Activision Blizzard, Inc.
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended June 30, 2017

OR

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

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4803544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 Ocean Park Boulevard, Santa Monica, CA	**90405**
(Address of principal executive offices)	(Zip Code)

(310) 255-2000

(Registrant s telephone number, including area code)

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

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

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

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

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

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

The forward-looking statements contained herein are based on information available to Activision Blizzard, Inc. as of the date of this filing and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard, Inc. s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard, Inc. All other product or service names are the property of their respective owners.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

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

Accumulated other comprehensive loss		(640)		(629)
Total shareholders equity		9,715		9,119
Total liabilities and shareholders equity	$	16,808	$	17,452

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Amounts in millions)

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

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

(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.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Six Months Ended June 30, 2017

(Unaudited)

(Amounts and shares in millions, except per share data)

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Consolidation and Presentation

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

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

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

The King Acquisition

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

Our Segments

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

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

(i) Activision Publishing, Inc.

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

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

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(ii) Blizzard Entertainment, Inc.

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

Blizzard s key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing game for the 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 the PC; and Overwatch®, a team-based first-person shooter for the PC and console platforms.

(iii) King Digital Entertainment

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

King s key product franchises, all of which are for the PC and mobile platforms, include: Candy Crush , which features match three games; Farm Heroes , which also features match three games; Pet Rescue , which is a clicker game; 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 2016, released the first season of the animated TV series *Skylanders Academy* on Netflix; and

- the Activision Blizzard Distribution (Distribution) business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Basis of Consolidation and Presentation

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

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

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

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

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

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

2. Inventories, Net

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

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

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

3. Software Development and Intellectual Property Licenses

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

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

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

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

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

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4. Intangible Assets, Net

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

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

	At December 31, 2016			
	Estimated useful lives	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	$ 1,154	$ (583)	$ 571
Developed software	3 - 5 years	595	(145)	450
Customer base	2 years	617	(266)	351
Trade names	7 - 10 years	54	(8)	46
Other	1 - 8 years	18	(11)	7
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 $194 million and $385 million for the three and six months ended June 30, 2017, respectively. Amortization expense of intangible assets was $203 million and $285 million for the three and six months ended June 30, 2016, respectively.

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

2017 (remaining six months)	$ 374

2018		364
2019		216
2020		72
2021		11
Thereafter		9
Total	$	1,046

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5. Goodwill

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

	Activision	Blizzard (1)	King	Total
Balance at December 31, 2016 (1)	$ 6,903	$ 190	$ 2,675	$ 9,768
Other	(5)			(5)
Balance at June 30, 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.

6. Fair Value Measurements

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

- Level 1 Quoted prices in active markets for identical assets or liabilities;

- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

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Fair Value Measurements on a Recurring Basis

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

		Fair Value Measurements at June 30, 2017 Using			
	As of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 2,925	$ 2,925	$	$	Cash and cash equivalents
Foreign government treasury bills	47	47			Cash and cash equivalents
Total recurring fair value measurements	$ 2,972	$ 2,972	$	$	
Financial liabilities:					
Foreign currency forward contracts designated as hedges	$ (9)	$	$ (9)	$	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 (ARS)	9			9	Other assets
Total recurring fair value measurements	$ 2,990	$ 2,959	$ 22	$ 9	

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

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts Not Designated as Hedges

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

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

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

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

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

Fair Value Measurements on a Non-Recurring Basis

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

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

7. Debt

Credit Facilities

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

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

During the six months ended June 30, 2017, we reduced our total outstanding term loan balances by $1.7 billion. This included $139 million of cash used to retire the 2016 TLA, as discussed above, along with prepayments on the 2017 TLA of $361 million made on February 15, 2017 and

$1.2 billion made on May 26, 2017. The May prepayment was made using proceeds from a concurrent issuance of $1.2 billion in notes, as discussed further below. As part of that refinancing, we wrote-off unamortized discount and deferred financing costs of $12 million, which is included in Interest and other expense (income), net in the condensed consolidated statement of operations.

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

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

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Unsecured Senior Notes

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

- $750 million of 6.125% unsecured senior notes due September 2023 that we issued on September 19, 2013 (the 2023 Notes), in a private offering made in accordance with Rule 144A under the Securities Act of 1933, as amended (the Securities Act); and

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

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

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

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

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

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

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

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

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

Interest Expense and Financing Costs

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

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

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

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

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

	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

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

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

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

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

8. Accumulated Other Comprehensive Income (Loss)

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

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

	For the Six Months Ended June 30, 2016							
	Foreign currency translation adjustments		Unrealized gain (loss) on forward contracts		Unrealized gain (loss) on available-for-sale securities		Total	
Balance at December 31, 2015	$	(630)	$	(4)	$	1	$	(633)
		(20)		2				(18)

Other comprehensive income (loss) before reclassifications				
Amounts reclassified from accumulated other comprehensive income (loss) into earnings		2		2
Balance at June 30, 2016	$ (650)	$	$ 1	$ (649)

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

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9. Operating Segments and Geographic Region

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

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

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

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

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

(1) Other segments include other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Other segments also include unallocated corporate income and expenses.

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

(3) Reflects restructuring charges incurred, primarily severance costs.

(4) Reflects a non-cash accounting charge to reclassify certain cumulative translation gains (losses) into earnings due to the substantial liquidation of certain of our foreign entities.

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

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

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

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

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

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

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

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

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

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

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

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

10. Income Taxes

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

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

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

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

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

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

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

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

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

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11. Computation of Basic/Diluted Earnings Per Common Share

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

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

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

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

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

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12. Capital Transactions

Repurchase Program

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

Dividends

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

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

13. Commitments and Contingencies

Legal Proceedings

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

14. Acquisitions

King Digital Entertainment

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

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

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

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The final purchase price allocation was as follows (amounts 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)	