2015
Consolidated net revenues	$7,017	$6,608	$4,664	$409	$1,944	6%	42%
Net effect from recognition (deferral) of deferred net revenues	(139)	9	43	(148)	(34)		

Consolidated net revenues

2017 vs. 2016

The increase in consolidated net revenues for 2017, as compared to 2016, was primarily due to:

- higher revenues from King titles, as 2017 includes King revenues for the full year, while 2016 only included King revenues for the partial period following the King Closing Date, as well as higher revenues from the Candy Crush franchise, due to in-game events and features;

- higher revenues recognized from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions;

- revenues from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017; and

- higher revenues recognized from *Call of Duty: WWII*, which was released in November 2017, as compared to *Call of Duty: Infinite Warfare*, the comparable 2016 title.

The increase was partially offset by:

- lower revenues recognized from *Call of Duty: Infinite Warfare*, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title; and

- lower revenues from the Skylanders franchise, due to the release of *Skylanders Imaginators* in October 2016, with no comparable release in 2017.

2016 vs. 2015

The increase in consolidated net revenues for 2016, as compared to 2015, was primarily due to:

- new revenues from King titles following the King Closing Date, primarily driven by the Candy Crush franchise;

- revenues recognized from *Overwatch*, which was released in May 2016; and

- higher revenues recognized in 2016 from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015 and was the third game in our successful Black Ops series, as compared to revenues recognized in 2015 from *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014, including, in each case, the associated digital content.

The increase was partially offset by:

- lower revenues recognized from the Destiny franchise, as *Destiny* debuted in September 2014 but had no comparable full-game release in 2015;

- lower revenues from *Skylanders Imaginators*, which was released in October 2016, as compared to *Skylanders Superchargers*, the comparable 2015 title, as well as lower revenues from standalone toys and accessories from the Skylanders franchise in 2016; and

- lower revenues recognized from the Diablo franchise due to the timing of releases.

Change in Deferred Revenues Recognized

<u>2017 vs. 2016</u>

The decrease in net deferred revenues recognized for 2017, as compared to 2016, was primarily due to:

- a net deferral of revenues for the Destiny franchise, primarily due to *Destiny 2*, which was released in September 2017, as compared to net deferred revenues recognized in the comparable prior period; and

- a higher net deferral of revenues from the Call of Duty franchise, primarily due to the stronger performance of *Call of Duty: WWII* in the fourth quarter of 2017, as compared to *Call of Duty: Infinite Warfare* in the fourth quarter of 2016.

The decrease was partially offset by:

- net deferred revenues recognized from *Overwatch* in 2017, as compared to a net deferral of revenues in 2016 due to the release of *Overwatch* in May 2016; and

- net deferred revenues recognized from *World of Warcraft* in 2017, as compared to a net deferral of revenues in 2016 due to the release of *World of Warcraft: Legion* in August 2016.

<u>2016 vs. 2015</u>

The decrease in net deferred revenues recognized for 2016, as compared to 2015, was primarily due to:

- deferrals of revenues associated with the release of *World of Warcraft: Legion* in August 2016, as compared to the recognition of deferred revenues in 2015 from the release of *World of Warcraft: Warlords of Draenor*® in November 2014; and

- deferrals of revenues associated with *Overwatch*.

The decrease was partially offset by lower deferrals of revenues associated with the Call of Duty franchise, driven by lower revenue deferrals 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.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $42 million, a negative impact of $81 million, and a negative impact of $373 million on Activision Blizzard’s consolidated net revenues in 2017, 2016, and 2015, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and the 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 certain 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 segment. Prior period amounts have been revised to reflect this change. This change had no impact on consolidated net revenues or operating income.

Information on the reportable segments net revenues and segment operating income are presented below (amounts in millions):

	For the Year Ended December 31, 2017				Increase / (decrease) 2017 v 2016			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Revenues								
Net revenues from external customers	$2,628	$2,120	$1,998	$6,746	$408	$(319)	$412	$501
Intersegment net revenues(1)	—	19	—	19	—	19	—	19
Segment net revenues	$2,628	$2,139	$1,998	$6,765	$408	$(300)	$412	$520
Segment operating income	$1,005	$712	$700	$2,417	$217	$(283)	$163	$97

	For the Year Ended December 31, 2016				Increase / (decrease) 2016 v 2015			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Revenues								
Net revenues from external customers	$2,220	$2,439	$1,586	$6,245	$(480)	$874	$1,586	$1,980
Intersegment net revenues(1)	—	—	—	—	—	—	—	—
Segment net revenues	$2,220	$2,439	$1,586	$6,245	$(480)	$874	$1,586	$1,980
Segment operating income	$788	$995	$537	$2,320	$(80)	$434	$537	$891

	For the Year Ended December 31, 2015			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$2,700	$1,565	$—	$4,265
Intersegment net revenues(1)	—	—	—	—
Segment net revenues	$2,700	$1,565	$—	$4,265
Segment operating income	$868	$561	$—	$1,429

(1) Intersegment revenues reflect licensing and service fees charged between segments.

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 are presented in the table below (amounts in millions):

	For the Years Ended December 31,		
	2017	2016	2015
Reconciliation to consolidated net revenues:			
Segment net revenues	$6,765	$6,245	$4,265
Revenues from other segments(1)	410	354	356
Net effect from recognition (deferral) of deferred net revenues(2)	(139)	9	43
Elimination of intersegment revenues(3)	(19)	—	—
Consolidated net revenues	$7,017	$6,608	$4,664
Reconciliation to consolidated income before income tax expense:			
Segment operating income	$2,417	$2,320	$1,429
Operating (loss) income from other segments(1)	(19)	14	37
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues(2)	(71)	(10)	(39)
Share-based compensation expense	(178)	(159)	(92)
Amortization of intangible assets(4)	(757)	(706)	(11)
Fees and other expenses related to the King Acquisition(5)	(15)	(47)	(5)
Restructuring costs(6)	(15)	—	—
Other non-cash charges(7)	(14)	—	—
Discrete tax-related items(8)	(39)	—	—
Consolidated operating income	1,309	1,412	1,319
Interest and other expense (income), net	146	214	198
Loss on extinguishment of debt	12	92	—
Consolidated income before income tax expense	$1,151	$1,106	$1,121

(1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Also includes unallocated corporate income and expenses.

(2) We have determined that some of our titles' online functionality represents an essential component of gameplay and, as a result, represents a more-than-inconsequential separate deliverable. As such, we are required to recognize revenues from these titles over the estimated service periods, which are generally less than twelve months. The related cost of revenues are deferred and recognized when the related revenues are recognized. In the operating segment results table, we reflect the net effect from the deferrals of revenues and (recognition) of deferred revenues, along with the related cost of revenues, on certain of our online enabled products.

(3) Intersegment revenues reflect licensing and service fees charged between segments.

(4) We amortize intangible assets over their estimated useful lives based on the pattern of consumption of the underlying economic benefits. The amounts presented in the table represent the effect of the amortization of intangible assets in our consolidated statements of operations.

(5) Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.

(6) Reflects restructuring charges, primarily severance costs.

(7) 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.

(8) Reflects the impact of other unusual or unique tax-related items and activities.

Segment Net Revenues

Activision

2017 vs. 2016

The increase in Activision's net revenues for 2017, as compared to 2016, was primarily due to:

- higher revenues from the Destiny franchise, driven by the release of *Destiny 2* in September 2017, with no comparable release in 2016;

- higher revenues from *Call of Duty: WWII*, which was released in November 2017, as compared to *Call of Duty: Infinite Warfare*, the comparable 2016 title;

- higher revenues from from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions; and

- revenues from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017.

The increase was partially offset by:

- lower revenues from *Call of Duty: Infinite Warfare* including its associated digital content, as compared to the performance of *Call of Duty: Black Ops III*, the comparable 2015 title; and

- lower revenues from the Skylanders franchise, due to the release of *Skylanders Imaginators* in October 2016, with no comparable release in 2017.

2016 vs. 2015

The decrease in Activision's net revenues for 2016, as compared to 2015, 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, which was the third game in our successful Black Ops series;

- lower revenues from the Destiny franchise, as there were two expansion packs in 2015—*House of Wolves* and *The Taken King*—but only one in 2016—*Rise of Iron*;

- lower revenues from *Skylanders Imaginators*, which was released in October 2016, as compared to *Skylanders Superchargers*, the comparable 2015 title, as well as lower revenues from standalone Skylanders toys and accessories in 2016; and

- lower revenues from *Guitar Hero Live*, which was released in 2015 with no comparable release in 2016.

The decrease was partially offset by higher revenues from digital content associated with *Call of Duty: Black Ops III*, as compared to *Call of Duty: Advanced Warfare*, the comparable 2014 title.

Blizzard

2017 vs. 2016

The decrease in Blizzard's net revenues for 2017, as compared to 2016, was primarily due to:

- lower revenues from *Overwatch*, which was released in May 2016; and

- lower revenues from *World of Warcraft*, driven by the release of *World of Warcraft: Legion* in August 2016, with no comparable release in 2017.

The decrease was partially offset by:

- revenues recognized from franchise sales of city-based teams for the Overwatch League; and

- higher revenues from *Diablo III*, primarily due to the release of *Rise of the Necromancer*, a downloadable content pack for *Diablo III* that was released in June 2017.

<u>2016 vs. 2015</u>

The increase in Blizzard's net revenues for 2016, as compared to 2015, was primarily due to:

- revenues from *Overwatch,* which was released in May 2016; and

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

King

<u>2017 vs. 2016</u>

The increase in King's net revenues for 2017, as compared to 2016, was primarily due to:

- 2017 including King revenues for the full year, while 2016 only included King revenues for the partial period following the King Closing Date; and

- higher revenues from the Candy Crush franchise, due to in-game events and features.

<u>2016 vs. 2015</u>

King's 2016 net revenues represent the net revenues from the King Closing Date through December 31, 2016. The revenues were primarily driven by the Candy Crush franchise, which included the release of *Candy Crush Jelly Saga*™ in January 2016.

Segment Income from Operations

Activision

<u>2017 vs. 2016</u>

The increase in Activision's operating income for 2017, as compared to 2016, was primarily due to higher revenues, as discussed above, and lower costs associated with the Skylanders franchise, as there was not a new title released in 2017.

The increase was partially offset by higher sales and marketing spend on the Destiny franchise due to the release of *Destiny 2*.

<u>2016 vs. 2015</u>

The decrease in Activision's operating income for 2016, as compared to 2015, was primarily due to lower revenues, as discussed above. This was partially offset by:

- lower sales and marketing spend on *Guitar Hero Live* and the Destiny franchise given the timing of game launches; and

- the relative increase in revenues coming from the digital online channel, which typically has a higher profit margin.

Blizzard

2017 vs. 2016

The decrease in Blizzard's operating income for 2017, as compared to 2016, was primarily due to lower revenues, as discussed above, along with higher product development costs resulting from lower capitalization of software development costs due to the timing of game development cycles.

The decrease was partially offset by lower sales and marketing costs and software amortization for *Overwatch* and *World of Warcraft: Legion*, due to their respective launches in 2016, with no comparable releases in 2017.

2016 vs. 2015

The increase in Blizzard's operating income for 2016, as compared to 2015, was primarily due to higher revenues. This was partially offset by:

- new sales and marketing spending to support *Overwatch*; and
- higher personnel costs due to segment performance bonuses and increased headcount to support the business growth.

King

2017 vs. 2016

The increase in King's operating income for 2017, as compared to 2016, was primarily due to:

- 2017 including King's results of operations for the full year, while 2016 only included King's results of operations for the partial period following the King Closing Date; and
- higher revenues from the Candy Crush franchise, as discussed above.

2016 vs. 2015

King's operating income for the year ended December 31, 2016 represents the operating income from the King Closing Date through December 31, 2016.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $85 million, a negative impact of $30 million, and a negative impact of $338 million on reportable segment net revenues for 2017, 2016, and 2015, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

Consolidated Results

Net Revenues by Distribution Channel

The following table details our consolidated net revenues by distribution channel (amounts in millions):

	For the Years Ended December 31,						
	2017	2016	2015	Increase/ (decrease) 2017 v 2016	Increase/ (decrease) 2016 v 2015	% Change 2017 v 2016	% Change 2016 v 2015
Net revenues by distribution channel							
Digital online channels(1)	$5,479	$4,865	$2,502	$614	$2,363	13%	94%
Retail channels	1,033	1,386	1,806	(353)	(420)	(25)	(23)
Other(2)	505	357	356	148	1	41	—
Total consolidated net revenues	$7,017	$6,608	$4,664	$409	$1,944	6%	42%

(1) Net revenues from "Digital online channels" include 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 and the Overwatch League.

Digital Online Channel Net Revenues

<u>2017 vs. 2016</u>

The increase in net revenues from digital online channels for 2017, as compared to 2016, was primarily due to:

- higher revenues from King titles, as 2017 includes King revenues for the full year, while 2016 only included King revenues for the partial period following the King Closing Date, as well as higher revenues from the Candy Crush franchise due to in-game events and features; and

- higher revenues recognized from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions.

The increase was partially offset by lower revenues recognized from *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.

<u>2016 vs. 2015</u>

The increase in net revenues from digital online channels for 2016, as compared to 2015, was primarily due to:

- new revenues from King titles following the King Closing Date, primarily driven by the Candy Crush franchise;

- revenues recognized from *Overwatch*, which was released in May 2016; and

- higher revenues recognized in 2016 from digital content associated with *Call of Duty: Black Ops III*, as compared to revenues recognized in 2015 from digital content associated with *Call of Duty: Advanced Warfare*, the comparable 2015 title.

Retail Channel Net Revenues

2017 vs. 2016

The decrease in net revenues from retail channels for 2017, as compared to 2016, was primarily due to:

- lower revenues recognized from *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; and
- lower revenues from the Skylanders franchise, due to the release of *Skylanders Imaginators* in October 2016, with no comparable release in 2017.

The decrease was partially offset by:

- revenues from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017; and
- higher revenues recognized from *Call of Duty: WWII,* which was released in November 2017, as compared to *Call of Duty: Infinite Warfare*, the comparable 2016 title.

2016 vs. 2015

The decrease in net revenues from retail channels for 2016, as compared to 2015, was primarily due to:

- lower revenues recognized from the Destiny franchise, as *Destiny* debuted in September 2014 but had no comparable full-game release in 2015;
- lower revenues from *Skylanders Imaginators*, which was released in October 2016, as compared to *Skylanders Superchargers*, the comparable 2015 title, as well as lower revenues from standalone Skylanders toys and accessories in 2016; and
- lower revenues recognized from *Call of Duty: Infinite Warfare*, which was released in the fourth quarter of 2016, as compared to *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015.

The decrease was partially offset by:

- revenues recognized from *Overwatch*, which was released in May 2016; and
- higher revenues recognized in 2016 from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to revenues recognized in 2015 from *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014.

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region (amounts in millions):

	For the Years Ended December 31,						
	2017	2016	2015	Increase/ (decrease) 2017 v 2016	Increase/ (decrease) 2016 v 2015	% Change 2017 v 2016	% Change 2016 v 2015
Geographic region net revenues:							
Americas	$3,607	$3,423	$2,409	$184	$1,014	5%	42%
EMEA(1)	2,464	2,221	1,741	243	480	11	28
Asia Pacific	946	964	514	(18)	450	(2)	88
Consolidated net revenues	$7,017	$6,608	$4,664	$409	$1,944	6	42

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

Americas

2017 vs. 2016

The increase in net revenues in the Americas region for 2017, as compared to 2016, was primarily due to:

- higher revenues from King titles, as 2017 includes King's revenues for the full year, while 2016 only included King's revenues for the partial period following the King Closing Date, as well as higher revenues from the Candy Crush franchise due to in-game events and features;

- higher revenues recognized from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions; and

- revenues from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017.

The increase was partially offset by lower revenues recognized from *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.

2016 vs. 2015

The increase in net revenues in the Americas region for 2016, as compared to 2015, was primarily due to:

- new revenues from King titles following the King Closing Date, primarily driven by the Candy Crush franchise;

- revenues recognized from *Overwatch*, which was released in May 2016; and

- higher revenues recognized in 2016 from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to revenues recognized in 2015 from *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014, including, in each case, the associated digital content.

The increase was partially offset by:

- lower revenues recognized from the Destiny franchise, as *Destiny* debuted in September 2014 but had no comparable full-game release in 2015; and

- lower revenues from *Skylanders Imaginators*, which was released in October 2016, as compared to *Skylanders Superchargers*, the comparable 2015 title, as well as lower revenues from standalone toys and accessories from the Skylanders franchise in 2016.

EMEA

2017 vs. 2016

The increase in net revenues in the EMEA region for 2017, as compared to 2016, was primarily due to the same drivers and partially offsetting factors as those for the Americas region discussed above, as well as higher revenues from our Distribution business, primarily due to higher sales during the holiday season.

2016 vs. 2015

The increase in net revenues in the EMEA region for 2016, as compared to 2015, was primarily due to the same drivers and partially offsetting factors as the Americas region, as discussed above.

Asia Pacific

2017 vs. 2016

The slight decrease in net revenues in the Asia Pacific region for 2017, as compared 2016, was primarily due to slightly lower revenues recognized from *Overwatch* and *Hearthstone*, mostly offset by higher revenues from King titles and *Crash Bandicoot N. Sane Trilogy*.

2016 vs. 2015

The increase in net revenues in the Asia Pacific region for 2016, as compared to 2015, was primarily due to:

- new revenues from King titles following the King Closing Date, primarily driven by the Candy Crush franchise;
- revenues recognized from *Overwatch*, which was released in May 2016; and
- higher revenues recognized from *Hearthstone*.

The increase was partially offset by lower revenues recognized from the Diablo franchise due to the timing of releases.

Net Revenues by Platform

The following tables detail our net revenues by platform and as a percentage of total consolidated net revenues (amounts in millions):

	Year Ended December 31, 2017	**% of total(3) consolidated net revenues**	**Year Ended December 31, 2016**	**% of total(3) consolidated net revenues**	**Year Ended December 31, 2015**	**% of total(3) consolidated net revenues**	**Increase/ (Decrease) 2017 v 2016**	**Increase/ (Decrease) 2016 v 2015**
Platform net revenues:								
Console	$2,389	34%	$2,453	37%	$2,391	51%	$(64)	$62
PC	2,042	29	2,124	32	1,499	32	(82)	625
Mobile and ancillary(1)	2,081	30	1,674	25	418	9	407	1,256
Other(2)	505	7	357	5	356	8	148	1
Total consolidated net revenues	$7,017	100%	$6,608	100%	$4,664	100%	$409	$1,944

(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 and the Overwatch League.

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

Console Net Revenues

2017 vs. 2016

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

- higher revenues recognized from the continued strength of *Call of Duty: Black Ops III*, as compared to prior catalog releases, driven by the downloadable content pack, *Zombies Chronicles*, which was released in May 2017, and the continued strength of microtransactions;

- revenues from *Crash Bandicoot N. Sane Trilogy*, which was released in June 2017; and

- higher revenues recognized from *Call of Duty: WWII*, which was released in November 2017, as compared to *Call of Duty: Infinite Warfare*, the comparable 2016 title.

2016 vs. 2015

The increase in net revenues from console for 2016, as compared to 2015, was primarily due to:

- higher revenues recognized in 2016 from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to revenues recognized in 2015 from *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014, including, in each case, the associated digital content; and

- revenues recognized from *Overwatch*, which was released in May 2016.

The increase was partially offset by lower revenues recognized from the Destiny franchise, as *Destiny* debuted in September 2014 but had no comparable full-game release in 2015.

PC Net Revenues

2017 vs. 2016

The decrease in net revenues from PC for 2017, as compared to 2016, was primarily due to:

- lower revenues recognized from the World of Warcraft franchise; and

- lower revenues recognized from *Overwatch*, which was released in May 2016.

2016 vs. 2015

The increase in net revenues from PC for 2016, as compared to 2015, was primarily due to:

- revenues recognized from *Overwatch*, which was released in May 2016; and

- revenues from King titles following the King Closing Date.

Mobile and Ancillary Net Revenues

2017 vs. 2016

The increase in net revenues from mobile and ancillary for 2017, as compared to 2016, was primarily due to higher revenues from King titles, as 2017 includes King's revenues for the full year, while 2016 only included King's revenues for the partial period following the King Closing Date, as well as higher revenues from the Candy Crush franchise due to in-game events and features.

The increase was partially offset by lower revenues from sales of standalone toys and accessories from the Skylanders franchise.

2016 vs. 2015

The increase in net revenues from mobile and ancillary for 2016, as compared to 2015, was primarily due to:

- new revenues from King titles following the King Closing Date, which were primarily driven by the Candy Crush franchise; and

- higher revenues recognized from *Hearthstone*, which was released on iPhone and Android smartphones in April 2015.

The increase was partially offset by lower revenues from sales of standalone toys and accessories from the Skylanders franchise.

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 (amounts in millions):

	Year Ended December 31, 2017	% of associated net revenues	Year Ended December 31, 2016	% of associated net revenues	Year Ended December 31, 2015	% of associated net revenues	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Cost of revenues—product sales:								
Product costs	$733	35%	$741	34%	$872	36%	$(8)	$(131)
Software royalties, amortization, intellectual property licenses	300	14	331	15	370	15	(31)	(39)
Cost of revenues—subscription, licensing, and other revenues:								
Game operations and distribution costs	984	20	851	19	274	12	133	577
Software royalties, amortization, intellectual property licenses	484	10	471	11	69	3	13	402
Total cost of revenues	$2,501	36%	$2,394	36%	$1,585	34%	$107	$809

Cost of Revenues—Product Sales:

2017 vs. 2016

Product costs for 2017, were comparable to 2016, primarily due to lower product costs from the Skylanders franchise as there was no new release in 2017, offset by higher product costs resulting from the increased revenues of our relatively lower-margin Distribution business.

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

- lower software amortization associated with *Guitar Hero Live*, which was released in October 2015;

- lower software amortization from *Overwatch*, which was released in May 2016; and

- lower software amortization from the Skylanders franchise as there was no new release in 2017.

The decrease was partially offset by higher software amortization associated with the Destiny franchise, primarily due to the release of *Destiny 2* in September 2017.

<u>2016 vs. 2015</u>

The decrease in product costs for 2016, as compared to 2015, was primarily due to:

- lower product costs associated with the Skylanders franchise; and

- the relative increase in revenues coming from the digital online channel, which typically have relatively lower product costs.

The decrease in software royalties, amortization, and intellectual property licenses related to product sales for 2016, as compared to 2015, was primarily due to lower software amortization from the Destiny franchise, as *Destiny* was released in the third quarter of 2014, but had no comparable full-game release in 2015.

This decrease was partially offset by:

- software amortization from *Overwatch*, which was released in May 2016 with no comparable 2015 title; and

- higher software amortization associated with *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014.

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

<u>2017 vs. 2016</u>

The increase in game operations and distribution costs for 2017, as compared to 2016, was primarily due to platform provider fees associated with the increase in revenues from King.

Software royalties, amortization, and intellectual property licenses related to subscription, licensing, and other revenues for 2017 were comparable to 2016.

<u>2016 vs. 2015</u>

The increase in game operations and distribution costs for 2016, as compared to 2015, was primarily due to:

- increased online costs and platform provider fees associated with revenues from King titles included following the King Closing Date; and

- increased expenditures to support our growing online activity across our existing and new titles.

The increase in software royalties, amortization, and intellectual property licenses related to subscription, licensing, and other revenues for 2016, as compared to 2015, 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 the partial period of amortization of internally-developed franchise intangible assets following the King Closing Date.

Product Development (amounts in millions)

	Year Ended December 31, 2017	% of consolidated net revenues	Year Ended December 31, 2016	% of consolidated net revenues	Year Ended December 31, 2015	% of consolidated net revenues	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Product development.........	$1,069	15%	$958	14%	$646	14%	$111	$312

2017 vs 2016

The increase in product development costs for 2017, as compared to 2016, was primarily due to:

- higher Blizzard product development costs resulting from lower capitalization of software development costs due to the timing of game development cycles; and
- increased product development costs for King, as 2017 includes King's costs for a full year, while 2016 only included King's costs for the partial period following the King Closing Date.

2016 vs 2015

The increase in product development costs for 2016, as compared to 2015, was primarily due to:

- product development costs associated with King's titles for the period following the King Closing Date; and
- increased product development costs for Activision and Blizzard's current and upcoming releases.

Sales and Marketing (amounts in millions)

	Year Ended December 31, 2017	% of consolidated net revenues	Year Ended December 31, 2016	% of consolidated net revenues	Year Ended December 31, 2015	% of consolidated net revenues	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Sales and marketing	$1,378	20%	$1,210	18%	$734	16%	$168	$476

2017 vs. 2016

The increase in sales and marketing expenses for 2017, as compared to 2016, was primarily due to:

- higher sales and marketing costs for the Destiny franchise, given the release of *Destiny 2* in September 2017; and
- 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 2017 includes a full year of costs, while 2016 only included King's costs for the partial period following the King Closing Date.

The increase was partially offset by lower sales and marketing costs for the Skylanders franchise as there was no new title release in 2017.

2016 vs. 2015

The increase in sales and marketing expenses for 2016, as compared to 2015, was primarily due to:

- amortization of the customer base intangible assets acquired in the King Acquisition;
- sales and marketing spending to support King's titles and new launches, including *Candy Crush Jelly Saga* and *Farm Heroes Super Saga*™; and
- sales and marketing spending to support Blizzard's new title, *Overwatch*.

The increase was partially offset by lower sales and marketing expenditures on *Guitar Hero Live* and the Destiny franchise given the timing of game launches.

General and Administrative (amounts in millions)

	Year Ended December 31, 2017	% of consolidated net revenues	Year Ended December 31, 2016	% of consolidated net revenues	Year Ended December 31, 2015	% of consolidated net revenues	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
General and administrative...........	$760	11%	$634	10%	$380	8%	$126	$254

<u>2017 vs. 2016</u>

The increase in general and administrative expenses for 2017, as compared to 2016, was primarily due to:

- increased personnel costs, including stock compensation expenses, to support the growth in our business and adjacent areas of opportunity;
- the inclusion 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, with no comparable activity in 2016;
- restructuring charges, primarily severance costs, incurred in 2017 with no comparable activity in 2016; and
- higher foreign currency transaction losses.

The increase is partially offset by lower transaction costs as 2016 included the King Acquisition.

<u>2016 vs. 2015</u>

The increase in general and administrative expenses for 2016, as compared to 2015, was primarily due to:

- King's general and administrative costs, which are included from the King Closing Date;
- higher Blizzard personnel costs due to segment performance bonuses and increased headcount to support the growth of the Blizzard business;
- higher professional and transaction-related fees due to the King Acquisition, which closed on February 23, 2016; and
- lower foreign currency transaction and derivative contract gains.

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

	Year Ended December 31, 2017	% of consolidated net revenues	Year Ended December 31, 2016	% of consolidated net revenues	Year Ended December 31, 2015	% of consolidated net revenues	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Interest and other expense (income), net..................................	$146	2%	$214	3%	$198	4%	$(68)	$16

<u>2017 vs. 2016</u>

The decrease in interest and other expense, net, for 2017, as compared to 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. See further discussion below under "Liquidity and Capital Resources."

<u>2016 vs. 2015</u>

The increase in interest and other expense, net, for 2016, as compared to 2015, was primarily due to interest expense associated with the new $2.3 billion tranche of term loans "A" that were incurred in connection with the King Acquisition. This increase was partially offset by lower interest expense related to our prior term loan because of voluntary prepayments on the principal we made throughout 2016, with the prior term loan being fully extinguished in September 2016. See further discussion below under “Liquidity and Capital Resources.”

Income Tax Expense (Benefit) (amounts in millions)

	Year Ended December 31, 2017	% of Pretax income	Year Ended December 31, 2016	% of Pretax income	Year Ended December 31, 2015	% of Pretax income	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Income tax expense	$878	76%	$140	13%	$229	20%	$738	$(89)

For the years ended December 31, 2017, 2016, and 2015, the Company’s income before income tax expense was $1.15 billion, $1.11 billion, and $1.12 billion, respectively, and our income tax expense was $878 million (or a 76% effective tax rate), $140 million (or a 13% effective tax rate), and $229 million (or a 20% effective tax rate), respectively. Our full year 2017 effective tax rate of 76% is higher than the U.S. statutory rate of 35% primarily due to the one-time tax expense related to the U.S. Tax Reform Act (discussed further below) and changes in the Company’s liability for uncertain tax positions, partially offset by earnings taxed at relatively lower rates in foreign jurisdictions, recognition of excess tax benefits from shared-based payments, and research and development (“R&D”) credits.

On December 22, 2017, the U.S. Tax Reform Act was enacted. The U.S. Tax Reform Act, among other things, reduced the U.S. corporate income tax rate from 35% to 21% beginning in 2018 and implemented a modified territorial tax system that imposes a one-time tax on deemed repatriated earnings of foreign subsidiaries (“Transition Tax”).

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on how to account for the effects of the U.S. Tax Reform Act under ASC 740. SAB 118 enables companies to record a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate, subject to adjustment during a measurement period of up to one year, until accounting is complete.

We recorded a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate in the fourth quarter of 2017 resulting in a charge of $636 million. This includes current tax expense of $555 million related to the Transition Tax, which is payable over eight years, and deferred tax expense of $81 million related to the remeasurement of deferred taxes resulting from the U.S. corporate income tax rate reduction. Accounting for the income tax effects of the U.S. Tax Reform Act requires complex new calculations to be performed and significant judgments in interpreting the legislation. Additional guidance may be issued on how the provisions of the U.S. Tax Reform Act will be applied or otherwise administered that is different from our interpretation. We may make adjustments to the provisional amounts as we collect and prepare the data necessary to finalize our calculations, interpret the U.S. Tax Reform Act and any additional guidance issued, and consider the effects of any additional actions we may take as a result of the U.S. Tax Reform Act.

We continue to analyze the prospective effects of the U.S. Tax Reform Act, including new provisions impacting certain foreign income, such as global intangible low-taxed income (“GILTI”) of foreign subsidiaries, base erosion anti-abuse tax (“BEAT”), and foreign-derived intangible income (“FDII”), potential limitations on interest expense deductions, and changes to the provisions of Section 162(m) of the Internal Revenue Code, among other provisions of the U.S. Tax Reform Act.

In 2017 and 2016, our U.S. income before income tax expense was $185 million and $228 million, respectively, and comprised 16% and 21%, respectively, of our consolidated income before income tax expense. In 2017 and 2016, our foreign income before income tax expense was $966 million and $878 million, respectively, and comprised 84% and 79%, respectively, of our consolidated income before income tax expense.

In 2017, 2016 and 2015, earnings taxed at lower rates in foreign jurisdictions, as compared to domestic earnings taxed at the U.S. federal statutory tax rate, lowered our effective tax rate by 24 percentage points, 22 percentage points, and 20 percentage points, respectively. The increase in the foreign rate differential is due to the overall increase in foreign income, which is taxed at relatively lower rates in proportion to U.S. income.

The overall effective income tax rate in future periods will depend on a variety of factors, such as changes in the mix of income by tax jurisdiction, applicable accounting rules, applicable tax laws and regulations, and rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss. Further, the effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected by the extent that income (loss) before income tax expenses (benefit) is lower than anticipated in foreign regions, where taxes are levied at relatively lower statutory rates, and/or higher than anticipated in the United States, where taxes are levied at relatively higher statutory rates.

On December 28, 2017, we received a Notice of Reassessment from the French Tax Authority ("FTA") related to transfer pricing concerning intercompany transactions involving one of our French subsidiaries for the 2011 through 2013 tax years. The total assessment, including penalties and interest, was approximately €571 million ($680 million). We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve this matter, including administrative remedies with the FTA, and judicial remedies, if necessary. While we believe our tax provisions at December 31, 2017 are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities. In addition to the risk of additional tax for years 2011 through 2013, if litigation regarding this matter were adversely determined and/or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities.

Further analysis of the differences between the U.S. federal statutory rate and the consolidated effective tax rate, as well as other information about our income taxes, is provided in Note 15 of the notes to consolidated financial statements included in this Annual Report.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $27 million, a positive impact of $10 million, and a negative impact of $242 million on Activision Blizzard's consolidated operating income in 2017, 2016 and 2015, respectively. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound and its impact on our foreign operating income.

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 and financial condition to remain strong and to continue to generate significant operating cash flows, which, in combination with our existing balance of cash and cash equivalents and short-term investments of $4.8 billion, our access to capital, and the availability of our $250 million revolving credit facility, we believe will be sufficient to finance our operational and financing requirements for the next 12 months. 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-term investments, and cash flows provided by operating activities.

As of December 31, 2017, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was $3.0 billion, as compared to $1.9 billion as of December 31, 2016. Following the enactment of the U.S. Tax Reform Act and the current period expense on unrepatriated earnings, we no longer consider these available cash balances, which primarily relate to undistributed earnings of our most significant foreign subsidiaries, to be indefinitely reinvested.

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)

	For the Years Ended December 31,		
	2017	2016	Increase (Decrease) 2017 v 2016
Cash and cash equivalents	$4,713	$3,245	$1,468
Short-term investments	62	13	49
	$4,775	$3,258	$1,517
Percentage of total assets	26%	19%	

	For the Years Ended December 31,				
	2017	2016	2015	Increase (Decrease) 2017 v 2016	Increase (Decrease) 2016 v 2015
Net cash provided by operating activities	$2,213	$2,155	$1,259	$58	$896
Net cash used in investing activities	(197)	(1,177)	(3,716)	980	2,539
Net cash (used in) provided by financing activities	(624)	500	(202)	(1,124)	702
Effect of foreign exchange rate changes	76	(56)	(366)	132	310
Net increase (decrease) in cash and cash equivalents	$1,468	$1,422	$(3,025)	$46	$4,447

Net Cash Provided by Operating Activities

The primary driver of net cash flows associated with our operating activities is 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.

2017 vs 2016

Net cash provided by operating activities for 2017 was $2.21 billion, as compared to $2.16 billion for 2016. The increase was primarily due to:

- increased earnings after excluding the effects of charges due to impacts from the U.S. Tax Reform Act, which did not result in current year cash outflows, and other non-cash charges for depreciation and amortization and share-based compensation expenses;
- a full year of King operating cash flows; and
- changes in our working capital due to the timing of collections and payments.

Net cash provided by operating activities for 2017 included $145 million of interest paid on our outstanding debt, as compared to $209 million paid in 2016.

2016 vs 2015

Net cash provided by operating activities for 2016 was $2.2 billion, as compared to $1.3 billion for 2015. The increase was primarily due to:

- new operating cash flows contributed by King following the King Closing Date; and
- higher net income in 2016, as compared to 2015, along with larger adjustments to net income for non-cash charges, primarily associated with the amortization of the acquired intangibles in the King Acquisition, higher stock compensation expense due to converted equity awards for King personnel in the King Acquisition, and other non-cash or non-operating costs associated with our debt-related activities during the year.

Net cash provided by operating activities for 2016 included $209 million of interest paid on our outstanding debt, as compared to $193 million paid in 2015.

Net Cash Used in Investing Activities

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

2017 vs 2016

Net cash used in investing activities for 2017 was $197 million, as compared to $1.2 billion for 2016. The decrease in the cash used was primarily due to cash used for the King Acquisition in 2016, with no comparable transaction in 2017. The decrease was partially offset by purchases of available-for-sale investments, net of proceeds from maturities, of $55 million in 2017, with no comparable transaction in 2016.

2016 vs 2015

Net cash used in investing activities for 2016 was $1.2 billion, as compared to $3.7 billion for 2015. The lower amount of cash used in investing activities in 2016 was primarily due to a 2015 cash outflow of $3.6 billion for cash placed into escrow to facilitate the King Acquisition. In 2016, when we acquired King, the cash in escrow became a cash inflow. As a result, in 2016 we had a $2.2 billion cash outflow for the King Acquisition in excess of the cash already in escrow, net of $1.15 billion of cash acquired from King.

Net Cash Provided by (Used in) 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.

<u>2017 vs 2016</u>

Net cash used in financing activities for 2017 was $624 million, as compared to net cash provided by financing activities of $500 million for 2016. The changes were primarily attributed to our debt financing activities. For 2017, we had net debt repayments of $500 million, as compared to approximately $700 million of net debt proceeds, inclusive of a premium payment, for 2016. The cash flows used in financing activities for 2017, were partially offset by:

- higher proceeds from stock option exercises in 2017 of $178 million, as compared to $106 million for 2016; and

- lower tax payments made for net share settlements on restricted stock units in 2017 of $56 million, as compared to $115 million in 2016.

<u>2016 vs 2015</u>

Net cash provided by financing activities for 2016 was $500 million, as compared to cash flows used in financing activities of $202 million for 2015. The difference was primarily due to $6.9 billion of proceeds received from the following debt issuances in 2016:

- issuance of a $2.3 billion tranche of term loans “A” on February 23, 2016 to fund the King Acquisition;

- issuance of an additional $250 million tranche of term loans “A” on March 31, 2016;

- issuance of a new unsecured $2.9 billion tranche of term loans “A” in connection with the fifth amendment to our credit agreement on August 23, 2016;

- issuance of $650 million of 2.3% unsecured senior notes due September 2021 on September 19, 2016; and

- issuance of $850 million of 3.4% unsecured senior notes due September 2026 on September 19, 2016.

These issuances were partially offset by:

- repayments of $1.9 billion to extinguish our term loan outstanding at December 31, 2015 (the “Original Term Loan”);

- repayments of $2.5 billion in connection with the refinancing of our tranche of term loans “A” that were provided in the first quarter of 2016;

- repayments of $185 million on our new tranche of term loans “A” that were provided on August 23, 2016, which included $167 million of voluntary prepayments, as compared to the $250 million partial repayment of our Original Term Loan in 2015;

- a cash payment to redeem all $1.5 billion of our outstanding 5.625% unsecured senior notes due September 2021, as well as the associated $63 million premium; and

- higher cash dividend payments made during 2016, as compared to 2015.

Net cash used in financing activities for 2015 also included proceeds of $202 million received in the settlement of the litigation related to the October 11, 2013 repurchase of approximately 429 million shares of our common stock (the “Purchase Transaction”). There were no such proceeds received in 2016.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a positive impact of $76 million, a negative impact of $56 million, and a negative impact of $366 million on our cash and cash equivalents for the years ended December 31, 2017, 2016, and 2015, respectively. The change is primarily due to changes in the value of the U.S. dollar relative to the Euro and British pound.

Debt

As of December 31, 2016, our total outstanding debt was $4.9 billion, bearing interest at a weighted average rate of 2.92%. As a result of the activities described below, our total outstanding debt as of December 31, 2017, was $4.4 billion, bearing interest at a weighted average rate of 3.58%.

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: (1) provided for a new tranche of term loans "A" in an aggregate principal amount of $2.55 billion (the "2017 TLA") and (2) 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 year ended December 31, 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.

A summary of our outstanding debt as of December 31, 2017, is as follows (amounts in millions):

	December 31, 2017		
	Gross Carrying Amount	**Unamortized Discount and Deferred Financing Costs**	**Net Carrying Amount**
2017 TLA	$990	$(8)	$982
2021 Notes	650	(4)	646
2022 Notes	400	(4)	396
2023 Notes	750	(9)	741
2026 Notes	850	(9)	841
2027 Notes	400	(6)	394
2047 Notes	400	(10)	390
Total debt	$4,440	$(50)	$4,390

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

	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	$4,940	$(53)	$4,887

On February 1, 2018, our Board of Directors authorized repayments of up to $1.8 billion of the company's outstanding debt during 2018. As of the date hereof, we have not made any additional repayments on our outstanding debt and the determination as to if and when we make any such repayment will be dependent on market conditions and other factors.

Refer to Note 11 of the notes to consolidated financial statements included in this Annual Report for disclosures regarding terms and activities associated with our debt obligations.

Dividends

On February 1, 2018, our Board of Directors approved a cash dividend of $0.34 per common share, payable on May 9, 2018, to shareholders of record at the close of business on March 30, 2018.

On February 2, 2017, our Board of Directors approved a cash dividend of $0.30 per common share and we made an aggregate cash dividend payment on May 10, 2017 of $226 million to shareholders.

Capital Expenditures

We made capital expenditures of $155 million in 2017, as compared to $136 million in 2016. In 2018, we anticipate total capital expenditures of approximately $155 million, primarily for leasehold improvements, computer hardware, and software purchases.

Commitments

Refer to Note 19 of the notes to consolidated financial statements included in this Annual Report for disclosures regarding our commitments.

Off-balance Sheet Arrangements

At December 31, 2017 and 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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. The impact and any associated risks related to these policies on our business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. The policies, estimates, and assumptions discussed below are considered by management to be critical because they are both important to the portrayal of our financial condition and results of operations and because their application places the most significant demands on management's judgment, with financial reporting results relying on estimates and assumptions about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies, estimates, and assumptions are described in the following paragraphs.

Revenue Recognition

We recognize revenues when there is persuasive evidence of an arrangement, the product or service has been provided to the customer, the collection of our fees is reasonably assured, and the amount of fees to be paid by the customer is fixed or determinable. Certain products are sold to customers with a "street date" (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date or the date the product is sold to the customer.

Revenue Arrangements with Multiple Deliverables

Certain of our revenue arrangements have multiple deliverables, which we account for in accordance with Accounting Standards Codification ("ASC") Topic 605. These revenue arrangements include product sales consisting of both software, service (such as ongoing hosting arrangements), and hardware deliverables (such as peripherals or other ancillary collectors' items sold together with physical "boxed" software).

When a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence ("VSOE") if it is available, third-party evidence ("TPE") if VSOE is not available, or best estimated selling price ("BESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Further, if the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We did not have significant revenue arrangements that required using BESP for the years ended December 31, 2017, 2016, and 2015. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for deliverables that the Company sells separately (which represents VSOE) and the wholesale prices of the same or similar products for deliverables not sold separately (which represents TPE).

Product Sales

Product sales consists of sales of our games, including physical products and digital full-game downloads. We recognize revenues from the sale of our products after both (1) title and risk of loss have been transferred to our customers and (2) all performance obligations have been completed. With respect to digital full-game downloads, this is when the product is available for download or is activated for gameplay. Revenues from product sales are recognized after deducting the estimated allowance for returns and price protection.

Product with Online Functionality or Online Hosted Arrangements

For our software products with online functionality or that are part of an online hosted arrangement, we evaluate whether that online functionality constitutes a more-than-inconsequential separate deliverable in addition to the software product. This evaluation is performed for each software product or product add-on (including downloadable content), when it is released. Determining whether the online functionality for a particular product constitutes a more-than-inconsequential deliverable is subjective and requires management's judgment. When we determine that the online functionality constitutes a more-than-inconsequential separate service deliverable in addition to the product, which is principally because of the online functionality's importance to gameplay, we consider our performance obligation for this title to extend beyond the sale of the game. In addition, VSOE of fair value does not exist for the online functionality of some products, as we do not separately charge for this component. As a result, we initially defer all of the software-related revenues from the sale of any such title (including downloadable content) and recognize the revenues ratably over the estimated service period. In addition, we initially defer the cost of revenues for the title and recognize the cost of revenues as the related revenues are recognized. The cost of revenues that are initially deferred include product and distribution costs, software royalties and amortization, and intellectual property licenses and exclude intangible asset amortization.

For our software products with online functionality that are considered to be incidental to the overall product offering and are inconsequential deliverables, we recognize the related revenues when the revenue recognition criteria described above have been met.

For our *World of Warcraft* boxed products, expansion packs and value-added services, we recognize revenues in each case with the related subscription service revenues ratably over the estimated service period, beginning upon the activation of the software and delivery of the related services. For revenues associated with the sales of subscriptions, the revenues are deferred until the subscription service is activated by the consumer and are then recognized ratably over the subscription period. Revenues attributed to the sale of *World of Warcraft* boxed software and related expansion packs are classified as "Product sales," whereas revenues attributable to subscriptions and other value-added services are classified as "Subscription, licensing, and other revenues."

Microtransaction Revenues

Microtransaction revenues are derived from the sale of virtual goods and currencies to our players to enhance their gameplay experience. Proceeds from the sales of virtual goods and currencies are initially recorded in deferred revenues. Proceeds from the sales of virtual currencies are recognized as revenues when a player uses the virtual goods purchased with the virtual currency. Proceeds from the sales of virtual goods directly are also recognized as revenues when a player uses the virtual goods. We categorize our virtual goods as either consumable or durable. Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, we recognize revenues from the sale of consumable virtual goods as the goods are consumed. Durable virtual goods represent goods that are accessible to the player over an extended period of time; accordingly, we recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player, which is generally the estimated service period.

Estimated Service Period

We determine the estimated service period for players of our games with consideration of various data points, including the weighted-average number of days between players' first and last date played online, the average total hours played, the average number of days in which player activity stabilizes, and the weighted-average number of days between players' first purchase date and last date played online. We also consider known online trends, the service periods of our previously released games, and the service periods of our competitors' games that are similar in nature to ours, to the extent they are publicly available. Determining the estimated service period is subjective and requires management's judgment. Future usage patterns may differ from historical usage patterns and therefore the estimated service period may change in the future. The estimated service periods for players of our current games are generally less than twelve months.

Principal Agent Considerations

We evaluate sales of our products and content via third party digital storefronts, such as Microsoft's Xbox Games Store, Sony's PSN, the Apple App Store, and the Google Play Store, to determine whether revenues should be reported gross or net of fees retained by the storefront. Key indicators that we evaluate in determining gross versus net treatment include, but are not limited to, the following:

- the party responsible for delivery/fulfillment of the product or service to the consumer;
- the party responsible for consumer billing, fee collection, and refunds;
- the storefront and terms of sale that govern the consumer's purchase of the product or service; and
- the party that sets the pricing with the consumer and has credit risk.

Based on evaluation of the above indicators, we report revenues on a gross basis for sales arrangements via Apple App Store and Google Play Store, and we report revenues on a net basis (i.e., net of fees retained by the storefront) for sales arrangements via Microsoft's Xbox Games Store and Sony PSN.

Allowances for Returns and Price Protection

We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers, market conditions, and the anticipated timing of other releases to assess future demand of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated with the goal of ensuring that quantities are sufficient to meet the demand from the retail markets, but at the same time are controlled to prevent excess inventory in the channel. We benchmark units to be shipped to our customers using historical and industry data.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances in which we elect to decrease, on a short- or longer-term basis, the wholesale price of a product by a certain amount and, when granted and applicable, allow customers a credit against amounts owed by such customers to us with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or receive price protection credits include, among other things, compliance with applicable trading and payment terms and consistent return of inventory and delivery of sell-through reports to us. We may also consider other factors, including achievement of sell-through performance targets in certain instances, the facilitation of slow-moving inventory, and other market factors.

Significant management judgments and estimates with respect to potential future product returns and price protection related to current period product revenues must be made and used when establishing the allowance for returns and price protection in any accounting period. We estimate the amount of future returns and price protection for current period product revenues utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the amount of future returns and price protection for a particular title: historical performance of titles in similar genres; historical performance of the hardware platform; historical performance of the franchise; console hardware life cycle; sales force and retail customer feedback; industry pricing; future pricing assumptions; weeks of on-hand retail channel inventory; absolute quantity of on-hand retail channel inventory; our warehouse on-hand inventory levels; the title's recent sell-through history (if available); marketing trade programs; and the performance of competing titles. The relative importance of these factors varies among titles depending upon, among other things, genre, platform, seasonality, and sales strategy.

Based upon historical experience, we believe that our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons, including, among others: a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. There may be material differences in the amount and timing of our revenues for any period if factors or market conditions change or if matters resolve in a manner that is inconsistent with management's assumptions utilized in determining the allowances for returns and price protection. For example, a 1% change in our December 31, 2017 allowance for sales returns, price protection, and other allowances would have impacted net revenues by approximately $3 million.

Software Development Costs

Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products. Software development costs are capitalized once the technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product requires both technical design documentation and game design documentation, or the completed and tested product design and a working model. Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established and the evaluation is performed on a product-by-product basis. For products where proven technology exists, this may occur early in the development cycle. Software development costs related to online hosted revenue arrangements are capitalized after the preliminary project phase is complete and it is probable that the project will be completed and the software will be used to perform the function intended. Prior to a product's release, if and when we believe capitalized costs are not recoverable, we expense the amounts as part of "Cost of revenues—software royalties, amortization, and intellectual property licenses." Capitalized costs for products that are cancelled or are expected to be abandoned are charged to "Product development" in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to "Product development."

Commencing upon a product's release, capitalized software development costs are amortized to "Cost of revenues—software royalties, amortization, and intellectual property licenses" based on the ratio of current revenues to total projected revenues for the specific product, generally resulting in an amortization period of six months to approximately two years.

We evaluate the future recoverability of capitalized software development costs on a quarterly basis. For products that have been released in prior periods, the primary evaluation criterion is the actual performance of the title to which the costs relate. For products that are scheduled to be released in future periods, recoverability is evaluated based on the expected performance of the specific products to which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products developed with comparable technology; market performance of comparable titles; orders for the product prior to its release; general market conditions; and, for any sequel product, estimated performance based on the performance of the product on which the sequel is based.

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if matters resolve in a manner that is inconsistent with management's expectations.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC Topic 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate deferred tax assets each period for recoverability. For those assets that do not meet the threshold of "more likely than not" that they will be realized in the future, a valuation allowance is recorded.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to tax expenses in the period such determination is made. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC Topic 740 and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our business and results of operations in an interim period in which the uncertainties are ultimately resolved.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties.

Our provision for income taxes is subject to volatility and could be adversely impacted by: (1) earnings being lower than anticipated in foreign regions where taxes are levied at relatively lower statutory rates and/or higher than anticipated in the United States where taxes are levied at relatively higher statutory rates; (2) changes in the valuation of our deferred tax assets and liabilities; (3) tax effects of nondeductible compensation; (4) tax costs related to intercompany realignments; (5) differences between amounts included in our tax filings and the estimate of such amounts included in our tax expenses; (6) changes in accounting principles; or (7) changes in tax laws, regulations, administrative practices, principles or interpretations, including fundamental changes to the tax laws applicable to multinational corporations. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the IRS and are regularly subject to audit by other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

As further described in "Consolidated Results" above, on December 22, 2017, the U.S. Tax Reform Act was enacted. The U.S. Tax Reform Act, among other things, reduced the U.S. corporate income tax rate from 35% to 21% beginning in 2018 and implemented a modified territorial tax system that imposes a one-time tax on deemed repatriated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued SAB 118, which provides guidance on how to account for the effects of the U.S. Tax Reform Act under ASC 740. SAB 118 enables companies to record a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate, subject to adjustment during a measurement period of up to one year, until accounting is complete.

We continue to analyze the prospective effects of the U.S. Tax Reform Act, including new provisions impacting certain foreign income, such as GILTI, BEAT, and FDII, potential limitations on interest expense deductions, and changes to the provisions of Section 162(m) of the Internal Revenue Code, among other provisions of the U.S. Tax Reform Act. The Company has elected to account for the U.S. Tax Reform Act provisions related to GILTI as period costs if and when incurred pursuant to the FASB Staff Q&A guidance issued in January 2018.

Fair Value Estimates

The preparation of financial statements often requires us to determine the fair value of a particular item to fairly present in our consolidated financial statements. Without an independent market or another representative transaction, determining the fair value of a particular item requires us to make several assumptions that are inherently difficult to predict and can have a material impact on the conclusion of the appropriate accounting.

There are various valuation techniques used to estimate fair value. These include: (1) the market approach, where market transactions for identical or comparable assets or liabilities are used to determine the fair value; (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present amount; and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which require us to make various estimates including, but not limited to: (1) the potential future cash flows for the asset, liability or equity instrument being measured; (2) the timing of receipt or payment of those future cash flows; (3) the time value of money associated with the delayed receipt or payment of such cash flows; and (4) the inherent risk associated with the cash flows (that is, the risk premium). Determining these cash flow estimates is inherently difficult and subjective, and, if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively impacted. Furthermore, relatively small changes in many of these estimates can have a significant impact on the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired. While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to the assessments:

Business Combinations. Assets acquired and liabilities assumed in a business combination are recorded based on their estimated fair value. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various estimated useful lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount we recognize as goodwill, which is an asset that is not amortized. Often determining the fair value of these assets and liabilities assumed requires an assessment of the expected use of the asset, the expected cost to extinguish the liability or our expectations related to the timing and the successful completion of development of an acquired in-process technology. Such estimates are inherently difficult and subjective and can have a material impact on our financial statements.

Assessment of Impairment of Definite-lived Intangible and Other Long-lived Assets. We evaluate the recoverability of our identifiable amortizable intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances (referred to as a "triggering event") indicate a potential impairment exists. We consider certain events and circumstances in determining whether a triggering event has occurred that could indicate the carrying value of identifiable definite-lived intangible assets and other long-lived assets, may not be recoverable, including, but not limited to: (1) significant changes in performance relative to expected operating results; (2) significant changes in the use of the assets; (3) significant negative industry or economic trends; (4) a significant decline in our stock price for a sustained period of time; and (5) changes in our business strategy. If it is determined that a triggering event has occurred, we determine if an impairment exists based on an estimate of the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group. If the undiscounted cash flows are lower than the carrying values of the related asset group, an impairment exists and the impairment loss is measured as the amount by which the carrying amount of the group's assets exceeds the fair value of the asset group. We did not record an impairment charge to any of our definite-lived intangible assets as of December 31, 2017, 2016, and 2015.

Assessment of Impairment of Goodwill and Indefinite-lived Intangible Assets. We are required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and, if current events or circumstances require, on an interim basis. ASC Topic 350 provides companies an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value before performing a quantitative two-step approach to testing goodwill for impairment. We perform our impairment test for each reporting unit as part of our annual impairment test performed as of December 31. Our reporting units are determined based on the guidance within ASC Subtopic 350-20. The first step of the quantitative test measures for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to the individual assets and liabilities within each reporting unit.

To determine the fair values of the reporting units used in the first step, we use a discounted cash flow approach. Each step requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include long-term growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates based on our weighted average cost of capital, and future economic and market conditions. These estimates and assumptions must be made for each reporting unit evaluated for impairment. Our estimates for market growth, our market share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

In determining the fair value of our significant reporting units—namely Activision, Blizzard, and King—we assumed discount rates ranging from 8.5% to 11.5% and terminal growth rates of 0.0% to 4.0%, depending on the reporting unit and its specific characteristics and risk profiles. Based on our quantitative evaluation, we determined the estimated fair value of all of the reporting units exceeded their carrying values as of December 31, 2017. Changes in our assumptions underlying our estimates of fair value, which will be a function of our future financial performance and changes in economic conditions, could result in future impairment charges

We test our acquired trade names for possible impairment by using a discounted cash flow model to estimate fair value. At December 31, 2017 and 2016, we concluded that no impairment had occurred and that no impairment was reasonably likely to occur. In determining the fair value of these trade names, we assumed a discount rate of 8.5%, and royalty saving rates of approximately 1.5%. Changes in our assumptions underlying our estimates of fair value, which will be a function of our future financial performance and changes in economic conditions, could result in future impairment charges.

Share-Based Payments

We account for share-based payments in accordance with ASC Subtopic 718-10 and ASC Subtopic 505-50. Share-based compensation expense for a given grant is recognized over the requisite service period (that is, the period for which the employee is being compensated) and is based on the value of share-based payment awards after a reduction for estimated forfeitures. Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We generally estimate the value of stock options using a binomial-lattice model. This estimate is affected by our stock price, as well as assumptions regarding a number of highly complex and subjective variables, including our expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors.

We generally determine the fair value of restricted stock units based on the closing market price of the Company's common stock on the date of grant, reduced by the present value of the estimated future dividends during the vesting period in which the restricted stock units holder will not participate. Certain restricted stock units granted to our employees and senior management vest based on the achievement of pre-established performance or market conditions. For performance-based restricted stock units, each quarter we update our assessment of the probability that the specified performance criteria will be achieved. We amortize the fair values of performance-based restricted stock units over the requisite service period, adjusting for estimated forfeitures for each separately vesting tranche of the award. For market-based restricted stock units, we estimate the fair value at the date of grant using a Monte Carlo valuation methodology and amortize those fair values over the requisite service period, adjusting for estimated forfeitures for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based restricted stock units at the date of grant incorporates into the valuation the possibility that the market condition may not be satisfied. Provided that the requisite service is rendered, the total fair value of the market-based restricted stock units at the date of grant must be recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria.

For a detailed discussion of the application of these and other accounting policies, see Note 2 of the notes to consolidated financial statements included in this Annual Report.

Recently Issued Accounting Pronouncements

Below are the recently issued accounting pronouncements that were most significant to our accounting policy activities for fiscal 2017. For a detailed discussion of recently issued accounting pronouncements, see Note 21 of the notes to consolidated financial statements included in this Annual Report.

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 in exchange for those goods or services. This guidance is effective for us beginning with the first quarter of 2018. We are adopting the accounting standard using the modified retrospective method, which recognizes the cumulative effect upon adoption as an adjustment to retained earnings at the adoption date. We will report our adoption in our Form 10-Q for the first quarter of 2018.

The most significant impacts of the new revenue recognition standard are expected to be:

- *The accounting for our sales of our games with significant online functionality for which we do not have 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 service period. We expect this difference to primarily impact revenues from our Call of Duty franchise, where we expect that approximately 20% of the sales price will be recognized as revenue upon delivery of the games to our customers. Many of our other franchises, such as Destiny, Overwatch, World of Warcraft, and Candy Crush, are online hosted arrangements, and we do not expect any significant impact on the accounting for our sales of these games; and

- *The accounting for certain of our software licensing arrangements.* While the impacts of the new standard may differ on a contract-by-contract basis (the actual revenue recognition treatment required under the standard will depend on contract-specific terms), we generally expect earlier revenue recognition for these arrangements under the new revenue standard.

We estimate that the cumulative effect of adopting this standard will result in an adjustment to retained earnings at the adoption date of approximately $60 million to $100 million, inclusive of the associated tax impacts. Additionally, we expect that the new disclosure requirements will require us to design and implement additional internal controls over financial reporting, and we are in process of adjusting our processes and internal controls in preparation for adopting the new standard.

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, with certain transition practical expedients available to provide relief in adopting the new standard. 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 but we do expect to elect and apply the available transition practical expedients upon adoption.

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 will be a significant impact to the 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 will 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.

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 value of 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.

For a detailed discussion of our accounting policies for our foreign currency forward contracts, see Note 2 of the notes to consolidated financial statements included in this Annual Report.

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

At December 31, 2017, the gross notional amount of outstanding Cash Flow Hedges was approximately $521 million. The fair value of these contracts, all of which have remaining maturities of 12 months or less, was $5 million of net unrealized losses. Additionally, at December 31, 2017, we had approximately $10 million of net realized but unrecognized losses 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.

During the years ended December 31, 2017 and 2016, there was no ineffectiveness relating to our Cash Flow Hedges. During the years ended December 31, 2017 and 2016, the amount of pre-tax net realized gains associated with these contracts that were reclassified out of “Accumulated other comprehensive loss” and into earnings was not material.

In the absence of hedging activities for the year ended December 31, 2017, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines of our net income of approximately $134 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in such manner and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt under our credit agreement. We do not currently use derivative financial instruments to manage interest rate risk. As of December 31, 2017 and 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 11 of the notes to consolidated financial statements included in this Annual Report for disclosures regarding terms and 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 December 31, 2017, our $4.7 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 December 31, 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.

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 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 SEC's rules and forms, and (2) accumulated and communicated to our 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 December 31, 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 December 31, 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 (1) recorded, processed, summarized, and reported on a timely basis, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of December 31, 2017, of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

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

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report.

Changes in Internal Control Over Financial Reporting.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Activision Blizzard, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Activision Blizzard, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes. We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for income taxes related to share-based payments in 2016.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 42 of this Annual Report to Shareholders. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

PricewaterhouseCoopers LLP

Los Angeles, California
February 27, 2018

We have served as the Company's auditor since 2008.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

	At December 31, 2017	At December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$4,713	$3,245
Accounts receivable, net of allowances of $279 and $261, at December 31, 2017 and December 31, 2016, respectively	918	732
Inventories, net	46	49
Software development	367	412
Other current assets	476	392
Total current assets	6,520	4,830
Software development	86	54
Property and equipment, net	294	258
Deferred income taxes, net	459	283
Other assets	440	401
Intangible assets, net	1,106	1,858
Goodwill	9,763	9,768
Total assets	$18,668	$17,452
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$323	$222
Deferred revenues	1,929	1,628
Accrued expenses and other liabilities	1,411	806
Total current liabilities	3,663	2,656
Long-term debt, net	4,390	4,887
Deferred income taxes, net	21	44
Other liabilities	1,132	746
Total liabilities	9,206	8,333
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,186,181,666 and 1,174,163,069 shares issued at December 31, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	10,747	10,442
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2017 and December 31, 2016	(5,563)	(5,563)
Retained earnings	4,916	4,869
Accumulated other comprehensive loss	(638)	(629)
Total shareholders' equity	9,462	9,119
Total liabilities and shareholders' equity	$18,668	$17,452

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share data)

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Net revenues			
Product sales	$2,110	$2,196	$2,447
Subscription, licensing, and other revenues	4,907	4,412	2,217
Total net revenues	7,017	6,608	4,664
Costs and expenses			
Cost of revenues—product sales:			
Product costs	733	741	872
Software royalties, amortization, and intellectual property licenses	300	331	370
Cost of revenues—subscription, licensing, and other revenues:			
Game operations and distribution costs	984	851	274
Software royalties, amortization, and intellectual property licenses	484	471	69
Product development	1,069	958	646
Sales and marketing	1,378	1,210	734
General and administrative	760	634	380
Total costs and expenses	5,708	5,196	3,345
Operating income	1,309	1,412	1,319
Interest and other expense (income), net	146	214	198
Loss on extinguishment of debt	12	92	—
Income before income tax expense	1,151	1,106	1,121
Income tax expense	878	140	229
Net income	$273	$966	$892
Earnings per common share			
Basic	$0.36	$1.30	$1.21
Diluted	$0.36	$1.28	$1.19
Weighted-average number of shares outstanding			
Basic	754	740	728
Diluted	766	754	739
Dividends per common share	$0.30	$0.26	$0.23

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Net income	$273	$966	$892
Other comprehensive income (loss):			
Foreign currency translation adjustments	36	(29)	(326)
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	(44)	33	(4)
Unrealized gains (losses) on investments, net of tax	(1)	—	—
Total other comprehensive income (loss)	$(9)	$4	$(330)
Comprehensive income	$264	$970	$562

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2017, 2016, and 2015
(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				
Balance at December 31, 2014	**1,151**	**$—**	**(429)**	**$(5,762)**	**$9,924**	**$3,374**	**$(303)**	**$7,233**
Components of comprehensive income:								
Net income	—	—	—	—	—	892	—	892
Other comprehensive income (loss)	—	—	—	—	—	—	(330)	(330)
Issuance of common stock pursuant to employee stock options	8	—	—	—	106	—	—	106
Issuance of common stock pursuant to restricted stock units	7	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(3)	—	—	—	(83)	—	—	(83)
Tax benefit associated with employee stock awards	—	—	—	—	65	—	—	65
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	95	—	—	95
Dividends ($0.23 per common share)	—	—	—	—	—	(170)	—	(170)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 15)	—	—	—	58	—	—	—	58
Shareholder settlement in connection with the Purchase Transaction (see Note 19)	—	—	—	67	135	—	—	202
Balance at December 31, 2015	**1,163**	**$—**	**(429)**	**$(5,637)**	**$10,242**	**$4,096**	**$(633)**	**$8,068**
Components of comprehensive income:								
Net income	—	—	—	—	—	966	—	966
Other comprehensive income (loss)	—	—	—	—	—	—	4	4
Issuance of common stock pursuant to employee stock options	7	—	—	—	105	—	—	105
Issuance of common stock pursuant to restricted stock units	7	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(3)	—	—	—	(116)	—	—	(116)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	135	—	—	135
Share-based compensation assumed in acquisition (see Note 20)					76			76
Dividends ($0.26 per common share)	—	—	—	—	—	(193)	—	(193)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 15)	—	—	—	74	—	—	—	74
Balance at December 31, 2016	**1,174**	**$—**	**(429)**	**$(5,563)**	**$10,442**	**$4,869**	**$(629)**	**$9,119**
Components of comprehensive income:								
Net income	—	—	—	—	—	273	—	273
Other comprehensive income (loss)	—	—	—	—	—	—	(9)	(9)
Issuance of common stock pursuant to employee stock options	11	—	—	—	178	—	—	178
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(54)	—	—	(54)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	181	—	—	181
Dividends ($0.30 per common share)	—	—	—	—	—	(226)	—	(226)
Balance at December 31, 2017	**1,186**	**$—**	**(429)**	**$(5,563)**	**$10,747**	**$4,916**	**$(638)**	**$9,462**

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income	$273	$966	$892
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(181)	(9)	(27)
Provision for inventories	33	42	43
Depreciation and amortization	888	829	95
Amortization of capitalized software development costs and intellectual property licenses(1)	311	321	399
Premium payment for early redemption of note	—	63	—
Amortization of debt discount, financing costs, and non-cash write-off due to extinguishment of debts	24	50	7
Share-based compensation expense(2)	176	147	92
Other	28	4	—
Changes in operating assets and liabilities, net of effect from business acquisitions:			
Accounts receivable, net	(165)	84	(40)
Inventories	(26)	32	(54)
Software development and intellectual property licenses	(301)	(362)	(350)
Other assets	(97)	(10)	21
Deferred revenues	220	(35)	(27)
Accounts payable	85	(50)	(25)
Accrued expenses and other liabilities	945	83	233
Net cash provided by operating activities	2,213	2,155	1,259
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	80	—	145
Purchases of available-for-sale investments	(135)	—	(145)
Acquisition of business, net of cash acquired (see Note 20)	—	(4,588)	(46)
Release (deposit) of cash in escrow	—	3,561	(3,561)
Capital expenditures	(155)	(136)	(111)
Other investing activities	13	(14)	2
Net cash used in investing activities	(197)	(1,177)	(3,716)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	178	106	106
Tax payment related to net share settlements on restricted stock units	(56)	(115)	(83)
Dividends paid	(226)	(195)	(170)
Proceeds from debt issuances, net of discounts	3,741	6,878	—
Repayment of long-term debt	(4,251)	(6,104)	(250)
Premium payment for early redemption of note	—	(63)	—
Proceeds received from shareholder settlement (see Note 19)	—	—	202
Other financing activities	(10)	(7)	(7)
Net cash (used in) provided by financing activities	(624)	500	(202)
Effect of foreign exchange rate changes on cash and cash equivalents	76	(56)	(366)
Net increase (decrease) in cash and cash equivalents	1,468	1,422	(3,025)
Cash and cash equivalents at beginning of period	3,245	1,823	4,848
Cash and cash equivalents at end of period	$4,713	$3,245	$1,823

(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 Consolidated Financial Statements.

1. Description of Business

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services on video game consoles, personal computers ("PC"), and mobile devices. We also operate esports events and leagues and create film and television content based on our games. 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. In connection with the 2008 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, we were 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 20. Our 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 is 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 other Activision Blizzard esports content.

Based upon our organizational structure, we conduct our business through three reportable operating 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 for the console platform. Activision primarily delivers content through retail and digital channels, including full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision develops, markets, and sells products 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, and Destiny, an online universe of first-person action gameplay (which we call a "shared-world shooter") for the console and PC platforms.

(ii) Blizzard Entertainment, Inc.

Blizzard is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net®, which facilitates digital distribution of Blizzard content, along with Activision's *Destiny 2* PC content, online social connectivity, and the creation of user-generated content. As noted above, Blizzard also includes the activities of our MLG business, which is 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 other Activision Blizzard esports content.

Blizzard's key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing game for PC; StarCraft®, a real-time strategy PC franchise; Diablo®, an action role-playing franchise for the PC and console platforms;

Hearthstone®, an online collectible card franchise for the PC and mobile platforms; Heroes of the Storm®, a free-to-play team brawler for PC; and Overwatch®, a team-based first-person shooter for the PC and console platforms.

(iii) King Digital Entertainment

King Digital Entertainment ("King") is a leading global developer and publisher of interactive entertainment content and services, particularly on mobile platforms, such as Google Inc.'s ("Google") Android and Apple Inc.'s ("Apple") iOS. King also distributes its content and services on the PC platform, primarily via Facebook, Inc. ("Facebook"). King's games are free to play, however, players can acquire in-game items, either with virtual currency the players purchase or directly using real currency.

King's key product franchises, all of which are for the mobile and PC platforms, include: Candy Crush™, which features "match three" games; Farm Heroes™, which also features "match three" games; and Bubble Witch™, 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 2017, released the second 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.

2. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

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.

Cash and Cash Equivalents

We consider all money market funds and highly liquid investments with original maturities of three months or less at the time of purchase to be "Cash and cash equivalents."

Investment Securities

Investments designated as available-for-sale securities are carried at fair value, which is based on quoted market prices for such securities, if available, or is estimated on the basis of quoted market prices of financial instruments with similar characteristics. Unrealized gains and losses of the Company's available-for-sale securities are excluded from earnings and are reported as a component of "Other comprehensive income (loss)."

Investments with original maturities greater than 90 days and remaining maturities of less than one year are normally classified within "Other current assets." In addition, investments with maturities beyond one year may be classified within "Other current assets" if they are highly liquid in nature and represent the investment of cash that is available for current operations.

The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in "Interest and other expense (income), net" in our consolidated statements of operations.

Cash in Escrow

As part of the King Acquisition, we were required to deposit $3.56 billion in cash to be held in an escrow account until the earlier of (1) the completion of the King Acquisition, or (2) the termination of the transaction agreement. The cash was not accessible to the Company for operating cash needs as its use had been administratively restricted for use in the consummation of the King Acquisition.

Financial Instruments

The carrying amounts of "Cash and cash equivalents," "Accounts receivable, net of allowances," "Accounts payable," and "Accrued expenses and other liabilities" approximate fair value due to the short-term nature of these accounts. Our investments in U.S. treasuries, government agency securities, and corporate bonds, if any, are carried at fair value, which is based on quoted market prices for such securities, if available, or is estimated on the basis of quoted market prices of financial instruments with similar characteristics.

The Company transacts business in various foreign currencies and has significant international sales and expenses denominated in foreign currencies, subjecting us to foreign currency risk. 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.

We assess the nature of these derivatives under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815 to determine whether such derivatives should be designated as hedging instruments. The fair value of foreign currency contracts are estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period. We report the fair value of these contracts within "Other current assets," "Accrued expense and other liabilities," "Other assets," or "Other liabilities," as applicable, in our consolidated balance sheets based on the prevailing exchange rates of the various hedged currencies as of the end of the relevant period.

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

For foreign currency forward contracts which are not designated as hedging instruments under ASC 815, changes in the estimated fair value of these derivatives are recorded within "General and administrative expenses" and "Interest and other expense, net" in our consolidated statements of operations, consistent with the nature of the underlying transactions.

For foreign currency forward contracts which have been designated as cash flow hedges in accordance with ASC 815, we assess the effectiveness of these cash flow hedges at inception and on an ongoing basis and determine if the hedges are effective at providing offsetting changes in cash flows of the hedged items. The Company records the effective portion of changes in the estimated fair value of these derivatives in "Accumulated other comprehensive loss" and subsequently reclassifies the related amount of accumulated other comprehensive income (loss) to earnings within "General and administrative" or "Net revenues" when the hedged item impacts earnings, consistent with the nature and timing of the underlying transactions. Cash flows from these foreign currency forward contracts are classified in the same category as the cash flows associated with the hedged item in the consolidated statements of cash flows. We measure hedge ineffectiveness, if any, and if it is determined that a derivative has ceased to be a highly effective hedge, the Company will discontinue hedge accounting for the derivative.

Concentration of Credit Risk

Our concentration of credit risk relates to depositors holding the Company's cash and cash equivalents and customers with significant accounts receivable balances.

Our cash and cash equivalents are invested primarily in money market funds consisting of short-term, high-quality debt instruments issued by governments and governmental organizations, financial institutions and industrial companies.

Our customer base includes retailers and distributors, including mass-market retailers, first party digital storefronts, consumer electronics stores, discount warehouses, and game specialty stores in the U.S. and other countries worldwide. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers.

For the year ended December 31, 2017, we had three customers—Apple, Sony Interactive Entertainment, Inc. ("Sony"), and Google—who accounted for 16%, 14%, and 10%, respectively, of net revenues. For the year ended December 31, 2016, we had two customers—Sony and Apple—who each accounted for 13% of net revenues. For the year ended December 31, 2015, we had two customers—Sony and Microsoft Corporation ("Microsoft")—who accounted for 12% and 10%, respectively, of net revenues.

We had three customers—Sony, Microsoft, and Apple—who accounted for 17%, 14%, and 10%, respectively, of consolidated gross receivables at December 31, 2017. We had three customers—Sony, Microsoft, and Wal-Mart Stores, Inc.—who accounted for 17%, 10%, and 10%, respectively, of consolidated gross receivables at December 31, 2016.

Software Development Costs and Intellectual Property Licenses

Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products. Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product requires both technical design documentation and game design documentation, or the completed and tested product design and a working model. Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established and the evaluation is performed on a product-by-product basis. For products where proven technology exists, this may occur early in the development cycle. Software development costs related to online hosted revenue arrangements are capitalized after the preliminary project phase is complete and it is probable that the project will be completed and the software will be used to perform the function intended. Prior to a product's release, if and when we believe capitalized costs are not recoverable, we expense the amounts as part of "Cost of revenues—software royalties, amortization, and intellectual property licenses." Capitalized costs for products that are canceled or are expected to be abandoned are charged to "Product development" in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to "Product development."

Commencing upon a product's release, capitalized software development costs are amortized to "Cost of revenues—software royalties, amortization, and intellectual property licenses" based on the ratio of current revenues to total projected revenues for the specific product, generally resulting in an amortization period of six months to approximately two years.

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology, music or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the right to use the intellectual property in multiple products over a number of years, or alternatively, for a single product. Prior to a product's release, if and when we believe capitalized costs are not recoverable, we expense the amounts as part of "Cost of revenues—software royalties, amortization, and intellectual property licenses." Capitalized intellectual property costs for products that are canceled or are expected to be abandoned are charged to "Product development" in the period of cancellation.

Commencing upon a product's release, capitalized intellectual property license costs are amortized to "Cost of revenues—software royalties, amortization, and intellectual property licenses" based on the ratio of current revenues for the specific product to total projected revenues for all products in which the licensed property will be utilized. As intellectual property license contracts may extend for multiple years and can be used in multiple products to be released over a period beyond one year, the amortization of capitalized intellectual property license costs relating to such contracts may extend beyond one year.

We evaluate the future recoverability of capitalized software development costs and intellectual property licenses on a quarterly basis. For products that have been released in prior periods, the primary evaluation criterion is the actual performance of the title to which the costs relate. For products that are scheduled to be released in future periods, recoverability is evaluated based on the expected performance of the specific products to which the costs relate or in which the licensed trademark or copyright is to be used. Criteria used to evaluate expected product performance include: historical performance of comparable products developed with comparable technology; market performance of comparable titles; orders for the product prior to its release; general market conditions; and, for any sequel product, estimated performance based on the performance of the product on which the sequel is based. Further, as many of our capitalized intellectual property licenses extend for multiple products over multiple years, we also assess the recoverability of capitalized intellectual property license costs based on certain qualitative factors, such as the success of other products and/or entertainment vehicles utilizing the intellectual property, whether there are any future planned theatrical releases or television series based on the intellectual property, and the rights holder's continued promotion and exploitation of the intellectual property.

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if matters resolve in a manner that is inconsistent with management's expectations.

Inventories

Inventories consist of materials (including manufacturing royalties paid to console manufacturers), labor, and freight-in and are stated at the lower of cost (weighted-average method) or net realizable value. Inventories are relieved on a weighted-average cost method.

Allowance for Inventory Obsolescence

We regularly review inventory quantities on-hand and in the retail channels. We write down inventory based on excess or obsolete inventories determined primarily by future anticipated demand for our products. Inventory write-downs are measured as the difference between the cost of the inventory and net realizable value, based upon assumptions about future demand, which are inherently difficult to assess and dependent on market conditions. At the point of a loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established basis.

Long-Lived Assets

Property and Equipment. Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life (i.e., 25 to 33 years for buildings, and 2 to 5 years for computer equipment, office furniture and other equipment) of the asset. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed and any resulting gains or losses are included in the consolidated statements of operations. Leasehold improvements are amortized using the straight-line method over the estimated life of the asset, not to exceed the length of the lease. Repair and maintenance costs are expensed as incurred.

Goodwill and Other Indefinite-Lived Assets. We account for goodwill in accordance with ASC Topic 350. Under ASC Topic 350, goodwill is considered to have an indefinite life, and is carried at cost. Acquired trade names are assessed as indefinite lived assets if there is no foreseeable limits on the periods of time over which they are expected to contribute cash flows. Goodwill and indefinite-lived assets are not amortized, but are subject to an annual impairment test, as well as between annual tests when events or circumstances indicate that the carrying value may not be recoverable. We perform our annual impairment testing at December 31.

Our annual goodwill impairment test is performed at the reporting unit level. We have determined our reporting units based on the guidance within ASC Subtopic 350-20. As of December 31, 2017 and 2016, our reporting units are the same as our operating segments. We test goodwill for possible impairment by first determining the fair value of the related reporting unit and comparing this value to the recorded net assets of the reporting unit, including goodwill. The fair value of our reporting units is determined using an income approach based on discounted cash flow models. In the event the recorded net assets of the reporting unit exceed the estimated fair value of such assets, we perform a second step to measure the amount of the impairment, which is equal to the amount by which the recorded goodwill exceeds the implied fair value of the goodwill after assessing the fair value of each of the assets and liabilities within the reporting unit. We have determined that no impairment has occurred at December 31, 2017, 2016 and 2015 based upon a set of assumptions regarding discounted future cash flows, which represent our best estimate of future performance at this time.

We test indefinite-lived acquired trade names for possible impairment by using a discounted cash flow model to estimate fair value. We have determined that no impairment has occurred at December 31, 2017, 2016 and 2015 based upon a set of assumptions regarding discounted future cash flows, which represent our best estimate of future performance at this time.

Changes in our assumptions underlying our estimates of fair value, which will be a function of our future financial performance and changes in economic conditions, could result in future impairment charges.

Amortizable Intangible and Other Long-lived Assets. Intangible assets subject to amortization are carried at cost less accumulated amortization, and amortized over the estimated useful life in proportion to the economic benefits received.

We evaluate the recoverability of our definite-lived intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. We considered certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. We did not record an impairment charge to our definite-lived intangible assets as of December 31, 2017, 2016, and 2015.

Revenue Recognition

We recognize revenues when there is persuasive evidence of an arrangement, the product or service has been provided to the customer, the collection of our fees is reasonably assured and the amount of fees to be paid by the customer is fixed or determinable. Certain products are sold to customers with a "street date" (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date or the date the product is sold to the customer. Revenues are recorded net of taxes assessed by governmental authorities that are both imposed on and concurrent with the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

Revenue Arrangements with Multiple Deliverables

Certain of our revenue arrangements have multiple deliverables, which we account for in accordance with ASC Topic 605. These revenue arrangements include product sales consisting of both software, service (such as ongoing hosting arrangements), and hardware deliverables (such as peripherals or other ancillary collectors' items sold together with physical "boxed" software).

When a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence ("VSOE") if it is available, third-party evidence ("TPE") if VSOE is not available, or best estimated selling price ("BESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Further, if the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We did not have significant revenue arrangements that required using BESP for the years ended December 31, 2017, 2016, and 2015. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for deliverables that the Company sells separately (which represents VSOE) and the wholesale prices of the same or similar products for deliverables not sold separately (which represents TPE).

Product Sales

Product sales consist of sales of our games, including physical products and digital full-game downloads. We recognize revenues from the sale of our products after both (1) title and risk of loss have been transferred to our customers and (2) all performance obligations have been completed. With respect to digital full-game downloads, this is when the product is available for download or is activated for gameplay. Revenues from product sales are recognized after deducting the estimated allowance for returns and price protection. Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the selling price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular ad, are reflected as sales and marketing expenses when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the benefit.

Products with Online Functionality or Online Hosted Arrangements

For our software products with online functionality or that are part of an online hosted arrangement, we evaluate whether that online functionality constitutes a more-than-inconsequential separate deliverable in addition to the software product. This evaluation is performed for each software product or product add-on (including downloadable content), when it is released. Determining whether the online functionality for a particular product constitutes a more-than-inconsequential deliverable is subjective and requires management's judgment. When we determine that the online functionality constitutes a more-than-inconsequential separate service deliverable in addition to the product, which is principally because of the online functionality's importance to gameplay, we consider our performance obligation for this title to extend beyond the sale of the game. In addition, VSOE of fair value does not exist for the online functionality of some products, as we do not separately charge for this component. As a result, we initially defer all of the software-related revenues from the sale of any such title (including downloadable content) and recognize the revenues ratably over the estimated service period. In addition, we initially defer the cost of revenues for the title and recognize the costs of sales as the related revenues are recognized. The cost of revenues that are initially deferred include product and distribution costs, software royalties and amortization, and intellectual property licenses and exclude intangible asset amortization.

For our software products with online functionality that we consider to be incidental to the overall product offering and are inconsequential deliverables, we recognize the related revenues when the revenue recognition criteria described above have been met.

For our *World of Warcraft* boxed products, expansion packs and value-added services, we recognize revenues in each case with the related subscription service revenues ratably over the estimated service period, beginning upon the activation of the software and delivery of the related services. Revenues attributed to the sale of *World of Warcraft* boxed software and related expansion packs are classified as “Product sales,” whereas revenues attributable to subscriptions and other value-added services are classified as “Subscription, licensing, and other revenues.”

Subscription Revenues

Subscription revenues are mostly derived from *World of Warcraft. World of Warcraft* is a game that is playable through Blizzard’s servers and is generally sold on a subscription-only basis.

For *World of Warcraft*, after the first month of free usage that is included with the *World of Warcraft* boxed software, the *World of Warcraft* end user may enter into a subscription agreement for additional future access. Revenues associated with the sales of subscriptions via boxed software and prepaid subscription cards, as well as prepaid subscriptions sales, are deferred until the subscription service is activated by the consumer and are then recognized ratably over the subscription period. Value-added service revenues associated with subscriptions are recognized ratably over the estimated service periods.

Licensing Revenues

In certain countries, we utilize third-party licensees to distribute and host our games in accordance with license agreements, for which the licensees pay the Company a royalty. We recognize these royalties as revenues based on usage by the end user and over the estimated service period when we have continuing service obligations. We recognize any upfront licensing fees received over the term of the agreements.

With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenues are generally recognized upon delivery of a master copy if all other performance obligations have been completed or over the estimated service period when we have continuing service obligations. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Other Revenues

Other revenues primarily include revenues from digital downloadable content (e.g., multi-player content packs), microtransactions and the licensing of intellectual property other than software to third-parties.

Microtransaction revenues are derived from the sale of virtual goods and currencies to our players to enhance their gameplay experience. Proceeds from the sales of virtual goods and currencies are initially recorded in deferred revenues. Proceeds from the sales of virtual currencies are recognized as revenues when a player uses the virtual goods purchased with the virtual currency. Proceeds from the sales of virtual goods directly are also recognized as revenues when a player uses the virtual goods. We categorize our virtual goods as either consumable or durable. Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, we recognize revenues from the sale of consumable virtual goods as the goods are consumed. Durable virtual goods represent goods that are accessible to the player over an extended period of time; accordingly, we recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player, which is generally the estimated service period.

Revenues from the licensing of intellectual property other than software to third-parties are recorded upon the receipt of licensee statements, or upon the receipt of cash, provided the license period has begun and all performance obligations have been completed.

Estimated Service Period

We determine the estimated service period for players of our games with consideration of various data points, including the weighted average number of days between players’ first and last days played online, the average total hours played, the average number of days in which player activity stabilizes, and the weighted-average number of days between players’ first purchase date and last date played online. We also consider known online trends, the service periods of our previously released games, and the service periods of our competitors’ games that are similar in nature to ours, to the extent they are publicly available. Determining the estimated service period is subjective and requires management’s judgment. Future usage patterns may differ from historical usage patterns and therefore the estimated service period may change in the future. The estimated service periods for players of our current games are generally less than 12 months.

Principal Agent Considerations

We evaluate sales of our products and content via third party digital storefronts, such as Microsoft's Xbox Games Store, Sony's PSN, the Apple App Store, and the Google Play Store, to determine whether revenues should be reported gross or net of fees retained by the storefront. Key indicators that we evaluate in determining gross versus net treatment include but are not limited to the following:

- the party responsible for delivery/fulfillment of the product or service to the consumer;
- the party responsible for consumer billing, fee collection, and refunds;
- the storefront and terms of sale that govern the consumer's purchase of the product or service; and
- the party that sets the pricing with the consumer and has credit risk.

Based on evaluation of the above indicators, we report revenues on a gross basis for sales arrangements via Apple App Store and Google Play Store, and we report revenues on a net basis (i.e. net of fees retained by the storefront) for sales arrangements via Microsoft's Xbox Games Store and Sony PSN.

Allowances for Returns, Price Protection, and Doubtful Accounts

We closely monitor and analyze the historical performance of our various titles, the performance of products released by other publishers, market conditions, and the anticipated timing of other releases to assess future demand of current and upcoming titles. Initial volumes shipped upon title launch and subsequent reorders are evaluated with the goal of ensuring that quantities are sufficient to meet the demand from the retail markets, but at the same time are controlled to prevent excess inventory in the channel. We benchmark units to be shipped to our customers using historical and industry data.

We may permit product returns from, or grant price protection to, our customers under certain conditions. In general, price protection refers to the circumstances in which we elect to decrease, on a short- or longer-term basis, the wholesale price of a product by a certain amount and, when granted and applicable, allow customers a credit against amounts owed by such customers to us with respect to open and/or future invoices. The conditions our customers must meet to be granted the right to return products or receive price protection credits include, among other things, compliance with applicable trading and payment terms and consistent return of inventory and delivery of sell-through reports to us. We may also consider other factors, including achievement of sell-through performance targets in certain instances, the facilitation of slow-moving inventory, and other market factors.

Significant management judgments and estimates with respect to potential future product returns and price protection related to current period product revenues must be made and used when establishing the allowance for returns and price protection in any accounting period. We estimate the amount of future returns and price protection for current period product revenues utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer. The following factors are used to estimate the amount of future returns and price protection for a particular title: historical performance of titles in similar genres; historical performance of the hardware platform; historical performance of the franchise; console hardware life cycle; sales force and retail customer feedback; industry pricing; future pricing assumptions; weeks of on-hand retail channel inventory; absolute quantity of on-hand retail channel inventory; our warehouse on-hand inventory levels; the title's recent sell-through history (if available); marketing trade programs; and the performance of competing titles. The relative importance of these factors varies among titles depending upon, among other things, genre, platform, seasonality, and sales strategy.

Based upon historical experience, we believe that our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons, including, among others: a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. There may be material differences in the amount and timing of our revenues for any period if factors or market conditions change or if matters resolve in a manner that is inconsistent with management's assumptions utilized in determining the allowances for returns and price protection.

Similarly, management must make estimates as to the collectability of our accounts receivable. In estimating the allowance for doubtful accounts, we analyze the age of current outstanding account balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends, and changes in our customers' payment terms and their economic condition, as well as whether we can obtain sufficient credit insurance. Any significant changes in any of these criteria would affect management's estimates in establishing our allowance for doubtful accounts.

Shipping and Handling

Shipping and handling costs, which consist primarily of packaging and transportation charges incurred to move finished goods to customers, are included in "Cost of revenues—product costs."

Cost of Revenues

Our cost of revenues consist of the following:

Cost of revenues—product sales:

(1) "Product costs"—includes the manufacturing costs of goods produced and sold. These generally include product costs, manufacturing royalties, net of volume discounts, personnel-related costs, warehousing, and distribution costs. We generally recognize volume discounts when they are earned (typically in connection with the achievement of unit-based milestones).

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to product sales revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to product sales revenues.

Cost of revenues—subscription, licensing, and other revenues:

(1) "Game operations and distribution costs"—includes costs to operate our games, such as customer service, internet bandwidth and server costs, platform provider fee, and payment provider fees.

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to subscription, licensing and other revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to subscription, licensing and other revenues.

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising, which are deferred and charged to expense when the related advertisement is run for the first time. Advertising expenses for the years ended December 31, 2017, 2016, and 2015 were $708 million, $641 million, and $523 million, respectively, and are included in "Sales and marketing" in the consolidated statements of operations.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC Topic 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate deferred tax assets each period for recoverability. For those assets that do not meet the threshold of "more likely than not" that they will be realized in the future, a valuation allowance is recorded.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in "Income tax expense."

On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the "U.S. Tax Reform Act") was enacted in the United States. The U.S. Tax Reform Act, among other things, reduced the U.S. corporate income tax rate from 35% to 21% beginning in 2018 and implemented a modified territorial tax system that imposes a one-time tax on deemed repatriated earnings of foreign subsidiaries ("Transition Tax").

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on how to account for the effects of the U.S. Tax Reform Act under ASC 740. SAB 118 enables companies to record a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate, subject to adjustment during a measurement period of up to one year, until accounting is complete.

We continue to analyze the prospective effects of the U.S. Tax Reform Act, including new provisions impacting certain foreign income, such as global intangible low-taxed income ("GILTI") of foreign subsidiaries, base erosion anti-abuse tax ("BEAT"), and foreign-derived intangible income ("FDII"), potential limitations on interest expense deductions, and changes to the provisions of Section 162(m) of the Internal Revenue Code, among other provisions of the U.S. Tax Reform Act. The Company has elected to account for the U.S. Tax Reform Act provisions related to GILTI as period costs if and when incurred pursuant to the FASB Staff Q&A guidance issued in January 2018.

In March 2016, the FASB issued new guidance to simplify accounting for share-based payments. The new standard, amongst other things:

- requires that all excess tax benefits and tax deficiencies be recorded as an income tax expense or benefit in the consolidated statement of operations and that the tax effects of exercised or vested awards be treated as discrete items in the reporting period in which they occur;
- requires excess tax benefits from share-based payments to be reported as operating activities on the statement of cash flows; and
- permits an accounting policy election to either estimate the number of awards that are expected to vest using an estimated forfeiture rate, as currently required, or account for forfeitures when they occur.

We elected to early adopt this new standard in the third quarter of 2016, which required us to reflect any adjustments as of January 1, 2016. As part of the adoption, we made certain elections, including the following:

- to apply the presentation requirements for our consolidated statement of cash flows related to excess tax benefits retrospectively to all periods presented; and
- to continue to estimate the number of awards that are expected to vest using an estimated forfeiture rate.

As a result of the adoption, we recognized excess tax benefits of $113 million and $81 million as a reduction to income tax expense in our consolidated statement of operations for the years ended December 31, 2017 and 2016, respectively. For periods prior to 2016, such excess tax benefits were recorded to shareholders equity.

Foreign Currency Translation

All assets and liabilities of our foreign subsidiaries who have a functional currency other than U.S. dollars are translated into U.S. dollars at the exchange rate in effect at the balance sheet date, and revenue and expenses are translated at average exchange rates during the period. The resulting translation adjustments are reflected as a component of "Accumulated other comprehensive loss" in shareholders' equity.

Earnings (Loss) Per Common Share

"Basic (loss) earnings per common share" is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the periods presented. "Diluted earnings (loss) per common share" is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding, increased by the weighted-average number of common stock equivalents. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of our outstanding options. However, potential common shares are not included in the denominator of the diluted earnings (loss) per common share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

When we determine whether instruments granted in share-based payment transactions are participating securities, unvested share-based awards which include the right to receive non-forfeitable dividends or dividend equivalents are considered to participate with common stock in undistributed earnings. With participating securities, we are required to calculate basic and diluted earnings (loss) per common share amounts under the two-class method. The two-class method excludes from the earnings (loss) per common share calculation any dividends paid or owed to participating securities and any undistributed earnings considered to be attributable to participating securities.

Share-Based Payments

We account for share-based payments in accordance with ASC Subtopic 718-10 and ASC Subtopic 505-50. Share-based compensation expense for a given grant is recognized over the requisite service period (that is, the period for which the employee is being compensated) and is based on the value of share-based payment awards after a reduction for estimated forfeitures. Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We generally estimate the value of stock options using a binomial-lattice model. This estimate is affected by our stock price, as well as assumptions regarding a number of highly complex and subjective variables, including our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

We generally determine the fair value of restricted stock units based on the closing market price of the Company's common stock on the date of grant, reduced by the present value of the estimated future dividends during the vesting period in which the restricted stock units holder will not participate. Certain restricted stock units granted to our employees and senior management vest based on the achievement of pre-established performance or market conditions. For performance-based restricted stock units, each quarter we update our assessment of the probability that the specified performance criteria will be achieved. We amortize the fair values of performance-based restricted stock units over the requisite service period, adjusting for estimated forfeitures for each separately vesting tranche of the award. For market-based restricted stock units, we estimate the fair value at the date of grant using a Monte Carlo valuation methodology and amortize those fair values over the requisite service period, adjusting for estimated forfeitures for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based restricted stock units at the date of grant incorporates into the valuation the possibility that the market condition may not be satisfied. Provided that the requisite service is rendered, the total fair value of the market-based restricted stock units at the date of grant must be recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria.

For share-based compensation grants that are liability classified, we update our grant date valuation at each reporting period and recognize a cumulative catch-up adjustment for changes in the value related to the requisite service already rendered.

Loss Contingencies

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

3. Cash and Cash Equivalents

The following table summarizes the components of our cash and cash equivalents (amounts in millions):

	At December 31,	
	2017	**2016**
Cash	$269	$286
Foreign government treasury bills	39	38
Money market funds	4,405	2,921
Cash and cash equivalents	$4,713	$3,245

4. Inventories, Net

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

	At December 31,	
	2017	2016
Finished goods	$45	$40
Purchased parts and components	1	9
Inventories, net	$46	$49

At December 31, 2017 and 2016, inventory reserves were $36 million and $45 million, respectively.

5. Software Development and Intellectual Property Licenses

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

	At December 31,	
	2017	2016
Internally-developed software costs	$270	$277
Payments made to third-party software developers	183	189
Total software development costs	$453	$466

As of December 31, 2017 and December 31, 2016, capitalized intellectual property licenses were not material.

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

	For the Years Ended December 31,		
	2017	2016	2015
Amortization of capitalized software development costs and intellectual property licenses	$314	$335	$410

Write-offs and impairments of capitalized software development costs and intellectual property licenses were not material for the years ended December 31, 2017, 2016, and 2015.

6. Property and Equipment, Net

Property and equipment, net was comprised of the following (amounts in millions):

	At December 31,	
	2017	2016
Land	$1	$1
Buildings	4	4
Leasehold improvements	224	162
Computer equipment	658	560
Office furniture and other equipment	92	78
Total cost of property and equipment	979	805
Less accumulated depreciation	(685)	(547)
Property and equipment, net	$294	$258

Depreciation expense for the years ended December 31, 2017, 2016, and 2015 was $130 million, $121 million, and $82 million, respectively.

Rental expense was $71 million, $65 million and $39 million for the years ended December 31, 2017, 2016, and 2015, respectively.

7. Intangible Assets, Net

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

	At December 31, 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	$(869)	$285
Developed software	2 - 5 years	601	(301)	300
Customer base	2 years	617	(573)	44
Trade names	7 - 10 years	54	(16)	38
Other	1 - 15 years	19	(13)	6
Total definite-lived intangible assets		$2,445	$(1,772)	$673
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$433
Total intangible assets, net				$1,106

	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	2 - 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
Total definite-lived intangible assets		$2,438	$(1,013)	$1,425
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$433
Total intangible assets, net				$1,858

Amortization expense of intangible assets was $759 million, $708 million, and $13 million for the years ended December 31, 2017, 2016, and 2015, respectively.

At December 31, 2017, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2018	$369
2019	209
2020	72
2021	12
2022	7
Thereafter	4
Total	$673

We did not record any impairment charges against our intangible assets for the years ended December 31, 2017, 2016, and 2015.

8. Goodwill

The changes in the carrying amount of goodwill by operating segment are as follows (amounts in millions):

	Activision	Blizzard(1)	King	Total
Balance at December 31, 2015	$6,905	$190	$—	$7,095
Additions through acquisition	—	—	2,675	2,675
Other	(2)	—	—	(2)
Balance at December 31, 2016	$6,903	$190	$2,675	$9,768
Other	(5)	—	—	(5)
Balance at December 31, 2017	$6,898	$190	$2,675	$9,763

(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.

For 2016, the addition to goodwill through acquisition is attributed to the King Acquisition (see Note 20). At December 31, 2017, 2016, and 2015, there were no accumulated impairment losses.

9. Other Assets and Liabilities

Included in "Accrued expenses and other liabilities" of our consolidated balance sheets are accrued payroll-related costs of $441 million and $393 million at December 31, 2017 and 2016, respectively.

Included in "Other liabilities" of our consolidated balance sheets are income tax payable of $473 million and $49 million at December 31, 2017 and 2016, respectively.

10. Fair Value Measurements

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, generally including money market funds, treasury bills, available-for-sale and derivative financial instruments, and other investments (amounts in millions):

		Fair Value Measurements at December 31, 2017 Using			
	As of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$4,405	$4,405	$—	$—	Cash and cash equivalents
Foreign government treasury bills	39	39	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	55	55	—	—	Other current assets
Total recurring fair value measurements	$4,499	$4,499	$—	$—	
Financial Liabilities:					
Foreign currency forward contracts designated as hedges	$(5)	$—	$(5)	$—	Accrued expenses and other liabilities

		Fair Value Measurements at December 31, 2016 Using			
	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)	Balance Sheet Classification
Financial Assets:					
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	9	—	—	9	Other assets
Total recurring fair value measurements	$2,990	$2,959	$22	$9	

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts Designated as Hedges ("Cash Flow Hedges")

At December 31, 2017, the gross notional amount of outstanding Cash Flow Hedges was approximately $521 million. The fair value of these contracts, all of which have remaining maturities of 12 months or less, was $5 million of net unrealized losses. Additionally, at December 31, 2017, we had approximately $10 million of net realized but unrecognized losses 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.

During the years ended December 31, 2017 and 2016, there was no ineffectiveness relating to our Cash Flow Hedges. During the years ended December 31, 2017 and 2016, 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 years ended December 31, 2017, 2016, and 2015, there were no impairment charges related to assets that are measured on a non-recurring basis.

11. 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: (1) 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 (2) 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 2017 TLA will mature on August 23, 2021.

Borrowings under the 2017 TLA and the Revolver will bear interest, at the Company's option, at either (1) a base rate equal to the highest of (i) the federal funds rate, plus 0.5%, (ii) the prime commercial lending rate of Bank of America, N.A. and (iii) the London Interbank Offered Rate ("LIBOR") for an interest period of one month beginning on such day plus 1.00%, or (2) LIBOR, in each case, plus an applicable interest margin. LIBOR will be subject to a floor of 0% and the base rate will be subject to an effective floor of 1.00%. The applicable interest margin for borrowings under the 2017 TLA and Revolver will range from 1.125% to 2.00% for LIBOR borrowings and from 0.125% to 1.00% for base rate borrowings and will be determined by reference to a pricing grid based on the Company's credit ratings. At December 31, 2017, the 2017 TLA bore interest at 2.73%.

Borrowings under the Revolver may be borrowed, repaid, and re-borrowed by the Company, and are available for working capital and other general corporate purposes. Up to $50 million of the Revolver may be used for letters of credit. To date, we have not drawn on the Revolver.

During the year ended December 31, 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 "Loss on extinguishment of debt" in the 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. As a result of these prepayments, at December 31, 2017, the outstanding balance of our 2017 TLA was $990 million.

The Company is subject to a financial covenant requiring the Company's Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) not to exceed 3.50:1.00. The Credit Agreement contains other covenants that are customary for issuers with similar credit ratings. A violation of any of these covenants could result in an event of default under the Credit Agreement. Upon the occurrence of an event of default, payment of any outstanding amounts under the Credit Agreement may be accelerated, and the lenders' commitments to extend credit under the Credit Agreement may be terminated. In addition, an event of default under the Credit Agreement could, under certain circumstances, permit the holders of other outstanding unsecured debt, including the debt holders described below, to accelerate the repayment of such obligations. The Company was in compliance with the terms of the Credit Facilities as of December 31, 2017.

On February 1, 2018, our Board of Directors authorized repayments of up to $1.8 billion of the company's outstanding debt during 2018. As of the date hereof, we have not made any additional repayments on our outstanding debt and the determination as to if and when we make any such repayment will be dependent on market conditions and other factors.

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"), respectively.

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 December 31, 2017.

We may redeem the 2023 Notes on or after September 15, 2018, in whole or in part on any one or more occasions, at specified redemption prices, plus accrued and unpaid interest. In addition, we may redeem some or all of the 2023 Notes prior to September 15, 2018, at a price equal to 100% of the aggregate principal amount thereof plus a "make-whole premium" and accrued and unpaid interest. Further, upon the occurrence of one or more qualified equity offerings, we may also redeem up to 35% of the aggregate principal amount of the 2023 Notes outstanding with the net cash proceeds from such offerings.

We may redeem some or all of the 2021 Notes, the 2022 Notes, the 2026 Notes, the 2027 Notes, and the 2047 Notes prior to August 15, 2021, May 15, 2022, June 15, 2026, 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. Any redemption of all or a portion of the applicable class of note after the applicable date would be at 100% of aggregate principal amount plus accrued and unpaid interest.

Upon the occurrence of certain change of control events, we will be required to offer to repurchase the 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 Notes and are not accounted for separately upon issuance.

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 or future indebtedness that is secured.

The 2023 Notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of debt, granting of liens, payment of dividends, sales of assets, and certain merger and consolidation transactions. The Notes, with the exception of the 2023 Notes, contain customary 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 Company was in compliance with the terms of the Notes as of December 31, 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 consolidated balance sheets. As of December 31, 2017 and December 31, 2016, we had accrued interest payable of $28 million and $25 million, respectively, related to the 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 consolidated balance sheet.

For the years ended December 31, 2017, 2016, and 2015: interest expense was $150 million, $197 million, and $193 million, respectively; amortization of the debt discount and deferred financing costs was $12 million, $20 million, and $7 million, respectively; and commitment fees for the Revolver were not material.

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

	At December 31, 2017		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2017 TLA	$990	$(8)	$982
2021 Notes	650	(4)	646
2022 Notes	400	(4)	396
2023 Notes	750	(9)	741
2026 Notes	850	(9)	841
2027 Notes	400	(6)	394
2047 Notes	400	(10)	390
Total long-term debt	$4,440	$(50)	$4,390

	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	$4,940	$(53)	$4,887

As of December 31, 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,	
2018	$—
2019	—
2020	—
2021	1,640
2022	400
Thereafter	2,400
Total	$4,440

With the exception of the 2023 Notes and the 2047 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 values as of December 31, 2017, as the interest rates are similar to current rates at which we can borrow funds over the selected interest periods. At December 31, 2017, based on Level 2 inputs, the fair values of the 2023 Notes and the 2047 Notes were $795 million and $421 million, respectively.

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.

12. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows (amounts in millions):

	For the Year Ended December 31, 2017			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2016	$(659)	$1	$29	$(629)
Other comprehensive income (loss) before reclassifications	20	(1)	(45)	(26)
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	16	—	1	17
Balance at December 31, 2017	$(623)	$—	$(15)	$(638)

	For the Year Ended December 31, 2016			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2015	$(630)	$1	$(4)	$(633)
Other comprehensive income (loss) before reclassifications	(29)	—	37	8
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	—	(4)	(4)
Balance at December 31, 2016	$(659)	$1	$29	$(629)

Income taxes were not provided for foreign currency translation items, as these are considered indefinite investments in non-U.S. subsidiaries. Due to the U.S. Tax Reform Act, we are re-evaluating our indefinite reinvestment assertions, but we have not yet completed this evaluation. In accordance with SAB 118, we intend to complete this evaluation during the measurement period of up to one year and will record adjustments, if any, during those respective periods.

13. 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 certain 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 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 net revenues and segment operating income are presented below (amounts in millions):

	Year Ended December 31, 2017			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$2,628	$2,120	$1,998	$6,746
Intersegment net revenues(1)	—	19	—	19
Segment net revenues	$2,628	$2,139	$1,998	$6,765
Segment operating income	$1,005	$712	$700	$2,417

	Year Ended December 31, 2016			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$2,220	$2,439	$1,586	$6,245
Intersegment net revenues(1)	—	—	—	—
Segment net revenues	$2,220	$2,439	$1,586	$6,245
Segment operating income	$788	$995	$537	$2,320

	Year Ended December 31, 2015			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$2,700	$1,565	$—	$4,265
Intersegment net revenues(1)	—	—	—	—
Segment net revenues	$2,700	$1,565	$—	$4,265
Segment operating income	$868	$561	$—	$1,429

(1) Intersegment revenues reflect licensing and service fees charged between segments.

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 are presented in the table below (amounts in millions):

	Years Ended December 31,		
	2017	2016	2015
Reconciliation to consolidated net revenues:			
Segment net revenues	$6,765	$6,245	$4,265
Revenues from other segments(1)	410	354	356
Net effect from recognition (deferral) of deferred net revenues	(139)	9	43
Elimination of intersegment revenues(2)	(19)	—	—
Consolidated net revenues	$7,017	$6,608	$4,664
Reconciliation to consolidated income before income tax expense:			
Segment operating income	$2,417	$2,320	$1,429
Operating (loss) income from other segments(1)	(19)	14	37
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues	(71)	(10)	(39)
Share-based compensation expense	(178)	(159)	(92)
Amortization of intangible assets	(757)	(706)	(11)
Fees and other expenses related to the King Acquisition(3)	(15)	(47)	(5)
Restructuring costs(4)	(15)	—	—
Other non-cash charges(5)	(14)	—	—
Discrete tax-related items(6)	(39)	—	—
Consolidated operating income	1,309	1,412	1,319
Interest and other expense (income), net	146	214	198
Loss on extinguishment of debt	12	92	—
Consolidated income before income tax expense	$1,151	$1,106	$1,121

(1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Also includes unallocated corporate income and expenses.

(2) Intersegment revenues reflect licensing and service fees charged between segments.

(3) Reflects fees and other expenses, such as legal, banking, and professional services fees, related to the King Acquisition and associated integration activities, inclusive of related debt financings.

(4) Reflects restructuring charges, primarily severance costs.

(5) 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.

(6) Reflects the impact of other unusual or unique tax-related items and activities.

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

	Years Ended December 31,		
	2017	2016	2015
Net revenues by distribution channel:			
Digital online channels(1)	$5,479	$4,865	$2,502
Retail channels	1,033	1,386	1,806
Other(2)	505	357	356
Total consolidated net revenues	$7,017	$6,608	$4,664

(1) Include revenues from digitally-distributed subscriptions, licensing royalties, value-added services, downloadable content, microtransactions, and products.

(2) Include revenues from our Studios and Distribution businesses, as well as revenues from MLG and the Overwatch League.

Geographic information presented below is based on the location of the paying customer. Net revenues by geographic region were as follows (amounts in millions):

	Years Ended December 31,		
	2017	2016	2015
Net revenues by geographic region:			
Americas	$3,607	$3,423	$2,409
EMEA(1)	2,464	2,221	1,741
Asia Pacific	946	964	514
Total consolidated net revenues	$7,017	$6,608	$4,664

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

The Company's net revenues in the U.S. were 45%, 45%, and 48% of consolidated net revenues for the years ended December 31, 2017, 2016, and 2015, respectively. The Company's net revenues in the United Kingdom ("U.K.") were 12%, 11%, and 14% of consolidated net revenues for the years ended December 31, 2017, 2016, and 2015, respectively. No other country's net revenues exceeded 10% of consolidated net revenues for the years ended December 31, 2017, 2016, or 2015.

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

	Years Ended December 31,		
	2017	2016	2015
Net revenues by platform:			
Console	$2,389	$2,453	$2,391
PC	2,042	2,124	1,499
Mobile and ancillary(1)	2,081	1,674	418
Other(2)	505	357	356
Total consolidated net revenues	$7,017	$6,608	$4,664

(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 and the Overwatch League.

Long-lived assets by geographic region were as follows (amounts in millions):

	At December 31,		
	2017	2016	2015
Long-lived assets* by geographic region:			
Americas	$197	$154	$138
EMEA	75	87	42
Asia Pacific	22	17	9
Total long-lived assets by geographic region	$294	$258	$189

* 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.

For information regarding significant customers, see "Concentration of Credit Risk" in Note 2.

14. Share-Based Payments

Activision Blizzard Equity Incentive Plans

On June 5, 2014, the Activision Blizzard, Inc. 2014 Incentive Plan (the "2014 Plan") became effective. Under the 2014 Plan, the Compensation Committee of our Board of Directors is authorized to provide share-based compensation in the form of stock options, share appreciation rights, restricted stock, restricted stock units, performance shares, and other performance- or value-based awards structured by the Compensation Committee within parameters set forth in the 2014 Plan. Upon the effective date of the 2014 Plan, we ceased making awards under our prior equity incentive plans (collectively, the "Prior Plans"), although such plans will remain in effect and continue to govern outstanding awards.

While the Compensation Committee has broad discretion to create equity incentives, our share-based compensation program currently utilizes a combination of options and restricted stock units. The majority of our options have time-based vesting schedules, generally vesting annually over a period of three to five years, and expire ten years from the grant date. In addition, under the terms of the 2014 Plan, the exercise price for the options must be equal to or greater than the closing price per share of our common stock on the date the award is granted, as reported on Nasdaq. Restricted stock units have time-based vesting schedules, generally vesting in their entirety on an anniversary of the date of grant, or vest annually over a period of three to five years, and may also be contingent on the achievement of specified performance measures.

As of the date it was approved by our shareholders, there were 46 million shares available for issuance under the 2014 Plan. The number of shares of our common stock reserved for issuance under the 2014 Plan has been, and may be further, increased from time to time by: (1) the number of shares relating to awards outstanding under any Prior Plan that: (i) expire, or are forfeited, terminated or canceled, without the issuance of shares; (ii) are settled in cash in lieu of shares; or (iii) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; (2) if the exercise price of any option outstanding under any Prior Plans is, or the tax withholding requirements with respect to any award outstanding under any Prior Plans are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares; and (3) if a share appreciation right is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred. As of December 31, 2017, we had approximately 30 million shares of our common stock reserved for future issuance under the 2014 Plan. Shares issued in connection with awards made under the 2014 Plan are generally issued as new stock issuances.

Additionally, in connection with the King Acquisition, a majority of the outstanding options and awards with respect to King shares 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 (see Note 20 for further discussion). As part of the conversion, we assumed King's equity incentive plan (the "King Plan") and amended the King Plan to convert it to a plan with respect to shares of the Company's common stock for the King shares assumed. No future shares can be granted from the King Plan, but it continues to govern outstanding awards.

Fair Value Valuation Assumptions

Valuation of Stock Options

The fair value of stock options granted are principally estimated using a binomial-lattice model. The inputs in our binomial-lattice model include expected stock price volatility, risk-free interest rate, dividend yield, contractual term, and vesting schedule, as well as measures of employees' cancellations, exercise, and post-vesting termination behavior. Statistical methods are used to estimate employee rank-specific termination rates.

The following table presents the weighted-average assumptions, weighted average grant date fair value, and the range of expected stock price volatilities:

	Employee and Director Options		
	For the Years Ended December 31,		
	2017	2016	2015
Expected life (in years)	7.01	6.86	6.26
Volatility	35.00%	35.31%	36.13%
Risk free interest rate	2.14%	1.56%	1.90%
Dividend yield	0.50%	0.67%	0.72%
Weighted-average grant date fair value	$21.11	$12.83	$9.87
Stock price volatility range:			
Low	28.19%	29.20%	26.96%
High	35.00%	36.00%	37.00%

Expected life

The expected life of employee stock options is a derived output of the binomial-lattice model and represents the weighted-average period the stock options are expected to remain outstanding. A binomial-lattice model can be viewed as assuming that employees will exercise their options when the stock price equals or exceeds an exercise multiple, of which the multiple is based on historical employee exercise behaviors.

Volatility

To estimate volatility for the binomial-lattice model, we consider the implied volatility of exchange-traded options on our stock to estimate short-term volatility, the historical volatility of our common shares during the option's contractual term to estimate long-term volatility, and a statistical model to estimate the transition from short-term volatility to long-term volatility.

Risk-free interest rate

As is the case for volatility, the risk-free interest rate is assumed to change during the option's contractual term. The risk-free interest rate, which is based on U.S. Treasury yield curves, reflects the expected movement in the interest rate from one time period to the next ("forward rate").

Dividend yield

The expected dividend yield assumption is based on our historical and expected future amount of dividend payouts.

Share-based compensation expense recognized is based on awards ultimately expected to vest and therefore has been reduced for estimated forfeitures in the consolidated statement of operations for the years ended December 31, 2017, 2016, and 2015. Forfeitures are estimated at the time of grant based on historical experience and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Valuation of Restricted Stock Units ("RSUs")

The fair value of the Company's RSU awards granted is principally based upon the closing price of the Company's stock price on the date of grant reduced by the present value of dividends expected to be paid on our common stock prior to vesting.

Accuracy of Fair Value Estimates

We developed the assumptions used in the models above, including model inputs and measures of employees' exercise and post-vesting termination behavior. Our ability to accurately estimate the fair value of share-based payment awards at the grant date depends upon the accuracy of the model and our ability to accurately forecast model inputs as long as 10 years into the future. These inputs include, but are not limited to, expected stock price volatility, risk-free rate, dividend yield, and employee termination rates. Although the fair value of employee stock options is determined using an option-pricing model, the estimates that are produced by this model may not be indicative of the fair value observed between a willing buyer and a willing seller. Unfortunately, it is difficult to determine if this is the case, as markets do not currently exist that permit the active trading of employee stock option and other share-based instruments.

Stock Option Activity

Stock option activity is as follows:

	Number of Shares (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding stock options at December 31, 2016	31,485	$26.79		
Granted	2,579	59.89		
Exercised	(10,861)	16.44		
Forfeited	(2,650)	41.32		
Expired	(9)	16.41		
Outstanding stock options at December 31, 2017	20,544	$34.54	7.07	$591
Vested and expected to vest at December 31, 2017	16,077	$31.79	7.26	$507
Exercisable at December 31, 2017	6,747	$21.36	5.79	$283

For options assumed in the King Acquisition, 0.4 million of the options are based on performance conditions which do not have an accounting grant date as of December 31, 2017, as there is not a mutual understanding between the Company and the employee of the performance terms.

The aggregate intrinsic values in the table above represents the total pretax intrinsic value (i.e. the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the closing stock price is greater than the exercise price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the market value of our stock. The total intrinsic value of options actually exercised was $372 million, $161 million, and $125 million for the years ended December 31, 2017, 2016, and 2015, respectively. The total grant date fair value of options vested was $47 million, $40 million, and $19 million for the years ended December 31, 2017, 2016, and 2015, respectively.

At December 31, 2017, $80 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.27 years.

RSU Activity

We grant RSUs, which represent the right to receive shares of our common stock. Vesting for RSUs is contingent upon the holders' continued employment with us and may be subject to other conditions (which may include the satisfaction of a performance measure). Also, certain of our performance-based RSUs include a range of shares that may be released at vesting which are above or below the targeted number of RSUs based on actual performance relative to the grant date performance measure. If the vesting conditions are not met, unvested RSUs will be forfeited. Upon vesting of the RSUs, we may withhold shares otherwise deliverable to satisfy tax withholding requirements.

The following table summarizes our RSU activity with performance-based RSUs presented at the maximum potential shares that could be earned and issued at vesting (amounts in thousands except per share amounts):

	Number of shares	Weighted-Average Grant Date Fair Value
Unvested RSUs at December 31, 2016	11,977	$17.44
Granted	3,298	63.75
Vested	(2,233)	29.50
Forfeited	(1,221)	26.41
Unvested RSUs at December 31, 2017	11,821	$27.20

Certain of our performance-based RSUs did not have an accounting grant date as of December 31, 2017, as there is not a mutual understanding between the Company and the employee of the performance terms. Generally, these performance terms relate to operating income performance for future years where the performance goals have not yet been set. As of December 31, 2017, there were 4.4 million performance-based RSUs outstanding for which the accounting grant date has not been set, of which 1.9 million were 2017 grants. Accordingly, no grant date fair value was established and the weighted average grant date fair value calculated above for 2017 grants excludes these RSUs.

At December 31, 2017, approximately $111 million of total unrecognized compensation cost was related to RSUs and is expected to be recognized over a weighted-average period of 1.44 years. Of the total unrecognized compensation cost, $102 million was related to performance-based RSUs, which is expected to be recognized over a weighted-average period of 1.54 years. The total grant date fair value of vested RSUs was $64 million, $123 million and $93 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The income tax benefit from stock option exercises and RSU vestings was $160 million, $134 million, and $109 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Share-Based Compensation Expense

The following table sets forth the total share-based compensation expense included in our consolidated statements of operations (amounts in millions):

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Cost of revenues—product sales: Software royalties, amortization, and intellectual property licenses	$10	$20	$12
Cost of revenues—subscription, licensing, and other revenues: Game Operations and Distribution Costs	1	2	—
Cost of revenues—subscription, licensing, and other revenues: Software royalties, amortization, and intellectual property licenses	3	2	3
Product development	57	47	25
Sales and marketing	15	15	9
General and administrative	92	73	43
Share-based compensation expense before income taxes	178	159	92
Income tax benefit	(34)	(42)	(27)
Total share-based compensation expense, net of income tax benefit	$144	$117	$65

15. Income Taxes

Domestic and foreign income (loss) before income taxes and details of the income tax expense (benefit) are as follows (amounts in millions):

	For the Years Ended December 31,		
	2017	2016	2015
Income before income tax expense:			
Domestic	$185	$228	$355
Foreign	966	878	766
	$1,151	$1,106	$1,121
Income tax expense (benefit):			
Current:			
Federal	$696	$(15)	$169
State	26	16	31
Foreign	335	150	40
Total current	1,057	151	240
Deferred:			
Federal	(111)	40	1
State	(32)	(13)	(21)
Foreign	(36)	(38)	9
Total deferred	(179)	(11)	(11)
Income tax expense	$878	$140	$229

For the year ended December 31, 2017 and 2016, excess tax benefits attributable to share-based compensation transactions are recognized to the extent that tax deduction on share-based compensation exceeds the corresponding compensation cost recorded on the financial statement. For the years ended December 31, 2017 and 2016, we recognized $113 million and $81 million, respectively, of excess tax benefits from share-based payments as a reduction to income tax expense due to our adoption of a new accounting standard in 2016. For periods prior to 2016, such excess tax benefits were recorded to shareholders' equity.

The items accounting for the difference between income taxes computed at the U.S. federal statutory income tax rate and the income tax expense (benefit) at the effective tax rate for each of the years are as follows (amounts in millions):

	For the Years Ended December 31,					
	2017		2016		2015	
Federal income tax provision at statutory rate	$403	35%	$387	35%	$392	35%
State taxes, net of federal benefit	4	—	9	1	5	—
Research and development credits	(26)	(2)	(36)	(3)	(26)	(2)
Foreign rate differential	(271)	(24)	(239)	(22)	(228)	(20)
Change in tax reserves	291	25	210	19	136	12
Net operating loss tax attribute assumed from the Purchase Transaction	(36)	(3)	(114)	(10)	(63)	(6)
Excess tax benefits related to share-based payments	(113)	(10)	(81)	(7)	—	—
U.S. Tax Reform Act	636	55	—	—	—	—
Other	(10)	—	4	—	13	1
Income tax expense	$878	76%	$140	13%	$229	20%

The Company's tax rate is affected by the tax rates in the jurisdictions in which the Company operates, the relative amount of income earned by jurisdiction, and the jurisdictions with a statutory tax rate less than the U.S. rate of 35%.

On December 22, 2017, the U.S. Tax Reform Act was enacted. The U.S. Tax Reform Act, among other things, reduced the U.S. corporate income tax rate from 35% to 21% beginning in 2018 and implemented a modified territorial tax system that imposes a one-time tax on deemed repatriated earnings of foreign subsidiaries ("Transition Tax").

On December 22, 2017, the SEC staff issued SAB 118, which provides guidance on how to account for the effects of the U.S. Tax Reform Act under ASC 740. SAB 118 enables companies to record a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate, subject to adjustment during a measurement period of up to one year, until accounting is complete.

We recorded a provisional amount for the effects of the U.S. Tax Reform Act based on a reasonable estimate in the fourth quarter of 2017 resulting in a charge of $636 million. This includes current tax expense of $555 million related to the Transition Tax, which is payable over eight years, and deferred tax expense of $81 million related to the remeasurement of deferred taxes resulting from the U.S. corporate income tax rate reduction. Accounting for the income tax effects of the U.S. Tax Reform Act requires complex new calculations to be performed and significant judgments in interpreting the legislation. Additional guidance may be issued on how the provisions of the U.S. Tax Reform Act will be applied or otherwise administered that is different from our interpretation. We may make adjustments to the provisional amounts as we collect and prepare the data necessary to finalize our calculations, interpret the U.S. Tax Reform Act and any additional guidance issued, and consider the effects of any additional actions we may take as a result of the U.S. Tax Reform Act.

We continue to analyze the prospective effects of the U.S. Tax Reform Act, including new provisions impacting certain foreign income, such as GILTI, BEAT, and FDII, potential limitations on interest expense deductions, and changes to the provisions of Section 162(m) of the Internal Revenue Code, among other provisions of the U.S. Tax Reform Act.

In 2013, in connection with the October 11, 2013 repurchase of approximately 429 million shares of our common stock (“Purchase Transaction”), we assumed certain tax attributes, generally consisting of net operating loss (“NOL”) carryforwards of approximately $760 million, which represent a potential tax benefit of approximately $266 million. The Company also obtained indemnification from Vivendi against losses attributable to the disallowance of claimed utilization of such NOL carryforwards of up to $200 million in unrealized tax benefits in the aggregate, limited to taxable years ending on or prior to December 31, 2016. No benefit for these tax attributes or indemnification was recorded upon the close of the Purchase Transaction. As of December 31, 2017, we had utilized approximately $760 million of the original NOL and had recorded an indemnification asset of $200 million in “Other assets.” Correspondingly, the same amount was recorded as a reduction to the consideration paid for the shares repurchased in “Treasury stock.” In each of the years ended December 31, 2017, 2016, and 2015, we utilized $103 million, $326 million, and $180 million of the NOL and recognized a corresponding reserve of $36 million, $114 million, and $63 million in each of those years ended, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts used for income tax purposes. The components of the net deferred tax assets (liabilities) are as follows (amounts in millions):

	As of December 31,	
	2017	**2016**
Deferred tax assets:		
Allowance for sales returns and price protection	$47	$64
Inventory reserve	5	9
Accrued expenses	26	25
Deferred revenue	245	233
Tax credit carryforwards	60	48
Net operating loss carryforwards	11	10
Share-based compensation	59	61
Acquired intangibles	149	111
State taxes	22	24
Other	39	28
Deferred tax assets	663	613
Valuation allowance	—	—
Deferred tax assets, net of valuation allowance	663	613
Deferred tax liabilities:		
Acquired intangibles	(146)	(219)
Prepaid royalties	(19)	(60)
Capitalized software development expenses	(55)	(91)
Other	(5)	(4)
Deferred tax liabilities	(225)	(374)
Net deferred tax assets	$438	$239

As of December 31, 2017, we had gross tax credit carryforwards of $152 million for state purposes. The tax credit carryforwards are presented in “Deferred tax assets” net of unrealized tax benefits that would apply upon the realization of uncertain tax positions. In addition, we had foreign NOL carryforwards of $33 million at December 31, 2017, attributed mainly to losses in France which can be carried forward indefinitely.

We evaluate our deferred tax assets, including net operating losses and tax credits, to determine if a valuation allowance is required. We assess whether a valuation allowance should be established or released based on the consideration of all available evidence using a "more-likely-than-not" standard. Realization of the U.S. deferred tax assets is dependent upon the continued generation of sufficient taxable income. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, management believes it is more likely than not that the net carrying value of the U.S. deferred tax assets will be realized. At December 31, 2017 and 2016, there are no valuation allowances on deferred tax assets.

As of December 31, 2017, we no longer consider the available cash balances related to undistributed earnings of our most significant foreign subsidiaries to be indefinitely reinvested. As a result of the U.S. Tax Reform Act, we continue to assess and may change our intentions related to the indefinite reinvestment assertion. Any impact resulting from such a change in this assertion during the SAB 118 measurement period will be recorded as an adjustment to the provisional amount recorded for the effects of the U.S. Tax Reform Act in the period in which such determination is made.

Activision Blizzard's tax years 2009 through 2016 remain open to examination by the major taxing jurisdictions to which we are subject. The IRS is currently examining the Company's federal tax returns for the 2009 through 2011 tax years, and during February 2018, the Company was notified that our tax returns for 2012 through 2016 tax years will be subject to examination. The Company also has several state and non-U.S. audits pending. In addition, 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.

On December 28, 2017, we received a Notice of Reassessment from the French Tax Authority ("FTA") related to transfer pricing concerning intercompany transactions involving one of our French subsidiaries for the 2011 through 2013 tax years. The total assessment, including penalties and interest, was approximately €571 million ($680 million). We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve this matter, including administrative remedies with the FTA, and judicial remedies, if necessary. While we believe our tax provisions at December 31, 2017 are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities. In addition to the risk of additional tax for years 2011 through 2013, if litigation regarding this matter were adversely determined and/or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities.

In addition, certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by tax authorities in various jurisdictions. 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.

As of December 31, 2017, we had approximately $1,138 million of gross unrecognized tax benefits, of which $1,114 million would affect our effective tax rate, if recognized. A reconciliation of total gross unrecognized tax benefits is as follows (amounts in millions):

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Unrecognized tax benefits balance at January 1	$846	$552	$419
Gross increase for tax positions of prior-years	66	89	8
Gross decrease for tax positions of prior-years	—	(17)	(11)
Gross increase for tax positions of current year	229	240	136
Settlement with taxing authorities	(1)	(18)	—
Lapse of statute of limitations	(2)	—	—
Unrecognized tax benefits balance at December 31	$1,138	$846	$552

As of December 31, 2017 and 2016, we had approximately $121 million and $71 million, respectively, of accrued interest and penalties related to uncertain tax positions. For the year ended December 31, 2017, 2016, and 2015, we recorded $28 million, $17 million, and $10 million, respectively, of interest expense related to uncertain tax positions.

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.

16. 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 Years Ended December 31,		
	2017	2016	2015
Numerator:			
Consolidated net income	$273	$966	$892
Less: Distributed earnings to unvested share-based awards that participate in earnings	—	(2)	(4)
Less: Undistributed earnings allocated to unvested share-based awards that participate in earnings	—	(2)	(7)
Numerator for basic and diluted earnings per common share—income available to common shareholders	$273	$962	$881
Denominator:			
Denominator for basic earnings per common share—weighted-average common shares outstanding	754	740	728
Effect of dilutive stock options and awards under the treasury stock method	12	14	11
Denominator for diluted earnings per common share—weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	766	754	739
Basic earnings per common share	$0.36	$1.30	$1.21
Diluted earnings per common share	$0.36	$1.28	$1.19

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 the years ended December 31, 2017, 2016, and 2015, on a weighted-average basis, we had outstanding unvested restricted stock units of less than 1 million, 3 million, and 8 million shares of common stock, respectively, that are participating 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. The shares underlying these equity awards 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 7 million, 8 million, and 3 million shares are not included in the computation of diluted earnings per common share for the years ended December 31, 2017, 2016, and 2015, respectively, as their respective performance measures had not yet been met.

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive. Therefore, options to acquire 1 million, 5 million, and 1 million shares of common stock were not included in the calculation of diluted earnings per common share for the years ended December 31, 2017, 2016, and 2015, respectively, as the effect of their inclusion would be anti-dilutive.

17. Capital Transactions

Repurchase Programs

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 the date hereof, we have not repurchased any shares under this program and the determination as to if and when we make any such stock repurchases will be dependent on market conditions and other factors.

Dividends

On February 1, 2018, our Board of Director approved a cash dividend of $0.34 per common share. Such dividend is payable on May 9, 2018, to shareholders of record at the close of business on March 30, 2018.

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 approved 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.

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

18. Supplemental Cash Flow Information

Supplemental cash flow information is as follows (amounts in millions):

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Supplemental cash flow information:			
Cash paid for income taxes, net of refunds	$176	$121	$20
Cash paid for interest	145	209	193

For the year ended December 31, 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 20 for further discussion.

19. Commitments and Contingencies

Commitments and Obligations

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products and for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers and intellectual property holders typically are deemed to be advances and, as such, are recoupable against future royalties earned by the developer or intellectual property holder based on sales of the related game. Additionally, in connection with certain intellectual property rights, acquisitions and development agreements, we commit to spend specified amounts for marketing support for the game(s) which is (are) to be developed or in which the intellectual property will be utilized.

Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2017 are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations(1)				
	Facility and Equipment Leases	Developer and Intellectual Properties	Marketing	Long-Term Debt Obligations(2)	Total
For the years ending December 31,					
2018	$81	$202	$19	$159	$461
2019	70	2	—	159	231
2020	61	1	—	159	221
2021	48	—	—	1,790	1,838
2022	41	—	—	512	553
Thereafter	88	—	—	3,064	3,152
Total	$389	$205	$19	$5,843	$6,456

(1) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of the potential issue resolution of the underlying matters. Specifically, either (a) the underlying positions have not been fully developed under audit to quantify at this time or, (b) the years relating to the matters for certain jurisdictions are not currently under audit. At December 31, 2017, we had $455 million and $495 million of net unrecognized tax benefits included in "Accrued expenses and other liabilities" and "Other liabilities," respectively, in our consolidated balance sheet.

Additionally, as a result of the U.S. Tax Reform Act, we recorded a liability at December 31, 2017, of $467 million which reflects our estimated Transition Tax net payments. This provisional amount is subject to change as we collect and prepare the data necessary to finalize our calculations, interpret the U.S. Tax Reform Act and any additional guidance issued. The Transition Tax liability is payable over up to eight years and is not reflected in our Contractual Obligations table above. We expect to pay $77 million of the Transition Tax during 2018.

(2) Long term debt obligations represent our obligations related to the contractual principal repayments and interest payments under the 2017 TLA and the Notes as of December 31, 2017. There was no outstanding balance under our Revolver as of December 31, 2017. The Notes are subject to fixed interest rates and we have calculated the interest obligation based on the applicable rates and payment dates. The 2017 TLA bears a variable interest rate and interest is payable at least quarterly. We have calculated the expected interest obligation based on the outstanding principal balance and interest rate applicable at December 31, 2017. Refer to Note 11 for additional information on our debt obligations.

Legal Proceedings

As described in Note 15, on December 28, 2017, we received a Notice of Reassessment from the FTA related to transfer pricing concerning intercompany transactions involving one of our French subsidiaries for the 2011 through 2013 tax years. The total assessment, including penalties and interest, was approximately €571 million ($680 million). We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve this matter, including administrative remedies with the FTA, and judicial remedies, if necessary. While we believe our tax provisions at December 31, 2017 are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities. In addition to the risk of additional tax for years 2011 through 2013, if litigation regarding this matter were adversely determined and/or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities.

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

Purchase Transaction Matters

In prior periods, the Company reported on litigation related to the Purchase Transaction. During the period ended June 30, 2015, the cases were resolved and dismissed with prejudice. As part of the resolution of the claims, we received a settlement payment of $202 million in July 2015 from Vivendi, ASAC LP, and our insurers. We recorded the settlement within "Shareholders' equity" in our consolidated balance sheet as of December 31, 2015.

Letters of Credit

As described in Note 11, a portion of our Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. At December 31, 2017, we did not have any letters of credit issued or outstanding under the Revolver.

20. Acquisitions

King Digital Entertainment

On February 23, 2016, we completed the King Acquisition, purchasing all of its 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 consolidated financial statements.

We made this acquisition because we believed that the addition of King's highly-complementary mobile business positioned the Company as a global leader in interactive entertainment across console, PC, and mobile platforms, and aligned 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 (in millions):

	February 23, 2016	Estimated useful lives
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	$5,828	

During the year ended December 31, 2016, the Company incurred $38 million of expenses related to the King Acquisition, which are included within "General and administrative" in the 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 consolidated balance sheet. The amortization of these capitalized costs was not material to our consolidated statement of operations for the year ended December 31, 2016.

Share-Based Compensation

In connection with the King Acquisition, a majority of the outstanding King options and other equity 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 options and other 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 to occur based on the awards' original vesting schedule upon future service being rendered. The cash associated with these awards is recorded in "Other current assets" and "Other assets" in our 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 from the acquisition of King 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 consolidated statement of operations during the year ended December 31, 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 deferrals of revenues and related cost of revenues.

(in millions)	For the Year Ended December 31, 2016
Net revenues	$1,523
Net loss	$(230)

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and King, 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 issued in connection with the King Acquisition, among other adjustments. We also adjusted for Activision Blizzard and King non-recurring acquisition-related costs of approximately $74 million incurred for the year ended December 31, 2016. The 2015 pro forma financial information for the year ended December 31, 2015 were adjusted to include these charges.

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.

	For the Year Ended December 31,	
(in millions)	2016	2015
Net revenues	$6,888	$6,677
Net income	$1,005	$639
Basic earnings per common share	$1.35	$0.87
Diluted earnings per common share	$1.32	$0.85

21. Recently Issued Accounting Pronouncements

Recently adopted accounting pronouncements

Inventory

In July 2015, the FASB issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. 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 in exchange for those goods or services. This guidance is effective for us beginning with the first quarter of 2018. We are adopting the accounting standard using the modified retrospective method, which recognizes the cumulative effect upon adoption as an adjustment to retained earnings at the adoption date. We will report our adoption in our Form 10-Q for the first quarter of 2018.

The most significant impacts of the new revenue recognition standard are expected to be:

- *The accounting for our sales of our games with significant online functionality for which we do not have 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 service period. We expect this difference to primarily impact revenues from our Call of Duty franchise, where we expect that approximately 20% of the sales price will be recognized as revenue upon delivery of the games to our customers. Many of our other franchises, such as Destiny, Overwatch, World of Warcraft, and Candy Crush, are online hosted arrangements, and we do not expect any significant impact on the accounting for our sales of these games; and

- *The accounting for certain of our software licensing arrangements*. While the impacts of the new standard may differ on a contract-by-contract basis (the actual revenue recognition treatment required under the standard will depend on contract-specific terms), we generally expect earlier revenue recognition for these arrangements under the new revenue standard.

We estimate that the cumulative effect of adopting this standard will result in an adjustment to retained earnings at the adoption date of approximately $60 million to $100 million, inclusive of the associated tax impacts. Additionally, we expect that the new disclosure requirements will require us to design and implement additional internal controls over financial reporting, and we are in process of adjusting our processes and internal controls in preparation for adopting the new standard.

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, with certain transition practical expedients available to provide relief in adopting the new standard. 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 but we do expect to elect and apply the available transition practical expedients upon adoption.

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, among 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. Based on our current financial instruments held, we do not anticipate this new guidance will have a material impact 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 will be a significant impact to the consolidated statements of cash flows for the years ended December 31, 2015 and 2016, as those years include, as an investing activity, the $3.6 billion movement in restricted cash as a result of transferring 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 will 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. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. We are evaluating the impact, if any, of adopting this new accounting guidance on our consolidated financial statements.

Derivatives and Hedging

In August 2017, the FASB issued new guidance related to the accounting for derivatives and hedging. The new guidance expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of a hedge's effectiveness. The new standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. If early adopted, the new standard must generally be applied as of the beginning of the fiscal year of adoption. We are evaluating the impact of this new accounting guidance on our financial statements and related disclosures. We expect, based on our current outstanding derivative instruments, the new guidance will not have a material impact on our financial statements.

22. Quarterly Financial Information (Unaudited)

	For the Quarters Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	(Amounts in millions, except per share data)			
Net revenues	$2,043	$1,618	$1,631	$1,726
Cost of revenues	803	552	561	585
Operating income	221	257	339	493
Net income (loss)	(584)	188	243	426
Basic earnings (loss) per common share	(0.77)	0.25	0.32	0.57
Diluted earnings (loss) per common share	(0.77)	0.25	0.32	0.56

	For the Quarters Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(Amounts in millions, except per share data)			
Net revenues	$2,014	$1,568	$1,570	$1,455
Cost of revenues	776	529	598	491
Operating income	425	294	232	461
Net income(1)	254	199	151	363
Basic earnings per common share(1)	0.34	0.27	0.20	0.49
Diluted earnings per common share(1)	0.33	0.26	0.20	0.48

(1) During the third quarter of 2016, we early adopted an accounting standard which simplifies the accounting for share-based payments. The standard, among other things, requires all excess tax benefits and tax deficiencies to be recorded as an income tax expense or benefit in the consolidated statement of operations. The adoption of the standard impacted our previously reported results for the quarters ended June 30, 2016 and March 31, 2016. As a result of the adoption of this standard, our net income, basic earnings per common share, and diluted earnings per common share increased by $24 million, $0.03, and $0.03, respectively, for the quarter ended June 30, 2016, and $27 million, $0.04, and $0.03, respectively, for the quarter ended March 31, 2016.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock is quoted on the Nasdaq National Market under the symbol "ATVI." The following table sets forth, for the periods indicated, the high and low reported sale prices for our common stock. At February 20, 2018, there were 1,663 holders of record of our common stock.

	High	Low
2017		
First Quarter Ended March 31, 2017	$50.40	$36.18
Second Quarter Ended June 30, 2017	61.58	48.41
Third Quarter Ended September 30, 2017	66.58	55.86
Fourth Quarter Ended December 31, 2017	67.40	57.29

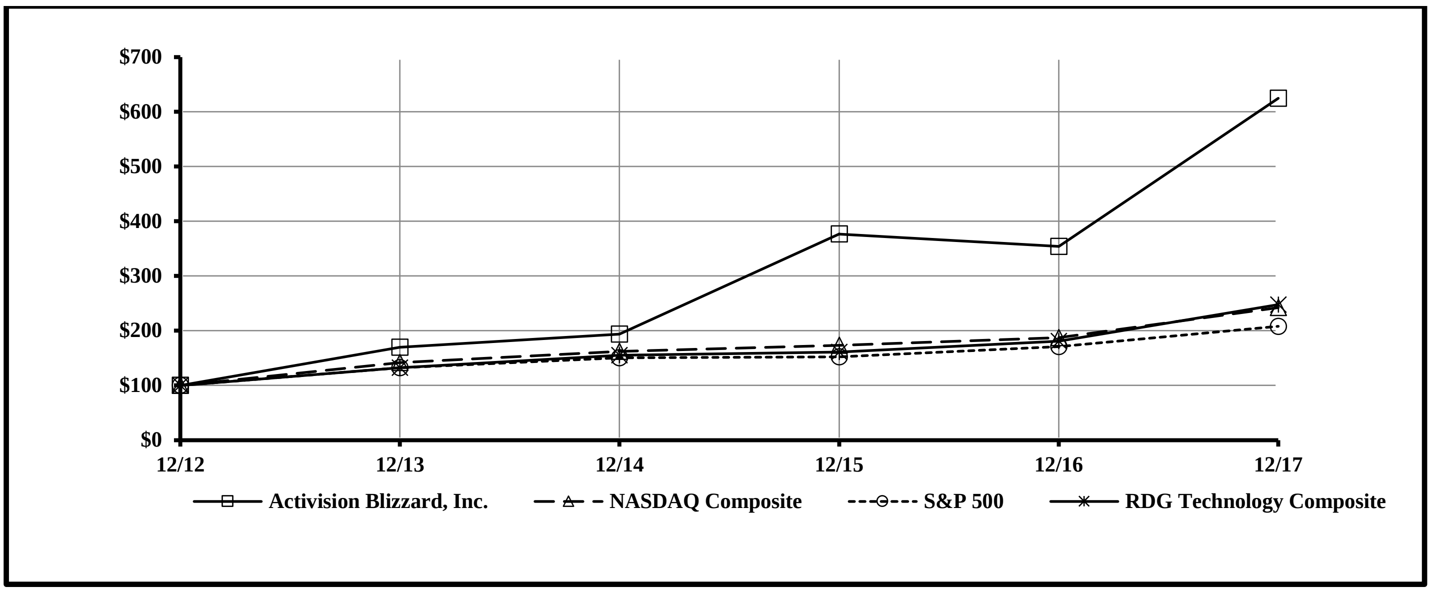
	High	Low
2016		
First Quarter Ended March 31, 2016	$38.09	$26.49
Second Quarter Ended June 30, 2016	39.99	33.03
Third Quarter Ended September 30, 2016	45.12	39.28
Fourth Quarter Ended December 31, 2016	45.55	35.12

Stock Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Activision Blizzard, Inc. under the Exchange Act or the Securities Act of 1933.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
among Activision Blizzard, Inc., the Nasdaq Composite Index, the S&P 500 Index,
and the RDG Technology Composite Index

The following graph and table compare the cumulative total stockholder return on our common stock, the Nasdaq Composite Index, the S&P 500 Index, and the RDG Technology Composite Index. The graph and table assume that $100 was invested on December 31, 2012, and that dividends were reinvested daily. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Fiscal year ending December 31:	12/12	12/13	12/14	12/15	12/16	12/17
Activision Blizzard, Inc.	$100.00	$170.11	$194.06	$376.61	$354.16	$624.78
Nasdaq Composite	100.00	141.63	162.09	173.33	187.19	242.29
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
RDG Technology Composite	100.00	132.51	155.05	161.00	181.12	247.79

Cash Dividends

We have paid a dividend annually since 2010. Below is a summary of cash dividends paid over the past three fiscal years, along with the dividend most recently declared by the Board of Directors that will be paid in May 2018:

Year	Per Share Amount	Record Date	Dividend Payment Date
2018	$0.34	3/30/2018	5/9/2018
2017	$0.30	3/30/2017	5/10/2017
2016	$0.26	3/30/2016	5/11/2016
2015	$0.23	3/30/2015	5/13/2015

Future dividends will depend upon our earnings, financial condition, cash requirements, anticipated future prospects, and other factors deemed relevant by our Board of Directors. Further, agreements governing certain of our indebtedness, as described in Note 11 of the notes to consolidated financial statements included in this Annual Report, may, under certain circumstances, limit our ability to pay distributions or dividends. There can be no assurances that dividends will be declared in the future.

10b5-1 Stock Trading Plans

The Company's directors and employees may, at a time they are not aware of material non-public information, enter into plans to purchase or sell shares of our common stock that satisfy the requirements of Exchange Act Rule 10b5-1 ("Rule 10b5-1 Plans"). Rule 10b5-1 Plans permit persons whose ability to purchase or sell our common stock may otherwise be substantially restricted (by quarterly and special stock-trading blackouts and by their possession from time to time of material nonpublic information) to trade on a pre-arranged, "automatic-pilot" basis.

Trading under Rule 10b5-1 Plans is subject to certain conditions, including that the person for whom the plan is created (or anyone else aware of material non-public information acting on such person's behalf) not exercise any subsequent influence regarding the amount, price and dates of transactions under the plan. In addition, the Company requires Rule 10b5-1 Plans to be established and maintained in accordance with the Company's "Policy on Establishing and Maintaining 10b5-1 Trading Plans."

Trades under a Rule 10b5-1 Plan by our directors and employees are not necessarily indicative of their respective opinions of our current or potential future performance at the time of the trade. Trades by our directors and executive officers pursuant to a Rule 10b5-1 Plan will be disclosed publicly through Form 144 and Form 4 filings with the SEC, in accordance with applicable laws, rules, and regulations.

Issuer Purchase of Equity Securities

On February 2, 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 the date hereof, we have not repurchased any shares under this program and the determination as to if and when we make any such stock repurchases will be dependent on market conditions and other factors.

CAUTIONARY STATEMENT

This Annual Report on Form 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, including the impact of tax items thereon; 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. Some of the risk factors that could cause our actual results to differ from those stated in forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. The forward-looking statements contained herein are based upon information available to us as of the date of this Annual Report and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard Inc.'s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard. All other product or service names are the property of their respective owners. All dollar amounts referred to in, or contemplated by, this Annual Report refer to United States ("U.S.") dollars, unless otherwise explicitly stated to the contrary.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY PLATFORM
For the Year Ended December 31, 2017 and 2016
(Amounts in millions)

	Year Ended					
	December 31, 2017		December 31, 2016		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
Net Revenues by Platform						
Console	$ 2,389	34%	$ 2,453	37%	$ (64)	(3)%
PC	2,042	29	2,124	32	(82)	(4)
Mobile and ancillary[2]	2,081	30	1,674	25	407	24
Other[3]	505	7	357	5	148	41
Total consolidated net revenues	$ 7,017	100%	$ 6,608	100%	$ 409	6
Change in deferred revenues[4]						
Console	$ 210		$ (184)			
PC	(67)		135			
Mobile and ancillary[2]	14		32			
Other[3]	(18)		8			
Total changes in deferred revenues	$ 139		$ (9)			

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

2 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 the Skylanders franchise and other physical merchandise and accessories.

3 Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.

4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY DISTRIBUTION CHANNEL
For the Year Ended December 31, 2017 and 2016
(Amounts in millions)

	Year Ended					
	December 31, 2017		December 31, 2016		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
Net Revenues by Distribution Channel						
Digital online channels[2]	$ 5,479	78%	$ 4,865	74%	$ 614	13 %
Retail channels	1,033	15	1,386	21	(353)	(25)
Other[3]	505	7	357	5	148	41
Total consolidated net revenues	$ 7,017	100%	$ 6,608	100%	$ 409	6
Change in deferred revenues[4]						
Digital online channels[2]	$ (53)		$ 351			
Retail channels	210		(368)			
Other[3]	(18)		8			
Total changes in deferred revenues	$ 139		$ (9)			

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

2 Net revenues from Digital online channels represent revenues from digitally-distributed subscriptions, licensing royalties, value-added services, downloadable content, microtransactions, and products.

3 Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.

4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY GEOGRAPHIC REGION
For the Year Ended December 31, 2017 and 2016
(Amounts in millions)

	Year Ended					
	December 31, 2017		December 31, 2016		$ Increase	% Increase
	Amount	% of Total[1]	Amount	% of Total[1]	(Decrease)	(Decrease)
Net Revenues by Geographic Region						
Americas	$ 3,607	51%	$ 3,423	52%	$ 184	5%
EMEA[2]	2,464	35	2,221	34	243	11
Asia Pacific	946	13	964	15	(18)	(2)
Total consolidated net revenues	$ 7,017	100%	$ 6,608	100%	$ 409	6
Change in deferred revenues[3]						
Americas	$ 75		$ (32)			
EMEA[2]	88		(13)			
Asia Pacific	(24)		36			
Total changes in deferred revenues	$ 139		$ (9)			

[1] The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.

[2] Consists of the Europe, Middle East, and Africa geographic regions.

[3] Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online enabled products.

OPERATING SEGMENTS INFORMATION
For the Three Months and Year Ended December 31, 2017 and 2016
(Amounts in millions)

Year Ended:	**December 31, 2017**				**December 31, 2016**				**$ Increase / (Decrease)**				**% Increase / (Decrease)**			
	Activision	**Blizzard**	**King**	**Total**	**Activision**	**Blizzard**	**King**	**Total**	**Activision**	**Blizzard**	**King**	**Total**	**Activision**	**Blizzard**	**King**	**Total**
Segment Revenues																
Net revenues from external customers	$ 2,628	$ 2,120	$ 1,998	$ 6,746	$ 2,220	$ 2,439	$ 1,586	$ 6,245	$ 408	$ (319)	$ 412	$ 501	18%	(13)%	26%	8%
Intersegment net revenues[1]	—	19	—	19	—	—	—	—	—	19	—	19	—	—	—	—
Segment net revenues	$ 2,628	$ 2,139	$ 1,998	$ 6,765	$ 2,220	$ 2,439	$ 1,586	$ 6,245	$ 408	$ (300)	$ 412	$ 520	18	(12)	26	8
Segment operating income	$ 1,005	$ 712	$ 700	$ 2,417	$ 788	$ 995	$ 537	$ 2,320	$ 217	$ (283)	$ 163	$ 97	28%	(28)%	30%	4%
Operating Margin from Total Reportable Segments				35.7%				37.1%								

1 Intersegment revenues reflect licensing and service fees charged between 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, costs, expenses and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring costs; and other non-cash charges. **See the following page for the reconciliation tables of segment revenues and operating income to consolidated net revenues and consolidated operating income.**

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. Due to change in our internal organization and reporting structure and how we manage the business, commencing with the second quarter of 2017, our Major League Gaming business, which was previously included in Other segments, is now included in the Blizzard segment. We have also revised prior periods to reflect this change. We do not aggregate operating segments.

OPERATING SEGMENTS INFORMATION
For the Three Months and Year Ended December 31, 2017 and 2016
(Amounts in millions)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Reconciliation to consolidated net revenues:		
Segment net revenues	$ 6,765	$ 6,245
Other segments[1]	410	354
Net effect from recognition (deferral) of deferred net revenues[2]	(139)	9
Elimination of intersegment revenues[3]	(19)	—
Consolidated net revenues	$ 7,017	$ 6,608
Reconciliation to consolidated income before income tax expense:		
Segment operating income	$ 2,417	$ 2,320
Other segments[1]	(19)	14
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues[2]	(71)	(10)
Share-based compensation expense	(178)	(159)
Amortization of intangible assets	(757)	(706)
Fees and other expenses related to the King Acquisition[4]	(15)	(47)
Restructuring costs[5]	(15)	—
Other non-cash charges[6]	(14)	—
Discrete tax-related items[7]	(39)	—
Consolidated operating income	1,309	1,412
Interest and other expense (income), net	146	214
Loss on extinguishment of debt	12	92
Consolidated income before income tax expense	$ 1,151	$ 1,106

1 Includes other income and expenses from operating segments managed outside the reportable segments, including our studios and distribution businesses. Also includes unallocated corporate income and expenses.
2 Reflects the net effect from (deferral) of revenues and recognition of deferred revenues, along with related cost of revenues, on certain of our online enabled products.
3 Intersegment revenues reflect licensing and service fees charged between segments.
4 Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.
5 Reflects restructuring charges, primarily severance costs.
6 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.
7 Reflects the impact of other unusual or unique tax-related items and activities.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES
(Amounts in millions, except earnings per share data)

Year Ended December 31, 2017	Net Revenues	Cost of Revenues— Product Sales: Product Costs	Cost of Revenues— Product Sales: Software Royalties and Amortization	Cost of Revenues— Subs/Lic/Other: Game Operations and Distribution Costs	Cost of Revenues— Subs/Lic/Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Total Costs and Expenses
GAAP Measurement	$ 7,017	$ 733	$ 300	$ 984	$ 484	$ 1,069	$ 1,378	$ 760	$ 5,708
Share-based compensation[1]	—	—	(10)	(1)	(3)	(57)	(15)	(92)	(178)
Amortization of intangible assets[2]	—	—	(3)	—	(438)	—	(308)	(8)	(757)
Fees and other expenses related to the King Acquisition[3]	—	—	—	—	—	—	—	(15)	(15)
Restructuring costs[4]	—	—	—	—	—	—	—	(15)	(15)
Other non-cash charges[5]	—	—	—	—	—	—	—	(14)	(14)
Discrete tax-related items[6]	—	—	—	(10)	—	(6)	(16)	(7)	(39)
Non-GAAP Measurement	$ 7,017	$ 733	$ 287	$ 973	$ 43	$ 1,006	$ 1,039	$ 609	$ 4,690
Net effect of deferred revenues and related cost of revenues[7]	$ 139	$ 25	$ 35	$ 1	$ 7	$ —	$ —	$ —	$ 68

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 1,309	$ 273	$ 0.36	$ 0.36
Share-based compensation[1]	178	178	0.24	0.23
Amortization of intangible assets[2]	757	757	1.00	0.99
Fees and other expenses related to the King Acquisition[3]	15	22	0.03	0.03
Restructuring costs[4]	15	15	0.02	0.02
Other non-cash charges[5]	14	14	0.02	0.02
Loss on extinguishment of debt[8]	—	12	0.02	0.02
Income tax impacts from items above[9]	—	(368)	(0.49)	(0.48)
Discrete tax-related items[6]	39	794	1.05	1.04
Non-GAAP Measurement	$ 2,327	$ 1,697	$ 2.25	$ 2.21
Net effect of deferred revenues and related cost of revenues[7]	$ 71	$ 52	$ 0.07	$ 0.07

1 Includes expenses related to share-based compensation.
2 Reflects amortization of intangible assets from purchase price accounting.
3 Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.
4 Reflects restructuring charges, primarily severance costs.
5 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.
6 Reflects the impact of significant discrete tax-related items, including amounts related to changes in tax laws (including a reasonable estimate of the impact of the Tax Cuts and Jobs Act enacted in December 2017, as provided for in accordance with Securities and Exchange Commission guidance), amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities.
7 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products, including the effects of taxes.
8 Reflects the loss on extinguishment of debt from refinancing activities.
9 Reflects the income tax impact associated with the above items. Tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

The GAAP and non-GAAP earnings per share information is presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES
(Amounts in millions, except earnings per share data)

Year Ended December 31, 2016	Net Revenues	Cost of Revenues— Product Sales: Product Costs	Cost of Revenues— Product Sales: Software Royalties and Amortization	Cost of Revenues— Subs/Lic/Other: Game Operations and Distribution Costs	Cost of Revenues— Subs/Lic/Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Total Costs and Expenses
GAAP Measurement	$ 6,608	$ 741	$ 331	$ 851	$ 471	$ 958	$ 1,210	$ 634	$ 5,196
Share-based compensation[1]	—	—	(20)	(2)	(2)	(47)	(15)	(73)	(159)
Amortization of intangible assets[2]	—	—	(8)	—	(424)	—	(266)	(8)	(706)
Fees and other expenses related to the King Acquisition[3]	—	—	—	—	—	—	—	(47)	(47)
Non-GAAP Measurement	$ 6,608	$ 741	$ 303	$ 849	$ 45	$ 911	$ 929	$ 506	$ 4,284
Net effect of deferred revenues and related cost of revenues[4]	$ (9)	$ (39)	$ 3	$ 12	$ 5	$ —	$ —	$ —	$ (19)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 1,412	$ 966	$ 1.30	$ 1.28
Share-based compensation[1]	159	159	0.21	0.21
Amortization of intangible assets[2]	706	706	0.95	0.93
Fees and other expenses related to the King Acquisition[3]	47	54	0.07	0.07
Loss on extinguishment of debt[5]	—	92	0.12	0.12
Income tax impacts from items above[6]	—	(327)	(0.44)	(0.43)
Non-GAAP Measurement	$ 2,324	$ 1,650	$ 2.22	$ 2.18
Net effect of deferred revenues and related cost of revenues[4]	$ 10	$ 20	$ 0.03	$ 0.02

1 Includes expenses related to share-based compensation.
2 Reflects amortization of intangible assets from purchase price accounting.
3 Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.
4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products, including the effects of taxes.
5 Reflects the loss on extinguishment of debt from refinancing activities.
6 Reflects the income tax impact associated with the above items. Tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

The GAAP and non-GAAP earnings per share information is presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES

(Amounts in millions, except earnings per share data)

Year Ended December 31, 2015	Net Revenues	Cost of Revenues— Product Sales: Product Costs	Cost of Revenues— Product Sales: Software Royalties and Amortization	Cost of Revenues— Subs/Lic/Other: Game Operations and Distribution Costs	Cost of Revenues— Subs/Lic/Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Total Costs and Expenses
GAAP Measurement	$ 4,664	$ 872	$ 370	$ 274	$ 69	$ 646	$ 734	$ 380	$ 3,345
Stock-based compensation[1]	—	—	(12)	—	(3)	(25)	(9)	(43)	(92)
Amortization of intangible assets[2]	—	—	(11)	—	—	—	—	—	(11)
Fees and other expenses related to acquisitions[3]	—	—	—	—	—	—	—	(5)	(5)
Non-GAAP (redefined) Measurement	$ 4,664	$ 872	$ 347	$ 274	$ 66	$ 621	$ 725	$ 332	$ 3,237
Net effect of deferred revenues and related cost of revenues[4]	$ (43)	$ (51)	$ (50)	$ 17	$ 2	$ —	$ —	$ —	$ (82)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 1,319	$ 892	$ 1.21	$ 1.19
Stock-based compensation[1]	92	92	0.13	0.12
Amortization of intangible assets[2]	11	11	0.02	0.02
Fees and other expenses related to acquisitions[3]	5	5	0.01	0.01
Income tax impacts from items above[5]	—	(30)	(0.05)	(0.04)
Non-GAAP (redefined) Measurement	$ 1,427	$ 970	$ 1.32	$ 1.30
Net effect of deferred revenues and related cost of revenues[4]	$ 39	$ 19	$ 0.02	$ 0.02

1 Includes expenses related to stock-based compensation.

2 Reflects amortization of intangible assets from purchase price accounting.

3 Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.

4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products, including the effects of taxes.

5 Reflects the income tax impact associated with the above items. Tax impact on non-GAAP (redefined) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

The GAAP and non-GAAP (redefined) earnings per share information is presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
SUPPLEMENTAL FINANCIAL INFORMATION
(Amounts in millions)

	Three Months Ended					Year over Year	Three Months Ended				Year over Year
	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	% Increase (Decrease)	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	% Increase (Decrease)
Cash Flow Data											
Operating Cash Flow	$ 1,063	$ 337	$ 503	$ 456	$ 859	(19)%	$ 411	$ 265	$ 379	$ 1,158	35%
Capital Expenditures	16	27	44	28	37	131	21	31	34	69	86
Non-GAAP Free Cash Flow[1]	1,047	310	459	428	822	(21)	390	234	345	1,089	32
Operating Cash Flow - TTM[2]	1,259	1,373	1,732	2,359	2,155	71	2,229	1,991	1,914	2,213	3
Capital Expenditures - TTM[2]	111	117	133	115	136	23	130	117	123	155	14
Non-GAAP Free Cash Flow - TTM[2]	$ 1,148	$ 1,256	$ 1,599	$ 2,244	$ 2,019	76 %	$ 2,099	$ 1,874	$ 1,791	$ 2,058	2%

[1] Non-GAAP free cash flow represents operating cash flow minus capital expenditures.

[2] TTM represents trailing twelve months. Operating Cash Flow for the three months ended March 31, 2015, three months ended June 30, 2015, and three months ended September 30, 2015 was $223 million, $144 million, and $(171) million, respectively. Capital Expenditures for the three months ended March 31, 2015, three months ended June 30, 2015, and three months ended September 30, 2015, was $21 million, $28 million, and $46 million, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
For the Trailing Twelve Months Ending December 31, 2017
EBIDTA and Adjusted EBIDTA
(Amounts in millions)

	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	Trailing Twelve Months Ended December 31, 2017
GAAP Net Income (Loss)[1]	$ 426	$ 243	$ 188	$ (584)	$ 273
Interest and other expense (income), net	40	34	37	36	146
Loss on extinguishment of debt	—	12	—	—	12
Provision for income taxes[1]	27	50	32	769	878
Depreciation and amortization	224	226	220	219	888
EBITDA	**717**	**565**	**477**	**440**	**2,197**
Share-based compensation expense[2]	33	39	47	58	178
Fees and other expenses related to the King Acquisition[3]	4	5	3	3	15
Restructuring costs[4]	11	—	—	5	15
Other non-cash charges[5]	16	(1)	(1)	—	14
Discrete tax-related items[6]	—	—	—	39	39
Adjusted EBITDA	**$ 781**	**$ 608**	**$ 526**	**$ 545**	**$ 2,458**
Change in deferred net revenues and related cost of revenues[7]	$ (396)	$ (105)	$ 132	$ 441	$ 71

1 We recognized $69 million, $13 million, $15 million, and $15 million of excess tax benefits from share-based payments as an income tax benefit in the provision for income taxes for the three months ended March 31, June 30, September 30, and December 31, 2017, respectively. Provision for income taxes for the three months ended December 31, 2017 also includes an impact from significant discrete tax-related items, including amounts related to changes in tax laws (including a reasonable estimate of the impact of the Tax Cuts and Jobs Act enacted in December 2017, as provided for in accordance with Securities and Exchange Commission guidance), amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities.

2 Includes expenses related to share-based compensation.

3 Reflects fees and other expenses related to the King Acquisition, inclusive of related debt financings and integration costs.

4 Reflects restructuring charges, primarily severance costs.

5 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.

6 Reflects the impact of other unusual or unique tax-related items and activities.

7 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products.

Trailing twelve months amounts are presented as calculated. Therefore, the sum of the four quarters, as presented, may differ due to the impact of rounding.

corporate information

board of directors

Reveta Bowers
Independent Governance and Organizational Consultant

Robert Corti
Retired Chief Financial Officer, Avon Products

Hendrik J. Hartong III
Chairman and Chief Executive Officer, Brynwood Partners

Brian G. Kelly
Chairman of the Board, Activision Blizzard

Robert A. Kotick
President and Chief Executive Officer, Activision Blizzard

Barry Meyer
Retired Chairman and Chief Executive Officer, Warner Bros. Entertainment

Robert Morgado
Former Chairman and Chief Executive Officer, Warner Music Group

Peter Nolan
Senior Advisor, Leonard Green & Partners

Casey Wasserman
Chairman and Chief Executive Officer, Wasserman

Elaine Wynn
Co-founder, Wynn Resorts

officers

Robert A. Kotick
Chief Executive Officer, Activision Blizzard

Collister Johnson
President and Chief Operating Officer, Activision Blizzard

Dennis Durkin
Chief Corporate Officer, Activision Blizzard

Mike Morhaime
President and Chief Executive Officer, Blizzard Entertainment

Spencer Neumann
Chief Financial Officer, Activision Blizzard

Brian Stolz
Chief People Officer, Activision Blizzard

Chris Walther
Chief Legal Officer, Activision Blizzard

Riccardo Zacconi
Chief Executive Officer, King Digital Entertainment

special advisors

Thomas Tippl
Vice Chairman, Activision Blizzard

transfer agent

Broadridge Corporate Issuer Solutions
(800) 685-4509

auditor

PricewaterhouseCoopers LLP
Los Angeles, California

corporate headquarters

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3100 Ocean Park Boulevard
Santa Monica, CA 90405
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world wide web site

www.activisionblizzard.com

e-mail

IR@activisionblizzard.com

annual meeting

June 26, 2018, 9:00 am PDT
Equity Office
3200 Ocean Park Boulevard
Santa Monica, California 90405

annual report on form 10-K

Activision Blizzard's Annual Report on Form 10-K for the year ended December 31, 2017 is available to shareholders without charge upon request by calling our Investor Relations department at (310) 255-2000 or by mailing a request to our Corporate Secretary at our corporate headquarters.

non-incorporation

Portions of the Company's 2017 Form 10-K, as filed with the SEC, are included within this Annual Report. Other than these portions of the Form 10-K, all other portions of this Annual Report are not "filed" with the SEC and shall not be deemed so.

domestic offices

Amesbury, Massachusetts
Austin, Texas
Bloomington, Minnesota
Boulder, Colorado
Burbank, California
Carlsbad, California
Chicago, Illinois
Columbus, Ohio
Dallas, Texas
Eden Prairie, Minnesota
El Segundo, California
Foster City, California
Fresno, California
Irvine, California
Los Angeles, California
Menands, New York
Middleton, Wisconsin
New York, New York
Novato, California
Portland, Maine
Redmond, Washington
Rogers, Arkansas
San Francisco, California
San Jose, California
Santa Monica, California
Seattle, Washington
Sherman Oaks, California
Woodland Hills, California

international offices

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