

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Amounts in millions, except share data)

	At September 30, 2018	At December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,308	\$ 4,713
Accounts receivable, net of allowances of \$119 and \$279, at September 30, 2018 and December 31, 2017, respectively	641	918
Inventories, net	174	46
Software development	348	367
Other current assets	501	476
Total current assets	4,972	6,520
Software development	174	86
Property and equipment, net	281	294
Deferred income taxes, net	243	459
Other assets	454	440
Intangible assets, net	826	1,106
Goodwill	9,763	9,763
Total assets	<u>\$ 16,713</u>	<u>\$ 18,668</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 312	\$ 323
Deferred revenues	1,017	1,929
Accrued expenses and other liabilities	1,053	1,411
Total current liabilities	2,382	3,663
Long-term debt, net	2,670	4,390
Deferred income taxes, net	11	21
Other liabilities	991	1,132
Total liabilities	6,054	9,206
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	10,747
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	4,916
Accumulated other comprehensive loss	(613)	(638)
Total shareholders' equity	10,659	9,462
Total liabilities and shareholders' equity	<u>\$ 16,713</u>	<u>\$ 18,668</u>

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

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

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended 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
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 the Nine Months Ended September 30,	
	2018	2017
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	<u>791</u>	<u>1,055</u>
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	<u>(160)</u>	<u>(163)</u>
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)	—
Other financing activities	(2)	(10)
Net cash used in financing activities	<u>(2,020)</u>	<u>(640)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(15)	72
Net increase (decrease) in cash and cash equivalents and restricted cash	<u>(1,404)</u>	<u>324</u>
Cash and cash equivalents and restricted cash at beginning of period	<u>4,720</u>	<u>3,262</u>
Cash and cash equivalents and restricted cash at end of period	<u><u>\$ 3,316</u></u>	<u><u>\$ 3,586</u></u>

(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.

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