#### PART I. FINANCIAL INFORMATION

#### **Item 1. Financial Statements**

### ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

Accounts receivable, net of allowances of \$119 and \$279, at September 30, 2018 and December 31, 2017, respectively		At September 30, 2018		At December 31, 2017	
Cash and cash equivalents         \$ 3,308 \$ 4.7           Accounts receivable, net of allowances of \$119 and \$279, at September 30, 2018 and December 31, 2017, respectively         641 9           Inventories, net         174           Software development         348 34           Other current assets         501 4           Total current assets         4,972 6.5           Software development         174           Property and equipment, net         281 22           Deferred income taxes, net         243 44           Other assets         454 44           Intangible assets, net         826 1,11           Goodwill         9,763 9,76           Total assets         \$ 16,713 \$ 8.66           Liabilities and Shareholders' Equity         \$ 1,017 1,91           Current liabilities:         \$ 312 \$ 3           Accounts payable         \$ 312 \$ 3           Deferred revenues         1,017 1,91           Accrued expenses and other liabilities         2,382 3,6           Long-term debt, net         2,2670 4,3           Deferred income taxes, net         11           Other liabilities         6,054 9,2           Total liabilities         6,054 9,2           Commitments and contingencies (Note 16)         6,054 9,2	Assets				
Accounts receivable, net of allowances of \$119 and \$279, at September 30, 2018 and December 31, 2017, respectively respectively 174 174 175 174 175 175 175 175 175 175 175 175 175 175	Current assets:				
Respectively		\$	3,308	\$	4,713
Inventories, net	Accounts receivable, net of allowances of \$119 and \$279, at September 30, 2018 and December 31, 2017,				
Software development         348         3,           Other current assets         501         4,           Total current assets         4,972         6,5           Software development         174         1           Property and equipment, net         281         22           Deferred income taxes, net         281         4           Other assets         454         4           Intangible assets, net         826         1,16           Goodwill         9,763         9,763           Total assets         \$ 16,713         \$ 18,66           Liabilities and Shareholders' Equity           Current liabilities           Accounts payable         \$ 312         \$ 3.           Accured expenses and other liabilities         1,017         1,9           Accured expenses and other liabilities         2,382         3,6           Long-term debt, net         2,670         4,3           Deferred income taxes, net         11         2           Other liabilities         991         1,1           Total liabilities         6,054         9,2           Commitments and contingencies (Note 16)         6,054         9,2           Commitments and contingencies (Not					918
Other current assets         501         4           Total current assets         4,972         6,5           Software development         174         1           Property and equipment, net         281         29           Deferred income taxes, net         243         44           Other assets         454         44           Intangible assets, net         826         1,16           Goodwill         9,763         9,76           Total assets         5 16,713         8 18,66           Liabilities and Shareholders' Equity           Current liabilities           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,017         1,9           Accuned expenses and other liabilities         1,053         1,4           Total current liabilities         2,382         3,6           Long-term debt, net         2,670         4,3           Deferred income taxes, net         11         2,282           Other liabilities         991         1,1           Total liabilities         991         1,1           Commitments and contingencies (Note 16)         5         6,054         9,24           Commitments and contingen			- , .		46
Total current assets					367
Software development         174         2           Property and equipment, net         281         22           Deferred income taxes, net         243         44           Other assets         454         4           Intangible assets, net         826         1,16           Goodwill         9,763         9,77           Total assets         \$ 16,713         \$ 18,66           Liabilities and Shareholders' Equity           Current liabilities:           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,017         1,9           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,053         1,4           Total current liabilities         2,382         3,6           Long-term debt, net         2,670         4,3           Deferred income taxes, net         11         9           Other liabilities         991         1,1           Total liabilities         991         1,1           Commitments and contingencies (Note 16)         5         6,054         9,2           Commitments and september 30, 2018 and December 31, 2017, respectively	V 11-1-1 V W-1-1-1 WWV 10		501		476
Property and equipment, net         281         29           Deferred income taxes, net         243         44           Other assets         454         44           Intangible assets, net         826         1,11           Goodwill         9,763         9,76           Total assets         \$ 16,713         \$ 18,66           Liabilities and Shareholders' Equity           Current liabilities:           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,017         1,93           Accrued expenses and other liabilities         1,053         1,4           Total current liabilities         2,382         3,6           Long-term debt, net         2,670         4,3           Deferred income taxes, net         11         3           Other liabilities         991         1,1           Total liabilities         991         1,1           Commitments and contingencies (Note 16)         5         6,054         9,2           Commitments and contingencies (Note 16)         4         9,2         1         1         1         2         1         1         2         1         1         2         1         1 <t< td=""><td>Total current assets</td><td></td><td>4,972</td><td></td><td>6,520</td></t<>	Total current assets		4,972		6,520
Deferred income taxes, net	Software development		174		86
Other assets         454         44           Intangible assets, net         826         1,16           Goodwill         9,763         9,76           Total assets         \$ 16,713         \$ 18,66           Liabilities and Shareholders' Equity           Current liabilities:           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,017         1,92           Accrued expenses and other liabilities         1,033         1,4           Total current liabilities         2,382         3,60           Long-term debt, net         2,670         4,33           Deferred income taxes, net         11            Other liabilities         991         1,1.1           Total liabilities         6,054         9,21           Commitments and contingencies (Note 16)         991         1,1.1           Shareholders' equity:	Property and equipment, net		281		294
Intangible assets, net	Deferred income taxes, net		243		459
Goodwill         9,763         9,763           Total assets         \$ 16,713         \$ 18,60           Liabilities and Shareholders' Equity           Current liabilities:           Accounts payable         \$ 312         \$ 33           Deferred revenues         1,017         1,92           Accrued expenses and other liabilities         1,053         1,4           Total current liabilities         2,382         3,6           Long-term debt, net         2,670         4,3           Deferred income taxes, net         11         2           Other liabilities         991         1,1           Total liabilities         6,054         9,20           Commitments and contingencies (Note 16)         5           Shareholders' equity:         Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666         5           shares issued at September 30, 2018 and December 31, 2017, respectively         4         10,928         10,7           Additional paid-in capital         10,928         10,7         1,55         5           Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017         (5,563)         (5,563)         (5,563)         (5,563)           Retained earnings	Other assets		454		440
Total assets   \$ 16,713   \$ 18,60	Intangible assets, net		826		1,106
Liabilities and Shareholders' Equity           Current liabilities:         312 \$ 33           Deferred revenues         1,017 1,93           Accrued expenses and other liabilities         1,053 1,4           Total current liabilities         2,382 3,6           Long-term debt, net         2,670 4,39           Deferred income taxes, net         11 2           Other liabilities         991 1,1           Total liabilities         6,054 9,20           Commitments and contingencies (Note 16)         5           Shareholders' equity:         -           Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666 shares issued at September 30, 2018 and December 31, 2017, respectively         -           Additional paid-in capital         10,928 10,74           Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017         (5,563) (5,56           Retained earnings         5,907 4,9           Accumulated other comprehensive loss         (613) (613)	Goodwill		9,763		9,763
Current liabilities:         Accounts payable       \$ 312       \$ 32         Deferred revenues       1,017       1,99         Accrued expenses and other liabilities       1,053       1,4         Total current liabilities       2,382       3,60         Long-term debt, net       2,670       4,33         Deferred income taxes, net       11       2         Other liabilities       991       1,1         Total liabilities       6,054       9,20         Commitments and contingencies (Note 16)       5       5         Shareholders' equity:       -       -         Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666       -       -         shares issued at September 30, 2018 and December 31, 2017, respectively       -       -         Additional paid-in capital       10,928       10,74         Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017       (5,563)       (5,563)         Retained earnings       5,907       4,9         Accumulated other comprehensive loss       (613)       (613)	Total assets	\$	16,713	\$	18,668
Deferred revenues					
Accrued expenses and other liabilities       1,053       1,4         Total current liabilities       2,382       3,60         Long-term debt, net       2,670       4,39         Deferred income taxes, net       11       2         Other liabilities       991       1,12         Total liabilities       6,054       9,20         Commitments and contingencies (Note 16)       5         Shareholders' equity:       -       -         Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666       5       -         shares issued at September 30, 2018 and December 31, 2017, respectively       -       -         Additional paid-in capital       10,928       10,72         Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017       (5,563)       (5,56         Retained earnings       5,907       4,9         Accumulated other comprehensive loss       (613)       (613)	1 7	\$		\$	323
Total current liabilities			,		1,929
Long-term debt, net 2,670 4,38 Deferred income taxes, net 11 11 Other liabilities 991 1,11 Total liabilities 6,054 9,20 Commitments and contingencies (Note 16) Shareholders' equity: Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666 shares issued at September 30, 2018 and December 31, 2017, respectively Additional paid-in capital 10,928 10,74 Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017 (5,563) (5,563) Retained earnings 5,907 4,9 Accumulated other comprehensive loss (613) (663)	1		1,053		1,411
Deferred income taxes, net       11       2         Other liabilities       991       1,13         Total liabilities       6,054       9,20         Commitments and contingencies (Note 16)       5         Shareholders' equity:       -       -         Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666       -       -         shares issued at September 30, 2018 and December 31, 2017, respectively       -       -         Additional paid-in capital       10,928       10,74         Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017       (5,563)       (5,56         Retained earnings       5,907       4,9         Accumulated other comprehensive loss       (613)       (62)	Total current liabilities		2,382		3,663
Other liabilities         991         1,13           Total liabilities         6,054         9,20           Commitments and contingencies (Note 16)         5           Shareholders' equity:         -           Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666         -           shares issued at September 30, 2018 and December 31, 2017, respectively         -           Additional paid-in capital         10,928         10,74           Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017         (5,563)         (5,563)           Retained earnings         5,907         4,9           Accumulated other comprehensive loss         (613)         (613)	Long-term debt, net		2,670		4,390
Total liabilities 6,054 9,20  Commitments and contingencies (Note 16)  Shareholders' equity:  Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666 shares issued at September 30, 2018 and December 31, 2017, respectively  Additional paid-in capital 10,928 10,74  Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017 (5,563) (5,56)  Retained earnings 5,907 4,9  Accumulated other comprehensive loss (613) (613)					21
Commitments and contingencies (Note 16)  Shareholders' equity:  Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666 shares issued at September 30, 2018 and December 31, 2017, respectively  Additional paid-in capital  Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017  Retained earnings  Accumulated other comprehensive loss  (613)	Other liabilities		991		1,132
Shareholders' equity:       Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,191,665,508 and 1,186,181,666       —         shares issued at September 30, 2018 and December 31, 2017, respectively       —       —         Additional paid-in capital       10,928       10,74         Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017       (5,563)       (5,563)         Retained earnings       5,907       4,9         Accumulated other comprehensive loss       (613)       (62)	Total liabilities		6,054		9,206
shares issued at September 30, 2018 and December 31, 2017, respectively  Additional paid-in capital Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017  Retained earnings Accumulated other comprehensive loss					
Additional paid-in capital 10,928 10,74 Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017 (5,563) (5,563) Retained earnings 5,907 4,9 Accumulated other comprehensive loss (613) (663)			_		_
Less: Treasury stock, at cost, 428,676,471 shares at September 30, 2018 and December 31, 2017       (5,563)       (5,563)         Retained earnings       5,907       4,9         Accumulated other comprehensive loss       (613)       (62)			10,928		10,747
Retained earnings 5,907 4,9 Accumulated other comprehensive loss (613) (613)			(5,563)		(5,563)
			5,907		4,916
	Accumulated other comprehensive loss		(613)		(638)
			10,659		9,462
Total liabilities and shareholders' equity \$ 16,713 \$ 18,60	Total liabilities and shareholders' equity	\$	16,713	\$	18,668

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

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

(Unaudited) (Amounts in millions, except per share data)

		For the Three Months Ended September 30,				For the Nine Months Ended September 30,		
		2018		2017		2018		2017
Net revenues								
Product sales	\$	263	\$	384	\$	1,447	\$	1,373
Subscription, licensing, and other revenues		1,249		1,234		3,672		3,601
Total net revenues (Note 2)		1,512		1,618		5,119		4,974
Costs and expenses								
Cost of revenues—product sales:								
Product costs		127		149		416		422
Software royalties, amortization, and intellectual property								
licenses		20		37		214		200
Cost of revenues—subscription, licensing, and other revenues:								
Game operations and distribution costs		257		249		777		717
Software royalties, amortization, and intellectual property								
licenses		109		117		278		359
Product development		263		273		776		750
Sales and marketing		263		345		741		899
General and administrative		208		191		623		539
Total costs and expenses		1,247		1,361		3,825		3,886
Operating income		265		257		1,294		1,088
Interest and other expense (income), net		13		37		67		109
Loss on extinguishment of debt		40		_		40		12
Income before income tax expense (benefit)		212		220		1,187		967
Income tax expense (benefit)		(48)		32		25		109
Net income	\$	260	\$	188	\$	1,162	\$	858
Earnings per common share								
Basic	\$	0.34	\$	0.25	\$	1.53	\$	1.14
Diluted	\$	0.34	\$	0.25	\$	1.51	\$	1.12
	Ψ	0.5 /	Ψ	0.20	Ψ	1.0 2	Ψ	
Weighted-average number of shares outstanding								
Basic		763		755		761		753
Diluted		771		766		771		764

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

## ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Amounts in millions)

	For	For the Nine Months Ended September		
	2018		18	
Cash flows from operating activities:				
Net income	\$	1,162	\$	858
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred income taxes		175		(138)
Depreciation and amortization		385		670
Amortization of capitalized software development costs and intellectual property licenses (1)		238		202
Loss on extinguishment of debt (Note 10)		40		12
Amortization of debt discount and financing costs		5		10
Share-based compensation expense (2)		164		118
Other		15		24
Changes in operating assets and liabilities:				
Accounts receivable, net		290		(140)
Inventories		(127)		(50)
Software development and intellectual property licenses		(305)		(227)
Other assets		(15)		(70)
Deferred revenues		(710)		(320)
Accounts payable		(14)		78
Accrued expenses and other liabilities		(512)		28
Net cash provided by operating activities		791		1,055
Cash flows from investing activities:				
Purchases of available-for-sale investments		(59)		(80)
Capital expenditures		(97)		(86)
Other investing activities		(4)		3
Net cash used in investing activities		(160)		(163)
Cash flows from financing activities:				
Proceeds from issuance of common stock to employees		91		150
Tax payment related to net share settlements on restricted stock units		(85)		(44)
Dividends paid		(259)		(226)
Proceeds from debt issuances, net of discounts		_		3,741
Repayment of long-term debt		(1,740)		(4,251)
Premium payment for early redemption of note (Note 10)		(25)		(.,201)
Other financing activities		(2)		(10)
Net cash used in financing activities	·	(2,020)		(640)
Effect of foreign exchange rate changes on cash and cash equivalents		(15)		72
Net increase (decrease) in cash and cash equivalents and restricted cash		(1,404)		324
Cash and cash equivalents and restricted cash at beginning of period		4,720		3,262
	•		•	
Cash and cash equivalents and restricted cash at end of period	\$	3,316	\$	3,586

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

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