ACTIVISION BLIZZARD

2015 ANNUAL REPORT

2015:

REVENUES[1]

$4.6 BILLION

UP 4% YEAR-OVER-YEAR AT CONSTANT FX[2]

DIGITAL REVENUES[1]

$2.6 BILLION

57% OF TOTAL REVENUE, REPRESENTING AN ALL-TIME HIGH AND UP 20% YEAR-OVER-YEAR

EARNINGS PER SHARE[1]

$1.32

UP 13% YEAR-OVER-YEAR AT CONSTANT FX[2]

OPERATING MARGIN[1]

32 PERCENT

ABOVE PRIOR RECORD AT CONSTANT FX[2]

OPERATING CASH FLOW

$1.2 BILLION

OVER $6 BILLION OVER THE LAST 5 YEARS

COVER: YOU ARE ONLY AS GREAT AS THE CHARACTERS ON YOUR TEAM.

FIGURES IN THIS ANNUAL REPORT DO NOT INCLUDE KING UNLESS OTHERWISE INDICATED.

[1] Non-GAAP; for a full reconciliation, please see tables at the end of the annual report.
[2] Constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.

FRAMEWORK FOR FRANCHISE GROWTH

1 AUDIENCE REACH

- ACTIVISION BLIZZARD MAU[1] GREW 25% YEAR-OVER-YEAR IN 2015, REACHING AN ALL-TIME HIGH OF OVER 80 MILLION
- WITH KING, WE NOW HAVE OVER HALF A BILLION MAU[1] GLOBALLY[2]

2 TIME SPENT

- IN 2015, PEOPLE PLAYED OUR GAMES FOR OVER 14 BILLION HOURS, UP 16% YEAR-OVER-YEAR, AND WATCHED VIDEO CONTENT BASED ON OUR GAMES FOR OVER 1.5 BILLION HOURS

3 ARPU

- IN-GAME REVENUES WERE OVER $1.6 BILLION IN 2015[3], GROWING 57% AT CONSTANT FX[4], AND REPRESENTING OVER ONE-THIRD OF TOTAL REVENUES
- CONSUMER $ SPENT PER HOUR OF ATVI ENTERTAINMENT: $0.37, MUCH LOWER THAN OTHER FORMS OF ENTERTAINMENT

4 CASH FLOW

- DELIVERED MORE THAN $1 BILLION OF OPERATING CASH FLOW FOR 6 OF THE PAST 7 YEARS

[1] MAU defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details. [2] King acquisition closed on February 23, 2016. Includes fourth quarter 2015 Activision Blizzard and King MAU. [3] Non-GAAP; for a full reconciliation, please see tables at the end of the annual report. [4] Constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.


CALL OF

#1 CONSOLE GAME GLOBALLY IN 2015[1] AND NEXT-GEN LEADER

#1 FRANCHISE IN NA 7TH YEAR IN A ROW[2]

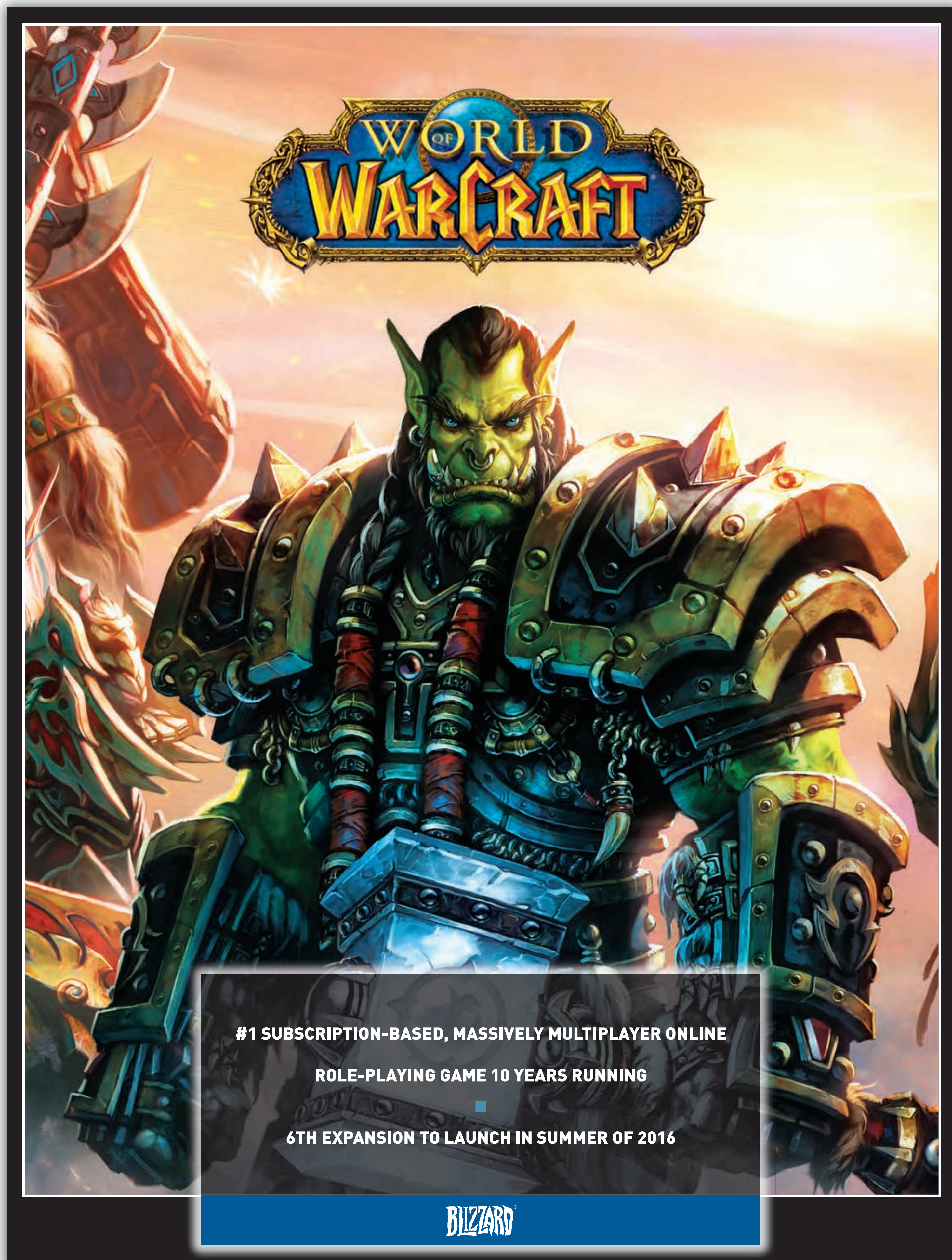
RECORD FRANCHISE MAU[3] AT THE END OF 2015

ACTIVISION

[1] NPD, Gfk Chart-Track, and Activision Blizzard internal estimates. [2] NPD. [3] MAU defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

[1]Digital attach rate refers to expansion sales as a percentage of full games sold.

[1] NPD, Gfk Chart-Track, including toys and accessories, in NA & EU.

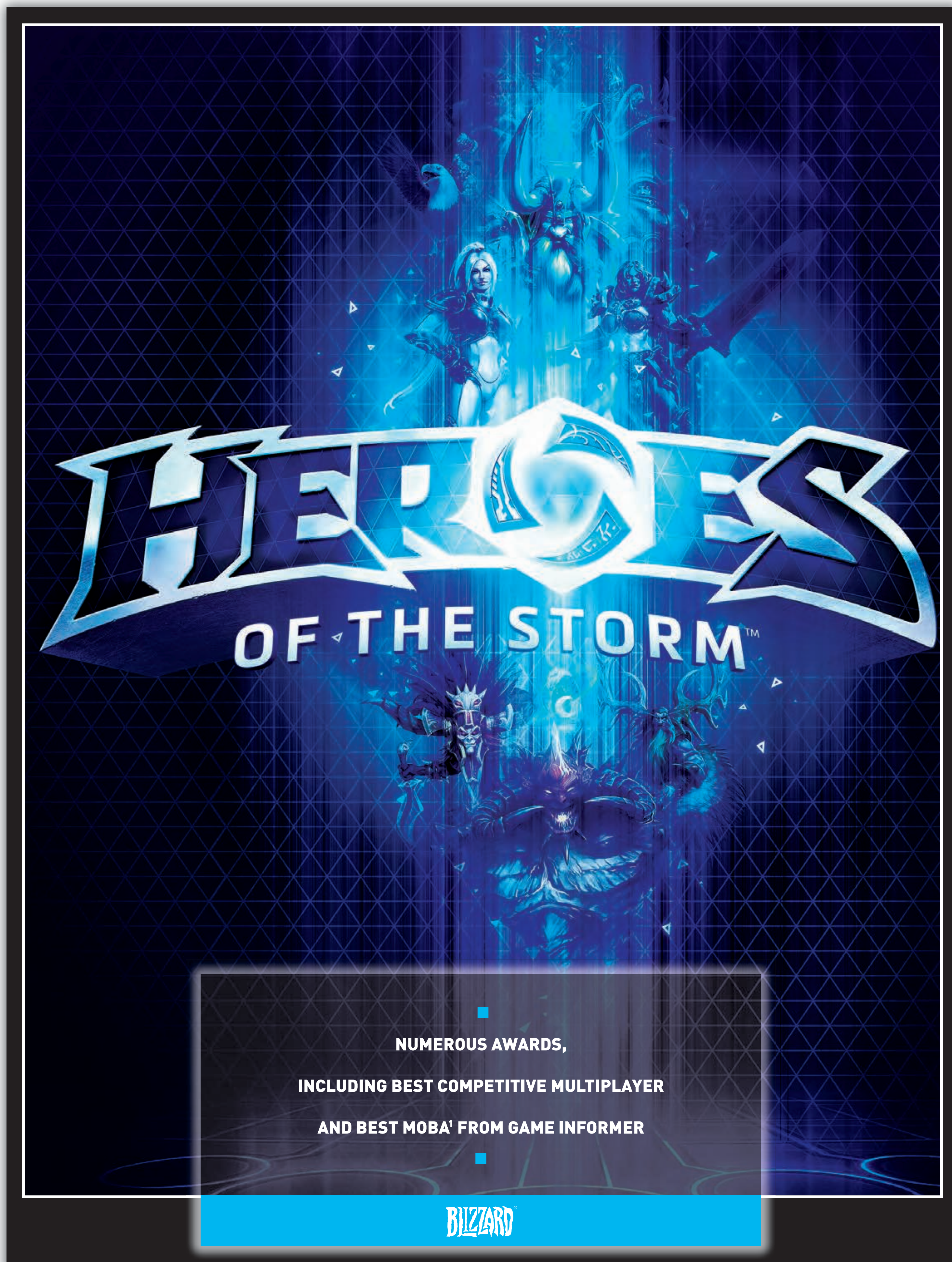

WORLD OF WARCRAFT
#1 SUBSCRIPTION-BASED, MASSIVELY MULTIPLAYER ONLINE
ROLE-PLAYING GAME 10 YEARS RUNNING
6TH EXPANSION TO LAUNCH IN SUMMER OF 2016
BLIZZARD

MORE THAN 40 MILLION REGISTERED PLAYERS

RECORD ENGAGEMENT AT THE END OF 2015


DIABLO
2015 LAUNCH IN CHINA BROKE PC SALES RECORDS
BLIZZARD


STARCRAFT II
LAUNCHED FINAL CHAPTER OF *STARCRAFT II* TRILOGY,
LEGACY OF THE VOID, SELLING-THROUGH
OVER 1 MILLION COPIES IN THE FIRST 24 HOURS
BLIZZARD



[1] Multiplayer online battle arena.


OVERWATCH
TEAM-BASED SHOOTER
COMING TO PC AND CONSOLE THIS SPRING
OVER 8 MILLION PEOPLE HAVE SIGNED UP FOR THE BETA
BLIZZARD

3 OF THE TOP-15-GROSSING MOBILE GAMES FOR 8 CONSECUTIVE QUARTERS[1,2]

NEARLY 450 MILLION MONTHLY ACTIVE USERS PLAYING 1.4 BILLION GAMES PER DAY[2]

[1] U.S. rankings for Apple App Store and Google Play Store, per App Annie Intelligence for fourth quarter 2015.
[2] King acquisition closed on February 23, 2016. Metrics as of fourth quarter 2015.

TO OUR SHAREHOLDERS

In our letter last year, we shared a note we received from Rocco, a seven-year-old from England. His letter was accompanied by pages torn out of a notebook, filled with drawings of Skylanders characters he invented—and they were excellent.

> Dear Mr. Kotick,
>
> Ever since I can remember, I have been interested in video games and how to make them. I am currently learning about video game design, and I have found my passion and career path. It is because of my desire to pursue video game design that I am writing to you. Although this is a beginning action plan, I am in need of advice to make my goals a reality. Your company is one for which I aspire to work. Because I know you are CEO of Activision Blizzard, may I ask how did you get to hold this position, and what main skills do you use daily?
>
> Thank you for your time in reading and responding to my letter.
>
> Sincerely,
> Jacob R.

This year, we want to share a letter from Jacob, a high schooler in California.

We love receiving these letters because they demonstrate how much our games mean to the people who play them. Obviously Jacob will join Rocco on our future recruitment list.

We talk to thousands of gifted people every year to find talent with the unique combination of passion, entrepreneurial spirit and creativity that it takes to create and market our games. These traits are hallmarks of our culture, embodied in each of our over 9,000 employees. It is these employees who consistently deliver outstanding interactive entertainment and strong financial results.

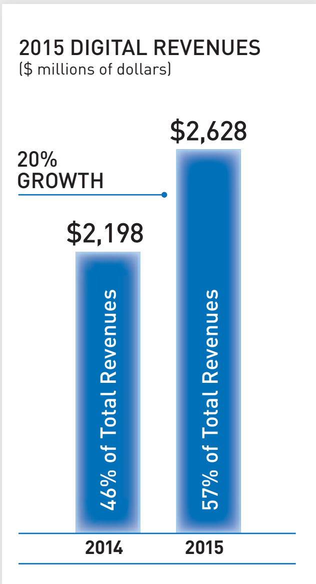
As a result of our team's dedication and hard work we ended 2015 with $4.6 billion of revenues, $1.5 billion of operating income, $1.2 billion of operating cash flow and $1.32 in earnings per share. And in 2015, our company was added to the S&P 500 index.

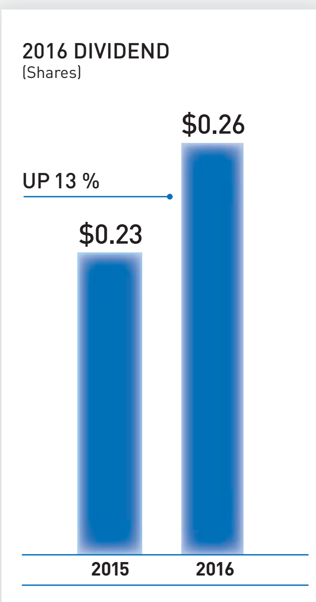
Over the past 25 years, since the present management took over, Activision Blizzard's book value per share[1] grew at a more than 30% compounded annual rate. While book value isn't the only objective measure of value, it is an important one to us. Our market value has increased significantly over the past 25 years as well. If you had invested $100 in our company 25 years ago, you would have over $4,300 at the end of 2015—over five times more than the S&P 500 would have returned in that same period of time. Last year alone, from January 1 through December 31, we increased our market value by $13.8 billion, or 95%.

We continue to improve our allocation of capital. While our employees have much to be proud of, we haven't grown operating profits the last few years at a rate that we believe represents the opportunities we have from the growth in the overall market. The overall market for interactive entertainment is growing at 13%. We have grown earnings per share over the last few years, but this has largely come from non-operational activities, and we intend to return good growth to our operating businesses over the next few years.

[1] Based on fully diluted shares and participating securities for the quarter ending December 31, 2015.

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





Our greatest challenge now is prioritizing the unusually attractive opportunities we have ahead and finding the right people to pursue them. Since we joined the company, we don't remember a time with more exciting prospects. Ever.

Interactive entertainment can be played on a variety of devices. Our company has always been agnostic with respect to which devices we support. We first consider whether we can put our best creative foot forward on a device. This means we can make the very best games for the target new platform. Over the last 20 years, we have done this largely for personal computers, video game consoles and dedicated handheld devices.

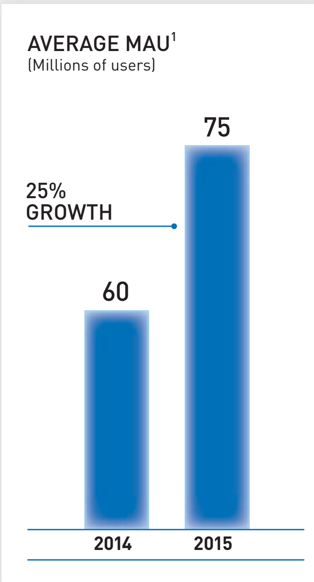
Over the last five years, mobile phones emerged as great devices for playing games. Because of their lower cost of entry, mobile phones—unlike PCs or game consoles—are much less expensive, easier to use, portable and available in every country in the world. The market for mobile games is more diverse than PCs or consoles; the mobile market is eight times the size it was five years ago and is projected to grow 64% over the next five years.

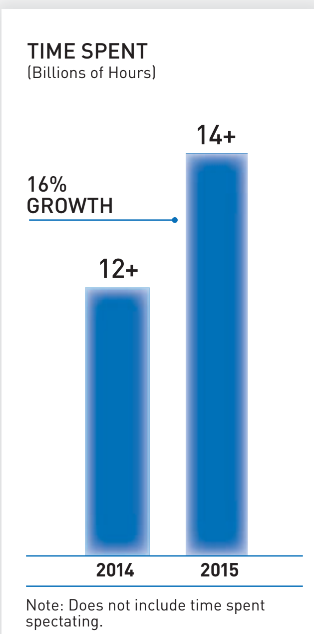
Despite the size of the opportunity, we approached the mobile market with caution over the last few years. The type of games that are successful on mobile phones, and the way you make and market these games, is different from games on PCs and consoles. We didn't really know how to do this well. To take advantage of this opportunity, we decided to acquire a company with the skills and capabilities to make mobile games. We needed to find one that met our stringent criteria for how we allocate capital through an acquisition. As we have outlined many times before in these annual reports, we employ five principles to evaluate an acquisition or an investment. They are:

- Great management with a long-term orientation
- A proven history of profitable operations
- Proven franchises or a proprietary technology (preferably both)
- Accretive to our operating model
- Non-dilutive (preferably accretive) for our shareholders

We wanted a company as committed to product excellence as we are. We wanted a great management team that has the right balance of creativity and commercial sensibility and operates with the same integrity that is the hallmark of our culture. We waited for the "fat pitch," as Warren Buffett likes to refer to investment opportunities that only come with patience.

With King we hit the ball out of the park. When we first met the management team of King a few years ago, we were impressed. We watched as they operated their business since that first meeting, and we were even more impressed. It was hard not to be.





Like Activision and Blizzard, King has an established portfolio of beloved franchises—*Candy Crush*, *Farm Heroes*, *Pet Rescue* and *Bubble Witch*—and they have new potential franchises in development. They have diverse audiences in 196 countries, and their games are played 1.4 billion times a day.

King management is philosophically aligned with our strategic goals of building enduring franchises. Like Activision and Blizzard franchises, King games can be expanded and nurtured year-round. King also has incredible potential upside from the careful integration of advertising into their games. Their network is bigger than Twitter or Snapchat, and they have well over 20 billion hours of game time to monetize. They also have exciting new content and services planned to further enhance the player experience.

We paid a very reasonable price for King at six times their 2015 adjusted EBITDA, and as a result, with over 500 million users each month, we are now the world's largest gaming network. To understand the scale of this network, on a global basis only Facebook, YouTube and WeChat have bigger audiences.

Last year our games generated over 14 billion hours of game play (up 16% year-over-year). Additionally, spectators watched—not played, but watched—over 1.5 billion hours of video game play. The number of people watching video game competition continues to grow. We believe the esports spectator experience can be the equivalent of professional sports both in quality of viewing experience and in advertising, subscription and pay-per-view revenues.

To improve and accelerate our efforts in this regard, we acquired Major League Gaming, the pioneer in esports. With Major League Gaming as our anchor, we accelerated the growth of the Activision Blizzard Media Networks division, which is devoted to broadcasting professionally produced esports competitions around the world, celebrating players and highlighting their successes.

With the goal of becoming the ESPN of esports, we recruited world-class talent to lead this effort and welcomed to Activision Blizzard Steve Bornstein, who as the long-time CEO of ESPN greatly influenced how people watch and follow sports today, and Mike Sepso, who as co-founder of Major League Gaming helped pioneer esports more than a decade ago.

It is exciting to see the evolution of gaming. Recognition that the competition between video game players is as thrilling to watch as traditional professional sports has resulted in over 225 million gamers watching organized gaming competitions. Our franchises are among the most important in all of esports, and no organization has more experience creating compelling esports content than Blizzard.

This year we also created Activision Blizzard Studios, a television, film and short-form entertainment studio that will use storytelling to strengthen our franchises.

[1] MAU defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

ACTIVISION PUBLISHING IN 2015

DIGITAL REVENUES GREW 68%

OPERATING INCOME GREW 30% AT CONSTANT FX[1]

MAU[2] GREW 20%

BLIZZARD ENTERTAINMENT IN 2015

REVENUES GREW AT CONSTANT FX[1]

RECORD ALL-TIME HIGH MAU[2], WITH Q4 UP ~25% YEAR-OVER-YEAR

We will take a low-risk, low-investment approach to development and production and focus on deeply engaging current fans and attracting new audiences. This small team is led by big talents: a two-time Academy Award-nominated producer, Stacey Sher, and a senior executive of many years at The Walt Disney Company, Nick van Dyk.

Today we operate the largest gaming network in the world, with over 500 million users playing our games every month. Our entertainment franchises now reach people on mobile, console and desktop devices in almost every country in the world. And with Activision Blizzard Media Networks and Activision Blizzard Studios, we are extending our franchises to new lucrative platforms.

We expect 2016 to be a record year for the company and project $6.25 billion of revenues, more than $2 billion of operating income and earnings per share of $1.75.

We are a more diversified company than we were a year ago, with a strong core business and more opportunities ahead of us than ever before, and talent continues to be our greatest asset.

As we celebrate 25 years at Activision Blizzard, we always focus on remembering what has driven our success thus far. We have the most inspired and dedicated team of employees in our industry. They come to work each day dedicated to the players they serve, the partners we team with, and the shareholders who have put their faith in us. We were grateful that for a second year we were honored by Fortune Magazine as one of the "*100 Best Companies to Work For*." It's a tribute to our entire team—and we also know that to attract and retain the most talented people we must strive to do better each year.

So whether you first took a risk on us back in 1991 or only recently bought your stake in Activision Blizzard, we thank you for your faith in our company. The last 25 years have been an incredible journey, and there's even more excitement to come. And, we hope, more letters from the champions of tomorrow, like Jacob and Rocco.

Sincerely,

Bobby Kotick
President and Chief Executive Officer
Activision Blizzard

Brian Kelly
Chairman of the Board
Activision Blizzard

[1] Constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.
[2] MAU defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

FINANCIAL REVIEW

SELECTED FINANCIAL DATA

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

The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report. The selected consolidated financial data presented below at and for each of the years in the five-year period ended December 31, 2015 is derived from our Consolidated Financial Statements. All amounts set forth in the following tables are in millions, except per share data.

	For the Years Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Statement of Operations Data:					
Net Revenues	$ 4,664	$ 4,408	$ 4,583	$ 4,856	$ 4,755
Net income	892	835	1,010	1,149	1,085
Basic net income per share	1.21	1.14	0.96	1.01	0.93
Diluted net income per share	1.19	1.13	0.95	1.01	0.92
Cash dividends declared per share(1)	0.23	0.20	0.19	0.18	0.165
Balance Sheet Data:					
Total assets(2)	$ 15,251	$ 14,642	$ 13,953	$ 14,181	$ 13,228
Total debt, net(3)	4,079	4,324	4,693	—	—

(1) On February 3, 2015, our Board of Directors declared a cash dividend of $0.23 per share, payable on May 13, 2015, to shareholders of record at the close of business on March 30, 2015. On February 6, 2014, our Board of Directors declared a cash dividend of $0.20 per share, payable on May 14, 2014, to shareholders of record at the close of business on March 19, 2014. On February 7, 2013, our Board of Directors declared a cash dividend of $0.19 per share, payable on May 15, 2013, to shareholders of record at the close of business on March 20, 2013. On February 9, 2012, our Board of Directors declared a cash dividend of $0.18 per share, payable on May 16, 2012, to shareholders of record at the close of business on March 21, 2012. On February 9, 2011, our Board of Directors declared a cash dividend of $0.165 per share, payable on May 11, 2011, to shareholders of record at the close of business on March 16, 2011.

(2) As of December 31, 2015, we early adopted ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, and retroactively applied to all prior periods presented in accordance with the requirements of the new standard. As a result of this retroactive application of the new standard, total assets as of December 31, 2014, 2013, 2012, and 2011, were reduced by $104 million, $59 million, $19 million, and $49 million, respectively. Refer to Note 21 of the Notes to Consolidated Financial Statements included in this Annual Report for additional information regarding recent accounting pronouncements and our early adoption of this new standard.

(3) In connection with the Purchase Transaction, on September 19, 2013, we issued $1.5 billion of 5.625% unsecured senior notes due September 2021 (the "2021 Notes"), and $750 million of 6.125% unsecured senior notes due September 2023 (the "2023 Notes", and together with the 2021 Notes, the "Notes"). On October 11, 2013, we entered into a $2.5 billion secured term loan facility (the "Term Loan"), maturing in October 2020. The carrying values of the Notes and Term Loan are presented net of unamortized debt discount fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment.

The Business Combination and Share Repurchase

Activision, Inc. was originally incorporated in California in 1979 and was reincorporated in Delaware in December 1992.

Activision Blizzard is the result of the 2008 business combination ("Business Combination") by and among the Company (then known as Activision, Inc.), Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. ("Vivendi Games"), a wholly-owned subsidiary of VGAC LLC. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and Vivendi became a majority shareholder of Activision Blizzard. Activision Blizzard is a public company traded on the NASDAQ under the ticker symbol "ATVI."

On October 11, 2013, we repurchased approximately 429 million shares of our common stock, pursuant to a stock purchase agreement (the "Stock Purchase Agreement") we entered into with Vivendi and ASAC II LP ("ASAC"), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi ("New VH"), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of $5.83 billion, or $13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the "Purchase Transaction"). Refer to Note 11 of the Notes to the Consolidated Financial Statements for information regarding the financing of the Purchase Transaction.

Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of our common stock, pursuant to the Stock Purchase Agreement, for a cash payment of $2.34 billion, or $13.60 per share (the "Private Sale"). Robert A. Kotick, our Chief Executive Officer, and Brian G. Kelly, Chairman of our Board of Directors, are affiliates of ASAC II LLC.

On May 28, 2014, Vivendi sold approximately 41 million shares, or approximately 50% of its then-current holdings, of our common stock in a registered public offering. Vivendi received proceeds of approximately $850 million from that sale; we did not receive any proceeds.

As of December 31, 2015, we had approximately 734 million shares of common stock issued and outstanding. At that date, (i) Vivendi held 41 million shares, or approximately 6% of the outstanding shares of our common stock, (ii) ASAC held 172 million shares, or approximately 23% of the outstanding shares of our common stock, and (iii) our other stockholders held approximately 71% of the outstanding shares of our common stock.

On January 13, 2016, Vivendi sold all of their remaining shares of our common stock. We did not receive any proceeds.

The King Acquisition

On November 2, 2015, we and King Digital Entertainment plc, a leading interactive entertainment company for the mobile world incorporated under the laws of Ireland ("King"), entered into a Transaction Agreement (the "Transaction Agreement") under the terms of which we would acquire King (the "King Acquisition") and King would become a wholly-owned subsidiary of the Company. On February 23, 2016 we completed the King Acquisition under the terms of the Transaction Agreement. We transferred $5.9 billion in consideration to the existing King shareholders and share-based award holders.

The Company made this acquisition because it believes that the addition of King's highly-complementary mobile business will position the Company as a global leader in interactive entertainment across mobile, console, and PC platforms, and positions the company for future growth. The combined company has a world-class interactive entertainment portfolio of top-performing franchises.

As the closing of the King Acquisition occurred subsequent to December 31, 2015, our financial results as of, and for the year ended December 31, 2015, do not contain the results of King.

Reportable Segments

Based upon our organizational structure, we conduct our business through two reportable operating segments, Activision Publishing, Inc. and Blizzard Entertainment, Inc. Previously, we reported "Distribution" as a reportable segment. In the current period, this was no longer deemed a separate reportable segment and is included in "Other", along with our recently announced media networks and film and television studio businesses.

(i) Activision Publishing, Inc.

Activision Publishing, Inc. ("Activision") is a leading international developer and publisher of interactive software products and content. Activision delivers content to a broad range of gamers, ranging from children to adults, and from core gamers to mass-market consumers to "value" buyers seeking budget-priced software, in a variety of geographies. Activision develops games based on internally-developed properties, including games in the Call of Duty® and Skylanders® franchises, and to a lesser extent, based on licensed intellectual properties. Additionally, we have established a long-term alliance with Bungie to publish its game universe, *Destiny*. Activision sells games through both retail and digital online channels. Activision currently offers games that operate on the Microsoft Corporation ("Microsoft") Xbox One ("Xbox One") and Xbox 360 ("Xbox 360"), Nintendo Co. Ltd. ("Nintendo") Wii U ("Wii U") and Wii ("Wii"), and Sony Computer Entertainment, Inc. ("Sony") PlayStation 4 ("PS4") and PlayStation 3 ("PS3") console systems (Xbox One, Wii U, and PS4 are collectively referred to as "next-generation"; Xbox 360, Wii, and PS3 are collectively referred to as "prior-generation"); the personal computer ("PC"); the Nintendo 3DS, Nintendo Dual Screen, and Sony PlayStation Vita handheld game systems; and mobile and tablet devices.

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") is a leader in online PC gaming, including the subscription-based massively multi-player online role-playing game ("MMORPG") category in terms of both subscriber base and revenues generated through its World of Warcraft® franchise. Blizzard also develops, markets, and sells role-playing action and strategy games for the PC, console, mobile and tablet platforms, including games in the multiple-award winning Diablo®, StarCraft®, Hearthstone®: Heroes of Warcraft™ and Heroes of the Storm™ franchises. In addition, Blizzard maintains a proprietary online gaming service, Battle.net®, which facilitates the creation of user-generated content, digital distribution and online social connectivity across all Blizzard games. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; in-game purchases and services; retail sales of physical "boxed" products; online download sales of PC products; purchases and downloads via third-party console, mobile and tablet platforms; and licensing of software to third-party or related party companies that distribute Blizzard products.

(iii) Other

We also engage in other business opportunities that include:

- The Activision Blizzard Media Networks ("Media Networks") business announced in 2015 which builds on our efforts in competitive gaming and the growing eSports industry.

- The Activision Blizzard Studios ("Studios") business announced in 2015 which is devoted to creating original film and television content based on the company's extensive library of iconic and globally-recognized intellectual properties.

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

Business Results and Highlights

In 2015, Activision Blizzard's consolidated net revenues were $4.7 billion and consolidated operating income was $1.3 billion, as compared to consolidated net revenues of $4.4 billion and consolidated operating income of $1.2 billion in 2014. We generated cash flows from operating activities of approximately $1.2 billion in 2015, as compared to $1.3 billion in 2014.

Consolidated net income was $892 million in 2015, as compared to $835 million in 2014. Our diluted earnings per common share was $1.19 in 2015, as compared to $1.13 in 2014.

Product Release Highlights

Games and digital downloadable content released, among others, during the year ended December 31, 2015 included:

- *Call of Duty: Advanced Warfare Havoc* (digital downloadable content)
- *Call of Duty: Advanced Warfare Ascendance* (digital downloadable content)
- *Call of Duty: Advanced Warfare Supremacy* (digital downloadable content)
- *Call of Duty: Advanced Warfare Reckoning* (digital downloadable content)
- *Call of Duty: Black Ops III*
- *Destiny Expansion II: House of Wolves*
- *Destiny Expansion III: The Taken King*
- *Guitar Hero® Live*
- *Hearthstone: Heroes of Warcraft—Blackrock Mountain*™
- *Hearthstone: Heroes of Warcraft—The Grand Tournament*™
- *Hearthstone: Heroes of Warcraft—League of Explorers*™
- *Heroes of the Storm*
- *Skylanders SuperChargers*
- *StarCraft II: Legacy of the Void*™

In addition to the above, we released additional content within our various franchises throughout 2015 that provided additional monetization opportunities, such as "supply drops" in *Call of Duty: Advanced Warfare* and various customization microtransactions within *Destiny*.

On October 27, 2015, Blizzard began the closed beta test for *Overwatch*™, its upcoming team-based first-person shooter.

On February 2, 2016, Activision released *Call of Duty: Black Ops III Awakening*, the first downloadable content pack for *Call of Duty: Black Ops III* on the PS4, with an expected release date to other platforms of March 3, 2016.

International Operations

International sales are a fundamental part of our business. Net revenues from international sales accounted for approximately 48%, 50%, and 47% of our total consolidated net revenues for the years ended December 31, 2015, 2014, and 2013, respectively. In addition to our United States ("U.S.") operations, we maintain significant operations in Australia, Canada, China, France, Germany, Ireland, Italy, the Netherlands, South Korea, Spain, Sweden and the United Kingdom ("U.K."). An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Management's Overview of Business Trends

Digital Revenues

We provide our products through both retail and digital distribution channels. Many of our video games that are available through retailers as physical "boxed" software products are also available digitally (from our websites and from websites and digital distribution channels owned by third parties). In addition, we offer players digital downloadable content as add-ons to our products (*e.g.*, new multi-player content packs or in-game microtransactions), generally for a one-time fee. We also offer subscription-based services and other value-added services for *World of Warcraft*, all of which are digitally delivered and hosted by Battle.net.

We currently define sales via digital online channels as revenues from digitally distributed subscriptions, licensing royalties, value-added services, downloadable content, microtransactions, and products. This definition may differ from that used by our competitors or other companies.

According to Activision Blizzard internal estimates, digital gaming revenues for the interactive entertainment industry in 2015, increased by approximately 20% as compared to 2014. The primary drivers of the increase in digital gaming revenues were increases in microtransactions and consumer purchases of full games via digital channels. In addition to increasing microtransactions within free-to-play games, the increase includes microtransactions within purchased game software, as publishers offer increasingly new opportunities for monetization within their games to extend and enlarge the monetization cycle. Digital revenues are an important part of our business, and we continue to focus on and develop products, such as downloadable content, that can be delivered via digital channels. The amount of our digital revenues in any period may fluctuate depending, in part, on the timing and nature of our specific product releases. Our sales of digital downloadable content are driven in part by sales of, and engagement by players in, our retail products. As such, lower revenues in our retail distribution channels in one year may impact our revenues through digital online channels in the subsequent year.

For the year ended December 31, 2015, net revenues through digital online channels increased by $605 million, as compared to 2014, and represented 54% of our total consolidated net revenues, as compared to 43% in 2014. On a non-GAAP basis (which excludes the impact of deferred revenues), net revenues through digital online channels for the year ended December 31, 2015 increased by $430 million, as compared to 2014, and represented 57% of our total non-GAAP net revenues, as compared to 46% in 2014.

Please refer to the reconciliation between GAAP and non-GAAP financial measures later in this document for further discussions of retail and digital online channels.

Console Platform Transition

In November 2013, Sony released the PS4 and Microsoft released the Xbox One, their respective next-generation game consoles and entertainment systems. According to The NPD Group and GfK Chart-Track in North America and Europe, as of December 31, 2015, the combined installed base of PS4 and Xbox One hardware was approximately 43 million units, representing growth of approximately 82% over the combined installed base of approximately 24 million units as of December 31, 2014. While the combined installed base of PS3 and Xbox 360 hardware was approximately 124 million units as of December 31, 2015, at the comparable point in their release cycle, the prior-generation platforms had only 28 million units installed.

When new console platforms are announced or introduced into the market, consumers reduce their purchases of game console software products for prior-generation console platforms in anticipation of new platforms becoming available. During these periods, sales of the game console software products we publish slow or even decline until the new platforms introduced achieve wide consumer acceptance, which we believe had largely occurred with respect to the next-generation platforms by the end of 2015. We believe that for 2016, the sales impact from the console transition will not be a meaningful driver of the business.

During platform transitions, we simultaneously incur costs to develop and market new titles for prior-generation video game platforms and to develop and market products for next-generation platforms. We continually monitor console hardware sales and manage our product delivery on each of the prior- and next-generation platforms in a manner we believe to be most effective to maximize our revenue opportunities and achieve the desired return on our investments in product development.

Concentration of Top Titles

The concentration of retail revenues among key titles has continued as a trend in the overall interactive software industry. According to The NPD Group, the top 10 titles accounted for 33% of the retail sales in the U.S. interactive entertainment industry in 2015. Similarly, a significant portion of our revenues has historically been derived from video games based on a few popular franchises and these video games are responsible for a disproportionately high percentage of our profits. For example, the Call of Duty, World of Warcraft, Skylanders, and Destiny franchises combined accounted for 71%, 72%, and 80% of our consolidated net revenues for the years ended December 31, 2015, 2014, and 2013, respectively, and a significantly higher percentage of our operating income. As a result, successful competition against these titles can significantly impact our performance. Notably in 2015, the toys to life category became more competitive with a new entrant competing directly with us and other incumbents.

We are continually exploring additional investments in existing and future franchises. During 2015, we released *Heroes of the Storm*, as well as *Call of Duty Online* in China. In the fourth quarter of 2015, we released *Overwatch* into closed beta with an anticipated game release in spring of 2016. There is no guarantee these investments will result in an established franchise.

Additionally, on February 23, 2016, we completed the King Acquisition, diversifying our portfolio of key franchises.

Overall, we do expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our, and the industry's, revenues and profits in the near future.

Seasonality

While our business is transitioning to a year-round engagement model, the interactive entertainment industry remains highly seasonal. We have historically experienced our highest sales volume in the year-end holiday buying season, which occurs in the fourth quarter. We defer the recognition of a significant amount of our net revenues, related to our software titles containing online functionality that constitutes a more-than-inconsequential separate service deliverable, over an extended period of time (*i.e.,* typically less than a year). As a result, the quarter in which we generate the highest sales volume may be different than the quarter in which we recognize the highest amount of net revenues. Our results can also vary based on a number of factors including, but not limited to, title release date, consumer demand, market conditions and shipment schedules.

Outlook

For 2016, our results will include the operations of King, beginning on February 23, 2016, the date the King Acquisition closed. Our earnings under accounting principles generally accepted in the United States of America ("GAAP") are expected to be down versus prior-year, as the expected results will be impacted by additional accounting charges associated with the King Acquisition, which include, among other things, integration and acquisition-related costs, the amortization of intangible assets resulting from purchase price accounting adjustments, and the related tax impact from the King Acquisition. The majority of these GAAP accounting charges will not impact the economics or operating cash flows of our business, although they will have a material impact on our 2016 GAAP results.

For Activision, we expect to deliver multiple map packs to *Call of Duty: Black Ops III,* along with additional in-game content, during 2016. For the Destiny franchise, Activision expects to deliver a new expansion in 2016 with the full-game Destiny sequel to come in 2017. Also in the fourth quarter of 2016, Activision plans to release new Call of Duty and Skylanders games. Blizzard plans to release *Overwatch* in the spring of 2016, as well as *World of Warcraft: Legion*™ in the summer of 2016. In addition, *Hearthstone: Heroes of Warcraft* and *Heroes of the Storm* will have ongoing content updates throughout the year.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,					
	2015		2014		2013	
Net revenues:						
Product sales	$ 2,447	52 %	$ 2,786	63%	$ 3,201	70%
Subscription, licensing, and other revenues	2,217	48	1,622	37	1,382	30
Total net revenues	4,664	100	4,408	100	4,583	100
Costs and expenses:						
Cost of sales—product costs	921	20	999	23	1,053	23
Cost of sales—online	224	5	232	5	204	4
Cost of sales—software royalties and amortization	412	9	260	6	187	4
Cost of sales—intellectual property licenses	28	—	34	1	87	2
Product development	646	14	571	13	584	13
Sales and marketing	734	16	712	16	606	13
General and administrative	380	8	417	9	490	11
Total costs and expenses	3,345	72	3,225	73	3,211	70
Operating income	1,319	28	1,183	27	1,372	30
Interest and other expense, net	198	4	202	5	53	1
Income before income tax expense	1,121	24	981	22	1,319	29
Income tax expense	229	5	146	3	309	7
Net income	$ 892	19%	$ 835	19%	$ 1,010	22%

Operating Segment Results

Our operating segments are consistent with our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), the manner in which we assess operating performance and allocate resources, and the availability of separate financial information. Currently, we have two reportable operating segments (see Note 1 of the Notes to Consolidated Financial Statements). Previously, we reported "Distribution" as a reportable segment. In the current period, this was no longer deemed a reportable segment and is included in "Other" along with our recently announced Media Networks and Studios businesses. We do not aggregate operating segments.

The CODM reviews segment performance exclusive of the impact of the change in deferred revenues and related cost of sales with respect to certain of our online-enabled games, stock-based compensation expense, amortization of intangible assets as a result of purchase price accounting, and fees and other expenses (including legal fees, costs, expenses and accruals) related to acquisitions and the Purchase Transaction. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto. Information on the operating 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 years ended December 31, 2015, 2014, and 2013 are presented in the table below (amounts in millions):

	For the Years Ended December 31,				
	2015	2014	2013	Increase/ (decrease) 2015 v 2014	Increase/ (decrease) 2014 v 2013
Segment net revenues:					
Activision	$ 2,700	$ 2,686	$ 2,895	$ 14	$ (209)
Blizzard	1,565	1,720	1,124	(155)	596
Other(1)	356	407	323	(51)	84
Segments net revenues total	4,621	4,813	4,342	(192)	471
Reconciliation to consolidated net revenues:					
Net effect from deferral of net revenues	43	(405)	241	448	(646)
Consolidated net revenues	$ 4,664	$ 4,408	$ 4,583	$ 256	$ (175)
Segment income from operations:					
Activision	868	762	971	106	(209)
Blizzard	561	756	376	(195)	380
Other(1)	37	9	8	28	1
Segments income from operations total	1,466	1,527	1,355	(61)	172
Reconciliation to consolidated operating income and consolidated income before income tax expense:					
Net effect from deferral of net revenues and related cost of sales	(39)	(215)	229	176	(444)
Stock-based compensation expense	(92)	(104)	(110)	12	6
Amortization of intangible assets	(11)	(12)	(23)	1	11
Fees and other expenses related to acquisitions and the Purchase Transaction	(5)	(13)	(79)	8	66
Consolidated operating income	1,319	1,183	1,372	136	(189)
Interest and other expense, net	198	202	53	(4)	149
Consolidated income before income tax expense	$ 1,121	$ 981	$ 1,319	$ 140	$ (338)

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

For a better understanding of the differences in presentation between our segment results and the consolidated results, the following explains the nature of each reconciling item.

Net Effect from Deferral of Net Revenues and Related Cost of Sales

We have determined that some of our titles' online functionality represents an essential component of gameplay and as a result, represents a more-than-inconsequential separate deliverable. As such, we are required to recognize revenues from these titles over the estimated service periods, which are generally less than one year. The related costs of sales are deferred and recognized when the related revenues are recognized. In the operating segment results table, we present the amount of net revenues and related costs of sales separately for each period as a result of this accounting treatment.

Stock-Based Compensation Expense

We expense our stock-based awards using the grant date fair value over the vesting periods of the stock awards. In the case of liability awards, the liability is subject to revaluation based on the stock price at the end of the relevant period. Included within this stock-based compensation are the net effects of capitalization, deferral, and amortization.

Amortization of Intangible Assets

We amortize intangible assets over their estimated useful lives based on the pattern of consumption of the underlying economic benefits. The amount presented in the table represents the effect of the amortization of intangible assets, as well as other purchase price accounting adjustments, where applicable, in our consolidated statements of operations.

Fees and Other Expenses Related to Acquisitions and the Purchase Transaction

We incurred fees and other expenses, such as legal, banking and professional services fees, related to the Purchase Transaction, the King Acquisition, and other business acquisitions, inclusive of related debt financings. Such expenses are not reviewed by the CODM as part of segment performance.

Segment Net Revenues

<u>Activision</u>

Activision's net revenues increased slightly for 2015, as compared to 2014, primarily due to higher revenues from the Call of Duty franchise, specifically from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014, and the strong digital content performance, including expansion packs and supply drops for *Call of Duty: Advanced Warfare*. Additionally, revenue increased due to revenues from *Guitar Hero Live*, which was released in the fourth quarter of 2015, with no comparable release in the prior-year. These increases were partially offset by lower revenues from *Skylanders SuperChargers*, which was released in the current year, as compared to *Skylanders Trap Team*, the comparable prior-year title, lower revenues from the Destiny franchise as *Destiny* debuted in September 2014 with no comparable full-game release in 2015, and lower revenues from *The Amazing Spider-Man 2*, which was released during the prior-year with no corresponding release during 2015.

Activision's net revenues decreased for 2014, as compared to 2013, primarily due to lower revenues from the Call of Duty and Skylanders franchises, partially offset by higher revenues from the release of *Destiny* and its first expansion pack, *The Dark Below*, in 2014.

<u>Blizzard</u>

Blizzard's net revenues decreased for 2015, as compared to 2014, primarily due to the timing of game releases; most notably *Diablo III: Reaper of Souls™,* which was released in March 2014 on the PC, *Diablo III: Reaper of Souls—Ultimate Evil Edition™,* which was released in August 2014 on consoles, and *World of Warcraft: Warlords of Draenor®*, which was released in November 2014, along with the overall lower revenues from *World of Warcraft* due to a smaller subscriber base. These decreases were partially offset by higher revenues from *Hearthstone: Heroes of Warcraft,* which had multiple content releases throughout the year, along with revenues from *Heroes of the Storm* and *Starcraft II: Legacy of the Void*, which were released in 2015. In addition to already having been released on PC, iPad, and Android tablets in the prior-year, *Hearthstone: Heroes of Warcraft* was released on iPhone and Android smartphones in April 2015, which contributed to the current period revenue performance.

Blizzard's net revenues increased for 2014, as compared to 2013, primarily due to revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC, and *Diablo III: Reaper of Souls—Ultimate Evil Edition,* which was released in August 2014 on certain consoles, revenue from value-added services as a result of the launch of the *World of Warcraft* paid character boost, revenues from *World of Warcraft: Warlords of Draenor*, which was released in November 2014, and revenues from *Hearthstone: Heroes of Warcraft,* which was commercially released in 2014, as compared to revenues in 2013 from *StarCraft II: Heart of the Swarm®*, which was released in March 2013, and from *Diablo III* on consoles, which was released in September 2013.

Segment Income from Operations

<u>Activision</u>

Activision's operating income increased in 2015, as compared to 2014, primarily due to an increased percentage of revenues coming from the higher margin online digital channels, and lower sales and marketing spending on the Destiny franchise because of the September 2014 launch of *Destiny* with no comparable full-game release in the current year. This is partially offset by operating losses from *Guitar Hero Live*, which was released in the fourth quarter of 2015, with no comparable release in the prior-year, and lower revenues from *Skylanders SuperChargers* as compared to *Skylanders Trap Team*.

Activision's operating income decreased in 2014, as compared to 2013, primarily due to lower revenues, as described above, relatively higher cost of sales—software royalties and amortization, and higher sales and marketing activities from the release of *Destiny*; partially offset by lower cost of sales—product costs as a result of lower revenues, and lower general and administrative costs, primarily resulting from lower legal-related expenses (including legal-related accruals, settlements and fees).

Blizzard

Blizzard's operating income decreased in 2015, as compared to 2014, primarily due to lower revenues, as described above; higher costs of sales—product costs from *Hearthstone: Heroes of Warcraft* related to commissions on mobile purchases with the launch on iPhone and Android smartphones in April 2015; higher sales and marketing spending for its releases, including *Hearthstone: Heroes of Warcraft* and *Heroes of the Storm*; lower capitalization of software development costs; and higher cost of sales—software royalties and amortization.

Blizzard's operating income increased in 2014, as compared to 2013, primarily due to higher revenues, as described above, partially offset by higher cost of sales—product costs, higher product development costs and higher sales and marketing activities to support a higher number of titles released in 2014.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of $364 million on Activision Blizzard's segment net revenues for 2015 as compared to the same period in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

Non-GAAP Financial Measures

The analysis of revenues by distribution channel is presented both on a GAAP (including the impact from the change in deferred revenues) and non-GAAP (excluding the impact from the change in deferred revenues) basis. We use this non-GAAP measure internally when evaluating our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team. We believe this is appropriate because this non-GAAP measure enables an analysis of performance based on the timing of actual transactions with our customers, which is consistent with the way the Company is measured by investment analysts and industry data sources, and facilitates comparison of operating performance between periods. In addition, excluding the impact from the change in deferred net revenue provides a much more timely indication of trends in our sales and other operating results. While we believe that this non-GAAP measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP. In addition, this non-GAAP financial measure may not be the same as any non-GAAP measure presented by another company. This non-GAAP financial measure has limitations in that it does not reflect all of the items associated with our GAAP revenues. We compensate for the limitations resulting from the exclusion of the change in deferred revenues by considering the impact of that item separately and by considering our GAAP, as well as non-GAAP, revenues.

Results of Operations—Years Ended December 31, 2015, 2014, and 2013

Non-GAAP Financial Measures

The following table provides reconciliation between GAAP and non-GAAP net revenues by distribution channel for the years ended December 31, 2015, 2014, and 2013 (amounts in millions):

	For the Years Ended December 31,						
	2015	2014	2013	Increase/ (decrease) 2015 v 2014	Increase/ (decrease) 2014 v 2013	% Change 2015 v 2014	% Change 2014 v 2013
GAAP net revenues by distribution channel							
Retail channels	$ 1,806	$ 2,104	$ 2,701	$ (298)	$ (597)	(14)%	(22)%
Digital online channels(1)	2,502	1,897	1,559	605	338	32	22
Total Activision and Blizzard	4,308	4,001	4,260	307	(259)	8	(6)
Other(2)	356	407	323	(51)	84	(13)	26
Total consolidated GAAP net revenues	4,664	4,408	4,583	256	(175)	6	(4)
Change in deferred net revenues(3)							
Retail channels	(169)	104	(247)	(273)	351		
Digital online channels(1)	126	301	6	(175)	295		
Total changes in deferred net revenues	(43)	405	(241)	(448)	646		
Non-GAAP net revenues by distribution channel							
Retail channels	1,637	2,208	2,454	(571)	(246)	(26)	(10)
Digital online channels(1)	2,628	2,198	1,565	430	633	20	40
Total Activision and Blizzard	4,265	4,406	4,019	(141)	387	(3)	10
Other(2)	356	407	323	(51)	84	(13)	26
Total non-GAAP net revenues(4)	$ 4,621	$ 4,813	$ 4,342	$ (192)	$ 471	(4)%	11%

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

(2) Net revenues from Other include revenues from our Media Networks and Studios businesses, along with revenues that were historically shown as "Distribution."

(3) We have determined that some of our titles' online functionality represents an essential component of gameplay and as a result, represents a more-than inconsequential separate deliverable. As such, we recognize revenues attributed to these titles over the estimated service periods, which are generally less than one year. In the table above, we present the amount of net revenues for each period as a result of this accounting treatment.

(4) Total non-GAAP net revenues presented, also represents our total segment net revenues.

Retail Channel Net Revenues

The decrease in GAAP net revenues from retail channels for 2015, as compared to 2014, was primarily due to lower revenues from *Skylanders SuperChargers*, which was released in the current year, as compared to *Skylanders Trap Team*, the comparable prior-year title, lower revenues recognized from *Call of Duty: Advanced Warfare,* which was released in the fourth quarter of 2014, as compared to *Call of Duty: Ghosts*, which was released in the fourth quarter of 2013, and lower revenues recognized from *Diablo III: Reaper of Souls* and *Diablo III: Reaper of Souls—Ultimate Evil Edition,* which were released in March 2014 on PC and in August 2014 on consoles, respectively. The decreases were partially offset by higher revenues recognized from the Destiny franchise and revenues from *Guitar Hero Live,* which was released in October 2015.

The decrease in GAAP net revenues from retail channels for 2014, as compared to 2013, was primarily due to lower revenues from the Call of Duty and Skylanders franchises. The decreases were partially offset by revenues from *Destiny*, which was released in September 2014, and revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC, and *Diablo III: Reaper of Souls—Ultimate Evil Edition*, which was released in August 2014 on certain consoles.

The decrease in non-GAAP net revenues from retail channels for 2015, as compared to 2014, was primarily due to lower revenues from *Destiny*, which launched in September 2014 with no comparable full-game release in the current year, from *Skylanders SuperChargers*, which was released in the current year, as compared to *Skylanders Trap Team*, the comparable prior-year title, and from the Diablo franchise due to timing of title releases. This was partially offset by revenues from *Guitar Hero Live*, which was released in the fourth quarter of 2015, with no comparable release in the prior-year, and revenues from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014.

The decrease in non-GAAP net revenues from retail channels for 2014, as compared to 2013, was primarily due to lower revenues from the Call of Duty and Skylanders franchises. The decreases were partially offset by revenues from *Destiny*, which was released in September 2014, and revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC and *Diablo III: Reaper of Souls—Ultimate Evil Edition*, which was released in August 2014 on certain consoles, as compared to revenues from the September 2013 release of *Diablo III* on the PS3 and Xbox 360.

Digital Channel Net Revenues

The increase in GAAP net revenues from digital online channels for 2015, as compared to 2014, was primarily due to: higher revenues recognized from the Destiny franchise; higher revenues recognized from *Hearthstone: Heroes of Warcraft*; higher revenues recognized from *Call of Duty: Advanced Warfare* and its digital content released during the current period, as compared to *Call of Duty: Ghosts* and its digital content released during the prior period, including revenues recognized from *Call of Duty: Advanced Warfare's* new digital content known as "supply drops;" and revenues recognized from *Heroes of the Storm*, which was released in June 2015 with no comparable release during the prior periods. The increases were partially offset by lower revenues from the Diablo franchise due to the timing of title releases.

The increase in GAAP net revenues from digital online channels for 2014, as compared to 2013, was primarily due to higher revenues from *Hearthstone: Heroes of Warcraft,* value-added services revenues from the launch of the *World of Warcraft* paid character boost, revenues from *World of Warcraft: Warlords of Draenor*, revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC, and *Diablo III: Reaper of Souls—Ultimate Evil Edition*, which was released in August 2014 on certain consoles, and the release of *Destiny* and its first expansion pack, *The Dark Below,* and higher digital download revenues from *Call of Duty: Advanced Warfare*. The increases were partially offset by lower revenues recognized from *StarCraft II: Heart of the Swarm*, which was released in March 2013, lower revenues recognized from *World of Warcraft: Mists of Pandaria®*, which was released in September 2012, and lower downloadable content revenues from the Call of Duty franchise.

The increase in non-GAAP net revenues from digital online channels for 2015, as compared to 2014, was primarily due to: revenues from *Hearthstone: Heroes of Warcraft;* revenues from *Destiny* and its associated expansion packs, including *The Taken King* which was released in September 2015; higher revenues from the Call of Duty franchise, specifically from *Call of Duty: Black Ops III*, which was released in the fourth quarter of 2015, as compared to *Call of Duty: Advanced Warfare*, which was released in the fourth quarter of 2014, and from the strong digital content performance, including expansion packs and supply drops, of *Call of Duty: Advanced Warfare*; and revenues from *Heroes of the Storm*, which was released in June 2015 with no comparable release during the prior periods. These increases were partially offset by lower revenues from *World of Warcraft*, primarily due to a decline in the subscriber base and the launch of *World of Warcraft: Warlords of Draenor* in November 2014 with no comparable release in the current year, and lower revenues recognized from the Diablo franchise due to the timing of title releases.

The increase in non-GAAP net revenues from digital online channels for 2014, as compared to 2013, was primarily due to revenues from *Hearthstone: Heroes of Warcraft,* value-added services revenues from the launch of the *World of Warcraft: Warlords of Draenor* paid character boost, revenues from *World of Warcraft: Warlords of Draenor*, revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC, and *Diablo III: Reaper of Souls—Ultimate Evil Edition*, which was released in August 2014 on certain consoles, revenues from the release of *Destiny* and its first expansion pack, *The Dark Below,* and higher digital downloads of *Call of Duty: Advanced Warfare*. The increases were partially offset by lower downloadable content revenues from the Call of Duty franchise.

Consolidated Results

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region for the years ended December 31, 2015, 2014, and 2013 (amounts in millions):

	For the Years Ended December 31,						
	2015	2014	2013	Increase/ (decrease) 2015 v 2014	Increase/ (decrease) 2014 v 2013	% Change 2015 v 2014	% Change 2014 v 2013
Geographic region net revenues:							
North America	$ 2,409	$ 2,190	$ 2,414	$ 219	$ (224)	10%	(9)%
Europe	1,741	1,824	1,826	(83)	(2)	(5)	—
Asia Pacific	514	394	343	120	51	30	15
Consolidated net revenues	$ 4,664	$ 4,408	$ 4,583	$ 256	$ (175)	6	(4)

The increase/(decrease) in deferred revenues recognized by geographic region for the years ended December 31, 2015, 2014, and 2013 was as follows (amounts in millions):

	For the Years Ended December 31,				
	2015	2014	2013	Increase/ (Decrease) 2015 v 2014	Increase/ (Decrease) 2014 v 2013
Increase/(decrease) in deferred revenues recognized by geographic region:					
North America	$ 55	$ (206)	$ 108	$ 261	$ (314)
Europe	20	(153)	107	173	(260)
Asia Pacific	(32)	(46)	26	14	(72)
Total impact on consolidated net revenues	$ 43	$ (405)	$ 241	$ 448	$ (646)

Consolidated Net Revenues

Consolidated net revenues in the North America region increased in 2015 as compared to 2014, primarily due to higher revenues recognized from the Destiny franchise, higher revenues recognized from *Hearthstone: Heroes of Warcraft*, and revenues recognized from *Heroes of the Storm* and *Guitar Hero Live*, which were both released in 2015 with no comparable releases during the prior periods. The increases were partially offset by lower revenues from *Skylanders SuperChargers,* as compared to *Skylanders Trap Team*, and lower revenues recognized from the Diablo franchise due to the timing of title releases.

Consolidated net revenues in the Europe region decreased in 2015 as compared to 2014, primarily due to lower revenues recognized from the Diablo and Call of Duty franchises, lower revenues from *Skylanders SuperChargers*, as compared to *Skylanders Trap Team*, and lower revenues from our Distribution business. These were partially offset by higher revenues recognized from the Destiny franchise, higher revenues recognized from *Hearthstone: Heroes of Warcraft*, and revenues recognized from *Heroes of the Storm*.

Consolidated net revenues in the Asia Pacific region increased in 2015 as compared to 2014, primarily due to higher revenues recognized from *Hearthstone: Heroes of Warcraft, Call of Duty Online,* and *Heroes of the Storm*, which launched in China in 2015 with no comparable prior-year titles. The increases were partially offset by lower revenues from the Diablo franchise.

Consolidated net revenues in all regions decreased in 2014 as compared to 2013, except for the Asia Pacific region. As previously discussed, the decrease in the Company's consolidated net revenues in 2014, as compared to the same period in 2013, was mainly due to lower revenues from the Call of Duty and Skylanders franchises, lower revenues recognized from *StarCraft II: Heart of the Swarm*, which was released in March 2013, and lower revenues recognized from *World of Warcraft: Mists of Pandaria*, which was released in September 2012. The decreases were partially offset by the launch of *Destiny* and its first expansion pack, *The Dark Below*, revenues from *Hearthstone: Heroes of Warcraft,* value-added services revenues from the launch of the *World of Warcraft* paid character boost, revenues from *World of Warcraft: Warlords of Draenor*, and revenues from *Diablo III: Reaper of Souls,* which was released in March 2014 on the PC, and *Diablo III: Reaper of Souls—Ultimate Evil Edition*, which was released in August 2014 on certain consoles. All of the above factors impact our year-over-year comparisons for North America and Europe. Further, in the Europe region, the decreases were partially offset by the increase in Distribution segment revenues. In the Asia Pacific region, the higher mix of Blizzard segment operations, as compared to Publishing segment operations, resulted in a year-over-year increase in revenues.

Deferred Revenues Recognized

In all regions, the increase in deferred revenues recognized in 2015, as compared to 2014, was primarily due to lower deferrals of revenue from *Destiny*, from *World of Warcraft*, primarily associated with *World of Warcraft: Warlords of Draenor* and value-added services, and from the Diablo franchise. These were partially offset by increased deferrals of revenue from the Call of Duty franchise and deferral of revenues for *StarCraft II: Legacy of the Void* and *Guitar Hero Live*, which were released in 2015 with no comparable prior-year releases. Additionally, in the Asia Pacific region there was an increase deferral of revenues from *Hearthstone: Heroes of Warcraft*.

In all regions, the decrease in deferred revenues recognized in 2014, as compared to 2013, was primarily attributed to the higher deferral of revenues from *World of Warcraft: Warlords of Draenor*, which was released in November 2014, as compared to the recognition of revenues from *World of Warcraft: Mists of Pandaria*, which was released in September 2012, deferral of revenues from *Destiny* and its first expansion pack *The Dark Below*, both of which were released in 2014, and the deferral of revenues from *Hearthstone: Heroes of Warcraft*, which was also released in 2014.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of $373 million, a negative impact of $2 million, and a positive impact of $33 million on Activision Blizzard's consolidated net revenues in 2015, 2014, and 2013, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

For the year ended December 31, 2014, given that a significant portion of the Company's GAAP net consolidated revenues is generated in the first half of the fiscal year due to the impact of deferrals, where the euro and British pound strengthened against the U.S dollar as compared to the same period in 2013, the negative impact from the significant weakening of the euro and British pound relative to U.S. dollar in the later stages of 2014 was largely offset in the Company's consolidated net revenues for the full year 2014.

Net Revenues by Platform

The following tables detail our net revenues by platform and as a percentage of total consolidated net revenues for the years ended December 31, 2015, 2014, and 2013 (amounts in millions):

	Year Ended December 31, 2015	% of total(4) consolidated net revenues	Year Ended December 31, 2014	% of total(4) consolidated net revenues	Year Ended December 31, 2013	% of total(4) consolidated net revenues	Increase/ (Decrease) 2015 v 2014	Increase/ (Decrease) 2014 v 2013
Platform net revenues:								
Online(1)	$ 851	18%	$ 867	20%	$ 912	20%	$ (16)	$ (45)
PC	648	14	551	13	340	7	97	211
Next-generation (PS4, Xbox One, Wii U)	1,492	32	720	16	92	2	772	628
Prior-generation (PS3, Xbox 360, Wii)	899	19	1,430	32	2,287	50	(531)	(857)
Total Console	2,391	51	2,150	49	2,379	52	241	(229)
Mobile and ancillary(2)	418	9	433	10	629	14	(15)	(196)
Total Activision Blizzard	4,308	92	4,001	91	4,260	93	307	(259)
Other(3)	356	8	407	9	323	7	(51)	84
Total consolidated net revenues	$ 4,664	100%	$ 4,408	100%	$ 4,583	100%	$ 256	$ (175)

The increase / (decrease) in deferred revenues recognized by platform for years ended December 31, 2015, 2014, and 2013 was as follows (amounts in millions):

	For the Years Ended December 31,				
	2015	2014	2013	Increase/ (Decrease) 2015 v 2014	Increase/ (Decrease) 2014 v 2013
Increase/(decrease) in deferred revenues recognized by platform:					
Online(1)	$ 138	$ (168)	$ 107	$ 306	$ (275)
PC	(82)	(41)	22	(41)	(63)
Next-generation (PS4, Xbox One, Wii U)	(252)	(477)	(213)	225	(264)
Prior-generation (PS3, Xbox 360, Wii)	274	295	324	(21)	(29)
Total console	22	(182)	111	204	(293)
Mobile and ancillary(2)	(35)	(14)	1	(21)	(15)
Total impact on consolidated net revenues	$ 43	$ (405)	$ 241	$ 448	$ (646)

(1) Revenues from online consists of revenues from all *World of Warcraft* products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.

(2) Revenues from mobile and ancillary includes revenues from handheld, mobile and tablet devices, as well as non-platform specific game-related revenues such as standalone sales of toys and accessories products from our Skylanders franchise and other physical merchandise and accessories.

(3) Net revenues from Other include revenues from our Media Networks and Studios businesses, along with revenues that were historically shown as “Distribution.”

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

Net revenues from online decreased slightly in 2015, as compared to 2014, primarily due to lower *World of Warcraft* subscriber levels. This was partially offset by revenue recognized from the expansion *World of Warcraft: Warlords of Draenor*, which was released in November 2014, and from associated value-added services including a paid character boost.

Net revenues from online decreased in 2014, as compared to 2013, primarily due to the deferral of revenues from *World of Warcraft: Warlords of Draenor*, as compared to the recognition of revenues from *World of Warcraft: Mists of Pandaria*, which was released in September 2012, and lower subscription revenues from *World of Warcraft*. The decrease was partially offset by the strong performance of value-added services revenues driven by the launch of the *World of Warcraft* paid character boost.

Net revenues from PC increased in 2015, as compared to 2014, primarily due to higher revenues recognized from *Hearthstone: Heroes of Warcraft* and revenues recognized from *Heroes of the Storm*. This was partially offset by lower revenues recognized in 2015 from *Diablo III: Reaper of Souls*, due to the title releasing in March 2014 and no comparable title release in 2015.

Net revenues from PC increased in 2014, as compared to 2013, primarily due to revenues from *Hearthstone: Heroes of Warcraft,* which had no comparable title in 2013, and higher revenues from *Diablo III: Reaper of Souls*, which was released in March 2014, as compared to revenues from the release of *StarCraft II: Heart of the Swarm*, which was released in March 2013.

Net revenues from next-generation consoles increased in 2015, as compared to 2014, and increased in 2014, as compared to 2013, in each case primarily due to increased consumer adoption of the PS4 and Xbox One and an increase in the number of titles released for the next-generation console platforms. Since the introduction of the PS4 and Xbox One in the fourth quarter of 2013, we have released the following titles, among others, on next-generation consoles: *Call of Duty: Ghosts* and *Skylanders SWAP Force*™ in the fourth quarter of 2013; *The Amazing Spider-Man™ 2* and *Transformers™: Rise of the Dark Spark* in the second quarter of 2014; *Diablo III: Reaper of Souls—Ultimate Evil Edition* and *Destiny* in the third quarter of 2014, and *Call of Duty: Advanced Warfare* and *Skylanders Trap Team* in the fourth quarter of 2014. In 2015, we have released multiple expansions or map packs for *Destiny* and *Call of Duty: Advanced Warfare* on the next-generation consoles along with major new titles including *Call of Duty: Black Ops III*, *Skylanders SuperChargers*, and *Guitar Hero Live*.

Net revenues from prior-generation consoles decreased in 2015, as compared to 2014, primarily due to lower revenues from the Call of Duty and Skylanders franchises and from the transition of players from prior-generation to next-generation platforms. The decreases were partially offset by higher revenues recognized from the Destiny franchise and revenues from *Guitar Hero Live*.

Net revenues from prior-generation consoles decreased in 2014, as compared to 2013, primarily due to lower revenues from the Call of Duty and Skylanders franchises. The decreases were partially offset by revenues from *Destiny*, the recognition of previously deferred revenues from *Diablo III* for the PS3 and the Xbox 360, which was released in September 2013, and revenues from the release of *Diablo III: Reaper of Souls—Ultimate Evil Edition*.

Net revenues from mobile and ancillary decreased slightly in 2015, as compared to 2014, primarily due to lower revenues from sales of standalone toys and accessories from the Skylanders franchise. The decrease was partially offset by higher revenues from *Hearthstone: Heroes of Warcraft* on iOS and Android devices.

Net revenues from mobile and ancillary decreased in 2014, as compared to 2013, primarily due to lower revenues from sales of standalone toys and accessories from the Skylanders franchise and from handheld titles. The decrease was partially offset by an increase in mobile and tablet platform revenues from the release of *Hearthstone: Heroes of Warcraft* on the iPad and Android tablets in 2014.

Deferred revenues recognized for online increased in 2015, as compared to 2014, primarily due to the recognition of deferred revenues from *World of Warcraft: Warlords of Draenor* and from value-added services revenues for *World of Warcraft*, including paid character boosts.

Deferred revenues recognized for online decreased in 2014, as compared to 2013, primarily due to the deferral of revenues from *World of Warcraft: Warlords of Draenor,* the deferral of value-added services revenues primarily from the launch of the *World of Warcraft* paid character boost, and lower revenues recognized from *World of Warcraft: Mists of Pandaria*, which was released in September 2012.

Deferred revenues recognized for PC decreased in 2015, as compared to 2014, primarily due to deferral of revenues from *StarCraft II: Legacy of the Void*, which was released in November 2015, from *Heroes of the Storm,* and from *Hearthstone: Heroes of Warcraft*. This was partially offset by the recognition of deferred revenues from *Diablo III: Reaper of Souls* following its release in March 2014.

The decrease in deferred revenues recognized for PC in 2014, as compared to 2013, was due to the deferral of revenues from *Hearthstone: Heroes of Warcraft* and the higher deferral of revenues from *Diablo III: Reaper of Souls*, which was released in March 2014, as compared to revenues deferred from *StarCraft II: Heart of the Swarm*, which was released in March 2013.

The increase in deferred revenues recognized for next-generation consoles in 2015, as compared to 2014, was primarily due to the recognition of deferred revenues on *Destiny*, which was released in September 2014, without a comparable release in the 2015, and revenues recognized from the Diablo franchise due to the timing of title releases. These increases were partially offset by revenues deferred from the Call of Duty franchise and from the release of *Guitar Hero Live* in the current year.

The decrease in deferred revenues recognized for next-generation consoles in 2014, as compared to 2013, was due to the higher deferral of revenues from *Call of Duty: Advanced Warfare*, which was released in November 2014, as compared to revenues deferred from *Call of Duty: Ghosts*, which was released in November 2013, and the deferral of revenues from *Destiny*, which was released in September 2014. As discussed above, the PS4 and Xbox One were introduced in the fourth quarter of 2013 and we have since released several titles, which were available on next-generation consoles for the full year in 2014, as compared to a partial year in 2013.

The decrease in deferred revenues recognized for prior-generation consoles in 2015, as compared to 2014, was due to lower deferred revenues recognized from the Call of Duty franchise and the deferral of revenues from the release *Guitar Hero Live* in 2015. These were partially offset by recognition of deferred revenues from the Destiny franchise.

The decrease in deferred revenues recognized for prior-generation consoles in 2014, as compared to 2013, was due to the deferral of revenues from the launch of *Destiny*, partially offset by lower deferral of revenues from the Call of Duty franchise and lower deferral of revenues from *Diablo III: Reaper of Souls—Ultimate Evil Edition*, as compared to the deferral of revenues from *Diablo III* on PS3 and Xbox 360, which was released in 2013.

Costs and Expenses

Cost of Sales

The following tables detail the components of cost of sales in dollars and as a percentage of total consolidated net revenues for the years ended December 31, 2015, 2014, and 2013 (amounts in millions):

	Year Ended December 31, 2015	% of consolidated net revenues	Year Ended December 31, 2014	% of consolidated net revenues	Year Ended December 31, 2013	% of consolidated net revenues	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Product costs	$ 921	20%	$ 999	23%	$ 1,053	23%	$ (78)	$ (54)
Online	224	5	232	5	204	4	(8)	28
Software royalties and amortization	412	9	260	6	187	4	152	73
Intellectual property licenses	28	—	34	1	87	2	(6)	(53)
Total cost of sales	$ 1,585	34%	$ 1,525	35%	$ 1,531	33%	$ 60	$ (6)

Total cost of sales of $1,585 million increased in 2015, as compared to total cost of sales of $1,525 million in 2014, primarily due to higher revenues in 2015. Cost of sales-product costs decreased primarily due to the relative increase in revenues coming from the digital online channel, which has relatively lower product costs, along with decreased product costs as a result of the decreased revenues from our relatively lower-margin Distribution business. Cost of sales-software royalties and amortization increased primarily due to higher software amortization from the Destiny franchise and from software costs associated with new Blizzard product releases.

Total cost of sales of $1,525 million decreased in 2014, as compared to total cost of sales of $1,531 million in 2013, primarily due to lower revenues in 2014 and the relative increase in revenues coming from the digital online channel, which has relatively lower product costs, as compared to retail revenues. Cost of sales—product costs decreased primarily due to lower retail product sales, partially offset by increased product costs as a result of increased revenues from our relatively lower-margin Distribution business. Cost of sales—online increased primarily due to higher online revenues and related support costs. Cost of sales—software royalties and amortization increased primarily due to higher software amortization for introduction of new franchises and new product releases during the year. Cost of sales—intellectual property licenses decreased primarily due to the write-down of intellectual property licenses in 2013, with no comparable write-downs in 2014, lower amortization of our intangible assets, and a reduction in the number of titles released by our value business in 2014, which are normally based on licensed properties.

Product Development (amounts in millions)

	Year Ended December 31, 2015	% of consolidated net revenues	Year Ended December 31, 2014	% of consolidated net revenues	Year Ended December 31, 2013	% of consolidated net revenues	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Product development	$ 646	14%	$ 571	13%	$ 584	13%	$ 75	$ (13)

For 2015, product development costs increased, as compared to 2014, primarily due to increased costs to support our future title releases and increased Blizzard product development costs, primarily associated with higher payroll costs and bonuses to studio personnel.

For 2014, product development costs decreased, as compared to 2013, primarily due to lower stock-based compensation expenses associated with employees involved in product development as a result of fewer shares granted and fewer shares and options vested during the year.

Sales and Marketing (amounts in millions)

	Year Ended December 31, 2015	% of consolidated net revenues	Year Ended December 31, 2014	% of consolidated net revenues	Year Ended December 31, 2013	% of consolidated net revenues	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Sales and marketing	$ 734	16%	$ 712	16%	$ 606	13%	$ 22	$ 106

Sales and marketing expenses increased in 2015, as compared to 2014, primarily due to increased spending on sales and marketing activities to support the launch of *Guitar Hero Live* and *Heroes of the Storm* during the year. The increase was partially offset by lower media spending on the World of Warcraft, Destiny, and Diablo franchises due to the timing of title releases.

Sales and marketing expenses increased in 2014, as compared to 2013, primarily due to increased spending on sales and marketing activities to support the launch of *Destiny*, *Hearthstone: Heroes of Warcraft*, and *World of Warcraft: Warlords of Draenor* during the year. The increase was partially offset by lower media spending on the Call of Duty and Skylanders franchises.

General and Administrative (amounts in millions)

	Year Ended December 31, 2015	% of consolidated net revenues	Year Ended December 31, 2014	% of consolidated net revenues	Year Ended December 31, 2013	% of consolidated net revenues	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
General and administrative	$ 380	8%	$ 417	9%	$ 490	11%	$ (37)	$ (73)

General and administrative expenses decreased in 2015, as compared to 2014, primarily due to realized and unrealized gains from our foreign currency derivative contracts and lower stock-based compensation expense. This decrease was partially offset by increased professional service fees incurred, primarily in connection with the King Acquisition.

General and administrative expenses decreased in 2014, as compared to 2013, primarily due to the lower bankers' and professional fees related to the Purchase Transaction and related debt financings in 2014, as compared to 2013.

Interest and Other Expense, Net (amounts in millions)

	Year Ended December 31, 2015	% of consolidated net revenues	Year Ended December 31, 2014	% of consolidated net revenues	Year Ended December 31, 2013	% of consolidated net revenues	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Interest and other expense, net	$ 198	4%	$ 202	5%	$ 53	1%	$ (4)	$ 149

Interest and other expense, net, in 2015 was comparable to 2014.

Interest and other expense, net, was $202 million in 2014, as compared to $53 million in 2013, reflecting a full year of interest expense incurred from the Notes and the Term Loan, which were issued and drawn, respectively, in October 2013. Interest expense for 2013 reflects interest from the period in which the Notes and the Term Loan were issued and drawn, respectively, to the end of the year.

Income Tax Expense (Benefit) (amounts in millions)

	Year Ended December 31, 2015	% of Pretax income	Year Ended December 31, 2014	% of Pretax income	Year Ended December 31, 2013	% of Pretax income	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Income tax expense	$ 229	20%	$ 146	15%	$ 309	23%	$ 83	$ (163)

For the year ended December, 2015, 2014 and 2013, the Company's income before income tax expense was $1,121 million, $981 million, and $1,319 million, respectively, and our income tax expense was $229 million (or a 20% effective tax rate), $146 million (or a 15% effective tax rate), and $309 million (or a 23% effective tax rate), respectively. Overall, our effective tax rate differs from the U.S. statutory tax rate of 35%, primarily due to earnings taxed at relatively lower rates in foreign jurisdictions, recognition of the California research and development ("R&D") credits, and recognition of the retroactive reinstatement of the federal R&D tax credit, partially offset by changes in the Company's liability for uncertain tax positions.

In 2015 and 2014, our U.S. income before income tax expense was $355 million and $325 million, respectively, and comprised 32% and 33%, respectively, of our consolidated income before income tax expense. In 2015 and 2014, the foreign income before income tax expense was $766 million and $656 million, respectively, and comprised 68% and 67%, respectively, of our consolidated income before income tax expense.

In 2015 and 2014, earnings taxed at lower rates in foreign jurisdictions, as compared to domestic earnings taxed at the U.S. federal statutory tax rate, lowered our effective tax rate by 20% and 25%, respectively. The decrease in the foreign rate differential is due to changes in foreign temporary differences, as compared to the prior-year.

In 2014 and 2013, earnings taxed at lower rates in foreign jurisdictions, as compared to domestic earnings taxed at the U.S. federal statutory tax rate, lowered our effective tax rate by 25% and 13%, respectively. The primary increase in the foreign rate differential is due to the proportional increase over the prior-year's earnings in foreign jurisdictions taxed at relatively lower rates. In addition, the 2014 foreign tax provision resulted in a benefit due to changes in foreign temporary differences, as compared to the prior-year.

Vivendi Games results for the period 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. Vivendi Games tax year 2008 remains open to examination by the major taxing authorities. In addition, Vivendi Games' tax return for the 2008 tax year is before the appeals function of the Internal Revenue Service ("IRS") and is under examination by several state taxing authorities.

Activision Blizzard's tax years 2008 through 2014 remain open to examination by the major taxing jurisdictions to which we are subject. The IRS is currently examining the Company's federal tax returns for the 2008 through 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 the period in which such a determination is reached and the relevant periods thereafter. The Company also has several state and non-U.S. audits pending.

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 are not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on our business and results of operations in the period in which the matters are ultimately resolved.

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

A more detailed analysis of the differences between the U.S. federal statutory rate and the consolidated effective tax rate, as well as other information about our income taxes, is provided in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of $242 million, a negative impact of $8 million, and a positive impact of $20 million on Activision Blizzard's consolidated operating income in 2015, 2014 and 2013, respectively. The change is primarily due to changes in the value of the U.S. dollar relative to the euro and British pound and its impact on our foreign operating income.

For the year ended December 31, 2014, given that the majority of the Company's GAAP net consolidated operating income is generated in the first half of the fiscal year due to the impact of deferrals, where the euro and British pound strengthened against the U.S dollar as compared to the same period in 2013, the negative impact from the significant weakening of the euro and British pound relative to U.S. dollar in the later stages of 2014 was largely offset in on the Company's consolidated operating income for the full year 2014.

Liquidity and Capital Resources

Sources of Liquidity (amounts in millions)

	For the Years Ended December 31, 2015	2014	Increase (Decrease) 2015 v 2014
Cash and cash equivalents	$ 1,823	$ 4,848	$ (3,025)
Short-term investments	8	10	(2)
	$ 1,831	$ 4,858	$ (3,027)
Percentage of total assets	12%	33%	

	For the Years Ended December 31, 2015	2014	2013	Increase (Decrease) 2015 v 2014	Increase (Decrease) 2014 v 2013
Cash flows provided by operating activities	$ 1,192	$ 1,292	$ 1,264	$ (100)	$ 28
Cash flows (used in) provided by investing activities	(3,716)	(84)	308	(3,632)	(392)
Cash flows used in financing activities	(135)	(374)	(1,223)	239	849
Effect of foreign exchange rate changes	(366)	(396)	102	30	(498)
Net (decrease) increase in cash and cash equivalents	$ (3,025)	$ 438	$ 451	$ (3,463)	$ (13)

Cash Flows Provided by Operating Activities

The primary drivers of cash flows provided by operating activities typically include the collection of customer receivables generated by the sale of our products and digital and subscription revenues, partially offset by payments to vendors for the manufacturing, distribution and marketing of our products, payments for customer service support for our players, payments to third-party developers and intellectual property holders, payments for interest on our debt, payments for software development, payments for tax liabilities, and payments to our workforce.

Cash flows provided by operating activities were lower for 2015, as compared to 2014, primarily due to changes in operating assets and liabilities, driven by the prior-year cash flows benefiting from a substantial increase in revenues which were deferred. These are partially offset by a higher net income in 2015 as compared to 2014 and adjustments to net income for non-cash charges, including amortization of capitalized software development costs.

Cash flows provided by operating activities for the year ended December 31, 2015 included approximately $193 million of interest paid for the Notes and Term Loan, as compared to $201 million in 2014.

Cash flows provided by operating activities were slightly higher for 2014, as compared to 2013, primarily due to a more favorable impact from changes in our working capital accounts, mainly related to cash flows from revenues which were deferred.

Cash Flows (Used in) Provided by Investing Activities

The primary drivers of cash flows (used in) provided by investing activities typically include the net effect of purchases and sales/maturities of short-term investments, capital expenditures, and changes in restricted cash balances.

Cash flows used in investing activities were $3.7 billion in 2015, as compared to cash flows used in investing activities of $84 million in 2014. Increased cash flows used in investing activities were primarily due to $3.6 billion cash deposited in escrow for the King Acquisition and the cash used to acquire Major League Gaming in the fourth quarter of 2015.

Cash flows used in investing activities were $84 million in 2014, as compared to cash flows provided by investing activities of $308 million in 2013. Lower cash flows from investing activities were primarily due to lower proceeds from the maturity of investments and a higher investment in capital expenditures. In 2014, proceeds from maturities were $21 million, the majority of which consisted of U.S. treasury and other government agency securities. Further, capital expenditures during 2014, primarily related to property and equipment, were $107 million.

Cash Flows Used in Financing Activities

The primary drivers of cash flows used in financing activities typically include the proceeds from, and repayments of, our long-term debt, transactions involving our common stock, such as the issuance of shares of common stock to employees, the repurchase of our common stock, and the payment of dividends.

Cash flows used in financing activities of $135 million were lower in 2015, as compared to $374 million used in 2014, primarily due to $202 million of proceeds received in the settlement of the litigation related to the Purchase Transaction, and the lower partial repayment of our Term Loan in 2015 of $250 million, as compared to the $375 million partial repayment of our Term Loan in 2014. These were partially offset by lower proceeds from stock options exercised by our employees and the higher cash dividend payment made during 2015, as compared to 2014.

Cash flows used in financing activities of $374 million were lower in 2014, as compared to $1,223 million used in 2013, primarily due to the lack of share repurchases in 2014, offset by the $375 million partial repayment of our Term Loan. We also paid $147 million in dividends and related dividend equivalents and $66 million for taxes in connection with the vesting of employees' restricted stock rights. Cash flows from financing activities for 2014 reflected proceeds of $175 million from the issuance of shares of our common stock to employees in connection with stock option exercises.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a negative impact of $366 million, a negative impact of $396 million and a positive impact of $102 million on our cash and cash equivalents for the years ended December 31, 2015, 2014, and 2013, respectively. The change is primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

Other Liquidity and Capital Resources

Our primary sources of liquidity are typically cash and cash equivalents, investments, and cash flows provided by operating activities. In addition, as described below, we have availability of $250 million, subject to certain restrictions, under a secured revolving credit facility. With our cash and cash equivalents and short-term investments of $1.8 billion at December 31, 2015, and expected cash flows provided by operating activities, we believe that we have sufficient liquidity to meet daily operations in the foreseeable future. We also believe that we have sufficient working capital of $0.8 billion at December 31, 2015, to finance our operational and financing requirements for at least the next twelve months, including: purchases of inventory and equipment; the development, production, marketing and sale of new products; provision of customer service for our players; acquisition of intellectual property rights for future products from third parties; funding of dividends; and payments related to debt obligations.

As of December 31, 2015, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was $0.5 billion, as compared to $3.6 billion as of December 31, 2014. The decrease is due to the requirements under the Transaction Agreement for the King Acquisition, which required us to deposit $3.6 billion in cash to be held in an escrow account until the earlier of (i) the completion of the King Acquisition, or (ii) the termination of the Transaction Agreement. The cash was not accessible to the Company for operating cash needs as its use was administratively restricted for use in the consummation of the King Acquisition. At December 31, 2015, we recorded the balance of the escrow account as a non-current asset, "Cash in escrow," in our Consolidated Balance Sheet.

If the cash and cash equivalents held outside of the U.S. is needed in the future for our operations in the U.S., we would accrue and pay the required U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Debt

On September 19, 2013, we issued, at par, $1.5 billion of 5.625% unsecured senior notes due September 2021 (the "2021 Notes") and $750 million of 6.125% unsecured senior notes due September 2023 (the "2023 Notes" and, together with the 2021 Notes, the "Notes"). Interest on the Notes is payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2014. As of December 31, 2015, the Notes had a carrying value of $2.2 billion.

We may redeem the 2021 Notes on or after September 15, 2016 and the 2023 Notes on or after September 15, 2018, in whole or in part on any one or more occasions, at specified redemption prices, plus accrued and unpaid interest. At any time prior to September 15, 2016, with respect to the 2021 Notes, and at any time prior to September 15, 2018, with respect to the 2023 Notes, we may also redeem some or all of the Notes by paying a "make-whole premium", plus accrued and unpaid interest. In addition, upon the occurrence of one or more qualified equity offerings, we may also redeem up to 35% of the aggregate principal amount of each of the 2021 Notes and 2023 Notes outstanding with the net cash proceeds from such offerings. The Notes are repayable, in whole or in part and at the option of the holders, upon the occurrence of a change in control and a ratings downgrade, at a purchase price equal to 101% of principal, plus accrued and unpaid interest.

On October 11, 2013, in connection and simultaneously with the Purchase Transaction, we entered into a credit agreement (the "Credit Agreement") for a $2.5 billion secured term loan facility maturing in October 2020 (the "Term Loan"), and a $250 million secured revolving credit facility (the "Revolver" and, together with the Term Loan, the "Credit Facilities"). A portion of the Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. To date, we have not drawn on the Revolver.

As of December 31, 2015, the outstanding balance of our Term Loan was $1.9 billion. Borrowings under the Term Loan and Revolver bear interest at an annual rate equal to an applicable margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its "prime rate," (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate ("LIBOR") for an interest period of one month plus 1.00%, or (B) LIBOR. Further, LIBOR borrowings under the Term Loan will be subject to a LIBOR floor of 0.75%. At December 31, 2015, the Term Loan bore interest at 3.25%. In certain circumstances, our interest rate under the Credit Facilities will increase.

In addition to paying interest on outstanding principal balances under the Credit Facilities, we are required to pay the lenders a commitment fee on unused commitments under the Revolver. We are also required to pay customary letter of credit fees and agency fees.

The Credit Agreement required quarterly principal repayments of 0.25% of the Term Loan's original principal amount, with the balance due on the maturity date. On February 11, 2014, we made a voluntary principal repayment of $375 million on our Term Loan. This repayment satisfied the required quarterly principal repayments for the entire term of the Credit Agreement. On February 11, 2015, we made an additional voluntary principal repayment, this time in the amount of $250 million, which reduced the balance due on the maturity date. The 2015 repayment reduced the Term Loan's outstanding principal balance to $1.9 billion and based on this reduced balance, we expect our contractual interest payments in the future will be reduced by approximately $8 million annually, based on the interest rate of 3.25% at December 31, 2015. Amounts borrowed under the Term Loan and repaid may not be re-borrowed.

Agreements governing our indebtedness, including the indenture governing the Notes and the Credit Agreement, impose operating and financial restrictions on our activities under certain conditions. These restrictions require us to comply with or maintain certain financial tests and ratios. In addition, the indenture and the Credit Agreement limit or prohibit our ability to, among other things: incur additional debt or make additional guarantees; pay distributions or dividends and repurchase stock; make other restricted payments, including without limitation, certain restricted investments; create liens; enter into agreements that restrict dividends from subsidiaries; engage in transactions with affiliates; and enter into mergers, consolidations or sales of substantially all of our assets.

In addition, if, in the future, we borrow under the Revolver, as described in Note 11 of the Notes to Consolidated Financial Statements included in this Annual Report, we may be required, during certain periods where outstanding revolving loans exceed a certain threshold, to maintain a maximum senior secured net leverage ratio calculated pursuant to a financial maintenance covenant under the Credit Agreement.

The Company was in compliance with the terms of the Notes and Credit Facilities as of December 31, 2015.

Amendments to Credit Agreement

Tranche A Term Loan In conjunction with the King Acquisition, the Company entered into three Amendments to the Credit Agreement (the "Amendments"). The Amendments, among other things, provide for incremental term loans in the form of Tranche A Term Loans in an aggregate principal amount of approximately $2.3 billion, the proceeds of which were to be issued upon successful closing to fund the King Acquisition.

On February 23, 2016, we successfully completed the King Acquisition and the Tranche A Term Loans funded. The Tranche A Term Loans are scheduled to mature on October 11, 2020 and bear interest, at the Company's option, at either (a) a base rate equal to the highest of (i) the federal funds rate, plus 0.5%, (ii) the prime commercial lending rate of Bank of America, N.A. and (iii) the LIBOR for an interest period of one month beginning on such day plus 1.00%, or (b) LIBOR, in each case, plus an applicable interest margin.

LIBOR is subject to a floor of 0% and the base rate is subject to an effective floor of 1.00%. The applicable interest margin for Tranche A Term Loans ranges from 1.50% to 2.25% for LIBOR borrowings and from 0.50% to 1.25% for base rate borrowings and is determined by reference to a pricing grid based on the Company's Consolidated Total Net Debt Ratio (as defined in the Credit Agreement).

The Amendments require quarterly principal payments of 0.625% of the stated principal amount of the Tranche A Term Loans, with increases to 1.250% starting on June 30, 2019 and 3.125% starting on June 30, 2020, with the remaining balance payable on the Tranche A Term Loans' scheduled maturity date of October 11, 2020. Voluntary prepayments of the Tranche A Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty.

The Tranche A Term Loans are subject to a financial maintenance covenant requiring the Company to maintain a maximum Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) of 4.00 to 1.00, which will decrease to 3.50 to 1.00 (I) after the sixth full fiscal quarter after the Tranche A Term Loans are made or (II) if the Collateral Suspension occurs prior to the date falling 18 months after the Tranche A Term Loans are made, on the later of (x) the last day of the fourth full fiscal quarter after the Tranche A Term Loans are made and (y) the last day of the fiscal quarter in which the Collateral Suspension occurs.

The Tranche A Term Loans are secured by the same collateral and guaranteed by the same guarantors that secure and guarantee the existing Term Loans. The other terms of the Tranche A Term Loans are also generally the same as the terms of the existing Term Loan.

Revolving Credit Facility As part of the Amendments, upon the closing of the King Acquisition, the Company's existing revolving credit facility under the Credit Agreement (as in effect prior to the closing of the King Acquisition) in an aggregate principal amount of $250 million was replaced with a new revolving credit facility under the Credit Agreement in the same aggregate principal amount (the "2015 Revolving Credit Facility").

Borrowings under the 2015 Revolving Credit Facility may be borrowed, repaid and re-borrowed by the Company and are available for working capital and other general corporate purposes. Up to $50 million of the 2015 Revolving Credit Facility may be used for letters of credit.

The 2015 Revolving Credit Facility is scheduled to mature on October 11, 2020. Borrowings under the 2015 Revolving Credit Facility bear interest, at the Company's option, under the same terms as the Tranche A Term Loans. Additionally, the 2015 Revolving Credit Facility is subject to the same financial maintenance covenant and is secured by the same collateral and guaranteed by the same guarantors that secure and guarantee the Tranche A Term Loans. The other terms of the 2015 Revolving Credit Facility are generally the same as the terms of the Revolver.

Debt Repayments

On February 2, 2016, the Board of Directors authorized repayments of up to $1.5 billion of our outstanding debt during 2016. On February 25, 2016, we made a voluntary principal repayment of $500 million on our Term Loan, reducing the aggregate term loans outstanding under the Credit Agreement, which includes the $2.3 billion of Tranche A Term Loans, to $3.7 billion.

Dividends

On February 2, 2016, our Board of Directors declared a cash dividend of $0.26 per common share, payable on May 11, 2016, to shareholders of record at the close of business on March 30, 2016.

Capital Expenditures

We made capital expenditures of $111 million in 2015, as compared to $107 million in 2014. In 2016, we anticipate total capital expenditures of approximately $155 million. Capital expenditures are expected to be primarily for computer hardware and software purchases.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products, and for rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers and intellectual property holders typically are deemed to be advances and are recoupable against future royalties earned by the developer or intellectual property holder based on the sale of the related game. Additionally, in connection with certain intellectual property rights acquisitions and development agreements, we commit to spend specified amounts for marketing support for the related game(s) which is to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2015 are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations(1)				
	Facility and equipment leases	Developer and IP	Marketing	Long-term debt obligations(2)	Total
For the Year Ending December 31,					
2016	$ 35	$ 190	$ 28	$ 192	$ 445
2017	32	5	53	192	282
2018	30	—	15	192	237
2019	27	—	—	192	219
2020	19	—	—	2,045	2,064
Thereafter	35	2	—	2,472	2,509
Total	$ 178	$ 197	$ 96	$ 5,285	$ 5,756

(1) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either the underlying positions have not been fully developed enough under audit to quantify at this time or the years relating to the issues for certain jurisdictions are not currently under audit. At December 31, 2015, we had $471 million of unrecognized tax benefits, of which $453 million was included in “Other liabilities” and $18 million was included in “Accrued expenses and other liabilities” in the consolidated balance sheet.

(2) Long-term debt obligations represent our obligations related to the contractual principal repayments and interest payments under the Term Loan and the Notes as of December 31, 2015. There was no outstanding balance under our Revolver as of December 31, 2015. The Notes are subject to fixed interest rates and we have calculated the interest obligation based on the applicable rates and payment dates for the Notes. The Term Loan bears a variable interest rate and interest is payable on a quarterly basis. We have calculated the expected interest obligation based on the outstanding principal balance and interest rate applicable at December 31, 2015. Refer to Note 11 of the Notes to Consolidated Financial Statements included in this Annual Report for additional information on our debt obligations. On February 11, 2015, we made a voluntary partial repayment of $250 million to the Term Loan. The 2015 repayment reduced our contractual interest payments, as shown in the table above, by approximately $8 million annually, through the October 2020 maturity date, based on the interest rate of 3.25% at December 31, 2015. On February 25, 2016, we made a voluntary principal repayment of $500 million on our Term Loan.

Off-balance Sheet Arrangements

At December 31, 2015 and 2014, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditures, or capital resources.

Financial Disclosure

We maintain internal control over financial reporting, which generally includes those controls relating to the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). We also are focused on our "disclosure controls and procedures," which as defined by the Securities and Exchange Commission (the "SEC"), are generally those controls and procedures designed to ensure that financial and non-financial information required to be disclosed in our reports filed with the SEC is reported within the time periods specified in the SEC's rules and forms, and that such information is communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Our Disclosure Committee, which operates under the Board of Directors approved Disclosure Committee Charter and Disclosure Controls & Procedures Policy, includes senior management representatives and assists executive management in its oversight of the accuracy and timeliness of our disclosures, as well as in implementing and evaluating our overall disclosure process. As part of our disclosure process, senior finance and operational representatives from all of our corporate divisions and business units prepare quarterly reports regarding their current-quarter operational performance, future trends, subsequent events, internal controls, changes in internal controls and other accounting and disclosure relevant information. These quarterly reports are reviewed by certain key corporate finance executives. These corporate finance representatives also conduct quarterly interviews on a rotating basis with the preparers of selected quarterly reports. The results of the quarterly reports and related interviews are reviewed by the Disclosure Committee. Finance representatives also conduct interviews with our senior management team, our legal counsel and other appropriate personnel involved in the disclosure process, as appropriate. Additionally, senior finance and operational representatives provide internal certifications regarding the accuracy of information they provide that is utilized in the preparation of our periodic public reports filed with the SEC. Financial results and other financial information also are reviewed with the Audit Committee of the Board of Directors on a quarterly basis. As required by applicable regulatory requirements, the principal executive and financial officers review and make various certifications regarding the accuracy of our periodic public reports filed with the SEC, our disclosure controls and procedures, and our internal control over financial reporting. With the assistance of the Disclosure Committee, we will continue to assess and monitor, and make refinements to, our disclosure controls and procedures, and our internal control over financial reporting.

Critical Accounting Policies and Estimates

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

Revenue Recognition including Revenue Arrangements with Multiple Deliverables

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

Certain of our revenue arrangements have multiple deliverables, which we account for in accordance with Accounting Standards Codification ("ASC") Topic 605 and Accounting Standards Update ("ASU") 2009-13. These revenue arrangements include product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors' items sold together with physical "boxed" software) and our sales of *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription services for these purposes.

Under ASC Topic 605 and ASU 2009-13, when a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific-objective-evidence ("VSOE") if it is available, third-party evidence ("TPE") if VSOE is not available, or best estimated selling price ("BESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We did not have significant revenue arrangements that require BESP for the years ended December 31, 2015, 2014 and 2013. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for a deliverable that the Company sells separately, which represents the VSOE, and the wholesale prices of the same or similar products, which represents TPE.

For product sales, which include the sale of physical products and digital full-game downloads, we consider the product or service to have been provided to the customer upon the transfer of title and risk of loss to our customers, for physical products, or when the product is available for download or is activated for gameplay, for digital full-game downloads. Revenues from product sales are recognized after deducting the estimated allowance for returns and price protection.

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

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

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

Certain of our games are offered to players on a free-to-play basis. Players can purchase virtual goods, or microtransactions, to enhance their gameplay experience. We categorize our virtual goods as either consumable or durable. Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, we recognize revenues from the sale of consumable virtual goods as the goods are consumed. Durable virtual goods represent virtual goods that are accessible to the player over an extended period of time. We recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player, generally the estimated service period of the game.

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

Allowances for Returns, Price Protection, Doubtful Accounts and Inventory Obsolescence

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

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

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

Based upon historical experience, we believe that our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons, including, among others: a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenues for any period if factors or market conditions change or if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection. For example, a 1% change in our December 31, 2015 allowance for sales returns, price protection, and other allowances would have impacted net revenues by approximately $3 million.

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

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

Software Development Costs and Intellectual Property Licenses

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

Commencing upon a product's release, capitalized software development costs are amortized to "Cost of sales—software royalties and amortization" based on the ratio of current revenues to total projected revenues for the specific product, generally resulting in an amortization period of six months or less, or over the estimated useful life, generally approximately one to two years.

Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology, music or other intellectual property or proprietary rights in the development of our products.

Depending upon the agreement with the rights holder, we may obtain the right to use the intellectual property in multiple products over a number of years, or alternatively, for a single product. Prior to a product's release, if and when we believe capitalized costs are not recoverable, we expense the amounts as part of "Cost of sales—intellectual property licenses." Capitalized intellectual property costs for products that are cancelled or are expected to be abandoned are charged to "Product development expense" in the period of cancellation.

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

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

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Income Taxes

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

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

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

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in foreign regions where taxes are levied at relatively lower statutory rates and/or higher than anticipated in the United States where taxes are levied at relatively higher statutory rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of, or lapses in, the R&D tax credit laws; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments;

by differences between amounts included in our tax filings and the estimate of such amounts included in our tax expenses; by changes in accounting principles; or by changes in tax laws and regulations including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

Fair Value Estimates

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

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

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

Assessment of Impairment of Assets. Management evaluates the recoverability of our identifiable intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. We considered certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. In determining whether an impairment exists, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. If an impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We did not record an impairment charge to our definite-lived intangible assets as of December 31, 2015, 2014 and 2013.

Financial Accounting Standards Board ("FASB") literature related to the accounting for goodwill and other intangibles within ASC Topic 350 provides companies an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value before performing a two-step approach to testing goodwill for impairment for each reporting unit. Our reporting units are determined by the components of our operating segments that constitute a business for which both (1) discrete financial information is available and (2) segment management regularly reviews the operating results of that component. ASC Topic 350 requires that the impairment test be performed at least annually by applying a fair-value-based test. The qualitative assessment is optional. The first step measures for impairment by applying fair-value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit.

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

The fair value of our reporting units is determined using an income approach based on discounted cash flow models. In determining the fair value of our reporting units, we assumed a discount rate of approximately 10.0%. The estimated fair value of both the Activision and Blizzard reporting units exceeded their carrying values as of December 31, 2015. However, changes in our assumptions underlying our estimates of fair value, which will be a function of our future financial performance, and changes in economic conditions could result in future impairment charges.

We test acquired trade names for possible impairment by using a discounted cash flow model to estimate fair value. We have determined that no impairment has occurred at December 31, 2015 and 2014 based upon a set of assumptions regarding discounted future cash flows, which represent our best estimate of future performance at this time. In determining the fair value of our trade names, we assumed a discount rate of 10.0%, and royalty saving rates of approximately 1.5%—2.0%. A one percentage point increase in the discount rate would not yield an impairment charge to our trade names. Changes in our assumptions underlying our estimates of fair value, which will be a function of our future financial performance and changes in economic conditions, could result in future impairment charges.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718-10, *Compensation-Stock Compensation,* and ASC Subtopic 505-50, *Equity-Based Payments to Non-Employees*. Stock-based compensation expense is recognized during the requisite service periods (that is, the period for which the employee is being compensated) and is based on the value of stock-based payment awards after a reduction for estimated forfeitures. Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We estimate the value of stock-based payment awards on the measurement date using a binomial-lattice model. Our determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

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

For a detailed discussion of the application of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements included in this Annual Report.

Recently Issued Accounting Pronouncements

Revenue recognition

In May 2014, the FASB issued new accounting guidance related to revenue recognition. The new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the adoption method as well as the impact of this new accounting guidance on our financial statements.

Stock-based compensation

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

Consolidations

In February 2015, the FASB issued new guidance related to consolidations. The new standard amends certain requirements for determining whether a variable interest entity must be consolidated. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Debt Issuance Costs

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs in financial statements. The new standard requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2015. The new guidance will be applied retrospectively to each prior period presented. The adoption of this guidance will not have a material impact on our financial statements.

Internal-Use Software

In April 2015, the FASB issued new guidance related to internal-use software. The new standard relates to a customer’s accounting for fees paid in cloud computing arrangements. The amendment provides guidance for customers to determine whether such arrangements include software licenses. If a cloud arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Inventory

In July 2015, the FASB issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard is effective for fiscal years beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, providing new guidance related to business combinations. The new standard requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, made to provisional amounts recorded at the acquisition date as a result of the business combination, be recognized in the reporting period the adjustment is identified. The standard also requires separate presentation on the face of the income statement, or disclosure in the notes, of the portion of the amount recorded in current period earnings by line item. Prior to the issuance of the standard, such adjustments to provisional amounts were recognized retrospectively. The new standard is effective for fiscal years beginning after December 15, 2015 and should be applied prospectively to measurement period adjustments that occur after the effective date. Early adoption is permitted. The adoption of this new accounting guidance could have a material impact on our financial statements in future periods upon occurrence of a measurement period adjustment.

Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, providing new guidance to simplify the presentation of deferred taxes. The new standard requires that deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. The issuance of the new standard eliminates the requirement to perform the jurisdiction analysis based on the classifications of the underlying assets and liabilities, and as a result, each jurisdiction will only have one net non-current deferred tax asset or liability. The new standard is effective for fiscal years beginning after December 15, 2016 and can be applied either prospectively or retrospectively. Early adoption is permitted.

As of December 31, 2015 we early adopted ASU No. 2015-17 and applied retrospectively to all periods presented. As a result, we reclassified $368 million of deferred tax assets from current "Deferred income taxes, net" resulting in non-current net deferred tax assets and liabilities of $264 million and $10 million, respectively, in our Consolidated Balance Sheet as of December 31, 2014. The adoption of this new guidance did not impact our compliance with debt covenant requirements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Rate Risk

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

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

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

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

Foreign Currency Forward Contracts Not Designated as Hedges

For foreign currency forward contracts entered into to mitigate risk from foreign currency-denominated monetary assets, liabilities, and earnings that are not designated as hedging instruments under ASC 815, changes in the estimated fair value of these derivatives are recorded within "General and administrative expenses" and "Interest and other expense, net" in our Consolidated Statements of Operations, consistent with the nature of the underlying transactions.

At December 31, 2015, the gross notional amount of outstanding foreign currency forward contracts not designated as hedges was approximately $489 million. During the year ended December 31, 2015, we reclassified $8 million of unrealized gains out of "Accumulated other comprehensive income (loss)" and into earnings due to dedesignating $250 million notional euro to U.S. dollar cash flow hedges when it was determined the hedged transaction would not occur. As a result of the dedesignation, we entered into offsetting foreign currency forward contracts. The dedesignated and offsetting foreign currency forward contracts remain outstanding as of December 31, 2015.

The fair value of these foreign currency forward currency contracts was $11 million as of December 31, 2015, and recorded in "Other current assets" in our consolidated balance sheet.

At December 31, 2014, outstanding foreign currency forward contracts not designated as a hedge were not material.

For the years ended December 31, 2015, 2014, and 2013, pre-tax net gains associated with these forward contracts were recorded in "General and administrative expenses" and were not material.

Foreign Currency Forward Contracts Designated as Hedges

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

The gross notional amount of all outstanding foreign currency forward contracts designated as cash flow hedges was approximately $381 million at December 31, 2015. At December 31, 2014, there were no outstanding foreign currency forward contracts designated as cash flow hedges. These foreign currency forward contracts have remaining maturities of 12 months or less. During the years ended December 31, 2015 and 2014, there was no ineffectiveness relating to these hedges. At December 31, 2015, $4 million of net unrealized losses related to these contracts are expected to be reclassified into earnings within the next twelve months.

During the year ended December 31, 2015 and 2014, pre-tax net realized gains of $6 million and $8 million, respectively, associated with these contracts were reclassified out of "Accumulated other comprehensive income (loss)" and into "General and administrative expense" due to maturity of these contracts.

In the absence of the hedging activities described above, for the year ended December 31, 2015, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in potential declines of our net income of approximately $121 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in such manner and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt under the Credit Facilities. We do not currently use derivative financial instruments to manage interest rate risk. As of December 31, 2015, a hypothetical interest rate change on our variable rate debt of one percent (100 basis points) would change interest expense on an annual basis by approximately $19 million. Because we have a 0.75% LIBOR floor in our Term Loan, our interest expense will only increase if the underlying interest rate increases to a level that exceeds the LIBOR floor. This estimate does not include the effects of other actions that we may take in the future to mitigate this risk or any changes in our financial structure.

Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents or short-term securities is more subject to market fluctuations than a portfolio of longer term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer-term securities. At December 31, 2015, our $1.82 billion of cash and cash equivalents were comprised primarily of money market funds. At December 31, 2015, our $8 million of short-term investments included $8 million of restricted cash. We also had $9 million in auction rate securities at fair value classified as long-term investments at December 31, 2015. The Company has determined that, based on the composition of our investment portfolio as of December 31, 2015, there was no material interest rate risk exposure to the Company's consolidated financial condition, results of operations or liquidity as of that date.

CONTROLS AND PROCEDURES

Definition and Limitations of Disclosure Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2015, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2015, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of December 31, 2015, of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

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

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report.

Changes in Internal Control Over Financial Reporting.

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

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows, present fairly, in all material respects, the financial position of Activision Blizzard, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under page 36 of this Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Los Angeles, California
February 29, 2016

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

	At December 31, 2015	At December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,823	$ 4,848
Short-term investments	8	10
Accounts receivable, net of allowances of $343 and $383 at December 31, 2015 and December 31, 2014, respectively	679	659
Inventories, net	128	123
Software development	336	452
Intellectual property licenses	30	5
Other current assets	383	444
Total current assets	3,387	6,541
Cash in escrow	3,561	—
Long-term investments	9	9
Software development	80	20
Intellectual property licenses	—	18
Property and equipment, net	189	157
Deferred income taxes, net	275	264
Other assets	173	85
Intangible assets, net	49	29
Trademark and trade names	433	433
Goodwill	7,095	7,086
Total assets	$ 15,251	$ 14,642
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 284	$ 325
Deferred revenues	1,702	1,797
Accrued expenses and other liabilities	625	592
Total current liabilities	2,611	2,714
Long-term debt, net	4,079	4,324
Deferred income taxes, net	10	10
Other liabilities	483	361
Total liabilities	7,183	7,409
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,163,179,140 and 1,150,605,926 shares issued at December 31, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	10,242	9,924
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2015 and December 31, 2014	(5,637)	(5,762)
Retained earnings	4,096	3,374
Accumulated other comprehensive loss	(633)	(303)
Total shareholders' equity	8,068	7,233
Total liabilities and shareholders' equity	$ 15,251	$ 14,642

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share data)

	For the Years Ended December 31,		
	2015	**2014**	**2013**
Net revenues			
Product sales	$ 2,447	$ 2,786	$ 3,201
Subscription, licensing, and other revenues	2,217	1,622	1,382
Total net revenues	4,664	4,408	4,583
Costs and expenses			
Cost of sales—product costs	921	999	1,053
Cost of sales—online	224	232	204
Cost of sales—software royalties and amortization	412	260	187
Cost of sales—intellectual property licenses	28	34	87
Product development	646	571	584
Sales and marketing	734	712	606
General and administrative	380	417	490
Total costs and expenses	3,345	3,225	3,211
Operating income	1,319	1,183	1,372
Interest and other expense, net	198	202	53
Income before income tax expense	1,121	981	1,319
Income tax expense	229	146	309
Net income	$ 892	$ 835	$ 1,010
Earnings per common share			
Basic	$ 1.21	$ 1.14	$ 0.96
Diluted	$ 1.19	$ 1.13	$ 0.95
Weighted-average number of shares outstanding			
Basic	728	716	1,024
Diluted	739	726	1,035
Dividends per common share	$ 0.23	$ 0.20	$ 0.19

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

	For the Years Ended December 31,		
	2015	**2014**	**2013**
Net income	$ 892	$ 835	$ 1,010
Other comprehensive income (loss):			
Foreign currency translation adjustment	(326)	(371)	93
Unrealized losses on forward contracts designated as hedges, net of tax	(4)	—	—
Unrealized gains on investments, net of tax	—	—	1
Other comprehensive income (loss)	$ (330)	$ (371)	$ 94
Comprehensive income	$ 562	$ 464	$ 1,104

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2015, 2014, and 2013

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2012	**1,112**	**$ —**	**—**	**$ —**	**$ 9,450**	**$ 1,893**	**$ (26)**	**$ 11,317**
Components of comprehensive income:								
Net income	—	—	—	—	—	1,010	—	1,010
Other comprehensive income (loss)	—	—	—	—	—	—	94	94
Issuance of common stock pursuant to employee stock options	16	—	—	—	158	—	—	158
Issuance of common stock pursuant to restricted stock rights	8	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(4)	—	—	—	(49)	—	—	(49)
Tax benefit associated with employee stock awards	—	—	—	—	11	—	—	11
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	112	—	—	112
Dividends ($0.19 per common share)	—	—	—	—	—	(217)	—	(217)
Shares repurchased (see Note 17)	—	—	(429)	(5,830)	—	—	—	(5,830)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 15)	—	—	—	16	—	—	—	16
Balance at December 31, 2013	**1,132**	**$ —**	**(429)**	**$(5,814)**	**$ 9,682**	**$ 2,686**	**$ 68**	**$ 6,622**
Components of comprehensive income:								
Net income	—	—	—	—	—	835	—	835
Other comprehensive income (loss)	—	—	—	—	—	—	(371)	(371)
Issuance of common stock pursuant to employee stock options	14	—	—	—	172	—	—	172
Issuance of common stock pursuant to restricted stock rights	7	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(2)	—	—	—	(66)	—	—	(66)
Tax benefit associated with employee stock awards	—	—	—	—	30	—	—	30
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	106	—	—	106
Dividends ($0.20 per common share)	—	—	—	—	—	(147)	—	(147)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 15)	—	—	—	52	—	—	—	52
Balance at December 31, 2014	**1,151**	**$ —**	**(429)**	**$(5,762)**	**$ 9,924**	**$ 3,374**	**$ (303)**	**$ 7,233**
Components of comprehensive income:								
Net income	—	—	—	—	—	892	—	892
Other comprehensive income (loss)	—	—	—	—	—	—	(330)	(330)
Issuance of common stock pursuant to employee stock options	8	—	—	—	106	—	—	106
Issuance of common stock pursuant to restricted stock rights	7	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(3)	—	—	—	(83)	—	—	(83)
Tax benefit associated with employee stock awards	—	—	—	—	65	—	—	65
Stock-based compensation expense related to employee stock options and restricted stock rights	—	—	—	—	95	—	—	95
Dividends ($0.23 per common share)	—	—	—	—	—	(170)	—	(170)
Indemnity on tax attributes assumed in connection with the Purchase Transaction (see Note 15)	—	—	—	58	—	—	—	58
Shareholder settlement in connection with the Purchase Transaction (see Note 19)	—	—	—	67	135	—	—	202
Balance at December 31, 2015	**1,163**	**$ —**	**(429)**	**$(5,637)**	**$ 10,242**	**$ 4,096**	**$ (633)**	**$ 8,068**

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

	For the Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 892	$ 835	$ 1,010
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(27)	(44)	161
Provision for inventories	43	39	33
Depreciation and amortization	95	90	108
Loss on disposal of property and equipment	—	1	—
Amortization of capitalized software development costs and intellectual property licenses(1)	399	256	207
Amortization of debt discount and debt financing costs	7	7	1
Stock-based compensation expense(2)	92	104	108
Excess tax benefits from stock awards	(67)	(39)	(29)
Changes in operating assets and liabilities:			
Accounts receivable, net	(40)	(177)	198
Inventories	(54)	(2)	6
Software development and intellectual property licenses	(350)	(349)	(268)
Other assets	21	18	(67)
Deferred revenues	(27)	475	(275)
Accounts payable	(25)	(12)	7
Accrued expenses and other liabilities	233	90	64
Net cash provided by operating activities	1,192	1,292	1,264
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	145	21	304
Proceeds from sales of available-for-sale investments	—	—	98
Purchases of available-for-sale investments	(145)	—	(26)
Acquisition of business (see Note 23)	(46)	—	—
Cash in escrow (see Note 24)	(3,561)	—	—
Capital expenditures	(111)	(107)	(74)
Decrease in restricted cash	2	2	6
Net cash (used in) provided by investing activities	(3,716)	(84)	308
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	106	175	158
Tax payment related to net share settlements on restricted stock rights	(83)	(66)	(49)
Excess tax benefits from stock awards	67	39	29
Repurchase of common stock	—	—	(5,830)
Dividends paid	(170)	(147)	(216)
Proceeds from issuance of long-term debt	—	—	4,750
Repayment of long-term debt	(250)	(375)	(6)
Payment of debt financing costs	(7)	—	(59)
Proceeds received from shareholder settlement	202	—	—
Net cash used in financing activities	(135)	(374)	(1,223)
Effect of foreign exchange rate changes on cash and cash equivalents	(366)	(396)	102
Net (decrease) increase in cash and cash equivalents	(3,025)	438	451
Cash and cash equivalents at beginning of period	4,848	4,410	3,959
Cash and cash equivalents at end of period	$ 1,823	$ 4,848	$ 4,410

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

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

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

1. Description of Business

Activision Blizzard, Inc. (“Activision Blizzard”) is a leading global developer and publisher of interactive entertainment. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. We currently offer games for video game consoles, personal computers (“PC”), and handheld, mobile and tablet devices. We maintain significant operations in the United States (“U.S.”), Canada, the United Kingdom (“U.K.”), France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China.

The King Acquisition

On November 2, 2015, we and King Digital Entertainment plc, a leading interactive entertainment company for the mobile world incorporated under the laws of Ireland (“King”), entered into a Transaction Agreement (the “Transaction Agreement”) under the terms of which we would acquire King (the “King Acquisition”) and King would become a wholly-owned subsidiary of the Company. On February 23, 2016 we completed the King Acquisition as further described in Note 24 below.

As the closing of the King Acquisition occurred subsequent to December 31, 2015, our financial results as of and for the year ended December 31, 2015 do not contain the results of King.

The Business Combination and Share Repurchase

Activision Blizzard is the result of the 2008 business combination (“Business Combination”) by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. (“Vivendi”), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. (“Vivendi Games”), a wholly-owned subsidiary of VGAC LLC. As a result of the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and Vivendi became a majority shareholder of Activision. The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol “ATVI.”

On October 11, 2013, we repurchased approximately 429 million shares of our common stock, pursuant to a stock purchase agreement (the “Stock Purchase Agreement”) we entered into with Vivendi and ASAC II LP (“ASAC”), an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi (“New VH”), which was the direct owner of approximately 429 million shares of our common stock, for a cash payment of $5.83 billion, or $13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction (collectively, the “Purchase Transaction”). Refer to Note 11 of the Notes to Consolidated Financial Statements for further information regarding the financing of the Purchase Transaction

Immediately following the completion of the Purchase Transaction, ASAC purchased from Vivendi 172 million shares of Activision Blizzard’s common stock, pursuant to the Stock Purchase Agreement, for a cash payment of $2.34 billion, or $13.60 per share (the “Private Sale”). Robert A. Kotick, our Chief Executive Officer, and Brian G. Kelly, Chairman of our Board of Directors, are affiliates of ASAC II LLC.

On May 28, 2014, Vivendi sold approximately 41 million shares, or approximately 50% of its then-current holdings, of our common stock in a registered public offering. Vivendi received proceeds of approximately $850 million from that sale; we did not receive any proceeds.

As of December 31, 2015, we had approximately 734 million shares of common stock issued and outstanding. At that date, (i) Vivendi held 41 million shares, or approximately 6% of the outstanding shares of our common stock, (ii) ASAC held 172 million shares, or approximately 23% of the outstanding shares of our common stock, and (iii) our other stockholders held approximately 71% of the outstanding shares of our common stock.

On January 13, 2016, Vivendi sold all of their remaining shares of our common stock. We did not receive any proceeds.

Based upon our organizational structure, we conduct our business through two reportable operating segments, Activision Publishing, Inc. and Blizzard Entertainment, Inc. Previously, we reported "Distribution" as a reportable segment. In the current period, this was no longer deemed a separate reportable segment and is included in "Other", along with our recently announced media networks and film and television studio businesses.

(i) Activision Publishing, Inc.

Activision Publishing, Inc. ("Activision") is a leading international developer and publisher of interactive software products and content. Activision delivers content to a broad range of gamers, ranging from children to adults, and from core gamers to mass-market consumers to "value" buyers seeking budget-priced software, in a variety of geographies. Activision develops games based on internally-developed properties, including games in the Call of Duty® and Skylanders® franchises, and to a lesser extent, based on licensed intellectual properties. Additionally, we have established a long-term alliance with Bungie to publish its game universe, *Destiny*®. Activision sells games through both retail and digital online channels. Activision currently offers games that operate on the Microsoft Corporation ("Microsoft") Xbox One ("Xbox One") and Xbox 360 ("Xbox 360"), Nintendo Co. Ltd. ("Nintendo") Wii U ("Wii U") and Wii ("Wii"), and Sony Computer Entertainment, Inc. ("Sony") PlayStation 4 ("PS4") and PlayStation 3 ("PS3") console systems (Xbox One, Wii U, and PS4 are collectively referred to as "next-generation"; Xbox 360, Wii, and PS3 are collectively referred to as "prior-generation"); the PC; the Nintendo 3DS, Nintendo Dual Screen, and Sony PlayStation Vita handheld game systems; and mobile and tablet devices.

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") is a leader in online PC gaming, including the subscription-based massively multi-player online role-playing game ("MMORPG") category in terms of both subscriber base and revenues generated through its World of Warcraft® franchise. Blizzard also develops, markets, and sells role-playing action and strategy games for the PC, console, mobile and tablet platforms, including games in the multiple-award winning Diablo®, StarCraft®, Hearthstone®: Heroes of Warcraft™ and Heroes of the Storm™ franchises. In addition, Blizzard maintains a proprietary online gaming service, Battle.net®, which facilitates the creation of user-generated content, digital distribution and online social connectivity across all Blizzard games. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; in-game purchases and services; retail sales of physical "boxed" products; online download sales of PC products; purchases and downloads via third-party console, mobile and tablet platforms; and licensing of software to third-party or related party companies that distribute Blizzard products.

(iii) Other

We also engage in other business opportunities including:

- The Activision Blizzard Media Networks ("Media Networks") business, announced in 2015 which builds on our efforts in competitive gaming and the growing eSports industry;

- The Activision Blizzard Studios ("Studios") business, announced in 2015 which is devoted to creating original film and television content based on the company's extensive library of iconic and globally-recognized intellectual properties; and

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

2. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

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

Certain reclassifications have been made to prior-year amounts to conform to the current period presentation.

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

Cash and Cash Equivalents

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

Investment Securities

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

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

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

Cash in Escrow

As part of the King Acquisition, we were required to deposit $3.56 billion in cash to be held in an escrow account until the earlier of (i) the completion of the King Acquisition, or (ii) the termination of the Transaction Agreement. The cash was not accessible to the Company for operating cash needs as its use had been administratively restricted for use in the consummation of the King Acquisition. At December 31, 2015, we recorded the balance of the escrow account as a non-current asset, "Cash in escrow," in our Consolidated Balance Sheet.

Financial Instruments

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

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

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

"Other liabilities," as applicable, in our Consolidated Balance Sheets based on the prevailing exchange rates of the various hedged currencies as of the end of the relevant period.

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

For foreign currency forward contracts entered into to mitigate risk from foreign currency-denominated monetary assets, liabilities, and earnings that are not designated as hedging instruments under ASC 815, changes in the estimated fair value of these derivatives are recorded within "General and administrative expenses" and "Interest and other expense, net" in our Consolidated Statements of Operations, consistent with the nature of the underlying transactions.

For foreign currency forward contracts that we entered into to hedge forecasted intercompany cash flows that are subject to foreign currency risk and which have been designated as cash flow hedges in accordance with ASC 815, we assess the effectiveness of these cash flow hedges at inception and on an ongoing basis and determine if the hedges are effective at providing offsetting changes in cash flows of the hedged items. The Company records the effective portion of changes in the estimated fair value of these derivatives in "Accumulated other comprehensive income (loss)" and subsequently reclassifies the related amount of accumulated other comprehensive income (loss) to earnings within "General and administrative expenses" when the hedged item impacts earnings. The Company measures hedge ineffectiveness, if any, and if it is determined that a derivative has ceased to be a highly effective hedge, the Company will discontinue hedge accounting for the derivative.

Concentration of Credit Risk

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

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

Our customer base includes retailers and distributors, including mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores in the U.S. and other countries worldwide. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers. We had two customers, Sony and Microsoft, who accounted for 12% and 10%, respectively, of net revenues for the year ended December 31, 2015. We did not have any single customer that accounted for 10% or more of net revenues for the years ended December 31, 2014, and 2013. We had three customers, Sony, Microsoft, and Wal-Mart, who accounted for 18%, 13%, and 11% of consolidated gross receivables at December 31, 2015, respectively, and 13%, 17%, and 11% of consolidated gross receivables at December 31, 2014, respectively.

Software Development Costs and Intellectual Property Licenses

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

Commencing upon a product's release, capitalized software development costs are amortized to "Cost of sales—software royalties and amortization" based on the ratio of current revenues to total projected revenues for the specific product, generally resulting in an amortization period of six months or less, or over the estimated useful life, generally approximately one to two years.

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

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

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

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

Inventories

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

Long-Lived Assets

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

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

Our annual goodwill impairment test is performed at the reporting unit level. We have determined our reporting units based on the guidance within ASC Subtopic 350-20. As of December 31, 2015 and 2014, our reporting units are the same as our operating segments. We test goodwill for possible impairment by first determining the fair value of the related reporting unit and comparing this value to the recorded net assets of the reporting unit, including goodwill. The fair value of our reporting units is determined using an income approach based on discounted cash flow models. In the event the recorded net assets of the reporting unit exceed the estimated fair value of such assets, we perform a second step to measure the amount of the impairment, which is equal to the amount by which the recorded goodwill exceeds the implied fair value of the goodwill after assessing the fair value of each of the assets and liabilities within the reporting unit. We have determined that no impairment has occurred at December 31, 2015, 2014 and 2013 based upon a set of assumptions regarding discounted future cash flows, which represent our best estimate of future performance at this time.

We test indefinite lived acquired trade names for possible impairment by using a discounted cash flow model to estimate fair value. We have determined that no impairment has occurred at December 31, 2015, 2014 and 2013 based upon a set of assumptions regarding discounted future cash flows, which represent our best estimate of future performance at this time.

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

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

Management evaluates the recoverability of our identifiable intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. We considered certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of these assets to determine whether an impairment exists. If an impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We have determined that there are no events or circumstances that indicate a potential impairment exists at December 31, 2015, 2014, and 2013.

Revenue Recognition

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

Revenue Arrangements with Multiple Deliverables

Certain of our revenue arrangements have multiple deliverables, which we account for in accordance with ASC Topic 605 and Accounting Standards Update ("ASU") 2009-13. These revenue arrangements include product sales consisting of both software and hardware deliverables (such as peripherals or other ancillary collectors' items sold together with physical "boxed" software) and our sales of *World of Warcraft* boxed products, expansion packs and value-added services, each of which is considered with the related subscription services for these purposes.

Under ASC Topic 605 and ASU 2009-13, when a revenue arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific-objective-evidence ("VSOE") if it is available, third-party evidence ("TPE") if VSOE is not available, or best estimated selling price ("BESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

As noted above, when neither VSOE nor TPE is available for a deliverable, we use BESP. We did not have significant revenue arrangements that require BESP for the years ended December 31, 2015, 2014, and 2013. The inputs we use to determine the selling price of our significant deliverables include the actual price charged by the Company for a deliverable that the Company sells separately, which represents the VSOE, and the wholesale prices of the same or similar products, which represents TPE.

Product Sales

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

Products with Online Functionality or Hosted Service Arrangements

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

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

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

Subscription Revenues

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

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

Licensing Revenues

Third-party licensees in Russia, China and Taiwan distribute and host certain Blizzard games in their respective countries under license agreements, for which they pay the Company a royalty. We recognize these royalties as revenues based on the end users' activation of the underlying prepaid time, if all other performance obligations have been completed, or based on usage by the end user, when we have continuing service obligations. We recognize any upfront licensing fees received over the term of the contracts.

With respect to license agreements that provide customers the right to make multiple copies in exchange for guaranteed amounts, revenues are generally recognized upon delivery of a master copy. Per copy royalties on sales that exceed the guarantee are recognized as earned. In addition, persuasive evidence of an arrangement must exist and collection of the related receivable must be probable.

Other Revenues

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

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

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

Estimated Service Period

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

Allowances for Returns, Price Protection, Doubtful Accounts, and Inventory Obsolescence

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

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

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

Based upon historical experience, we believe that our estimates are reasonable. However, actual returns and price protection could vary materially from our allowance estimates due to a number of reasons, including, among others: a lack of consumer acceptance of a title, the release in the same period of a similarly themed title by a competitor, or technological obsolescence due to the emergence of new hardware platforms. Material differences may result in the amount and timing of our revenues for any period if factors or market conditions change or if management makes different judgments or utilizes different estimates in determining the allowances for returns and price protection.

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

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

Shipping and Handling

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

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising, which are deferred and charged to expense when the related advertisement is run for the first time. Advertising expenses for the years ended December 31, 2015, 2014, and 2013 were $523 million, $495 million, and $401 million, respectively, and are included in “Sales and marketing expense” in the consolidated statements of operations.

Income Taxes

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

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

Foreign Currency Translation

All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet date, and revenue and expenses are translated at average exchange rates during the period. The resulting translation adjustments are reflected as a component of “Accumulated other comprehensive income (loss)” in shareholders’ equity.

Earnings (Loss) Per Common Share

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

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

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718-10, *Compensation-Stock Compensation*, and ASC Subtopic 505-50, *Equity-Based Payments to Non-Employees*. Stock-based compensation expense is recognized during the requisite service period (that is, the period for which the employee is being compensated) and is based on the value of stock-based payment awards after a reduction for estimated forfeitures. Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We estimate the value of stock-based payment awards on the measurement date using a binomial-lattice model. Our determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

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

3. Cash and Cash Equivalents

The following table summarizes the components of our cash and cash equivalents with original maturities of three months or less at the date of purchase (amounts in millions):

	At December 31, 2015	At December 31, 2014
Cash	$ 176	$ 333
Foreign government treasury bills	34	40
Money market funds	1,613	4,475
Cash and cash equivalents	$ 1,823	$ 4,848

4. Inventories, Net

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

	At December 31, 2015	At December 31, 2014
Finished goods	$ 101	$ 112
Purchased parts and components	27	11
Inventories, net	$ 128	$ 123

Inventory reserves were $54 million and $52 million at December 31, 2015 and 2014, respectively.

5. Software Development and Intellectual Property Licenses

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

	At December 31, 2015	At December 31, 2014
Internally developed software costs	$ 266	$ 262
Payments made to third-party software developers	150	210
Total software development costs	$ 416	$ 472
Intellectual property licenses	$ 30	$ 23

Amortization, write-offs and impairments of capitalized software development costs and intellectual property licenses are comprised of the following (amounts in millions):

	For the Years Ended December 31,		
	2015	2014	2013
Amortization of capitalized software development costs and intellectual property licenses	$ 410	$ 272	$ 195
Write-offs and impairments	4	—	29

6. Property and Equipment, Net

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

	At December 31,	
	2015	2014
Land	$ 1	$ 1
Buildings	4	4
Leasehold improvements	109	104
Computer equipment	431	347
Office furniture and other equipment	52	45
Total cost of property and equipment	597	501
Less accumulated depreciation	(408)	(344)
Property and equipment, net	$ 189	$ 157

Depreciation expense for the years ended December 31, 2015, 2014, and 2013 was $82 million, $76 million, and $84 million, respectively.

Rental expense was $39 million, $38 million and $35 million for the years ended December 31, 2015, 2014, and 2013, respectively.

7. Intangible Assets, Net

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

	At December 31, 2015			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	1 - 10 years	$ 116	$ (93)	$ 23
Internally-developed franchises	11 years	309	(298)	11
Developed software	5 years	15	—	15
Total definite-lived intangible assets		$ 440	$ (391)	$ 49
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433

	At December 31, 2014			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	3 - 10 years	$ 98	$ (92)	$ 6
Internally-developed franchises	11 years	309	(286)	23
Total definite-lived intangible assets		$ 407	$ (378)	$ 29
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433

Amortization expense of intangible assets was $13 million, $13 million, and $24 million for the years ended December 31, 2015, 2014, and 2013, respectively.

At December 31, 2015, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2016	$ 17
2017	12
2018	7
2019	5
2020	4
Thereafter	4
Total	$ 49

We did not record any impairment charges against our intangible assets for the years ended December 31, 2015, 2014 and 2013.

8. Goodwill

The changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2015 and 2014 are as follows (amounts in millions):

	Activision	Blizzard	Other	Total
Balance at December 31, 2013	$ 6,914	$ 178	$ —	$ 7,092
Tax benefit credited to goodwill	(5)	—	—	(5)
Foreign exchange	(1)	—	—	(1)
Balance at December 31, 2014	$ 6,908	$ 178	$ —	$ 7,086
Additions through acquisition	—	—	12	12
Tax benefit credited to goodwill	(2)	—	—	(2)
Foreign exchange	(1)	—	—	(1)
Balance at December 31, 2015	$ 6,905	$ 178	$ 12	$ 7,095

The tax benefit credited to goodwill represents the tax deduction resulting from the exercise of stock options that were outstanding and vested at the consummation of the Business Combination and included in the purchase price of the Company, to the extent that the tax deduction did not exceed the fair value of those options. Conversely, to the extent that the tax deduction did exceed the fair value of those options, the tax benefit is credited to additional paid-in capital. The addition to goodwill through acquisition is attributed to the acquisition of the business of Major League Gaming ("MLG") (see Note 23).

At December 31, 2015 and 2014, there were no accumulated impairment losses.

9. Other Current Assets and Current Accrued Expenses and Other Liabilities

Included in "Other current assets" of our consolidated balance sheets are deferred cost of sales—product costs of $216 million and $257 million at December 31, 2015 and 2014, respectively.

Included in "Accrued expenses and other liabilities" of our consolidated balance sheets are accrued payroll-related costs of $246 million and $267 million at December 31, 2015 and 2014, respectively.

10. Fair Value Measurements

FASB literature regarding fair value measurements for financial and non-financial assets and liabilities establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The three levels of inputs used to measure fair value are as follows:

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

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

Fair Value Measurements on a Recurring Basis

The table below segregates all financial assets 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 December 31, 2015 Using			
	As of December 31, 2015	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	$ 1,613	$ 1,613	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
Foreign currency forward contracts not designated as hedges	11	—	11	—	Other current assets
Auction rate securities (“ARS”)	9	—	—	9	Long-term investments
Total recurring fair value measurements	$ 1,667	$ 1,647	$ 11	$ 9	
Financial Liabilities:					
Foreign currency forward contracts designated as hedges	$ (4)	$ —	$ (4)	$ —	Accrued expenses and other liabilities

		Fair Value Measurements at December 31, 2014 Using			
	As of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 4,475	$ 4,475	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	40	40	—	—	Cash and cash equivalents
ARS	9	—	—	9	Long-term investments
Total recurring fair value measurements	$ 4,524	$ 4,515	$ —	$ 9	

ARS represented the only level 3 investment held by the Company. The fair value of these investments has been unchanged for the years ended December 31, 2015, 2014, and 2013.

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts Not Designated as Hedges

At December 31, 2015, the gross notional amount of outstanding foreign currency forward contracts not designated as hedges was approximately $489 million. During the year ended December 31, 2015, we reclassified $8 million of unrealized gains out of “Accumulated other comprehensive income (loss)” and into earnings due to dedesignating $250 million notional euro to U.S. dollar cash flow hedges when it was determined the hedged transaction would not occur. As a result of the dedesignation, we entered into offsetting foreign currency forward contracts. The dedesignated and offsetting foreign currency forward contracts remain outstanding as of December 31, 2015.

The fair value of these foreign currency forward currency contracts was $11 million as of December 31, 2015, and recorded in “Other current assets” in our consolidated balance sheet.

At December 31, 2014, outstanding foreign currency forward contracts not designated as hedges were not material.

For the years ended December 31, 2015, 2014, and 2013, pre-tax net gains associated with these forward contracts were recorded in “General and administrative expenses” and were not material.

Foreign Currency Forward Contracts Designated as Hedges

For foreign currency forward contracts entered into to hedge forecasted intercompany cash flows that are subject to foreign currency risk and which we designated as cash flow hedges in accordance with ASC Topic 815, we assess the effectiveness of these cash flow hedges at inception and on an ongoing basis to determine if the hedges are effective at providing offsetting changes in cash flows of the hedged items. We record the effective portion of changes in the estimated fair value of these derivatives in “Accumulated other comprehensive income (loss)” and subsequently reclassify the related amount of accumulated other comprehensive income (loss) to earnings within “General and administrative expense” when the hedged item impacts earnings. Cash flows from these foreign currency forward contracts are classified in the same category as the cash flows associated with the hedged item in the consolidated statements of cash flows. We measure hedge ineffectiveness, if any, and if it is determined that a derivative has ceased to be a highly effective hedge, we will discontinue hedge accounting for the derivative.

The gross notional amount of all outstanding foreign currency forward contracts designated as cash flow hedges was approximately $381 million at December 31, 2015. At December 31, 2014, there were no outstanding foreign currency forward contracts designated as cash flow hedges. These foreign currency forward contracts have remaining maturities of 12 months or less. During the years ended December 31, 2015 and 2014, there was no ineffectiveness relating to these hedges. At December 31, 2015, $4 million of net unrealized losses related to these contracts are expected to be reclassified into earnings within the next twelve months.

During the year ended December 31, 2015 and 2014, pre-tax net realized gains of $6 million and $8 million, respectively, associated with these contracts were reclassified out of “Accumulated other comprehensive income (loss)” and into “General and administrative expense” due to maturity of these contracts.

Fair Value Measurements on a Non-Recurring Basis

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

For the years ended December 31, 2015, 2014, and 2013, there were no impairment charges related to assets that are measured on a non-recurring basis.

11. Debt

Credit Facilities

On October 11, 2013, in connection and simultaneously with the Purchase Transaction, we entered into a credit agreement (the “Credit Agreement”) for a $2.5 billion secured term loan facility maturing in October 2020 (the “Term Loan”), and a $250 million secured revolving credit facility (the “Revolver” and, together with the Term Loan, the “Credit Facilities”). A portion of the Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. To date, we have not drawn on the Revolver.

Borrowings under the Term Loan and the Revolver bear interest, payable on a quarterly basis, at an annual rate equal to an applicable margin plus, at our option, (A) a base rate determined by reference to the highest of (a) the interest rate in effect determined by the administrative agent as its “prime rate,” (b) the federal funds rate plus 0.5%, and (c) the London InterBank Offered Rate (“LIBOR”) for an interest period of one month plus 1.00%, or (B) LIBOR. LIBOR borrowings under the Term Loan will be subject to a LIBOR floor of 0.75%. At December 31, 2015, the Credit Facilities bore interest at 3.25%. In certain circumstances, our applicable interest rate under the Credit Facilities would increase.

In addition to paying interest on outstanding principal balances under the Credit Facilities, we are required to pay the lenders a commitment fee on unused commitments under the Revolver. Commitment fees are recorded within “Interest and other investment income (expense), net” on the consolidated statement of operations. We are also required to pay customary letter of credit fees, if any, and agency fees.

The terms of the Credit Agreement required quarterly principal repayments of 0.25% of the Term Loan's original principal amount, with the balance due on the maturity date. On February 11, 2014, we made a voluntary repayment of $375 million on our Term Loan. This repayment satisfied the required quarterly principal repayments for the entire term of the Credit Agreement. On February 11, 2015, we made an additional voluntary repayment of $250 million on our Term Loan.

The Credit Facilities are guaranteed by certain of the Company's U.S. subsidiaries, whose assets represent approximately 67% of our consolidated assets. The Credit Agreement contains customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of debt, granting of liens, payment of dividends, sales of assets and mergers and acquisitions. If our obligations under the Revolver exceed 15% of the total facility amount as of the end of any fiscal quarter (subject to certain exclusions for letters of credit), we are also subject to certain financial covenants. A violation of any of these covenants could result in an event of default under the Credit Agreement. Upon the occurrence of such event of default or certain other customary events of default, payment of any outstanding amounts under the Credit Agreement may be accelerated, and the lenders' commitments to extend credit under the Credit Agreement may be terminated. In addition, an event of default under the Credit Agreement could, under certain circumstances, permit the holders of other outstanding unsecured debt, including the debt holders described below, to accelerate the repayment of such obligations. The Company was in compliance with the terms of the Credit Facilities as of December 31, 2015.

Amendments to Credit Agreement

In conjunction with the King Acquisition, the Company entered into three Amendments to the Credit Agreement (the "Amendments"). The Amendments, among other things, provide for incremental term loans in the form of Tranche A Term Loans in an aggregate principal amount of approximately $2.3 billion, the proceeds of which were to be issued upon successful closing to fund the King Acquisition. On February 23, 2016, we successfully completed the King Acquisition. Refer to Note 24 for additional information regarding the closing of the King Acquisition and impact on our debt obligations.

Unsecured Senior Notes

On September 19, 2013, we issued, at par, $1.5 billion of 5.625% unsecured senior notes due September 2021 (the "2021 Notes") and $750 million of 6.125% unsecured senior notes due September 2023 (the "2023 Notes" and, together with the 2021 Notes, the "Notes") in a private offering to qualified institutional buyers made in accordance with Rule 144A under the Securities Act of 1933, as amended.

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 guaranteed on a senior basis by the Guarantors. The Notes and related guarantees are not secured and are effectively subordinated to any of the Company's existing and future indebtedness that is secured, including the Credit Facilities. The Notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of debt, granting of liens, payment of dividends, sales of assets and mergers and acquisitions. The Company was in compliance with the terms of the Notes as of December 31, 2015.

Interest on the Notes is payable semi-annually in arrears on March 15 and September 15 of each year. As of December 31, 2015 and 2014, we had interest payable of $38 million, related to the Notes, recorded within "Accrued expenses and other liabilities" in our consolidated balance sheet.

We may redeem the 2021 Notes on or after September 15, 2016 and the 2023 Notes on or after September 15, 2018, in whole or in part on any one or more occasions, at specified redemption prices, plus accrued and unpaid interest. At any time prior to September 15, 2016, with respect to the 2021 Notes, and at any time prior to September 15, 2018, with respect to the 2023 Notes, we may also redeem some or all of the Notes by paying a "make-whole premium", plus accrued and unpaid interest. Upon the occurrence of one or more qualified equity offerings, we may also redeem up to 35% of the aggregate principal amount of each of the 2021 Notes and 2023 Notes outstanding with the net cash proceeds from such offerings. The Notes are repayable, in whole or in part and at the option of the holders, upon the occurrence of a change in control and a ratings downgrade, at a purchase price equal to 101% of principal, plus accrued and unpaid interest. These redemption options are considered clearly and closely related to the Notes and are not accounted for separately upon issuance.

Fees associated with the closing of the Term Loan and the Notes are recorded as debt discount, which reduce the carrying value of the Term Loan and the Notes. The debt discount is amortized over the respective terms of the Term Loan and the Notes. Amortization expense related to the debt discount is recorded within "Interest and other expense, net" in our consolidated statement of operations.

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

	December 31, 2015		
	Gross Carrying Amount	Unamortized Discount	Net Carrying Amount
Term Loan	$ 1,869	$ (9)	$ 1,860
2021 Notes	1,500	(20)	1,480
2023 Notes	750	(11)	739
Total long-term debt	$ 4,119	$ (40)	$ 4,079

	December 31, 2014		
	Gross Carrying Amount	Unamortized Discount	Net Carrying Amount
Term Loan	$ 2,119	$ (10)	$ 2,109
2021 Notes	1,500	(23)	1,477
2023 Notes	750	(12)	738
Total long-term debt	$ 4,369	$ (45)	$ 4,324

For the years ended December 31, 2015 and 2014, interest expense was $193 million and $201 million, respectively, amortization of the debt discount for the Credit Facilities and Notes was $6 million and $6 million, respectively, and commitment fees for the Revolver were not material.

As of December 31, 2015, 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,	
2016	$ —
2017	—
2018	—
2019	—
2020	1,869
Thereafter	2,250
Total	$ 4,119

As of December 31, 2015 and 2014, the carrying value of the Term Loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. Based on Level 2 inputs, the fair values of the 2021 Notes and 2023 Notes were $1,571 million and $795 million, respectively, as of December 31, 2015 and $1,586 million and $810 million, respectively, as of December 31, 2014.

12. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) at December 31, 2015 and 2014, were as follows (amounts in millions):

	For the Year Ended December 31, 2015			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2014	$ (304)	$ 1	$ —	$ (303)
Other comprehensive income (loss) before reclassifications	(326)	1	10	(315)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1)	(14)	(15)
Balance at December 31, 2015	$ (630)	$ 1	$ (4)	$ (633)

	For the Year Ended December 31, 2014			
	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2013	$ 67	$ 1	$ —	$ 68
Other comprehensive income (loss) before reclassifications	(371)	—	8	(363)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(8)	(8)
Balance at December 31, 2014	$ (304)	$ 1	$ —	$ (303)

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

13. Operating Segments and Geographic Region

Our operating segments are consistent with our internal organizational structure, the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), the manner in which we assess operating performance and allocate resources, and the availability of separate financial information. Currently, we have two reportable operating segments (see Note 1 of the Notes to Consolidated Financial Statements). Previously, we reported "Distribution" as a reportable segment. In the current period, this was no longer deemed a reportable segment and is included in "Other," along with our recently announced Media Networks and Studios businesses. We do not aggregate operating segments.

The CODM reviews segment performance exclusive of the impact of the change in deferred revenues and related cost of sales with respect to certain of our online-enabled games, stock-based compensation expense, amortization of intangible assets as a result of purchase price accounting, and fees and other expenses (including legal fees, costs, expenses and accruals) related to acquisitions and the Purchase Transaction. The CODM does not review any information regarding total assets on an operating segment basis, and accordingly, no disclosure is made with respect thereto. Information on the operating segments and reconciliations of total net revenues and total segment operating income to consolidated net revenues from external customers and consolidated income before income tax expense for the years ended December 31, 2015, 2014 and 2013 are presented below (amounts in millions):

	Years Ended December 31,					
	2015	2014	2013	2015	2014	2013
	Net revenues			Income from operations before income tax expense		
Activision	$ 2,700	$ 2,686	$ 2,895	$ 868	$ 762	$ 971
Blizzard	1,565	1,720	1,124	561	756	376
Other(1)	356	407	323	37	9	8
Segments total	4,621	4,813	4,342	1,466	1,527	1,355
Reconciliation to consolidated net revenues / consolidated income before income tax expense:						
Net effect from deferral of net revenues and related cost of sales	43	(405)	241	(39)	(215)	229
Stock-based compensation expense	—	—	—	(92)	(104)	(110)
Amortization of intangible assets	—	—	—	(11)	(12)	(23)
Fees and other expenses related to acquisitions and the Purchase Transaction(2)	—	—	—	(5)	(13)	(79)
Consolidated net revenues / operating income	$ 4,664	$ 4,408	$ 4,583	$ 1,319	$ 1,183	$ 1,372
Interest and other expense, net				198	202	53
Consolidated income before income tax expense				$ 1,121	$ 981	$ 1,319

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

(2) Reflects fees and other expenses related to the Purchase Transaction and the King Acquisition, inclusive of related debt financings.

Geographic information presented below for the years ended December 31, 2015, 2014, and 2013 is based on the location of the selling entity. Net revenues from external customers by geographic region were as follows (amounts in millions):

	Years Ended December 31,		
	2015	2014	2013
Net revenues by geographic region:			
North America	$ 2,409	$ 2,190	$ 2,414
Europe	1,741	1,824	1,826
Asia Pacific	514	394	343
Total consolidated net revenues	$ 4,664	$ 4,408	$ 4,583

The Company's net revenues in the U.S. were 48%, 48%, and 51% of consolidated net revenues for the years ended December 31, 2015, 2014, and 2013, respectively. The Company's net revenues in the U.K. were 14%, 16%, and 14% of consolidated net revenues for the years ended December 31, 2015, 2014, and 2013, respectively. The Company's net revenues in France were 14% and 12% of consolidated net revenues for the years ended December 31, 2014 and 2013, respectively. No other country's net revenues exceeded 10% of consolidated net revenues.

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

	Years Ended December 31,		
	2015	2014	2013
Net revenues by platform:			
Console	$ 2,391	$ 2,150	$ 2,379
Online(1)	851	867	912
PC	648	551	340
Mobile and ancillary(2)	418	433	629
Total Activision Blizzard net revenues	4,308	4,001	4,260
Other(3)	356	407	323
Total consolidated net revenues	$ 4,664	$ 4,408	$ 4,583

(1) Revenues from online consist of revenues from all *World of Warcraft* products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.

(2) Revenues from Mobile and ancillary include revenues from handheld, mobile and tablet devices, as well as non-platform specific game related revenues such as standalone sales of toys and accessories products from the Skylanders franchise and other physical merchandise and accessories.

(3) Net revenues from Other include revenues from our Media Networks and Studios businesses, along with revenues that were historically shown as "Distribution."

Long-lived assets by geographic region at December 31, 2015, 2014, and 2013 were as follows (amounts in millions):

	Years Ended December 31,		
	2015	2014	2013
Long-lived assets* by geographic region:			
North America	$ 138	$ 122	$ 102
Europe	42	29	29
Asia Pacific	9	6	7
Total long-lived assets by geographic region	$ 189	$ 157	$ 138

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

For information regarding significant customers, see "Concentration of Credit Risk" in Note 2 of the Notes to Consolidated Financial Statements.

14. Stock-Based Compensation

Activision Blizzard Equity Incentive Plans

On June 5, 2014, our shareholders approved the Activision Blizzard, Inc. 2014 Incentive Plan (the "2014 Plan") and the 2014 Plan became effective. The 2014 Plan authorizes the Compensation Committee of our Board of Directors to provide stock-based compensation in the form of stock options, share appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other performance- or value-based awards structured by the Compensation Committee within parameters set forth in the 2014 Plan, including custom awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of our common stock, or factors that may influence the value of our common stock or that are valued based on our performance or the performance of any of our subsidiaries or business units or other factors designated by the Compensation Committee, as well as incentive bonuses, for the purpose of providing incentives and rewards for superior performance to the directors, officers, employees of, and consultants to, Activision Blizzard and its subsidiaries.

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

Upon the effective date of the 2014 Plan, we ceased making awards under the following equity incentive plans (collectively, the "Prior Plans"), although such plans will remain in effect and continue to govern outstanding awards: (i) Activision, Inc. 1998 Incentive Plan, as amended; (ii) Activision, Inc. 1999 Incentive Plan, as amended; (iii) Activision, Inc. 2001 Incentive Plan, as amended; (iv) Activision, Inc. 2002 Incentive Plan, as amended; (v) Activision, Inc. 2002 Executive Incentive Plan, as amended; (vi) Activision, Inc. 2002 Studio Employee Retention Incentive Plan, as amended; (vii) Activision, Inc. 2003 Incentive Plan, as amended; (viii) Activision, Inc. 2007 Incentive Plan; and (ix) Activision Blizzard, Inc. 2008 Incentive Plan.

As of the date it was approved by our shareholders, there were 46 million shares available for issuance under the 2014 Plan. The number of shares of our common stock reserved for issuance under the 2014 Plan has been, and may be further, increased from time to time by: (i) the number of shares relating to awards outstanding under any Prior Plan that: (a) expire, or are forfeited, terminated or canceled, without the issuance of shares; (b) are settled in cash in lieu of shares; or (c) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; (ii) if the exercise price of any option outstanding under any Prior Plan is, or the tax withholding requirements with respect to any award outstanding under any Prior Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares; and (iii) if a share appreciation right is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred. As of December 31, 2015, we had approximately 40 million shares of our common stock reserved for future issuance under the 2014 Plan. Shares issued in connection with awards made under the 2014 Plan are generally issued as new stock issuances.

Method and Assumptions on Valuation of Stock Options

Our employee stock options have features that differentiate them from exchange-traded options. These features include lack of transferability, early exercise, vesting restrictions, pre- and post-vesting termination provisions, blackout dates, and time-varying inputs. A binomial-lattice model was selected because it is better able to explicitly address these features than closed-form models such as the Black-Scholes model, and is able to reflect expected future changes in model inputs, including changes in volatility, during the option's contractual term.

We have estimated expected future changes in model inputs during the option's contractual term. The inputs required by our binomial-lattice model include expected volatility, risk-free interest rate, risk-adjusted stock return, dividend yield, contractual term, and vesting schedule, as well as measures of employees' forfeiture, exercise, and post-vesting termination behavior. Statistical methods were used to estimate employee rank-specific termination rates. These termination rates, in turn, were used to model the number of options that are expected to vest and post-vesting termination behavior. Employee rank-specific estimates of Expected Time-To-Exercise ("ETTE") were used to reflect employee exercise behavior. ETTE was estimated by using statistical procedures to first estimate the conditional probability of exercise occurring during each time period, conditional on the option surviving to that time period and then using those probabilities to estimate ETTE. The model was calibrated by adjusting parameters controlling exercise and post-vesting termination behavior so that the measures output by the model matched values of these measures that were estimated from historical data.

The following tables present the weighted-average assumptions and the weighted-average fair value at grant date using the binomial-lattice model:

	Employee and Director Options		
	For the Years Ended December 31,		
	2015	2014	2013
Expected life (in years)	6.26	5.97	6.44
Risk free interest rate	1.90%	1.82%	1.86%
Volatility	36.13%	37.09%	39.00%
Dividend yield	0.72%	0.98%	1.08%
Weighted-average fair value at grant date	$ 9.87	$ 5.87	$ 4.97

To estimate volatility for the binomial-lattice model, we use methods that consider the implied volatility method based upon the volatilities for exchange-traded options on our stock to estimate short-term volatility, the historical method (annualized standard deviation of the instantaneous returns on Activision Blizzard's stock) during the option's contractual term to estimate long-term volatility, and a statistical model to estimate the transition or "mean reversion" from short-term volatility to long-term volatility. Based on these methods, for options granted during the year ended December 31, 2015, the expected stock price volatility ranged from 26.96% to 37.00%.

As is the case for volatility, the risk-free rate is assumed to change during the option's contractual term. Consistent with the calculation required by a binomial-lattice model, the risk-free rate reflects the expected movement in the interest rate from one time period to the next ("forward rate") as opposed to the interest rate from the grant date to the given time period ("spot rate"). The expected dividend yield assumption for options granted during the year ended December 31, 2015 is based on the Company's historical and expected future amount of dividend payouts.

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

As stock-based compensation expense recognized in the consolidated statement of operations for the years ended December 31, 2015, 2014, and 2013 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Accuracy of Fair Value Estimates

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

Stock Option Activities

Stock option activities for the year ended December 31, 2015 are as follows (amounts in millions, except number of shares, which are in thousands, and per share amounts):

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding stock options at December 31, 2014	29,486	$ 14.50		
Granted	4,133	32.55		
Exercised	(8,356)	13.08		
Forfeited	(928)	18.44		
Expired	(6)	8.73		
Outstanding stock options at December 31, 2015	24,329	$ 17.90	5.98	$ 506
Vested and expected to vest at December 31, 2015	23,448	$ 17.57	5.86	$ 496
Exercisable at December 31, 2015	15,270	$ 13.51	4.19	$ 385

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e. the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the exercise price is below the closing stock price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the market value of our stock. The total intrinsic value of options actually exercised was $125 million, $117 million, and $104 million for the years ended December 31, 2015, 2014, and 2013, respectively. The total grant date fair value of options vested was $19 million, $19 million, and $29 million for the years ended December 31, 2015, 2014, and 2013, respectively.

At December 31, 2015, $43 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.53 years.

Restricted Stock Units and Restricted Stock Awards Activities

We grant restricted stock units, which represent the right to receive shares of our common stock, and restricted stock awards, which are issued and outstanding upon grant but subject to the risk of forfeiture (collectively referred to as “restricted stock rights”). Vesting for restricted stock rights is contingent upon the holders’ continued employment with us and may be subject to other conditions (which may include the satisfaction of a performance measure). Also, certain of our performance-vesting restricted stock rights include a range of shares that may be released at vesting which are above or below the targeted number of restricted stock rights based on actual performance relative to the grant date performance measure. If the vesting conditions are not met, unvested restricted stock rights will be forfeited. Holders of restricted stock are restricted from selling the shares until they vest. Upon vesting of restricted stock rights, we may withhold shares otherwise deliverable to satisfy minimum tax withholding requirements.

The following table summarizes our restricted stock rights activity for the year ended December 31, 2015, with performance-vesting restricted stock right grants presented at the maximum potential shares that could be earned and issued at vesting (amounts in thousands except per share amounts):

	Restricted Stock Rights	Weighted-Average Grant Date Fair Value
Unvested restricted stock rights balance at December 31, 2014	17,967	$ 11.85
Granted*	2,330	29.31
Vested	(7,146)	12.80
Forfeited	(1,221)	15.23
Unvested restricted stock rights balance at December 31, 2015	11,930	$ 12.74

* 1.7 million of the performance-vesting restricted stock rights granted at maximum potential shares did not have an accounting grant date as there is not a mutual understanding between the Company and the employee of the performance terms. Accordingly, no grant date fair value was established and the weighted averaged grant date fair value calculated above excludes these shares.

At December 31, 2015, approximately $39 million of total unrecognized compensation cost was related to restricted stock rights and is expected to be recognized over a weighted-average period of 1.14 years. Of the total unrecognized compensation cost, $17 million was related to performance-vesting restricted stock rights, which is expected to be recognized over a weighted-average period of 1.28 years. The total grant date fair value of vested restricted stock rights was $93 million, $92 million and $57 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The income tax benefit from stock option exercises and restricted stock rights was $109 million, $89 million, and $77 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Certain of our performance-vesting restricted stock rights do not have an accounting grant date as of December 31, 2015, as there is not a mutual understanding between the Company and the employee of the performance terms. Generally, these performance terms relate to revenue and operating income performance for future years where the performance goals have not yet been set. As of December 31, 2015, there were 3.4 million performance-vesting restricted stock rights for which the accounting grant date has not been set.

Stock-Based Compensation Expense

The following table sets forth the total stock-based compensation expense included in our consolidated statements of operations for the years ended December 31, 2015, 2014, and 2013 (amounts in millions):

	For the Years Ended December 31,		
	2015	2014	2013
Cost of sales—online	$ —	$ 1	$ —
Cost of sales—software royalties and amortization	15	17	17
Product development	25	22	33
Sales and marketing	9	8	7
General and administrative	43	56	53
Stock-based compensation expense before income taxes	92	104	110
Income tax benefit	(27)	(38)	(40)
Total stock-based compensation expense, net of income tax benefit	$ 65	$ 66	$ 70

The following table summarizes stock-based compensation included in our consolidated balance sheets as a component of "Software development" (amounts in millions):

	Software Development
Balance at December 31, 2012	$ 19
Stock-based compensation expense capitalized and deferred during period	34
Amortization of capitalized and deferred stock-based compensation expense	(31)
Balance at December 31, 2013	$22
Stock-based compensation expense capitalized and deferred during period	27
Amortization of capitalized and deferred stock-based compensation expense	(23)
Balance at December 31, 2014	$ 26
Stock-based compensation expense capitalized and deferred during period	36
Amortization of capitalized and deferred stock-based compensation expense	(34)
Balance at December 31, 2015	$ 28

15. Income Taxes

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

	For the Years Ended December 31,		
	2015	2014	2013
Income before income tax expense:			
Domestic	$ 355	$ 325	$ 626
Foreign	766	656	693
	$ 1,121	$ 981	$ 1,319
Income tax expense (benefit):			
Current:			
Federal	$ 169	$ 146	$ 110
State	31	12	7
Foreign	40	38	31
Total current	240	196	148
Deferred:			
Federal	1	26	134
State	(21)	(18)	(12)
Foreign	9	(58)	39
Total deferred	(11)	(50)	161
Income tax expense	$ 229	$ 146	$ 309

For the year ended December 31, 2015, 2014, and 2013, income tax benefits attributable to equity-based compensation transactions exceeded the amounts recorded based on grant date fair value. Accordingly, $65 million, $30 million, and $11 million were credited to shareholder's equity, respectively, in these years.

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

	For the Years Ended December 31,					
	2015		2014		2013	
Federal income tax provision at statutory rate	$ 392	35%	$ 343	35%	$ 462	35%
State taxes, net of federal benefit	5	—	5	—	6	—
Research and development credits	(26)	(2)	(24)	(2)	(49)	(4)
Foreign rate differential	(228)	(20)	(245)	(25)	(174)	(13)
Change in tax reserves	136	12	128	13	89	7
Net operating loss tax attribute assumed from the Purchase Transaction	(63)	(6)	(52)	(5)	(16)	(1)
Other	13	1	(9)	(1)	(9)	(1)
Income tax expense	$ 229	20%	$ 146	15%	$ 309	23%

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

For the year ended December, 2015, 2014 and 2013, the Company's income before income tax expense was $1,121 million, $981 million, and $1,319 million, respectively, and our income tax expense was $229 million (or a 20% effective tax rate), $146 million (or a 15% effective tax rate), and $309 million (or a 23% effective tax rate), respectively. Overall, our effective tax rate differs from the U.S. statutory tax rate of 35%, primarily due to earnings taxed at relatively lower rates in foreign jurisdictions, recognition of the California research and development ("R&D") credits, and recognition of the retroactive reinstatement of the federal R&D tax credit, partially offset by changes in the Company's liability for uncertain tax positions.

In connection with the Purchase Transaction, we assumed certain tax attributes of New VH, which generally consist of New VH's net operating loss ("NOL") carryforwards of approximately $760 million, which represent a potential future tax benefit of approximately $266 million. The utilization of such NOL carryforwards will be subject to certain annual limitations and will begin to expire in 2021. The Company also obtained indemnification from Vivendi against losses attributable to the disallowance of claimed utilization of such NOL carryforwards of up to $200 million in unrealized tax benefits in the aggregate, limited to taxable years ending on or prior to December 31, 2016. No benefit for these tax attributes or indemnification was recorded upon the close of the Purchase Transaction. For the year ended December 31, 2015 and 2014, we utilized $180 million and $148 million, respectively, of the NOL, which resulted in benefits of $63 million and $52 million, respectively. The benefits for the year ended December 31, 2015, were reduced by $5 million for return to provision adjustments recorded. As of December 31, 2015, and 2014, a corresponding reserve of $58 million and $52 million, respectively, were established. As of December 31, 2015, an indemnification asset of $125 million has been recorded in "Other Assets", and, correspondingly, the same amount has been recorded as a reduction to the consideration paid for the shares repurchased in "Treasury Stock" (see Note 1 of the Notes to Consolidated Financial Statements for details about the share repurchase).

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

	As of December 31, 2015	As of December 31, 2014
Deferred tax assets:		
Allowance for sales returns and price protection	$ 66	$ 74
Inventory reserve	11	9
Accrued expenses	40	38
Deferred revenue	288	291
Tax credit carryforwards	58	50
Net operating loss carryforwards	10	10
Stock-based compensation	54	69
Transaction costs	9	9
Other	19	13
Deferred tax assets	555	563
Valuation allowance	—	—
Deferred tax assets, net of valuation allowance	555	563
Deferred tax liabilities:		
Intangibles	(166)	(169)
Prepaid royalties	(30)	(22)
Capitalized software development expenses	(81)	(84)
State taxes	(7)	(34)
Other	(6)	—
Deferred tax liabilities	(290)	(309)
Net deferred tax assets	$ 265	$ 254

As of December 31, 2015, we have gross tax credit carryforwards of $40 million and $119 million for federal and state purposes, respectively, which begin to expire in fiscal 2025. The tax credit carryforwards are presented in "Deferred tax assets" net of unrealized tax benefits that would apply upon the realization of uncertain tax positions. Through our foreign operations, we have approximately $36 million in NOL carryforwards at December 31, 2015, attributed mainly to losses in France and Ireland, the majority of which can be carried forward indefinitely.

We evaluate our deferred tax assets, including net operating losses and tax credits, to determine if a valuation allowance is required. We assess whether a valuation allowance should be established or released based on the consideration of all available evidence using a "more-likely-than-not" standard. Realization of the U.S. deferred tax assets is dependent upon the continued generation of sufficient taxable income. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, management believes it is more likely than not that the net carrying value of the U.S. deferred tax assets will be realized. At December 31, 2015 and 2014, there are no valuation allowances on deferred tax assets.

Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided approximated $4,084 million at December 31, 2015. Deferred income taxes on these earnings have not been provided as these amounts are considered to be permanent in duration. Determination of the unrecognized deferred tax liability on unremitted foreign earnings is not practicable because of the complexity of the hypothetical calculation. In the event of a distribution of these earnings to the U.S. in the form of a dividend, we may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits.

Vivendi Games results for the period 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. Vivendi Games tax year 2008 remains open to examination by the major taxing authorities. In addition, Vivendi Games' tax return for the 2008 tax year is before the appeals function of the IRS and is under examination by several state taxing authorities.

Activision Blizzard's tax years 2008 through 2014 remain open to examination by the major taxing jurisdictions to which we are subject. The IRS is currently examining the Company's federal tax returns for the 2008 through 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 the period in which such a determination is reached and the relevant periods thereafter. The Company also has several state and non-U.S. audits pending.

As of December 31, 2015, we had approximately $552 million of gross unrecognized tax benefits, of which $529 million would affect our effective tax rate if recognized. A reconciliation of total gross unrecognized tax benefits for the years ended December 31, 2015, 2014, and 2013 is as follows (amounts in millions):

	For the Years Ended December 31,		
	2015	**2014**	**2013**
Unrecognized tax benefits balance at January 1	$ 419	$ 294	$ 207
Gross increase for tax positions of prior-years	8	2	1
Gross decrease for tax positions of prior-years	(11)	—	—
Gross increase for tax positions of current year	136	125	91
Settlement with taxing authorities	—	(2)	—
Lapse of statute of limitations	—	—	(5)
Unrecognized tax benefits balance at December 31	$ 552	$ 419	$ 294

We recognize interest and penalties related to uncertain tax positions in "Income tax expense". As of December 31, 2015 and 2014, we had approximately $41 million and $18 million, respectively, of accrued interest and penalties related to uncertain tax positions. For the year ended December 31, 2015, 2014, and 2013, we recorded $10 million, $5 million, and $2 million, respectively, of interest expense related to uncertain tax positions.

Based on the current status with the IRS, there is insufficient information to identify any significant changes in unrecognized tax benefits in the next twelve months. However, the Company may recognize a benefit of up to approximately $18 million related to the settlement of tax audits and/or the expiration of statutes of limitations in the next twelve months.

Although the final resolution of the Company's global tax disputes, audits, or any particular issue with the applicable taxing authority is uncertain, based on current information, in the opinion of the Company's management, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, any settlement or resolution of the Company's global tax disputes, audits, or any particular issue with the applicable taxing authority could have a material favorable or unfavorable effect on our business and results of operations in the period in which the matters are ultimately resolved.

16. Computation of Basic/Diluted Earnings Per Common Share

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

	For the Years Ended December 31,		
	2015	2014	2013
Numerator:			
Consolidated net income	$ 892	$ 835	$ 1,010
Less: Distributed earnings to unvested stock-based awards that participate in earnings	(4)	(4)	(5)
Less: Undistributed earnings allocated to unvested stock-based awards that participate in earnings	(7)	(14)	(18)
Numerator for basic and diluted earnings per common share—income available to common shareholders	$ 881	$ 817	$ 987
Denominator:			
Denominator for basic earnings per common share—weighted-average common shares outstanding	728	716	1,024
Effect of potential dilutive common shares under the treasury stock method: Employee stock options	11	10	11
Denominator for diluted earnings per common share—weighted-average common shares outstanding plus dilutive effect of employee stock options	739	726	1,035
Basic earnings per common share	$ 1.21	$ 1.14	$ 0.96
Diluted earnings per common share	$ 1.19	$ 1.13	$ 0.95

Certain of our unvested restricted stock rights (including certain restricted stock units, restricted stock awards, and performance shares) met the definition of participating securities based on their rights to dividends or dividend equivalents. Therefore, we are required to use the two-class method in our computation of basic and diluted earnings per common share. For the years ended December 31, 2015 and 2014, on a weighted-average basis, we had outstanding unvested restricted stock rights with respect to 8 million and 15 million shares of common stock that are participating in earnings, respectively.

Certain of our employee-related restricted stock rights are contingently issuable 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 3 million shares are not included in the computation of diluted earnings per share for the year ended December 31, 2015 as their respective performance measures have not been met. Approximately 4 million shares are not included in the computation of diluted earnings per share for the year ended December 31, 2014 as their respective performance measures have not 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, such as in a period in which a net loss is recorded. Therefore, options to acquire 1 million, 2 million, and 5 million shares of common stock were not included in the calculation of diluted earnings per common share for the years ended December 31, 2015, 2014, and 2013, respectively, as the effect of their inclusion would be anti-dilutive.

See Note 1 of the Notes to Consolidated Financial Statements for details of the Purchase Transaction which reduced outstanding shares in 2014 as compared to 2013.

17. Capital Transactions

Stock Purchase Agreement

On October 11, 2013, as described in Note 1 of the Notes to Consolidated Financial Statements, we completed the Purchase Transaction, repurchasing approximately 429 million shares of our common stock for a cash payment of $5.83 billion, pursuant to the terms of the Stock Purchase Agreement (refer to Note 11 of the Notes to Consolidated Financial Statements for financing details of the Purchase Transaction). The repurchased shares were recorded in "Treasury Stock" in our consolidated balance sheet.

Repurchase Programs

On February 3, 2015, our Board of Directors authorized a stock repurchase program under which we may repurchase up to $750 million of our common stock during the two-year period from February 9, 2015 through February 8, 2017. During the year ended December 31, 2015, there were no repurchases pursuant to this stock repurchase program.

Dividend

On February 2, 2016, our Board of Directors declared a cash dividend of $0.26 per common share, payable on May 11, 2016, to shareholders of record at the close of business on March 30, 2016.

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

On February 6, 2014, our Board of Directors declared a cash dividend of $0.20 per common share, payable on May 14, 2014, to shareholders of record at the close of business on March 19, 2014. On May 14, 2014, we made an aggregate cash dividend payment of $143 million to such shareholders, and on May 30, 2014, we made related dividend equivalent payments of $4 million to the holders of restricted stock rights.

On February 7, 2013, our Board of Directors declared a cash dividend of $0.19 per common share, payable on May 15, 2013, to shareholders of record at the close of business on March 20, 2013. On May 15, 2013, we made an aggregate cash dividend payment of $212 million to such shareholders, and on May 31, 2013, we made related dividend equivalent payments of $4 million to the holders of restricted stock rights.

18. Supplemental Cash Flow Information

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

	For the Years Ended December 31,		
	2015	2014	2013
Supplemental cash flow information:			
Cash paid for income taxes, net of refunds	$ 20	$ 34	$ 138
Cash paid for interest	193	201	19

19. Commitments and Contingencies

Letters of Credit

As described in Note 11 of the Notes to Consolidated Financial Statements, a portion of our Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. At December 31, 2015, we did not have any letters of credit issued under the Revolver.

We maintain two irrevocable standby letters of credit, which are required by one of our inventory manufacturers so that we can qualify for certain payment terms on our inventory purchases. Our standby letters of credit were for $8 million and 3 million euros ($3 million) at December 31, 2015, and $10 million and 1 million euros ($1 million) at December 31, 2014. For the standby letter of credit denominated in U.S. dollars, under the terms of the arrangements, we are required to maintain a compensating balance on deposit with a bank, restricted as to use, of not less than the sum of the available amount of the letter of credit plus the aggregate amount of any drawings under the letter of credit that have been honored thereunder, but not reimbursed. Both letters of credit were undrawn at December 31, 2015 and 2014.

Commitments

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products and for the rights to intellectual property. Under these agreements, we commit to provide specified payments to a lessor, developer or intellectual property holder, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers and intellectual property holders typically are deemed to be advances and, as such, are recoupable against future royalties earned by the developer or intellectual property holder based on sales of the related game. Additionally, in connection with certain intellectual property rights, acquisitions and development agreements, we commit to spend specified amounts for marketing support for the game(s) which is (are) to be developed or in which the intellectual property will be utilized. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2015 are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations(1)			
	Facility and Equipment Leases	Developer and Intellectual Properties	Marketing	Total
For the years ending December 31,				
2016	$ 35	$ 190	$ 28	$ 253
2017	32	5	53	90
2018	30	—	15	45
2019	27	—	—	27
2020	19	—	—	19
Thereafter	35	2	—	37
Total	$ 178	$ 197	$ 96	$ 471

(1) We have omitted uncertain tax liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either (a) the underlying positions have not been fully developed under audit to quantify at this time or, (b) the years relating to the issues for certain jurisdictions are not currently under audit. At December 31, 2015, we had $471 million of unrecognized tax benefits, of which $453 million was included in "Other liabilities" and $18 million was included in "Accrued expenses and other liabilities" in our consolidated balance sheet.

Legal Proceedings

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

The outcomes of legal proceedings and other claims are subject to significant uncertainties, many of which are outside of our control. There is significant judgment required in the analysis of these matters, including the probability determination and whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Moreover, legal matters are inherently unpredictable and the timing of development of factors on which reasonable judgments and estimates can be based can be slow. As such, there can be no assurance that the final outcome of any legal matter will not materially and adversely affect our business, financial condition, results of operations, profitability, cash flows or liquidity.

Purchase Transaction Matters

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

Other Matters

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

20. Related Party Transactions

Transactions with Vivendi and Its Affiliates

As part of the Business Combination in 2008, we entered into various transactions and agreements, including cash management services agreements, a tax sharing agreement and an investor agreement, with Vivendi and its subsidiaries. In connection with the consummation of the Purchase Transaction, we terminated the cash management arrangements with Vivendi and amended our investor agreement with Vivendi. We are also party to a number of agreements with subsidiaries and other affiliates of Vivendi, including music licensing and distribution arrangements and promotional arrangements, none of which were impacted by the Purchase Transaction. None of these services, transactions, and agreements with Vivendi and its affiliates were material, either individually or in the aggregate, to the consolidated financial statements as a whole. As discussed in Note 1 of the Notes to Consolidated Financial Statements, on May 28, 2014, Vivendi sold 41 million shares, reducing its ownership interest below 10%, and is no longer considered a related party. Subsequent to December 31, 2015, Vivendi sold their remaining shares of our common stock.

Transactions with ASAC's Affiliates

Pursuant to the Stock Purchase Agreement, the Company and each of Mr. Kotick, the Company's Chief Executive Officer, and Mr. Kelly, the Company's Chairman of the board of directors, entered into a waiver and acknowledgement letters (together, the "Waivers"), which provide, among other things, (i) that the Purchase Transaction, Private Sale, any public offerings by Vivendi and restructurings by Vivendi and its subsidiaries contemplated by the Stock Purchase Agreement and other transaction documents, shall not (or shall be deemed not to) constitute a "change in control" (or similar term) under their respective employment arrangements, including their employment agreements with the Company, the Company's 2008 Incentive Plan or any award agreements in respect of awards granted thereunder, or any Other Benefit Plans and Arrangements (as defined in the Waivers), (ii) (A) that the shares of our common stock acquired by ASAC and held or controlled by the ASAC Investors (as defined in the Waivers) in connection with the Transactions (as defined in the Waivers) will not be included in or count toward, (B) that the ASAC Investors will not be deemed to be a group for purposes of, and (C) any changes in the composition in the Board of Directors of the Company, in connection with or during the one-year period following the consummation of the Transactions will not contribute towards, a determination that a "change in control" or similar term has occurred with respect to Messrs. Kotick and Kelly's employment arrangements with the Company, and (iii) for the waiver by Messrs. Kotick and Kelly of their rights to change in control payments or benefits under their employment agreements with the Company, the Company's 2008 Incentive Plan or any award agreements in respect of awards granted thereunder, and any Other Benefit Plans and Arrangements (in each case, with respect to all current and future grants, awards, benefits or entitlements) in connection with or as a consequence of the Transactions.

Also pursuant to the Stock Purchase Agreement, on October 11, 2013, we, ASAC and, for the limited purposes set forth therein, Messrs. Kotick and Kelly entered into the Stockholders Agreement. The Stockholders Agreement contains various agreements among the parties regarding voting rights, transfer rights, and a standstill agreement, among other things. In connection with the settlement of the litigation related to the Purchase Transaction, the parties to the Stockholders Agreement amended that agreement on May 28, 2015.

21. Recently Issued Accounting Pronouncements

Revenue recognition

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the adoption method as well as the impact of this new accounting guidance on our financial statements.

Stock-based compensation

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Consolidations

In February 2015, the FASB issued new guidance related to consolidations. The new standard amends certain requirements for determining whether a variable interest entity must be consolidated. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Debt Issuance Costs

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs in financial statements. The new standard requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2015. The new guidance will be applied retrospectively to each prior period presented. The adoption of this guidance will not have a material impact on our financial statements.

Internal-Use Software

In April 2015, the FASB issued new guidance related to internal-use software. The new standard relates to a customer's accounting for fees paid in cloud computing arrangements. The amendment provides guidance for customers to determine whether such arrangements include software licenses. If a cloud arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses and account for the non-software element as a service contract. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Inventory

In July 2015, the FASB issued new guidance related to the measurement of inventory which requires inventory within the scope of the guidance to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard is effective for fiscal years beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, providing new guidance related to business combinations. The new standard requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, made to provisional amounts recorded at the acquisition date as a result of the business combination, be recognized in the reporting period the adjustment is identified. The standard also requires separate presentation on the face of the income statement, or disclosure in the notes, of the portion of the amount recorded in current period earnings by line item. Prior to the issuance of the standard, such adjustments to provisional amounts were recognized retrospectively. The new standard is effective for fiscal years beginning after December 15, 2015 and should be applied prospectively to measurement period adjustments that occur after the effective date. Early adoption is permitted. The adoption of this new accounting guidance could have a material impact on our financial statements in future periods upon occurrence of a measurement period adjustment.

Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, providing new guidance to simplify the presentation of deferred taxes. The new standard requires that deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. The issuance of the new standard eliminates the requirement to perform the jurisdiction analysis based on the classifications of the underlying assets and liabilities, and as a result, each jurisdiction will only have one net non-current deferred tax asset or liability. The new standard is effective for fiscal years beginning after December 15, 2016 and can be applied either prospectively or retrospectively. Early adoption is permitted.

As of December 31, 2015 we early adopted ASU No. 2015-17 and applied retrospectively to all periods presented. As a result, we reclassified $368 million of deferred tax assets from current "Deferred income taxes, net" resulting in non-current net deferred tax assets and liabilities of $264 million and $10 million, respectively, in our Consolidated Balance Sheet as of December 31, 2014. The adoption of this new guidance did not impact our compliance with debt covenant requirements.

22. Quarterly Financial Information (Unaudited)

	For the Quarters Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(Amounts in millions, except per share data)			
Net revenues	$ 1,353	$ 990	$ 1,044	$ 1,278
Cost of sales	538	337	297	413
Operating income	250	196	332	542
Net income	159	127	212	394
Basic earnings per share	0.22	0.17	0.29	0.54
Diluted earnings per share	0.21	0.17	0.29	0.53

	For the Quarters Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(Amounts in millions, except per share data)			
Net revenues	$ 1,575	$ 753	$ 970	$ 1,111
Cost of sales	631	253	300	342
Operating income	438	8	310	427
Net income (loss)	361	(23)	204	293
Basic earnings (loss) per share	0.49	(0.03)	0.28	0.40
Diluted earnings (loss) per share	0.49	(0.03)	0.28	0.40

23. Acquisitions

Major League Gaming

On December 22, 2015, we acquired the business of Major League Gaming, Inc. for an aggregate purchase price of $46 million in cash. MLG is a leader in creating and streaming premium live gaming events, organizing professional competitions and running competitive gaming leagues. MLG's business will operate under our Media Networks operating segment.

We identified and recorded the assets acquired at their estimated fair values at the date of acquisition, and allocated the remaining value of $12 million to goodwill. The goodwill recorded is expected to be tax deductible for tax purposes. The primary intangible asset acquired relates to the developed technology. The values assigned to the acquired assets were preliminary estimates of fair value available as of the date of the Annual Report on the Form 10-K, and may be adjusted as further information becomes available during the measurement period of up to 12 months from the date of the acquisition. The primary areas of the preliminary purchase price allocation that are not yet finalized due to information that may become available subsequently include any changes in these fair values which could potentially result in adjustments to goodwill. The individual tangible and intangible assets acquired in the acquisition were immaterial to the Company's consolidated financial statements. We did not assume any significant liabilities as part of the acquisition.

The following net assets were recognized resulting from the acquisitions:

	December 22, 2015
Net tangible assets	$ 1
Definite-lived intangible assets	33
Goodwill	12
Total net assets recognized	$ 46

Pro forma financial information has not been presented as the acquisition did not have a material impact on our consolidated financial statements for 2015.

24. Subsequent Events

The King Acquisition

On November 2, 2015, we and King entered into a Transaction Agreement under the terms of which we would acquire King and King would become a wholly-owned subsidiary of the Company. On February 23, 2016 we completed the King Acquisition under the terms of the Transaction Agreement. We transferred $5.9 billion in consideration to the existing King shareholders and share-based award holders.

The Company made this acquisition because it believes that the addition of King's highly-complementary mobile business will position the Company as a global leader in interactive entertainment across mobile, console and PC platforms, and positions the company for future growth. The combined company has a world-class interactive entertainment portfolio of top-performing franchises.

As the closing of the King Acquisition occurred subsequent to December 31, 2015, our financial results as of and for the year ended December 31, 2015 do not contain the results of King.

The purchase price, including replacement share awards, is made up of the net assets acquired, including tangible assets, trademark, franchises, developed technology, other intangibles, and goodwill. A portion of the goodwill associated with this purchase is expected to be deductible for U.S. income tax purposes. Due to the timing of the close of the King Acquisition, we did not have sufficient time to complete the valuation of the acquired assets and assumed liabilities, and therefore, the purchase price allocation and amount of goodwill and the tax deduction cannot be determined at this time. Additionally, supplemental pro forma information has not been provided for King as due to the timing of the closing of the King Acquisition, compilation of such data is impracticable.

Credit Facilities

Tranche A Term Loan In connection with the closing of the King Acquisition, the Company was provided with incremental term loans, in the form of Tranche A Term Loans, in an aggregate principal amount of approximately $2.3 billion, of which the proceeds were used to fund the King Acquisition.

The Tranche A Term Loans are scheduled to mature on October 11, 2020 and bear interest, at the Company's option, at either (a) a base rate equal to the highest of (i) the federal funds rate, plus 0.5%, (ii) the prime commercial lending rate of Bank of America, N.A. and (iii) the LIBOR for an interest period of one month beginning on such day plus 1.00%, or (b) LIBOR, in each case, plus an applicable interest margin. LIBOR is subject to a floor of 0% and the base rate is subject to an effective floor of 1.00%. The applicable interest margin for Tranche A Term Loans ranges from 1.50% to 2.25% for LIBOR borrowings and from 0.50% to 1.25% for base rate borrowings and is determined by reference to a pricing grid based on the Company's Consolidated Total Net Debt Ratio (as defined in the Credit Agreement).

The Tranche A Term Loans require quarterly principal payments of 0.625% of the stated principal amount of the Tranche A Term Loans, with increases to 1.250% starting on June 30, 2019 and 3.125% starting on June 30, 2020, with the remaining balance payable on the Tranche A Term Loans' scheduled maturity date of October 11, 2020. Voluntary prepayments of the Tranche A Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty.

The Tranche A Term Loans are subject to a financial maintenance covenant requiring the Company to maintain a maximum Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) of 4.00 to 1.00, which will decrease to 3.50 to 1.00 (I) after the sixth full fiscal quarter after the Tranche A Term Loans are made or (II) if the Collateral Suspension occurs prior to the date falling 18 months after the Tranche A Term Loans are made, on the later of (x) the last day of the fourth full fiscal quarter after the Tranche A Term Loans are made and (y) the last day of the fiscal quarter in which the Collateral Suspension occurs.

The Tranche A Term Loans are secured by the same collateral and guaranteed by the same guarantors that secure and guarantee the existing Term Loans. The other terms of the Tranche A Term Loans are also generally the same as the terms of the existing Term Loan.

Revolving Credit Facility As part of the Amendments, upon the closing of the King Acquisition, the Company's existing revolving credit facility under the Credit Agreement (as in effect prior to the closing of the King Acquisition) in an aggregate principal amount of $250 million was replaced with a new revolving credit facility under the Credit Agreement in the same aggregate principal amount (the "2015 Revolving Credit Facility").

Borrowings under the 2015 Revolving Credit Facility may be borrowed, repaid and re-borrowed by the Company and are available for working capital and other general corporate purposes. Up to $50 million of the 2015 Revolving Credit Facility may be used for letters of credit.

The 2015 Revolving Credit Facility is scheduled to mature on October 11, 2020. Borrowings under the 2015 Revolving Credit Facility bear interest, at the Company's option, under the same terms as the Tranche A Term Loans. Additionally, the 2015 Revolving Credit Facility is subject to the same financial maintenance covenant and is secured by the same collateral and guaranteed by the same guarantors that secure and guarantee the Tranche A Term Loans. The other terms of the 2015 Revolving Credit Facility are generally the same as the terms of the Revolver.

Debt Repayments

On February 2, 2016, the Board of Directors authorized repayments of up to $1.5 billion of our outstanding debt during 2016. On February 25, 2016, we made a voluntary principal repayment of $500 million on our Term Loan, reducing the aggregate term loans outstanding under the Credit Agreement, which includes the $2.3 billion of Tranche A Term Loans, to $3.7 billion. Since this repayment was not a contractual requirement and was not authorized by the Board of Directors until February 2016, we did not reflect the repayment as a "Current portion of long-term debt" in our consolidated balance sheet as of December 31, 2015.

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

Market Information and Holders

Our common stock is quoted on the NASDAQ National Market under the symbol "ATVI."

The following table sets forth, for the periods indicated, the high and low reported sale prices for our common stock. At February 22, 2016, there were 1,752 holders of record of our common stock.

	High	Low
2014		
First Quarter Ended March 31, 2014	$ 21.50	$ 16.55
Second Quarter Ended June 30, 2014	22.40	18.82
Third Quarter Ended September 30, 2014	24.18	20.65
Fourth Quarter Ended December 31, 2014	21.98	17.73

	High	Low
2015		
First Quarter Ended March 31, 2015	$ 23.69	$ 18.43
Second Quarter Ended June 30, 2015	26.09	22.28
Third Quarter Ended September 30, 2015	32.50	24.04
Fourth Quarter Ended December 31, 2015	39.93	30.25

Stock Performance Graph

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

The graph below matches the cumulative five-year total return of holders of our common stock with the cumulative total returns of the NASDAQ Composite index, the S&P 500, and the RDG Technology Composite index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2010, and tracks each such investment through December 31, 2015.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Activision Blizzard, Inc., the NASDAQ Composite Index, the S&P 500 Index,
and the RDG Technology Composite Index

* $100 invested on 12/31/10 in stock or index, including reinvestment of dividends.

Fiscal Year Ending December 31,	12/10	12/11	12/12	12/13	12/14	12/15
Activision Blizzard, Inc.	**$ 100.00**	**$ 100.54**	**$ 87.91**	**$ 149.54**	**$ 170.59**	**$ 331.08**
NASDAQ Composite	**100.00**	**100.53**	**116.92**	**166.19**	**188.78**	**199.95**
S&P 500	**100.00**	**102.11**	**118.45**	**156.82**	**178.29**	**180.75**
RDG Technology Composite	**100.00**	**100.56**	**115.30**	**152.75**	**177.73**	**181.32**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Cash Dividends

On February 2, 2016, our Board of Directors declared a cash dividend of $0.26 per common share, payable on May 11, 2016, to shareholders of record at the close of business on March 30, 2016.

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

On February 6, 2014, our Board of Directors declared a cash dividend of $0.20 per common share, payable on May 14, 2014, to shareholders of record at the close of business on March 19, 2014. On May 14, 2014, we made an aggregate cash dividend payment of $143 million to such shareholders, and on May 30, 2014, we made related dividend equivalent payments of $4 million to holders of restricted stock units.

Future dividends will depend upon our earnings, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors. Further, agreements governing our indebtedness, including the indenture governing the Notes and the Credit Agreement, as described in Note 11 of the Notes to Consolidated Financial Statements included in this Annual Report, limit our ability to pay distributions or dividends with certain exceptions. There can be no assurances that dividends will be declared in the future.

10b5-1 Stock Trading Plans

The Company's directors and employees may, at a time they are not aware of material non-public information, enter into plans ("Rule 10b5-1 Plans") to purchase or sell shares of our common stock that satisfy the requirements of Exchange Act Rule 10b5-1. Rule 10b5-1 permits trading on a pre-arranged, "automatic-pilot" basis, subject to certain conditions, including that the person for whom the plan is created (or anyone else aware of material non-public information acting on such person's behalf) not exercise any subsequent influence regarding the amount, price and dates of transactions under the plan. In addition, any such plan of the Company's directors and employees is required to be established and maintained in accordance with the Company's "Policy on Establishing and Maintaining 10b5-1 Trading Plans."

Rule 10b5-1 Plans permit persons whose ability to purchase or sell our common stock may otherwise be substantially restricted (by quarterly and special stock-trading blackouts and by their possession from time to time of material nonpublic information) to engage in pre-arranged trading. Trades under a Rule 10b5-1 Plan by our directors and employees are not necessarily indicative of their respective opinions of our current or potential future performance at the time of the trade. Trades by our directors and executive officers pursuant to a Rule 10b5-1 Plan will be disclosed publicly through Form 144 and Form 4 filings with the SEC, in accordance with applicable laws, rules and regulations.

Issuer Purchase of Equity Securities

On February 3, 2015, our Board of Directors authorized a stock repurchase program pursuant to which we are authorized to repurchase up to $750 million of the Company's common stock during the two-year period from February 9, 2015 through February 8, 2017. No repurchases have been made under this authorized stock repurchase program.

On October 11, 2013, we repurchased 428,676,471 shares of our common stock, pursuant to a stock purchase agreement we entered into on July 25, 2013, with Vivendi and ASAC II LP, an exempted limited partnership established under the laws of the Cayman Islands, acting by its general partner, ASAC II LLC. Pursuant to the terms of the Stock Purchase Agreement, we acquired all of the capital stock of Amber Holding Subsidiary Co., a Delaware corporation and wholly-owned subsidiary of Vivendi, which was the direct owner of 428,676,471 shares of our common stock, for a cash payment of $5.83 billion, or $13.60 per share, before taking into account the benefit to the Company of certain tax attributes of New VH assumed in the transaction. The repurchased shares were recorded in "Treasury Stock" in our consolidated balance sheet.

CAUTIONARY STATEMENT

This Annual Report 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 relating to product releases; (3) statements of future financial or operating performance; (4) statements relating to the acquisition of King Digital Entertainment plc and expected impact of that transaction, including without limitation, the expected impact on Activision Blizzard's future financial results; and (5) 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. Our actual results could differ materially from expectations stated in forward-looking statements. Some of the risk factors that could cause our actual results to differ from those stated in forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of our Annual Report on Form 10-K. The forward-looking statements contained herein are based upon information available to us as of the date of our Annual Report on Form 10-K 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. AND SUBSIDIARIES
FINANCIAL INFORMATION
For the Year Ended December 31, 2015 and 2014
(Amounts in millions)

	Year Ended					
	December 31, 2015		December 31, 2014			
	Amount	% of Total[1]	Amount	% of Total[1]	$ Increase (Decrease)	% Increase (Decrease)
GAAP Net Revenues by Segment/Platform Mix						
Activision and Blizzard:						
Online[2]	$ 851	18 %	$ 867	20 %	$ (16)	(2)%
PC	648	14	551	13	97	18
Next-generation (PS4, Xbox One, Wii U)	1,492	32	720	16	772	107
Prior-generation (PS3, Xbox 360, Wii)	899	19	1,430	32	(531)	(37)
Total console[3]	2,391	51	2,150	49	241	11
Mobile and ancillary[4]	418	9	433	10	(15)	(3)
Total Activision and Blizzard	4,308	92	4,001	91	307	8
Other[5]	356	8	407	9	(51)	(13)
Total consolidated GAAP net revenues	4,664	100	4,408	100	256	6
Change in Deferred Revenues[6]						
Activision and Blizzard:						
Online[2]	(138)		168			
PC	82		41			
Next-generation (PS4, Xbox One, Wii U)	252		477			
Prior-generation (PS3, Xbox 360, Wii)	(274)		(295)			
Total console[3]	(22)		182			
Mobile and ancillary[4]	35		14			
Total changes in deferred revenues	(43)		405			
Non-GAAP Net Revenues by Segment/Platform Mix						
Activision and Blizzard:						
Online[2]	713	15	1,035	22	(322)	(31)
PC	730	16	592	12	138	23
Next-generation (PS4, Xbox One, Wii U)	1,744	38	1,197	25	547	46
Prior-generation (PS3, Xbox 360, Wii)	625	14	1,135	24	(510)	(45)
Total console[3]	2,369	51	2,332	48	37	2
Mobile and ancillary[4]	453	10	447	9	6	1
Total Activision and Blizzard	4,265	92	4,406	92	(141)	(3)
Other[5]	356	8	407	8	(51)	(13)
Total consolidated non-GAAP net revenues[7]	$ 4,621	100 %	$ 4,813	100 %	$ (192)	(4)%

1. The percentages of total are presented as calculated. Therefore the sum of these percentages, as presented, may differ due to the impact of rounding.
2. Revenues from online consists of revenues from all *World of Warcraft* products, including subscriptions, boxed products, expansion packs, licensing royalties, and value-added services.
3. Downloadable content and their related revenues are included in each respective console platforms and total console.
4. Revenues from mobile and ancillary include revenues from handheld, mobile and tablet devices, as well as non-platform specific game related revenues such as standalone sales of toys and accessories products from the Skylanders franchise and other physical merchandise and accessories.
5. Net revenues from Other include revenues from our Media Networks and Studios businesses, along with revenues that were historically shown as “Distribution.”
6. We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred net revenues.
7. Total non-GAAP net revenues presented also represents our total operating segment net revenues.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
FINANCIAL INFORMATION
For the Year Ended December 31, 2015 and 2014
(Amounts in millions)

	Year Ended					
	December 31, 2015		December 31, 2014			
	Amount	% of Total[1]	Amount	% of Total[1]	$ Increase (Decrease)	% Increase (Decrease)
GAAP Net Revenues by Distribution Channel						
Retail channels	$ 1,806	39 %	$ 2,104	48 %	$ (298)	(14)%
Digital online channels[2]	2,502	54	1,897	43	605	32
Total Activision and Blizzard	4,308	92	4,001	91	307	8
Other[3]	356	8	407	9	(51)	(13)
Total consolidated GAAP net revenues	4,664	100	4,408	100	256	6
Change in Deferred Revenues[4]						
Retail channels	(169)		104			
Digital online channels[2]	126		301			
Total changes in deferred revenues	(43)		405			
Non-GAAP Net Revenues by Distribution Channel						
Retail channels	1,637	35	2,208	46	(571)	(26)
Digital online channels[2]	2,628	57	2,198	46	430	20
Total Activision and Blizzard	4,265	92	4,406	92	(141)	(3)
Other[3]	356	8	407	8	(51)	(13)
Total non-GAAP net revenues[5]	$ 4,621	100 %	$ 4,813	100 %	$ (192)	(4)%

1 The percentages of total are presented as calculated. Therefore the sum of these percentages, as presented, may differ due to the impact of rounding.
2 Net revenues from digital online channels represent revenues from digitally distributed subscriptions, licensing royalties, value-added services, downloadable content, micro-transactions, and products.
3 Net revenues from Other include revenues from our Media Networks and Studios businesses, along with revenues that were historically shown as “Distribution.”
4 We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred revenues.
5 Total non-GAAP net revenues presented also represents our total operating segment net revenues.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
FINANCIAL INFORMATION
For the Year Ended December 31, 2015 and 2014
(Amounts in millions)

	Year Ended					
	December 31, 2015		December 31, 2014		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
GAAP Net Revenues by Geographic Region						
North America	$ 2,409	52 %	$ 2,190	50 %	$ 219	10 %
Europe	1,741	37	1,824	41	(83)	(5)
Asia Pacific	514	11	394	9	120	30
Total consolidated GAAP net revenues	4,664	100	4,408	100	256	6
Change in Deferred Revenues[2]						
North America	(55)		206			
Europe	(20)		153			
Asia Pacific	32		46			
Total changes in net revenues	(43)		405			
Non-GAAP Net Revenues by Geographic Region						
North America	2,354	51	2,396	50	(42)	(2)
Europe	1,721	37	1,977	41	(256)	(13)
Asia Pacific	546	12	440	9	106	24
Total non-GAAP net revenues[3]	$ 4,621	100 %	$ 4,813	100 %	$ (192)	(4)%

1 The percentages of total are presented as calculated. Therefore the sum of these percentages, as presented, may differ due to the impact of rounding.
2 We provide net revenues including (in accordance with GAAP) and excluding (non-GAAP) the impact of changes in deferred net revenues.
3 Total non-GAAP net revenues presented also represents our total operating segment net revenues.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

SEGMENT INFORMATION

For the Year Ended December 31, 2015 and 2014

(Amounts in millions)

	Year Ended					
	December 31, 2015		December 31, 2014		$ Increase	% Increase
	Amount	% of	Amount	% of	(Decrease)	(Decrease)
Segment net revenues:						
Activision[2]	$ 2,700	58%	$ 2,686	56%	$ 14	1%
Blizzard[3]	1,565	34	1,720	36	(155)	(9)
Other[4]	356	8	407	8	(51)	(13)
Segments net revenues total	4,621	100%	4,813	100%	(192)	(4)
Reconciliation to consolidated net revenues:						
Net effect from deferral of net revenues	43		(405)			
Consolidated net revenues	$ 4,664		$ 4,408		256	6%
Segment income from operations:						
Activision[2]	$ 868		$ 762		$ 106	14%
Blizzard[3]	561		756		(195)	(26)
Other[4]	37		9		28	NM
Segments income from operations total	1,466		1,527		(61)	(4)
Reconciliation to consolidated operating income and consolidated income before income tax expense:						
Net effect from deferral of net revenues and related cost of sales	(39)		(215)			
Stock-based compensation expense	(92)		(104)			
Amortization of intangible assets	(11)		(12)			
Fees and other expenses related to acquisitions and the Purchase Transaction and related debt financings[5]	(5)		(13)			
Consolidated operating income	1,319		1,183		136	11
Interest and other expense, net	198		202			
Consolidated income before income tax expense	$ 1,121		$ 981		140	14%
Operating margin from total operating segments	31.7%		31.7%			

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

2 Activision Publishing ("Activision") — publishes interactive entertainment products and content.

3 Blizzard Entertainment, Inc. ("Blizzard") — publishes PC games and online subscription-based games in the MMORPG category.

4 Other includes other income and expenses from operating segments managed outside the reportable segments, including our Media Networks, Studios, and Distribution, as well as other unallocated corporate income and expenses.

5 Reflects fees and other expenses related to the Purchase Transaction and the King Acquisition, inclusive of related debt financings.

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

Year Ended December 31, 2015	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to acquisitions [4]	Non-GAAP Measurement
Net Revenues	$ 4,664	$ (43)	$ —	$ —	$ —	$ 4,621
Cost of Sales - Product Costs	921	(32)	—	—	—	889
Cost of Sales - Online	224	—	—	—	—	224
Cost of Sales - Software Royalties and Amortization	412	(55)	(15)	—	—	342
Cost of Sales - Intellectual Property Licenses	28	5	—	(11)	—	22
Product Development	646	—	(25)	—	—	621
Sales and Marketing	734	—	(9)	—	—	725
General and Administrative	380	—	(43)	—	(5)	332
Total Costs and Expenses	$ 3,345	$ (82)	$ (92)	$ (11)	$ (5)	$ 3,155

Year Ended December 31, 2015	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to acquisitions [4]	Non-GAAP Measurement
Operating Income	$ 1,319	$ 39	$ 92	$ 11	$ 5	$ 1,466
Net Income	892	19	65	8	5	989
Basic Earnings per Share	1.21	0.02	0.09	0.01	0.01	1.34
Diluted Earnings per Share	$ 1.19	$ 0.02	$ 0.09	$ 0.01	$ 0.01	$ 1.32

[1] Reflects the net change in deferred revenues and related cost of sales.
[2] Includes expenses related to stock-based compensation.
[3] Reflects amortization of intangible assets from purchase price accounting.
[4] Reflects fees and other expenses related to acquisitions, including the King Acquisition, and the debt financings related thereto.

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

The company calculates earnings per share pursuant to the two-class method which requires the allocation of net income between common shareholders and participating security holders. For the year ended December 31, 2015, net income attributable to Activision Blizzard, Inc. common shareholders used to calculate non-GAAP earnings per common share, assuming dilution, was $977 million, as compared to total net income of $989 million, for the same period. For purposes of calculating earnings per share, we had, on a weighted-average basis, common shares outstanding of 728 million, participating securities of approximately 8 million, and dilutive shares of 11 million during the year ended December 31, 2015.

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

Year Ended December 31, 2014	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to the Purchase Transaction and related debt financings [4]	Non-GAAP Measurement
Net Revenues	$ 4,408	$ 405	$ —	$ —	$ —	$ 4,813
Cost of Sales - Product Costs	999	29	—	—	—	1,028
Cost of Sales - Online	232	—	(1)	—	—	231
Cost of Sales - Software Royalties and Amortization	260	161	(17)	—	—	404
Cost of Sales - Intellectual Property Licenses	34	—	—	(12)	—	22
Product Development	571	—	(22)	—	—	549
Sales and Marketing	712	—	(8)	—	—	704
General and Administrative	417	—	(56)	—	(13)	348
Total Costs and Expenses	$ 3,225	$ 190	$ (104)	$ (12)	$ (13)	$ 3,286

Year Ended December 31, 2014	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to the Purchase Transaction and related debt financings [4]	Non-GAAP Measurement
Operating Income	$ 1,183	$ 215	$ 104	$ 12	$ 13	$ 1,527
Net Income	835	136	65	8	13	1,057
Basic Earnings per Share	1.14	0.19	0.09	0.01	0.02	1.44
Diluted Earnings per Share	$ 1.13	$ 0.18	$ 0.09	$ 0.01	$ 0.02	$ 1.42

1 Reflects the net change in deferred revenues and related cost of sales.
2 Includes expenses related to stock-based compensation.
3 Reflects amortization of intangible assets from purchase price accounting.
4 Reflects fees and other expenses (including legal fees, costs, expenses and accruals) related to the repurchase of 429 million shares of our common stock from Vivendi (the "Purchase Transaction") completed on October 11, 2013 and related debt financings.

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

The company calculates earnings per share pursuant to the two-class method which requires the allocation of net income between common shareholders and participating security holders. For the year ended December 31, 2014, net income attributable to Activision Blizzard, Inc. common shareholders used to calculate non-GAAP earnings per common share, assuming dilution, was $1,034 million, as compared to total net income of $1,057 million, for the same period. For purposes of calculating earnings per share, we had, on a weighted-average basis, common shares outstanding of 716 million, participating securities of approximately 15 million, and dilutive shares of 10 million during the year ended December 31, 2014.

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

Year Ended December 31, 2013	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to the Purchase Transaction and related debt financings [4]	Non-GAAP Measurement
Net Revenues	$ 4,583	$ (241)	$ —	$ —	$ —	$ 4,342
Cost of Sales - Product Costs	1,053	(10)	—	—	—	1,043
Cost of Sales - Online	204	—	—	—	—	204
Cost of Sales - Software Royalties and Amortization	187	2	(17)	—	—	172
Cost of Sales - Intellectual Property Licenses	87	(4)	—	(23)	—	60
Product Development	584	—	(33)	—	—	551
Sales and Marketing	606	—	(7)	—	—	599
General and Administrative	490	—	(53)	—	(79)	358
Total Costs and Expenses	$ 3,211	$ (12)	$ (110)	$ (23)	$ (79)	$ 2,987

Year Ended December 31, 2013	GAAP Measurement	Less: Net effect from deferral of net revenues and related cost of sales [1]	Less: Stock-based compensation [2]	Less: Amortization of intangible assets [3]	Less: Fees and other expenses related to the Purchase Transaction and related debt financings [4]	Non-GAAP Measurement
Operating Income	$ 1,372	$ (229)	$ 110	$ 23	$ 79	$ 1,355
Net Income	1,010	(150)	71	14	54	999
Basic Earnings per Share	0.96	(0.14)	0.07	0.01	0.05	0.95
Diluted Earnings per Share	$ 0.95	$ (0.14)	$ 0.07	$ 0.01	$ 0.05	$ 0.94

[1] Reflects the net change in deferred revenues and related cost of sales.
[2] Includes expenses related to stock-based compensation.
[3] Reflects amortization of intangible assets from purchase price accounting.
[4] Reflects fees and other expenses (including legal fees, costs, expenses and accruals) related to the repurchase of 429 million shares of our common stock from Vivendi (the "Purchase Transaction") completed on October 11, 2013 and related debt financings.

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

The company calculates earnings per share pursuant to the two-class method which requires the allocation of net income between common shareholders and participating security holders. Net income attributable to Activision Blizzard Inc. common shareholders used to calculate non-GAAP earnings per common share assuming dilution was $976 million for the year ended December 31, 2013 as compared to total non-GAAP net income of $999 million for the same period.
For purpose of calculation of earnings per share, we had, on a weighted-average basis, common shares outstanding of 1,024 million, participating securities of approximately 24 million, and dilutive shares of 11 million during the year ended December 31, 2013.

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

	Three Months Ended					Year over Year
Three Months Ended	**December 31, 2013**	**March 31, 2014**	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**	**% Increase (Decrease)**
Cash Flow Data						
Operating Cash Flow	$ 880	$ 136	$ 106	$ (145)	$ 1,195	36%
Capital Expenditures	16	37	25	28	17	6
Non-GAAP Free Cash Flow[1]	864	99	81	(173)	1,178	36
Operating Cash Flow - TTM[2]	1,264	1,075	1,072	977	1,292	2
Capital Expenditures - TTM[2]	74	94	100	106	107	45
Non-GAAP Free Cash Flow - TTM[2]	$ 1,190	$ 981	$ 972	$ 871	$ 1,185	—%

	Three Months Ended				Year over Year
Three Months Ended	**March 31, 2015**	**June 30, 2015**	**September 30, 2015**	**December 31, 2015**	**% Increase (Decrease)**
Cash Flow Data					
Operating Cash Flow	$ 209	$ 135	$ (181)	$ 1,029	(14)%
Capital Expenditures	21	28	46	16	(6)
Non-GAAP Free Cash Flow[1]	188	107	(227)	1,013	(14)
Operating Cash Flow - TTM[2]	1,365	1,394	1,358	1,192	(8)
Capital Expenditures - TTM[2]	91	94	112	111	4
Non-GAAP Free Cash Flow - TTM[2]	$ 1,274	$ 1,300	$ 1,246	$ 1,081	(9)%

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

[2] TTM represents trailing twelve months. Operating Cash Flow for the three months ended December 31, 2013, three months ended September 30, 2013, three months ended June 30, 2013, and three months ended March 31, 2013 was $880 million, $(50) million, $109 million, and $325 million, respectively. Capital Expenditures for the three months ended December 31, 2013, three months ended September 30, 2013, three months ended June 30, 2013, and three months ended March 31, 2013 was $16 million, $22 million, $19 million, and $17 million, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
For the Trailing Twelve Months Ending December 31, 2015
EBITDA and Adjusted EBITDA
(Amounts in millions)

	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	Trailing Twelve Months Ending December 31, 2015
GAAP Net Income	$ [illegible]	$ 212	$ 127	$ [illegible]	$ [illegible]
Interest Expense, net	50	50	51	50	200
Provision for income taxes	98	70	18	42	229
Depreciation and amortization	20	21	25	30	95
EBITDA	**[illegible]**	**353**	**221**	**[illegible]**	**1,416**
Deferral of net revenues and related cost of sales[1]	([illegible])	([illegible])	26	[illegible]	[illegible]
Stock-based compensation expense[2]	23	21	28	22	[illegible]
Fees and other expenses related to acquisitions[3]	—	—	—	5	5
Adjusted EBITDA	**$ 223**	**$ [illegible]**	**$ [illegible]**	**$ [illegible]**	**$ 1,552**

[1] Reflects the net change in deferred revenues and related cost of sales.
[2] Includes expenses related to stock-based compensation.
[3] Reflects fees and other expenses related to acquisitions, including the King Acquisition, and the debt financings related thereto.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert J. Corti
Retired CFO,
Avon Products, Inc.

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

Brian G. Kelly
Chairman of the Board,
Activision Blizzard

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

Barry Meyer
Retired Chairman and CEO,
Warner Brothers Entertainment

Robert J. Morgado
Retired Chairman and CEO,
Warner Music Group

Peter Nolan
Senior Advisor,
Leonard Green & Partners, L.P.

Casey Wasserman
Chairman and Chief
Executive Officer,
Wasserman Media Group

Elaine Wynn
Co-founder, Wynn Resorts

OFFICERS

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

Thomas Tippl
Chief Operating Officer,
Activision Blizzard

Dennis M. Durkin
Chief Financial Officer
and Treasurer,
Activision Blizzard

Eric Hirshberg
President and Chief
Executive Officer,
Activision Publishing

Mike Morhaime
President and Chief
Executive Officer,
Blizzard Entertainment

Chris B. Walther
Chief Legal Officer,
Activision Blizzard

Riccardo Zacconi
Chief Executive Officer,
King Digital Entertainment

SPECIAL ADVISORS

Michael Griffith
Vice Chairman,
Activision Blizzard

TRANSFER AGENT

Continental Stock Transfer
& Trust Company
17 Battery Place
New York, New York 10004
(800) 509-5586

AUDITOR

PricewaterhouseCoopers LLP
Los Angeles, California

CORPORATE HEADQUARTERS

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
(310) 255-2000

WORLD WIDE WEB SITE

www.activisionblizzard.com

E-MAIL

IR@activisionblizzard.com

ANNUAL MEETING

June 2, 2016, 9:00 am PDT
Equity Office
3200 Ocean Park Boulevard
Santa Monica, California 90405

ANNUAL REPORT ON FORM 10-K

Activision Blizzard's Annual Report on Form 10-K for the calendar year ended December 31, 2015 is available to shareholders without charge upon request by calling our Investor Relations department at (310) 255-2000 or by mailing a request to our Corporate Secretary at our corporate headquarters.

NON-INCORPORATION

Portions of the Company's 2015 Form 10-K, as filed with the SEC, are included within this Annual Report. Other than these portions of the Form 10-K, all other portions of this Annual Report are not "filed" with the SEC and should not be deemed so.

DOMESTIC OFFICES

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

INTERNATIONAL OFFICES

Barcelona, Spain
Berlin, Germany
Birmingham, United Kingdom
Bucharest, Romania
Burglengenfeld, Germany
Milan, Italy
Cork, Ireland
Datchet, United Kingdom
Dublin, Ireland
Hong Kong SAR, China
Leamington Spa, United Kingdom
London, United Kingdom
Madrid, Spain
Malmö, Sweden
St. Julians, Malta
Mexico City, Mexico
Mississauga, Canada
Munich, Germany
Paris, France
Quebec City, Canada
São Paulo, Brazil
Schiphol, The Netherlands
Seoul, South Korea
Shanghai, China
Shenzhen, China
Singapore
Stockholm, Sweden
Sydney, Australia
Taipei, Region of Taiwan
Tokyo, Japan
Vancouver, Canada
Venlo, The Netherlands
Versailles, France
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