

ACTIVISION | BLIZZARD®



2020 Annual Report

Since 1991, when we purchased our stake in the company and were given the privilege of managing it, the company's book value per share has grown at a compound annual rate of 30%. If you had invested \$1,000 in our company 20 years ago, your investment, including dividend reinvestment, would have been worth \$82,190 at the end of 2020, or around 20 times the S&P 500's \$4,223 over the same period.

We have included a similar paragraph in our shareholder letter for many years, and our commitment to delivering value to you is as steadfast today as it was three decades ago. As we look back on 2020, it has never been more apparent that our ability to positively impact the lives of our players and communities is the ultimate driver of this share performance.

Our financial success comes from continuously finding new ways to delight and engage hundreds of millions of players around the world and from growing our communities of players. Achieving this requires us to attract and retain a diverse and inclusive group of highly talented and motivated employees. And this in turn is only possible if our teams share a sense of purpose and collective values in serving our shareholders through our commitment to our players, our communities, and each other.

We were also pleased that our continued strong business performance, our ability to consistently generate growing free cash flow, and the durability of our fully-owned portfolio of intellectual property even during challenging economic circumstances was recognized with an upgrade of our credit rating to A- by Standard & Poor's.

2020 was the most difficult operating environment that we have experienced in our 30 years leading the company. Facing unprecedented challenges, our teams around the world showed ingenuity and resilience as they continued putting our players and fans first with compelling content and experiences and executing against our most critical growth initiatives. Our record-setting results are evidence of the success of their work. In 2020 we generated net bookings¹ of \$8.4 billion, 32% higher than last year. Non-GAAP operating income grew 47% year over year, and non-GAAP earnings per share increased 39% to \$3.21 (it is important to understand the meaning of these terms and how non-GAAP operating income and non-GAAP EPS reconcile to GAAP, and we explain this in the tables at the end of this Annual Report).

Our results in 2020 and success over the past 30 years illustrate the scale of the opportunity for our company. While demand for our content last year likely benefited from shelter-at-home dynamics, our growth was primarily driven by

returns on our investments to expand the reach, engagement, and player investment within our largest franchises.

Gamers are becoming more deeply invested in their favorite franchises and playing fewer games for longer, and we are fortunate to have created some of the most popular entertainment franchises in the world. Few franchises generate over a billion dollars in annual net bookings and today we operate three of them – **Call of Duty**, **Warcraft**, and **Candy Crush**. Each delivered strong performance in 2020 and each has clear opportunities for sustained growth as we create more ways to entertain and engage our players. Our teams are hard at work, in difficult circumstances, creating highly anticipated content for these leading franchises and for **Diablo** and **Overwatch**. We are also developing promising new potential franchises. With all of these initiatives already underway, we expect to have at least two more billion-dollar franchises in our portfolio in the next few years. Our opportunity for audience, revenue, and earnings expansion has never been stronger.

Our Response To COVID-19

The digital nature of our content enabled us to produce and deliver joy, safe entertainment, and much-needed social engagement amidst the most challenging of circumstances. And our continued conversion to a fully digital business is enabling us to achieve important sustainability goals as we continue to reduce the use of plastic packaging.

Of course, none of this would be possible without the unwavering enthusiasm of our players, the dedication and commitment of our employees around the world, and the support and capital provided by our shareholders and debt holders.

The health and safety of our employees, players, and fans has been and continues to be a top priority. To that end, we swiftly launched several initiatives to support each of these vital groups in managing through these unprecedented times.

All of our facilities moved to a work-from-home model by mid-March 2020, completing an efficient, safe, and successful transition of nearly 10,000 employees to remote work. When traditional medical services came under huge demand at the onset of the pandemic, we created an enterprise-wide global network of physicians in order to help ensure that our employees and their families had access to the very best medical care. We made a commitment to directly support

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

the healthcare organizations in the communities in which our employees live and work. We donated more than \$5 million dollars to aid hospitals, healthcare organizations and nonprofits treating COVID-19 patients, vaccinating frontline workers, conducting promising drug trials and convalescent plasma therapies, and providing employment services in these communities.

For our players and fans, we were proud to partner with the World Health Organization for the #PlayApartTogether campaign to leverage our game platforms to disseminate critical health and safety information while offering in-game events and rewards to promote social distancing. We also successfully transitioned our professional esports leagues, **Overwatch League** and **Call of Duty League**, to a remote broadcast format to keep our players and fans safe while continuing to deliver world class esports content to our global audiences.

At the time of writing, the pandemic is still exacting a tragic toll upon so many. Most of our employees continue to work from home. However, we have the very best resources dedicated to the creation of policies and workplaces that will eventually allow our employees to return to the office with confidence that their healthcare needs and the needs of their families will remain our priority.

A large portion of our employee population in Asia is now back in our offices, and this provides optimism that the creativity and inspiration that are derived from the camaraderie of being physically together as a team can soon be replicated in our other locations around the world. As we embark on the phased reopening of offices, we expect to continue to be recognized as a company that provides exceptionally safe work environments and the very best healthcare to our employees and their families.

Accelerating The Path To One Billion Players

Monthly, we engage approximately 400 million players across our network today, including over 100 million players in each of the Americas, Europe and Asia, and we have plans to more than double that audience as we unlock the full potential of our global franchises. We saw the sizeable audience expansion in **Call of Duty** last year as a confirmation of both the opportunity for our franchises and validation of the growth strategy that we are pursuing to realize that opportunity.

Call of Duty has long been one of the world's most successful entertainment franchises, but as we increased investment in our creative and commercial teams and extended the franchise across platforms, geographies, and business models,

we delivered a dramatic increase in reach, engagement, and player investment. By extending the franchise to mobile, the largest and fastest growing gaming platform, and introducing free-to-play experiences on PC and console, we tripled the size of the player base versus two years earlier.

Since its launch in October 2019, **Call of Duty Mobile** has been downloaded over 450 million times, becoming the highest grossing new game in the U.S. app stores in the 12 months after its launch. And the free-to-play **Warzone** experience on PC and console has brought in over 100 million players since its March 2020 launch. In total, over three times the number of people played **Call of Duty** in 2020 versus two years earlier, with time spent in the franchise over five times higher. This deep engagement included tens of millions of players who experienced the franchise for the very first time on PC and mobile in countries outside of our traditional regions.

Call of Duty's results show that free-to-play experiences across mobile, console and PC not only extend the reach of a franchise but can also lead to strong in-game monetization and additional sales of premium content. Net bookings for the franchise approximately doubled year-over-year in 2020, premium unit sales grew over 40% year-over-year, and the franchise added over a billion dollars to Activision's segment operating income in the year.

Call of Duty has established a clear, replicable blueprint for how our franchises can reach more players on more platforms in more geographies. The process must and will always begin with inspiration and creativity. We then focus on developing great gameplay. Providing players with free-to-play entry points allows us to broaden the audience, with ongoing delivery of in-game and premium content to sustain long-term engagement. We continue to increase investment in our key franchises to ensure that they are reaching their full potential and growing their communities. We are aggressively adding development talent to each team and we intend to have almost tripled developer headcount for some key franchises by the end of 2022, as compared to 2019 levels. Each franchise is at a different stage of transformation, but there is no shortage of evidence that we are following the right path.

For example, in **Warcraft**, net bookings from **World of Warcraft** grew 40% year-over-year in 2020 after the launch of the Classic mode gave players more ways to experience the WoW universe. Our teams have multiple initiatives underway to extend **Warcraft** to the mobile platform too, creating even more ways to engage, for the over 100 million people who previously played **World of Warcraft** over the last 15 years as well as entirely new players around the world.

We also continue to build on our leadership position in mobile at King. **Candy Crush** delivered strong growth in 2020 as we delivered more content more frequently to the franchise's audience of over 200 million monthly players, and **Candy** was once again the highest-grossing franchise in the U.S. app stores. We intend to accelerate the pace of content delivery even further and introduce more social features into **Candy Crush** in the coming quarters. And we are continuing to make great progress in building King's advertising business, where revenue grew approximately 50% year-over-year in 2020.

In the **Diablo** franchise, **Diablo Immortal**, our upcoming free-to-play mobile title has been extremely well received during regional testing, setting the stage for meaningful expansion in the franchise's growth ahead of the upcoming **Diablo 4** release. And in **Overwatch**, we intend to not only reinvigorate the existing community with the launch of **Overwatch 2** but also substantially broaden the community through business model and growth initiatives across platforms.

We expect to add hundreds of millions of players to our audience through these launches as well as multiple unannounced potential franchises in our pipeline. And as we increase the size of our developer teams, we are committed to not only reaching more players across platforms but also delivering year-round content of the highest quality in each franchise, growing engagement in our communities and creating more opportunities for player investment to deliver ongoing growth for our shareholders.

Creating Safe, Joyful Spaces For Social Connection

We are frequently asked what has stayed the same and what has changed over our three decades of running the business. Regarding the former, our laser-like focus on serving players with inspired creativity and extraordinary execution, and always prioritizing our greatest opportunities, have been constants. Regarding the latter, there is no shortage of answers, since succeeding in this rapidly evolving industry requires a willingness and ability to consistently adapt the way we meet the needs of our players. But one of the most significant changes has been the evolution in how we manage our brands, first from developing great games to running franchises, and now to creating and sustaining global communities connected through our intellectual properties.

Video games have redefined what it means to interact socially for years, and this has been reinforced during the pandemic while other forms of social interaction have been curtailed. Gaming connects people more deeply than any other form of media, bringing people together without regard to race,

religion, ethnicity, sexual identity, and gender or gender expression. With our players engaging for over an hour per day when they play, our games can responsibly influence popular culture, eliminate stereotypes, celebrate differences, and encourage players to embrace tolerance and understanding.

We see these deep social connections illuminated in countless stories about how our games have provided spaces for people around the world to find joy, solace, and community. This has become more apparent during these challenging and often isolating times. A group of doctors treating COVID-19 patients in Uruguay told us how they play **Candy Crush** on a shared hospital computer as a means of finding moments of comfort. And we spoke with an ER nurse in Kentucky who explained how **World of Warcraft** had helped him through several difficult times in his life, most recently by allowing him to stay connected with friends and find relaxation between shifts amid the pandemic.

Across our portfolio we are finding new ways to connect players in-game. In **Call of Duty** and **World of Warcraft**, we already have millions of players communicating with their friends through social audio. Our players who play in groups with friends spend two to three times more time in-game than those who play on their own. We plan to introduce new ways for players in our other franchise communities to play, compete, or socialize with friends as we continue to enable richer social networking throughout our games.

Attracting And Retaining Diverse Views, Voices And Talent

We have the benefit of two powerful assets: franchises and talent. We will continue to be disciplined in our approaches to talent acquisition and human capital management and will maintain strong alignment between financial performance and reward especially within our franchises.

While our current teams are already progressing on our rich content pipeline, we plan to hire over 2,000 developers to achieve our ambitious franchise growth plans over the next two years. Against a backdrop of substantial global demand for our content, this increased capacity will allow us to support even more frequent in-game content and events, continue extending our PC and console franchises to mobile, and bring new intellectual properties to market.

We have long appreciated that the creation of broadly appealing games for our 400 million players in the 190 countries where our games are available requires diverse talent and skills and an environment that fosters inclusion. To this end, our recruitment practices at all levels are designed to attract talent from across society. Maintaining

an equitable, inclusive workplace is essential to our success. And, like every area of our enterprise, we are never complacent about recognizing that excellence only comes from continuous improvement.

As a company, humility is a core value of how we operate. For over 30 years, we have worked hard to recognize our successes without too much fanfare and always in measured ways.

This year we will release our first report highlighting our commitment to the environment, social good and the very best governance practices and their direct connection to the creation of shareholder value. While the report is new, our commitment to these practices and shareholder value creation is not.

Our company and employees continue to demonstrate an unwavering commitment to the communities in which we operate. The **Call of Duty Endowment** is an ideal example of a company-inspired and -funded initiative designed to have meaningful social impact but with a deep connection to the brand. Through the **Call of Duty Endowment**, we have helped find 81,000 jobs for veterans since we started the program a decade ago. Citizens willing to sacrifice their lives, livelihoods, and time with their families to protect the ideals that enable freedom and prosperity are among the most disciplined, loyal, hardworking, team-oriented, goal-driven members of our society and our workforce.

Unfortunately, post-active service employment opportunities continue to be a challenge for the veteran community. As the pandemic caused record low unemployment rates to dramatically increase, veteran unemployment, as it often has, increased at even higher rates. In 2020 we dedicated more resources to find new employment opportunities for veterans and even greater resources for the populations of veterans that were especially impacted: women and Black veterans. We managed to achieve our most successful year ever for the **Call of Duty Endowment**, placing over 15,000 veterans into high-quality jobs. Of those we helped place last year, approximately 21% were women and 28% were Black – metrics in which we take great pride considering that women veterans and Black veterans compose just 10% and 12%, respectively, of the U.S. veteran community.

As a result of the **Call of Duty Endowment**, we and our partners gain special access to the talented women and men we place in our own recruiting initiatives.

We frequently hear heartwarming stories filled with gratitude and appreciation for helping veterans find gainful employment

to be able to provide for their families. These stories remind us that supporting the communities around the world in which we operate is good business.

We will continue to make investments like this which serve a greater purpose, further engage our players and employees, and contribute to shareholder value.

Consistent Principles

The principles that have guided us over the last 30 years served us well in 2020:

- Delivering innovative and compelling entertainment experiences for our communities of players around the world;
- Focusing on the largest and most promising opportunities;
- Recruiting, rewarding, and retaining diverse world-class talent; and
- Remaining disciplined in our responsibility to deliver shareholder value.

These principles allowed us to make a meaningful and positive impact on our players during the most difficult of times, while also delivering significant value to shareholders and opportunities for employees.

As we execute on our pipeline of new content across multiple platforms and business models – and as we continue to pursue new opportunities to build on our already leading franchises, reintroduce franchises from our rich library, and develop original intellectual property – we see a clear path to continue delivering growth for our shareholders. Prioritization of opportunities and access to talent remain our biggest challenges. But these are far more manageable challenges than many other companies face.

Thank you to our players and audiences for continuing to invest your time and capital in our content. Thank you to our shareholders for your support. We continue to be proud to have delivered you superior returns on your capital. And thank you to our employees. Your passion, dedication and continued commitment to excellence inspires us all.

With appreciation,



Bobby Kotick
Chief Executive Officer
Activision Blizzard



Brian Kelly
Chairman of the Board
Activision Blizzard

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

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

For the Fiscal Year Ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 1-15839



ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-4803544

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

3100 Ocean Park Boulevard Santa Monica, CA

90405

(Address of principal executive offices)

(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.000001 per share	ATVI	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 30, 2020 (based on the closing sale price as reported on the Nasdaq) was \$58,006,915,377.

The number of shares of the registrant's Common Stock outstanding at February 16, 2021 was 774,753,965.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K to the extent stated herein. The 2021 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Table of Contents

	<u>Page No.</u>
PART I.	3
Cautionary Statement	3
Item 1. Business	4
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	26
Item 2. Properties	26
Item 3. Legal Proceedings	26
Item 4. Mine Safety Disclosures	26
PART II.	27
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	27
Item 6. Selected Financial Data	28
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	54
Item 8. Financial Statements and Supplementary Data	55
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	55
Item 9A. Controls and Procedures	55
Item 9B. Other Information	56
PART III.	56
Item 10. Directors, Executive Officers, and Corporate Governance	56
Item 11. Executive Compensation	57
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
Item 13. Certain Relationships and Related Transactions, and Director Independence	57
Item 14. Principal Accountant Fees and Services	57
PART IV.	57
Item 15. Exhibits, Financial Statement Schedules	57
Item 16. Form 10-K Summary	57
Exhibit Index	E-1
SIGNATURES	E-5

PART I

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical facts and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow, or other financial items; (2) statements of our plans and objectives, including those related to releases of products or services and restructuring activities; (3) statements of future financial or operating performance, including the impact of tax items thereon; and (4) statements of assumptions underlying such statements. Activision Blizzard, Inc. generally uses words such as “outlook,” “forecast,” “will,” “could,” “should,” “would,” “to be,” “plan,” “aims,” “believes,” “may,” “might,” “expects,” “intends,” “seeks,” “anticipates,” “estimate,” “future,” “positioned,” “potential,” “project,” “remain,” “scheduled,” “set to,” “subject to,” “upcoming,” and other similar words and 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.

We caution that a number of important factors, many of which are beyond our control, could cause our actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Some of the risk factors that could cause our actual results to differ from those stated in the forward-looking statements can be found in “Risk Factors” included in Part I, Item 1A of this Annual Report on Form 10-K. The forward-looking statements contained herein are based on information available to us as of the date of this 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.’s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard, Inc. All other product or service names are the property of their respective owners. All dollar amounts referred to in, or contemplated by, this Annual Report on Form 10-K refer to U.S. dollars, unless otherwise explicitly stated to the contrary.

Item 1. BUSINESS

Overview

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services on video game consoles, personal computers (“PC”s), and mobile devices. We also operate esports leagues and offer digital advertising within some of our content. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. For a discussion of the history of the formation of our Company, including our year and form of incorporation, refer to Part I, Item 1 “Business” of our Annual Report on Form 10-K for the year ended December 31, 2019.

Our Strategy and Vision

Our objective is to connect and engage the world through epic entertainment by continuing to be a worldwide leader in the development, publishing, and distribution of high-quality interactive entertainment content and services, as well as related media, that deliver engaging entertainment experiences on a year-round basis. In pursuit of this objective, we focus on three strategic pillars: expanding audience reach; deepening consumer engagement; and increasing player investment.

Expanding audience reach. Building on our strong established franchises and creating new franchises through compelling new content is at the core of our business. We endeavor to reach as many consumers as possible by offering our content on multiple platforms and delivering compelling experiences across multiple business models (e.g. premium, free-to-play, subscription-based, etc.).

Driving deep consumer engagement. Our high-quality entertainment content not only expands our audience reach, but it also drives deep engagement with our franchises. We design our games, as well as related media, to provide a depth of content that keeps consumers engaged for a long period of time following a game’s release. In addition, our games are designed to provide players the ability to connect with each other socially within our franchise communities, thus delivering more value to our players and providing additional growth opportunities for our franchises.

Increasing player investment. Increasingly, our consumers are connected to our games online through consoles, PCs, and mobile devices. This allows us to offer additional digital player investment opportunities directly to our consumers on a year-round basis. In addition to purchasing full games or subscriptions, players can invest in our franchises by purchasing incremental in-game content (i.e. larger downloadable content or smaller content via microtransactions). These digital revenue streams tend to be more recurring and have relatively higher profit margins. Further, if executed properly, additional player investment can increase engagement, as it provides more frequent and incremental content for our players. In addition, we generate revenue through offering advertising within certain of our franchises, and we believe there are opportunities to grow new forms of player investment through esports and consumer products. We are still in the early stages of developing these new revenue streams.

Our Segments

Based upon our organizational structure, we conduct our business through three reportable segments, each of which is a leading global developer and publisher of interactive entertainment content and services based primarily on our internally developed intellectual properties.

(i) Activision Publishing, Inc.

Activision Publishing, Inc. (“Activision”) delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision’s key product franchise is Call of Duty[®], a first-person action franchise. Activision also includes the activities of the Call of Duty League[™], a global professional esports league with city-based teams.

(ii) *Blizzard Entertainment, Inc.*

Blizzard Entertainment, Inc. (“Blizzard”) delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, subscriptions, and by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net®, which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity, and the creation of user-generated content. Blizzard’s key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing franchise; Hearthstone®, an online collectible card franchise based in the Warcraft universe; Diablo®, an action role-playing franchise; and Overwatch®, a team-based first-person action franchise. Blizzard also includes the activities of the Overwatch League™, a global professional esports league with city-based teams.

(iii) *King Digital Entertainment*

King Digital Entertainment (“King”) delivers content primarily through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on the mobile platform. King’s key product franchise is Candy Crush™, a “match three” franchise.

Other

We also engage in other businesses that do not represent reportable segments, including the Activision Blizzard Distribution (“Distribution”) business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Impacts of the Global COVID-19 Pandemic

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged and has since extensively impacted global health and the economic environment. On March 11, 2020, the World Health Organization (“WHO”) characterized COVID-19 as a pandemic. In an effort to contain the spread of COVID-19, domestic and international governments around the world enacted various measures, including orders to close all businesses not deemed “essential,” quarantine orders for individuals to stay in their homes or places of residence, and to practice social distancing when engaging in essential activities. We anticipate that these actions and the ongoing global health crisis caused by COVID-19 will continue to negatively impact many business activities and financial markets across the globe.

During the COVID-19 pandemic, our business has experienced an increase in demand for certain of our products and services as a result of the stay-at-home orders enacted in various regions as players have more time to engage with our games. These trends contributed to strong full-game and in-game content sales for *Call of Duty: Modern Warfare*®, which also benefited from the launch of *Call of Duty: Warzone*™ in March. In addition, we saw further demand for *World of Warcraft*, including its in-game content, which also continued to benefit from the release of *World of Warcraft Classic* in August 2019. Beginning in the month of March, our business also experienced an increase in monthly active users for certain franchises. We have, however, seen a moderation in these trends since the stay-at-home orders were originally enacted earlier in 2020.

As a result of the COVID-19 pandemic and stay-at-home orders enacted in various regions, both the Overwatch League and the Call of Duty League pivoted all matches from their originally planned local homestand formats to online play and remote production for the remainder of the regular and postseason in order to keep players and fans safe while still delivering premium esports content to a global audience. Additionally, to support our Overwatch League and Call of Duty League team owners and ecosystems amid a challenging environment, which includes losing the ability to have live fan-attended home venue events, we have taken certain actions to support their short-term cash flow needs, adjusted our league operations to reduce operating costs and improve franchise terms, and made certain investments which have impacted our operating results in 2020. This impact was primarily in the Blizzard segment.

The sustainability of these trends and long-term implications to our business is dependent on future developments, including the duration of the COVID-19 pandemic and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time. See Item 1A “Risk Factors” for additional details on risks and uncertainties regarding the impacts of the global COVID-19 pandemic on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, and stock price.

In an effort to protect the health and safety of our employees, the majority of our workforce is currently working from home and we have placed restrictions on non-essential business travel. We have implemented business continuity plans and have increased support and resources to enable our employees to work remotely and, thus far, our business has been able to operate with minimal disruption to our game titles' published release dates. The COVID-19 pandemic remains a rapidly evolving situation. We will continue to actively monitor the developments of the COVID-19 pandemic and may take further actions that could alter our business operations as may be required by federal, state, local, or foreign authorities, or that we determine are in the best interests of our employees, customers, partners, and shareholders. It is not clear what effects any such potential actions may have on our business, including the effects on our employees, players and consumers, customers, partners, game development and content pipelines, or on our reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

The full extent of the impact of the COVID-19 pandemic on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price will depend on numerous evolving factors that we are not able to fully predict at this time. However, we believe that given our strong balance sheet, with cash and cash equivalents and short-term investments of \$8.8 billion as of December 31, 2020, and the fact that our business has increasingly shifted to digital channels, we have substantial flexibility as we navigate through the uncertain environment and near-term implications of the COVID-19 pandemic.

Products

We develop interactive entertainment content and services, principally for console, PC, and mobile devices, and we market and sell our games primarily through digital distribution channels. Our products span various genres, including first- and third-person action/adventure, role-playing, strategy, and "match three," among others. We primarily offer the following products and services:

- premium full-games, which typically provide access to main game content after purchase;
- free-to-play offerings, which allow players to download the game and engage with the associated content for free;
- in-game content for purchase to enhance gameplay (i.e. microtransactions and downloadable content) available within both our full-games and free-to-play offerings; and
- subscriptions for players in our World of Warcraft franchise that provide for ongoing access to the game content.

Providing additional content and experiences within franchises has increased opportunities for player investment outside of premium full-game purchases. This has allowed us to shift from our historical seasonality to a more consistently recurring and year-round revenue model. In addition, if executed properly, it allows us to increase player engagement with our games and content.

Product Development and Support

We focus on developing enduring wholly-owned franchises backed by well-designed, high-quality games with regular content updates. We aim to build interactive entertainment content with the potential for broad reach, sustainable engagement, and year-round player investment. It is our experience that enduring franchises then serve as the basis for related new products and content that can be released over an extended period of time. We believe that the development and distribution of products and content based on established franchises enhances predictability of revenues and the probability of high unit volume sales and operating profits. We intend to continue development of content based on our owned franchises in the future.

We develop and produce our titles using a model in which a group of creative, technical, and production professionals, including designers, producers, programmers, artists, and sound engineers, in coordination with our marketing, finance, analytics, sales, and other professionals, have responsibility for the entire development and production process, including the supervision and coordination of internal and, where appropriate, external resources. We believe this model allows us to deploy the best resources for a given task, including by supplementing our internal expertise with top-quality external resources on an as-needed basis.

While most of our content is developed by our internal studios, we periodically engage independent third-party developers to create content on our behalf. From time to time, we also acquire the license rights to publish and/or distribute software products that are, or will be, independently created by third-party developers.

We provide various forms of product support. Central technology and development teams review, assess, and provide support to products throughout the development process. Quality assurance personnel are also involved throughout the development and production of published content. We subject all such content to extensive testing before public release to ensure compatibility with appropriate hardware systems and configurations and to minimize the number of bugs and other defects found in the products. To support our content, we generally provide 24-hour game support to players through various means, primarily online and by telephone.

Marketing, Sales, and Distribution

Many of our products contain software that enables us to connect with our gamers directly. This allows us to communicate and market directly to our customers, including through customized advertising and in-game messaging based on customer preferences and trends. Our marketing efforts also include activities on: online social networks; other online advertising; public relations activities; print and broadcast advertising; coordinated in-store and industry promotions (including merchandising and point of purchase displays); participation in cooperative advertising programs; direct response vehicles; and product sampling. From time to time, we also receive marketing support from hardware manufacturers, producers of consumer products related to a game, and retailers in connection with their own promotional efforts, as well as co-marketing from promotional partners.

Most of our products and content are available in a digital format, which allows consumers to purchase and download the content at their convenience directly to their console, PC, or mobile device through our platform partners, including Apple Inc. (“Apple”), Facebook, Inc. (“Facebook”), Google Inc. (“Google”), Microsoft Corporation (“Microsoft”), Nintendo Co., Ltd. (“Nintendo”), and Sony Interactive Entertainment Inc. (“Sony”). Blizzard utilizes its proprietary online gaming service, Blizzard Battle.net, to distribute most of Blizzard’s content and selected Activision content directly to PC consumers.

In addition to serving as a distribution platform, Blizzard Battle.net offers players communications features, social networking, player matching, and digital content delivery and is designed to allow people to connect regardless of which of our games on Blizzard Battle.net they are playing.

Our physical products are available for sale in outlets around the world. These products are sold primarily on a direct basis to mass-market retailers (e.g., Target, Walmart), consumer electronics stores (e.g., Best Buy), discount warehouses, game specialty stores (e.g., GameStop), and other stores (e.g., Amazon), or through third-party distribution and licensing arrangements.

Manufacturing

We prepare master program copies for our products on each release platform. With respect to products for Microsoft, Sony, and Nintendo consoles, our disk duplication, packaging, printing, manufacturing, warehousing, assembly, and shipping are performed by third-party subcontractors or distribution facilities owned by us.

Microsoft, Sony, and Nintendo generally specify or control the manufacturing and assembly of finished products and license their hardware technologies to us. In return, we pay an applicable royalty per unit once the manufacturer fills the product order, even if the units do not ultimately sell. We deliver the master materials to the licensor or its approved replicator, who then manufactures the finished goods and delivers them to us for distribution under our label.

Significant Customers and Top Franchises

Customers

While the Company does sell directly to end consumers in certain instances, such as sales through Blizzard Battle.net, in other instances our customers are platform providers, such as Sony, Microsoft, Google, and Apple, or retailers, such as Walmart and GameStop, who act as distributors of our content to end consumers. For the year ended December 31, 2020, Sony, Apple, Google, and Microsoft were our most significant customers, with revenues of 17%, 15%, 14%, and 11%, respectively. For the years ended December 31, 2019 and 2018, Apple, Google, and Sony were our most significant customers, with revenues of 17%, 13%, and 11%, respectively, for 2019, and 15%, 11%, and 13%, respectively, for 2018. No other customer accounted for 10% or more of our net revenues in those periods.

We had two customers—Microsoft and Sony—who accounted for 28% and 21%, respectively, of consolidated gross receivables at December 31, 2020, and 11% and 18%, respectively, at December 31, 2019. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

Top Franchises

For the years ended December 31, 2020, 2019, and 2018, our top three franchises—Call of Duty, Candy Crush, and World of Warcraft—collectively accounted for 76%, 67%, and 58%, respectively, of our net revenues. No other franchise comprised 10% or more of our net revenues in those periods.

Competition

We compete for the leisure time and discretionary spending of consumers with other interactive entertainment companies and software competitors, as well as with providers of different forms of entertainment, such as film, television, social networking, music, and other consumer products.

The interactive entertainment industry is intensely competitive, and new interactive entertainment software products and platforms are regularly introduced. We believe that the main competitive factors in the interactive entertainment industry include: product features, game quality, and playability; brand name recognition; compatibility of products with popular platforms; access to distribution channels; online capability and functionality; ease of use; price of content; marketing support; and quality of customer service.

In addition to third-party software competitors, integrated video game console hardware and software companies, such as Microsoft, Sony, and Nintendo, compete directly with us in the development of software titles for their respective platforms, while at the same time act as key distribution channels and payment gateways for our products and services through their digital storefronts. Apple and Google are similarly positioned on mobile devices.

Intellectual Property

Like other interactive entertainment companies, our business is significantly dependent on the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of copyrighted software code, patented technology, and other technology and trade secrets that we use to develop and run our games. Other intellectual property is in the form of copyrighted audio-visual elements that consumers can see, hear, and interact with when they are playing our games.

We develop a majority of our products based on wholly-owned intellectual properties, such as Call of Duty, World of Warcraft, and Candy Crush. In other cases, we obtain intellectual property through licenses and service agreements. Further, our products that play on consoles and mobile platforms include technology that is owned by the platform provider and is licensed non-exclusively to us for use in the relevant product. We also license technology from providers other than console manufacturers in developing our content and services. While we may have renewal rights for some licenses, our business is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights on reasonable terms and at reasonable rates.

We are actively engaged in enforcement of our copyright, trademark, patent, and trade secret rights against potential infringers of those rights along with other protective activities, including monitoring online channels for distribution of pirated copies and participating in various enforcement initiatives, education programs, and legislative activity around the world. For our PC products, we use technological protection measures to prevent piracy and the use of unauthorized copies of our products. For other platforms, the platform providers typically incorporate technological protections and other security measures in their platforms to prevent the use of unlicensed products on those platforms.

Human Capital

We believe that our continued success and growth is directly related to our ability to attract, retain, and develop top talent. As of December 31, 2020, Activision Blizzard had approximately 9,500 employees, with approximately 65% in North America, approximately 30% in the Europe, Middle East, and Africa (“EMEA”) region, and approximately 5% in the Asia Pacific region. Of these employees, approximately 61% are personnel whose primary focus is on game and technology development, which represents an approximate three percentage point increase from 2019. Activision Blizzard takes an active role in the entirety of the employee lifecycle, from candidates to alumni. Recognizing that ours is a rapidly changing industry with constant technological innovation, we remain focused on attracting, recruiting, enabling, developing, and retaining a diverse and innovative employee population.

Diversity, Equity, and Inclusion (“DE&I”): We believe that a culture of inclusion and diversity enables us to create, develop, and fully leverage the strengths of our workforce to exceed players' and fans' expectations and meet our growth objectives. We remain committed to building and sustaining a culture of belonging, built on equitable processes and systems, where everyone thrives. By embedding DE&I practices and programs in the full employee lifecycle, we work to recruit, attract, retain, and grow world-class talent. Our employee resource groups play an active role in our DE&I efforts by building community and awareness. We also offer leadership and management development opportunities on the topics of unconscious bias and inclusive leadership and train our recruiting workforce in diverse sourcing strategies.

Our Corporate Governance Principles and Policies provide that the initial list from which any new independent director nominee is chosen includes qualified female and racially/ethnically diverse candidates and, similarly, if we conduct an external search for a new CEO, that the initial list of external candidates includes qualified female and racially/ethnically diverse candidates. As of December 31, 2020, two of our ten directors were women.

Additionally, we have been recognized for our efforts to create an inclusive workplace, including receiving the distinction for two consecutive years as a “Best Place to Work for LGBTQ Equality” by the Human Rights Campaign Foundation’s Corporate Equality Index. We are proud of these accolades because we believe that the most innovative work comes from a culture in which all employees can be, and bring, their authentic and best selves.

Compensation and Benefits: The main objective of our compensation program is to provide a compensation package that attracts, retains, motivates, and rewards top-performing employees that operate in a highly competitive and technologically challenging environment. We seek to do this by linking compensation (including annual changes in compensation) to overall Company and business unit performance, as well as each individual’s contribution to the results achieved. The emphasis on overall Company performance is intended to align our employee’s financial interests with the interests of our shareholders. We also seek fairness in total compensation by reference to external comparisons, internal comparisons, and the relationship between development and non-development, as well as management and non-management, remuneration. We believe in equal pay for equal work, and we continue to make efforts across our global organization to promote equal pay practices.

We are committed to providing comprehensive benefit options, and it is our intention to offer benefits that allow our employees and their families to live healthier and more secure lives. Some examples of our wide-ranging benefits offered are: medical insurance, prescription drug benefits, dental insurance, vision insurance, hospital indemnity insurance, accident insurance, critical illness insurance, life insurance, disability insurance, health savings accounts, and flexible spending accounts. We frequently upgrade our benefit portfolio by seeking out pioneer partners that give our employees modern benefit experiences. As an example, at the onset of the COVID-19 pandemic when traditional medical services became under huge demand, in order to help ensure that our employees and their families had access to medical advice, we created an enterprise-wide global network of physicians.

Talent Assessment and Development: Recognizing that ours is a rapidly changing industry with constant innovation, developing our diverse and innovative talent base is paramount, imperative, and vital to our business. We intend for our employees to have a clear understanding of their strengths and development opportunities, while fostering a collaborative and productive relationship between employees and their managers. Talent assessment and development are therefore critical aspects of our human capital programs. We employ a broad range of talent processes—for example, talent assessment, succession planning, and performance management. Our performance management process includes the establishment of goals (at the beginning of the year), and throughout the year we encourage regular check-ins on progress and performance so that employees have a clear understanding of their strengths and areas for improvement. We regularly assess employee contributions to our Company results and culture so that we can appropriately recognize and reward performance. Additionally, on an annual basis, we conduct an organizational and performance review process with our CEO and all segment, business unit, and function leaders, focusing on our high-performing and high-potential talent, diverse talent, and the performance and succession for our most critical roles.

Employee Experience: We capture and act on the voice of our employees through regular company-wide pulse surveys. We emphasize to employees that this is their chance to “provide honest, candid feedback about their experience working for the company.” Our survey participation rates (regularly 75% or higher) demonstrate our collective commitment that Activision Blizzard remains a great place to work. The survey—and other forms of employee feedback—result in actionable steps that lead to positive improvements to the employee experience at the company-wide, business unit, and team levels. Our employee feedback is dynamic and relevant to our employees’ immediate needs. For example, most recent surveys focused on whether our employees felt supported as they worked from home during the COVID-19 pandemic, and expectations of the employee population as we anticipate a return to the office.

Information about our Executive Officers

Our executive officers and their biographical summaries are provided below:

Name	Age	Position
Robert A. Kotick	57	Chief Executive Officer of Activision Blizzard
Daniel Alegre	52	President and Chief Operating Officer of Activision Blizzard
Dennis Durkin	50	Chief Financial Officer of Activision Blizzard
Claudine Naughton	52	Chief People Officer of Activision Blizzard
Christopher Walther	54	Chief Legal Officer of Activision Blizzard

Robert A. Kotick, Chief Executive Officer of Activision Blizzard

Robert A. Kotick, who serves as our Chief Executive Officer, has been a director of Activision Blizzard since February 1991, following his purchase of a significant interest in the Company, which was then on the verge of insolvency. Mr. Kotick was our Chairman and Chief Executive Officer from February 1991 until July 2008, when he became our President and Chief Executive Officer. He served as our President from July 2008 until June 2017. Mr. Kotick is also a member of the board of directors of The Coca-Cola Company, a multinational beverage corporation, and the boards of trustees for The Center for Early Education and Harvard-Westlake School. He is also the Vice Chairman of the Board and Chairman of the Committee of trustees of the Los Angeles County Museum of Art. In addition, Mr. Kotick is the co-founder and co-Chairman of the Call of Duty Endowment, a nonprofit, public benefit corporation that seeks to help organizations that provide job placement and training services for veterans.

Daniel Alegre, President and Chief Operating Officer of Activision Blizzard

Daniel Alegre has served as our Chief Operating Officer since April 2020. Prior to joining the company, Mr. Alegre held a number of leadership positions at Google from 2004 to 2020, including serving as President of Global Retail and Shopping, where he led the initiatives to embed e-commerce across all Google product areas and to help diversify beyond advertising into the retail transactions business. Prior to that, Mr. Alegre was President of the Google's Global and Strategic Partnerships organization, working across all of Google's core business lines to create and foster key strategic relationships with some of the world's largest partners. Mr. Alegre was also instrumental in Google's international expansion, serving as President of Google's Asia-Pacific and Japan businesses living in China, Singapore, and Tokyo and as Vice President of the Latin America business, overseeing a massive expansion in both regions. Prior to joining Google, Mr. Alegre was Vice President at Bertelsmann Media, running a division of BMG Music in Latin America as well as Partnerships of the Bertelsmann eCommerce Group in New York City. Mr. Alegre holds a B.A. degree from the Woodrow Wilson School of Public and International Affairs at Princeton University, as well as dual M.B.A. and J.D. degrees from Harvard Business School and Harvard Law School.

Dennis Durkin, Chief Financial Officer of Activision Blizzard

Dennis Durkin has served as our Chief Financial Officer since January 2019. Mr. Durkin joined the Company in March 2012 as our Chief Financial Officer and served in that role until May 2017. He served as our Chief Corporate Officer from May 2017 until January 2019. Prior to joining the Company in 2012, Mr. Durkin held a number of positions of increasing responsibility at Microsoft, a computing software and hardware manufacturer, most recently serving as the Corporate Vice President and Chief Operating and Financial Officer of Microsoft's interactive entertainment business, which included the Xbox console business. Prior to joining Microsoft's interactive entertainment business in 2006, Mr. Durkin spent seven years at Microsoft's corporate development and strategy team, including two years where he was based in London, England, driving pan-European activity. Before joining Microsoft, Mr. Durkin was a financial analyst at Alex. Brown and Company. Mr. Durkin holds a B.A. degree in government from Dartmouth College and an M.B.A. degree from Harvard University.

Claudine Naughton, Chief People Officer of Activision Blizzard

Claudine Naughton has served as our Chief People Officer since August 2019. Prior to joining the Company, Ms. Naughton held a number of positions of increasing responsibility within the human resources department of American International Group, Inc. from 1997 to 2018, including serving as the company's Executive Vice President and Chief Human Resources Officer. Prior to joining AIG, Ms. Naughton served as the Regional Manager and Director of Training for Fairways Golf Corporation. Ms. Naughton holds a B.A. degree in political science from Stockton University.

Christopher Walther, Chief Legal Officer of Activision Blizzard

Christopher Walther has served as our Chief Legal Officer since November 2009 and served as our Secretary from February 2010 until February 2011. Prior to joining the Company, Mr. Walther held a number of positions of increasing responsibility within the legal department of The Procter & Gamble Company from 1992 to 2009, including serving as the General Counsel for Central and Eastern Europe, Middle East, and Africa, General Counsel for Northeast Asia and, most recently, as General Counsel for Western Europe. Mr. Walther also led Procter & Gamble's corporate and securities and mergers and acquisitions practices. Before joining Procter & Gamble, Mr. Walther served as a law clerk for Senior Judge Harry W. Wellford of the United States Sixth Circuit Court of Appeals. Since 2012, Mr. Walther has served on the board of directors of the Alliance for Children's Rights and currently serves as its co-chair. Mr. Walther has also served as our representative on the board of directors of the Entertainment Software Association since 2013 and on its executive committee. Mr. Walther holds a B.A. degree in history and Spanish from Centre College and a J.D. degree from the University of Kentucky College of Law.

Additional Financial Information

See the "Critical Accounting Policies and Estimates" section under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our practices with regard to several working capital items. See the "Management's Overview of Business Trends" under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the impact of seasonality on our business.

Available Information

Our website, located at <https://www.activisionblizzard.com>, allows free-of-charge access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The information found on our website is not a part of, and is not incorporated by reference into, this or any other report that we file with or furnish to the Securities and Exchange Commission ("SEC").

Our SEC filings are also available to the public over the Internet at the SEC's website at <https://www.sec.gov>.

Item 1A. RISK FACTORS

We wish to caution the reader that the following important risk factors, and those risk factors described elsewhere in this report or in our other filings with the SEC, could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere. These risks are not presented in order of importance or probability of occurrence. Further, the risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Any of these risks may have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

We are unable to predict the full impact of the Global COVID-19 pandemic.

In December 2019, COVID-19 emerged and has since extensively impacted global health and the economic environment. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The full extent to which the global COVID-19 pandemic and its aftermath will impact our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price depends on numerous evolving factors that we are not able to fully predict, including: the duration and severity of the pandemic; the impact of the pandemic on the global economy; the impact of governmental, business and individual actions that have been and will continue to be taken in response to the pandemic; unintended consequences of actions we take, or have taken, in response to the pandemic; the impact of the pandemic on the health or productivity of our employees and external developers, including the ability to develop high-quality and well-received interactive software products and entertainment content and/or to release our products and content in a timely manner; the effects on the health, finances and discretionary spending patterns of our consumers, including the ability of our consumers to pay for our products and content; our ability to sell products at assumed prices; the financial impact and strain on the retail customers and distributors on whom we rely to sell our physical products to consumers; the financial impact and strain on platform providers for whose video game consoles and/or on whose networks certain of our products are exclusively available; the financial impact and strain on third-party mobile and web platforms that provide significant online distribution for, and/or provide other services critical for the operation of, a number of our games; the effects on our suppliers who manufacture our physical products; the effects on other third parties with which we partner (e.g., to market or ship our products); the effects on our lenders and financial counterparties; the effects on regulatory agencies around the world on which we rely; our ability to continue to develop our emerging businesses, such as advertising; increased volatility in foreign currency exchange rates; the impact of recent and potential upcoming or ongoing large-scale actions by local and federal governments and agencies or similar governing bodies in the U.S. and around the world, the U.S. Federal Reserve, and other central banks around the world, including the impact of any of these actions on the U.S. or world economy or global financial markets; and any other factor which results in disruptions or increased costs associated with the development, production, post-production, marketing and distribution of our products, and/or the digital advertising offered within our content. If the ongoing global COVID-19 pandemic has adverse effects in any one of these areas, our business may be negatively impacted. As in the case of COVID-19, the occurrence of other epidemics, medical emergencies, and other public health crises outside of our control could have a negative impact on our business. Additionally, in the case of the COVID-19 pandemic, we have seen increased demand for our products due to stay-at-home orders, the curtailment of certain other forms of entertainment, and other pandemic-related factors that make consumers more inclined to spend time at home, benefiting our financial results and operating metrics. The trends in 2020 for revenues, net income, and other financial results and operating metrics, may not be indicative of results for future periods, particularly if these pandemic-related factors become less significant.

Our professional esports leagues (i.e. the Overwatch League and the Call of Duty League) and the franchise teams that make up the leagues generate revenues from live in-person events. The COVID-19 pandemic has resulted in the cancellation of live in-person events and any continued health and safety concerns with large public gatherings may impact the ability of the teams in our leagues to hold future live in-person events. Prolonged COVID-19 risks could result in teams being unable or unwilling to pay their franchise fees to us or participate in our leagues going forward. This, in turn, could result in the loss of those future franchise fee payments, revenue from advertising, and other future potential league revenues or income, other benefits associated with our esports business, and/or the termination of our leagues. Also, we have provided, and may continue to provide, concessions to the owners of the teams as a result of the COVID-19 pandemic. Any one of these things could harm our business. Additionally, a prolonged impact of COVID-19 could heighten many of the risk factors included in this Annual Report filed on Form 10-K.

Business and Industry Risks

If we do not consistently deliver popular, high-quality content in a timely manner, if we are not successful in meaningfully expanding our franchises further on the mobile platform, or if consumers prefer products from our competitors, our business may be negatively impacted.

Consumer preferences for games are usually cyclical and difficult to predict. Even the most successful games can lose consumer audiences over time, and remaining popular is increasingly dependent on the games being refreshed with new content or other enhancements. In order to remain competitive and maximize the chances that consumers select our products as opposed to the various entertainment options available to them and with which we compete, we must continuously develop new products or new content for, or other enhancements to, our existing products. These products or enhancements may not be well-received by consumers, even if well-reviewed and of high quality. Our competitors include very large corporations with significantly greater financial, marketing and product development resources than we have and many smaller competitors, particularly on the mobile platform. Our larger competitors may be able to leverage their greater financial, technical, personnel, and other resources to provide larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties, as well as adopt more aggressive pricing policies to develop more commercially successful video game products than we do. Further, competitors may develop content that imitates or competes with our best-selling games, potentially reducing our sales or our ability to charge the same prices we have historically charged for our products. These competing products may take a larger share of consumer spending than anticipated, which could cause product sales to fall below expectations. If we do not continue to develop consistently high-quality and well-received games or enhancements to those games, if our marketing fails to resonate with our consumers, if we are not successful in meaningfully expanding our franchises further on the mobile platform, or if consumers lose interest in a genre of games we produce, our revenues and profit margins could decline. In addition, our own best-selling products could compete with our other games, reducing sales for those other games. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well-received, could potentially result in additional expenditures to respond to consumer demands, harm our reputation, and increase the likelihood that our future products will not be well-received. The increased importance of downloadable content to our business amplifies these risks, as downloadable content for poorly-received games typically generates lower-than-expected sales. The increased demand for consistent enhancements to our products also requires a greater allocation of financial resources to those products.

Additionally, consumer expectations regarding the quality, performance, and integrity of our products and services are high. Consumers may be critical of our brands, games, services, and/or business practices for a wide variety of reasons, and such negative reactions may not be foreseeable or within our control to manage effectively. For example, if our games or services, such as our proprietary online gaming service, do not function as consumers expect, whether because they fail to function as advertised or otherwise, our sales may suffer. The risk that this may occur is particularly pronounced with respect to our games with online features because they involve ongoing consumer expectations, which we may not be able to consistently satisfy. Our games with online features are also frequently updated, increasing the risk that a game may contain significant errors, or “bugs.” If any of these issues occur, consumers may stop playing the game and may be less likely to return to the game as often in the future, which may negatively impact our business.

Further, delays in product releases or disruptions following the commercial release of one or more new products could negatively impact our business and reputation and could cause our results of operations to be materially different from expectations. If we fail to release our products in a timely manner, or if we are unable to continue to extend the life of existing games by adding features and functionality that will encourage continued engagement with the game, our business may be negatively impacted.

Additionally, the amount of lead time and cost involved in the development of high-quality products is increasing, and the longer the lead time involved in developing a product and the greater the allocation of financial resources to such product, the more critical it is that we accurately predict consumer demand for such product. If our future products do not achieve expected consumer acceptance or generate sufficient revenues upon introduction, we may not be able to recover the substantial up-front development and marketing costs associated with those products.

We depend on a relatively small number of franchises for a significant portion of our revenues and profits.

We follow a franchise model, and a significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises. These products are also responsible for a disproportionately high percentage of our profits. For example, in 2020, revenues associated with the Call of Duty, Candy Crush, and World of Warcraft franchises, collectively, accounted for approximately 76% of our net revenues—and a significantly higher percentage of our operating income. We expect that a relatively limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could negatively impact our business. Additionally, if the popularity of a franchise declines, as has happened in the past with other popular franchises, we may have to write off the unrecovered portion of the underlying intellectual property assets, which could negatively impact our business.

If we do not continue to attract, retain, and motivate skilled personnel, we will be unable to effectively conduct our business.

Our success depends significantly on our ability to identify, attract, hire, retain, motivate, and utilize the abilities of qualified personnel, including in some cases, external developers, particularly personnel with the specialized skills needed to create and sell the high-quality, well-received content upon which our business is substantially dependent. Our industry is generally characterized by a high level of employee mobility, competitive compensation programs, and aggressive recruiting among competitors for employees with technical, marketing, sales, engineering, product development, creative, and/or management skills. We may have difficulties in attracting and retaining skilled personnel or may incur significant costs to do so. If we are unable to attract additional qualified personnel or retain and utilize the services of key personnel, it could have a negative impact on our business.

Our industry is subject to rapid technological change, and if we do not adapt to, and appropriately allocate our resources among, emerging technologies and business models, our business may be negatively impacted.

Technology changes rapidly in the interactive entertainment industry. We must continually anticipate and adapt to emerging technologies, such as cloud-based game streaming, and business models, such as free-to-play and subscription-based access to a portfolio of interactive content, to stay competitive. Forecasting the financial impact of these changing technologies and business models is inherently uncertain and volatile. Supporting a new technology or business model may require partnering with a new platform, business, or technology partner, which may be on terms that are less favorable to us than those for traditional technologies or business models. If we invest in the development of interactive entertainment products for distribution channels that incorporate a new technology or business model that does not achieve significant commercial success, whether because of competition or otherwise, we may not recover the often substantial up-front costs of developing and marketing those products, or recover the opportunity cost of diverting management and financial resources away from other products or opportunities. Further, our competitors may adapt to an emerging technology or business model more quickly or effectively than we do, creating products that are technologically superior to ours, more appealing to consumers, or both.

If, on the other hand, we elect not to pursue the development of products incorporating a new technology, or otherwise elect not to pursue new business models that achieve significant commercial success, it may have adverse consequences. It may take significant time and expenditures to shift product development resources to that technology or business model, and it may be more difficult to compete against existing products incorporating that technology or using that business model.

The increasing importance of digital sales to our business exposes us to the risks of that business model, including greater competition.

The proportion of our revenues derived from digital distribution channels, as compared to traditional retail sales, continues to increase. The increased importance of digital channels in our industry increases our potential competition, as the minimum capital needed to produce and publish a digitally delivered game, particularly a game for a mobile platform, may be significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console or PC. Also, while digitally-distributed products generally have higher profit margins than retail sales, as business shifts to digital distribution, the volume of orders from retailers for physical discs has been, and is expected to be, reduced. Further, some of the providers of the platforms through which we digitally distribute content are also publishers of their own content distributed on those platforms, and, therefore, a platform provider may give priority to its own products or those of our competitors.

The importance of retail sales to our business exposes us to the risks of that business model.

While the proportion of our revenues derived from digital distribution channels, as compared to traditional retail sales, continues to increase, retail sales remain important to our business. Such sales are made primarily on a purchase order basis without long-term agreements or other forms of commitments, and due to the increased proportion of our revenue from digital distribution channels, our retail customers and distributors have generally been reducing the levels of inventory they are willing to carry. The loss of, or significant reduction in sales to, any of Activision's principal retail customers or distributors, including digital distributors, could have adverse consequences.

We may be unable to effectively manage the continued growth and the scope and complexity of our business, including our expansion into new business models that are untested and into adjacent business opportunities with large, established competitors.

We have experienced significant growth in the scope and complexity of our business, including through acquisitions and the development of our esports, advertising, and consumer products businesses. Our future success depends, in part, on our ability to manage this expanded business and our aspirations for continued expansion and growth. We have dedicated resources both to new business models that are largely untested, as is the case with esports, and to adjacent business opportunities in which very large competitors have an established presence, as is the case with our advertising and consumer products businesses. We do not know to what extent our future expansions will be successful. Further, even if successful, our aspirations for growth in our core businesses and these adjacent businesses could create significant challenges for our management, operational, and financial resources. If not managed effectively, this growth could result in the over-extension of our operating infrastructure, and our management systems, information technology systems, and internal controls and procedures may not be adequate to support this growth. Failure by these new businesses or failure to adequately manage our growth in any of these ways may cause damage to our brand or otherwise negatively impact our core business. Further, the success of these new businesses is largely contingent on the success of our underlying franchises and as such, a decline in the popularity of a franchise may impact the success of the new businesses adjacent to that franchise.

Due to our reliance on third-party platforms, platform providers are frequently able to influence our products and costs.

Generally, when we develop interactive entertainment software products for hardware platforms offered by companies such as Sony and Microsoft, the physical products are replicated exclusively by that hardware manufacturer or their approved replicator. The agreements with these manufacturers include certain provisions, such as approval rights over all software products and related promotional materials and the ability to change the fee they charge for the manufacturing of products, which allow the hardware manufacturers substantial influence over the cost and the release schedule of such interactive entertainment software products. During a console transition, like the one that occurred in 2020, as described below, these manufacturers may seek to change the terms governing our relationships with them. In addition, because each of the manufacturers is also a publisher of games for its own hardware platforms and may manufacture products for other licensees, a manufacturer may give priority to its own products or those of our competitors. Accordingly, console manufacturers could cause unanticipated delays in the release of our products, as well as increases to projected development, manufacturing, marketing, or distribution costs, any of which could negatively impact our business.

Sony and Microsoft are also platform providers which control the networks over which consumers purchase digital products and services for their platforms and through which we provide online game capabilities for our products. The control that these platform providers have over consumer access to our games, the fee structures and/or retail pricing for products and services for their platforms and online networks and the terms and conditions under which we do business with them could impact the availability of our products or the volume of purchases of our products made over their networks and our profitability. The networks provided by these platform providers are the exclusive means of selling and distributing our content on these platforms. Further, increased competition for limited premium "digital shelf space" has placed the platform providers in an increasingly better position to negotiate favorable terms of sale. If the platform provider establishes terms that restrict our offerings on its platform, significantly alters the financial terms on which these products or services are offered, or does not approve the inclusion of content on its platform, our business could be negatively impacted. We also derive significant revenues from distribution on third-party mobile and web platforms, such as the Apple App Store, the Google Play Store, and Facebook, which are also our direct competitors and in some cases the exclusive means through which our content reaches gamers on those platforms, and most of the virtual currency we sell is purchased using these platform providers' payment processing systems. These platforms also serve as significant online distribution platforms for, and/or provide other services critical for the operation of, a number of our games. If these platforms deny access to our games, modify their current discovery mechanisms,

communication channels available to developers, operating systems, terms of service, or other policies (including fees), our business could be negatively impacted. Additionally, if these platform providers are required to change how they label a game's business model, such as free-to-play, or change how the personal information of consumers is made available to developers, our business could be negatively impacted. These platform providers or their services may be unavailable or may not function as intended or may experience issues with their in-app purchasing functionality. As has sometimes happened in the past, if any of these events occurs on a prolonged, or even short-term, basis or other similar issues arise that impact players' ability to access our games, access social features, or make purchases, it may result in lost revenues and otherwise negatively impact our business.

Our business is highly dependent on the success and availability of video game consoles manufactured by third parties, as well as our ability to develop commercially successful products for these consoles.

We derive a substantial portion of our revenues from the sale of products for play on video game consoles manufactured by third parties, such as Sony's PS4 and PS5, Microsoft's Xbox One and Series X, and Nintendo's Switch. Sales of products for consoles accounted for 34% of our consolidated net revenues in 2020. The success of our console business is driven in large part by our ability to accurately predict which consoles will be successful in the marketplace and our ability to develop commercially successful products for these consoles. We also rely on the availability of an adequate supply of these video game consoles and the continued support for these consoles by their manufacturers, including our ability to reach consumers via the online networks operated by these console manufacturers. If increased costs are not offset by higher revenues and other cost efficiencies, our business could be negatively impacted. If the consoles for which we develop new software products or modify existing products do not attain significant consumer acceptance, we may not be able to recover our development costs, which could be significant.

Sony and Microsoft each launched next-generation consoles in 2020. We have released titles that operate on these consoles, and we may continue to develop games for these new console systems. When next-generation consoles are announced or introduced into the market, consumers have typically reduced their purchases of game console entertainment software products for prior-generation consoles in anticipation of purchasing a next-generation console and products for that console. During these periods, sales of the game console entertainment software products we publish may decline until new platforms achieve wide consumer adoption. Console transitions may have a comparable impact on sales of downloadable content, amplifying the impact on our revenues. This decline may not be offset by increased sales of products for the next-generation consoles. In addition, as console hardware moves through its life cycle, hardware manufacturers typically enact price reductions, and decreasing prices may put downward pressure on software prices. During console transitions, we may simultaneously incur costs both in continuing to develop, market, and operate titles for prior-generation video game platforms, while also developing and supporting next-generation platforms. As a result, our business and operating results may be more volatile and difficult to predict during console transitions than during other times.

The increasing importance of free-to-play games to our business exposes us to the risks of that business model, including the dependence on a relatively small number of consumers for a significant portion of revenues and profits from any given game.

We are increasingly dependent on our ability to develop, enhance, and monetize free-to-play games, such as the games in our Candy Crush franchise, *Hearthstone*, *Call of Duty: Mobile*, and *Call of Duty: Warzone*. As such, we are increasingly exposed to the risks of the free-to-play business model. For example, we may invest in the development of new free-to-play interactive entertainment products that do not achieve significant commercial success, in which case our revenues from those products likely will be lower than anticipated and we may not recover our development costs. Further, our business may be negatively impacted if: (1) we are unable to encourage new and existing consumers to purchase our virtual items; (2) we fail to offer monetization features that appeal to these consumers; (3) our platform providers make it more difficult or expensive for players to purchase our virtual items; (4) we cannot encourage significant additional consumers to purchase virtual items in our game and/or (5) our free-to-play releases reduce sales of our other games.

We may not realize the expected benefits of our recent restructuring actions, and implementation of such actions may negatively impact our business.

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. While we believe this plan enables us to provide better opportunities for talent, and greater expertise and scale over the long term, our ability to achieve the desired and anticipated benefits from the plan is subject to many estimates and assumptions, and the actual savings and timing for those savings may vary materially based on factors such as local labor regulations, negotiations with third parties, and operational requirements. These estimates and assumptions are also subject to significant economic, competitive, and other uncertainties, some of which are beyond our control.

Additionally, there can be no assurance that our business will be more efficient or effective than prior to implementation of the plan. The implementation of the plan may be more costly than we anticipated or have other negative consequences, such as attrition beyond our planned reduction in workforce or negative impacts on employee morale and productivity, or on our ability to attract and retain highly skilled employees. Any of these consequences could negatively impact our business. In addition, there can be no assurance that additional plans will not be required or implemented in the future.

We engage in strategic transactions and may encounter difficulties in integrating acquired businesses or otherwise realizing the anticipated benefits of these transactions.

As part of our business strategy, from time to time, we acquire, make investments in, or enter into strategic alliances and joint ventures with, complementary businesses. These transactions may involve significant risks and uncertainties, including: (1) in the case of an acquisition, (i) the potential for the acquired business to underperform relative to our expectations and the acquisition price, (ii) the potential for the acquired business to cause our financial results to differ from expectations in any given period, or over the longer-term, (iii) unexpected tax consequences from the acquisition, or the tax treatment of the acquired business's operations going forward, giving rise to incremental tax liabilities that are difficult to predict, (iv) difficulty in integrating the acquired business, its operations, and its employees in an efficient and effective manner, (v) any unknown liabilities or internal control deficiencies assumed as part of the acquisition, and (vi) the potential loss of key employees of the acquired businesses; and (2) in the case of an investment, alliance, or joint venture, (i) our ability to cooperate with our partner, (ii) our partner having economic, business, or legal interests or goals that are inconsistent with ours, and (iii) the potential that our partner may be unable to meet its economic or other obligations, which may require us to fulfill those obligations alone. Further, any such transaction may involve the risk that our senior management's attention will be excessively diverted from our other operations, the risk that our industry does not evolve as anticipated, and that any intellectual property or personnel skills acquired do not prove to be those needed for our future success, and the risk that our strategic objectives, cost savings or other anticipated benefits are otherwise not achieved.

We are exposed to seasonality in the sale of our products.

The interactive entertainment industry is somewhat seasonal, with the highest levels of consumer demand occurring during the calendar year-end holiday buying season. As a result, our sales, particularly for our Activision segment, receivables, and credit risk, are higher during the fourth quarter of the year, as consumers and retailers increase their purchases in anticipation of the holiday season. Delays in development, approvals or manufacturing could affect the release of products, causing us to miss key selling periods such as the year-end holiday buying season, which could negatively impact our business.

Our business may be harmed if our distributors, retailers, development, and licensing partners, or other third parties with whom we are affiliated, act in ways that put our brand at risk.

In many cases, our business partners and other third party affiliates, which may include, among others, individuals or entities affiliated with the esports leagues we operate, are given access to sensitive and proprietary information or control over our intellectual property to provide services and support to our team. These third parties may misappropriate or misuse our information or intellectual property and engage in unauthorized use of it. Further, the failure of these third parties to provide adequate services and technologies or to adequately maintain or update their services and technologies could result in a disruption to our business operations or an adverse effect on our reputation and may negatively impact our business. At the same time, if the media, consumers, or employees raise any concerns about our actions vis-à-vis third parties including consumers who play our games, this could also damage our reputation or our business.

We use open source software in connection with certain of our games and services, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in connection with some of the games and services we offer. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. The terms of various open source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our use of the open source software. Were it determined that our use was not in compliance with a particular license, we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our games or products, discontinue distribution in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our game development efforts, any of which could negatively impact our business.

We are a global company and are subject to the risks and uncertainties of conducting business outside the U.S.

We conduct business throughout the world, and we derive a substantial amount of our revenues and profits from international trade, particularly from Europe and Asia. We expect that international sales will continue to account for a significant portion of our total revenues and profits and, moreover, that sales in emerging markets in Asia and elsewhere will continue to be an important part of our international sales. As such, we are, and may be increasingly, subject to risks inherent in foreign trade generally, as well as risks inherent in doing business in non-U.S. markets, including increased tariffs and duties, compliance with economic sanctions, fluctuations in currency exchange rates, shipping delays, increases in transportation costs, international political, regulatory and economic developments, unexpected changes to laws, regulatory requirements, and enforcement on us and our platform partners and differing local business practices, all of which may impact profit margins or make it more difficult, if not impossible, for us to conduct business in foreign markets.

A deterioration in relations between either us or the United States and any country in which we have significant operations or sales, or the implementation of government regulations in the United States or such a country, could result in the adoption or expansion of trade restrictions, including economic sanctions or absolute prohibitions, that could have a negative impact on our business. For instance, to operate in China, all games must have regulatory approval. A decision by the Chinese government to revoke its approval for any of our games or to decline to approve any products we desire to sell in China in the future could have a negative impact on our business, as could delays in the approval process. Additionally, in the past, legislation has been implemented in China that has required modifications to our products and our business model to satisfy regulatory requirements. The future implementation of similar or new laws or regulations in China or any other country in which we have operations or sales may restrict or prohibit the sale of our products or may require engineering modifications to our products and our business model that are not cost-effective, if even feasible at all, or could degrade the consumer experience to the point where consumers cease to purchase such products. Changes in Chinese game approval procedures in 2018 have resulted in reduced rates of approval for games and unclear approval timeframes, making it uncertain as to if and when our new products will be approved for release in China. Further, the continued enforcement of regulations relating to mobile and other games with an online element in China could have a negative impact on our business in China.

In addition, cultural differences may affect consumer preferences and limit the international popularity of games that are popular in the U.S. or require us to modify the content of the games or the method by which we charge our customers for the games to be successful. If we do not correctly assess consumer preferences in the countries in which we sell our products, it could negatively impact our business.

We are also subject to risks that our operations outside the United States could be conducted by our employees, contractors, third-party partners, representatives, or agents in ways that violate the Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act or other similar anti-bribery laws, as well as the 2017 U.K. Criminal Finances Act or other similar financial crime laws. While we have policies, procedures, and training for our employees, intended to secure compliance with these laws, our employees, contractors, third-party partners, representatives, or agents may take actions that violate our policies. Moreover, it may be more difficult to oversee the conduct of any such persons who are not our employees, potentially exposing us to greater risk from their actions.

Our games may include undisclosed content or features. If our retailers refuse to sell such titles, or consumers refuse to purchase such titles, due to what they perceive to be objectionable undisclosed content, it could have a negative impact on our business.

Throughout the history of the interactive entertainment industry, many interactive software products have included hidden content and/or hidden gameplay features, some of which have been accessible through the use of in-game codes or other technological means, that are intended to enhance the gameplay experience. In some cases, such undisclosed content or features have been considered to be objectionable. While publishers are required to disclose pertinent hidden content during the ESRB ratings process, in a few cases, publishers have failed to disclose hidden content, and the ESRB has required the recall of the game, changed the rating or associated content descriptors originally assigned to the product, required the publisher to change the game or game packaging and/or imposed fines on the publisher. Retailers have on occasion reacted to the discovery of such undisclosed content by removing these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, some consumers have reacted to the revelation of undisclosed content by refusing to purchase such games, demanding refunds for games they have already purchased, refraining from buying other games published by the company whose game contained the objectionable material, and, on at least one occasion, filing a lawsuit against the publisher of the product containing such content.

We have implemented preventive measures designed to reduce the possibility of objectionable undisclosed content from appearing in the interactive software products we publish. Nonetheless, these preventive measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If an interactive software product we publish is found to contain undisclosed content, we could be subject to any of these consequences.

Our results of operations or reputation may be harmed as a result of objectionable consumer- or other third party-created content.

Certain of our games and esports broadcasts support collaborative online features that allow consumers to communicate with one another and post narrative comments, in real time, that are visible to other consumers. Additionally, certain of our games allow consumers to create and share “user-generated content” that is visible to other consumers. From time to time, objectionable and offensive consumer content may be distributed within our games and on our broadcasts through these features or to gaming websites or other sites or forums with online chat features or that otherwise allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content.

Additionally, we have begun to generate revenue through offering advertising within certain of our franchises and in connection with our esports broadcasts. The content of in-game and esports broadcast advertisements is generally created and delivered by third-party advertisers without our pre-approval, and, as such, objectionable content may be published in our games or during our esports broadcasts by these advertisers. This objectionable third party-created content may expose us to regulatory action or claims related to content, or otherwise negatively impact our business. We may also be subject to consumer backlash from comments made in response to postings we make on social media sites such as Facebook, YouTube, and Twitter.

We depend on servers and networks to operate our games with online features and our proprietary online gaming service. If we were to lose functionality in any of these areas for any reason, our business may be negatively impacted.

Our business relies on the continuous operation of servers, some of which are owned and operated by third parties. Although we strive to maintain more than sufficient server capacity, and provide for active redundancy in the event of limited hardware failure, any broad-based catastrophic server malfunction, a significant service-disrupting attack or intrusion by hackers that circumvents security measures, a failure of disaster recovery service or the failure of a company on which we are relying for server capacity to provide that capacity for whatever reason would likely degrade or interrupt the functionality of our games with online features, and could prevent the operation of such games altogether, any of which could result in the loss of sales for, or in, such games. The risk is particularly pronounced with respect to: (1) the mobile games published by King, which rely on a small number of third-party owned data centers located in one city; (2) the functioning of our proprietary online gaming service, Blizzard Battle.net, the disruption of which could prevent Blizzard from delivering content digitally or render all of Blizzard games, as well as selected Activision content for the PC platform, unavailable; and (3) the Company's multiplayer game services, which rely on systems hosted in a hybrid of data centers across the world as well as cloud providers. Further, insufficient server capacity could affect our ability to provide game services, which could negatively impact our business. Conversely, if we overestimate the amount of server capacity required by our business, we may incur additional operating costs.

We also rely on platforms and networks operated by third parties, such as the PlayStation Network, Xbox Live, and Steam, for the sale and digital delivery of downloadable console and PC game content, the functionality of our games with online features. Similarly, we rely on those platforms and networks, as well as the continued operation of the Apple App Store, the Google Play Store, and Facebook, for the sale of virtual currency and other services for our free-to-play games. An extended interruption to any of these services could adversely affect our ability to sell and distribute our digital products and operate our games with online features, which could result in a loss of revenue and otherwise negatively impact our business.

Any cybersecurity-related attack, significant data breach, or disruption of the information technology systems or networks on which we rely could negatively impact our business.

In the course of our day-to-day business, we and third parties operating on our behalf create, store, and/or use commercially sensitive information, such as the source code and game assets for our interactive entertainment software products and sensitive and confidential information with respect to our customers, consumers, and employees. A malicious cybersecurity-related attack, intrusion, or disruption by hackers (including through spyware, ransomware, viruses, phishing, denial of service, and similar attacks) or other breach of the systems on which such source code and assets, account information (including personal information), and other sensitive data is stored could lead to piracy of our software, fraudulent activity, disclosure, or misappropriation of, or access to, our customers', consumers', or employees' personal information, or our own business data. Such incidents could also lead to product code-base and game distribution platform exploitation, should undetected viruses, spyware, or other malware be inserted into our products, services, or networks, or systems used by our consumers. We have implemented cybersecurity programs and the tools, technologies, processes, and procedures intended to secure our data and systems, and prevent and detect unauthorized access to, or loss of, our data, or the data of our customers, consumers, or employees. However, because these cyberattacks may remain undetected for prolonged periods of time and the techniques used by criminal hackers and other third parties to breach systems change frequently, we may be unable to anticipate these techniques or implement adequate preventative measures. A data intrusion into a server for a game with online features or for our proprietary online gaming service could also disrupt the operation of such game or platform. If we are subject to cybersecurity breaches, or a security-related incident that materially disrupts the availability of our products and services, we may have a loss in sales or subscriptions or be forced to pay damages or incur other costs, including from the implementation of additional cyber and physical security measures, or suffer reputational damage. Additionally, although we maintain insurance policies, they may be insufficient to reimburse the Company for all losses or all types of claims that may be caused by cyberbreaches or system or network disruptions, and it is uncertain whether we will be able to maintain our current level of coverage in the future. Moreover, if there were a public perception that our data protection measures are inadequate, whether or not the case, it could result in reputational damage and potential harm to our business relationships or the public perception of our business model. In addition, such cybersecurity breaches may subject us to legal claims or proceedings, like individual claims and regulatory investigations and actions, including fines, especially if there is loss, disclosure, or misappropriation of, or access to, our customers' personal information or other sensitive information, or there is otherwise an intrusion into our customers' privacy.

Significant disruption during our live events may adversely affect our business.

We, as well as the teams in the esports leagues we operate, host numerous live events each year, many of which are attended by a large number of people. There are many risks that are inherent in large gatherings of people, including the risk of an actual or threatened terrorist act, fire, explosion, protests, and riots, and other safety or security issues, any one of which could result in injury or death to attendees and/or damage to the facilities at which such an event is hosted. While we maintain insurance policies, they may be insufficient to reimburse us for all losses or all types of claims that may be caused by such an event. Moreover, if there were a public perception that the safety or security measures are inadequate at the events we host or events hosted by teams in the esports leagues we operate, whether or not the case, it could result in reputational damage and a decline in future attendance at events hosted by us or those teams. Any one of these things could harm our business.

Catastrophic events may disrupt our business.

Our corporate headquarters and our primary corporate data center are located in the Los Angeles, California area, which is near a major earthquake fault. A major earthquake or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems, or otherwise prevents us from conducting our normal business operations, could require significant expenditures to resume operations and negatively impact our business. While we maintain insurance coverage for some of these events, the potential liabilities associated with such events could exceed the insurance coverage we maintain. Further, our system redundancy may be ineffective or inadequate and our disaster recovery planning may not be sufficient for all eventualities. Any such event could also limit the ability of retailers, distributors, or our other customers to sell or distribute our products.

Provisions in our corporate documents and Delaware state law could delay or prevent a change of control.

Our Fourth Amended and Restated Bylaws contain a provision regulating the ability of shareholders to bring matters for action before annual and special meetings. The regulations on shareholder action could make it more difficult for any person seeking to acquire control of the Company to obtain shareholder approval of actions that would support this effort. In addition, our Third Amended and Restated Certificate of Incorporation authorizes the issuance of so-called “blank check” preferred stock. This ability of our Board of Directors to issue and fix the rights and preferences of preferred stock could effectively dilute the interests of any person seeking control or otherwise make it more difficult to obtain control.

Regulatory and Legal Risks

We may be involved in legal proceedings that have a negative impact on our business.

From time to time, we are involved in claims, suits, investigations, audits, and proceedings arising in the ordinary course of our business, including with respect to intellectual property, competition and antitrust, regulatory, tax, privacy, labor and employment, compliance, unclaimed property, liability and personal injury, product damage, collection, and/or commercial matters. In addition, negative consumer sentiment about our business practices may result in inquiries or investigations from regulatory agencies and consumer groups, as well as litigation.

Claims, suits, investigations, audits, and proceedings are inherently difficult to predict, and their results are subject to significant uncertainties, many of which are outside of our control. Regardless of the outcome, such legal proceedings can have a negative impact on us due to reputational harm, legal costs, diversion of management resources, and other factors. It is also possible that a resolution of one or more such proceedings could result in substantial settlements, judgments, fines or penalties, injunctions, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring us to change our development process or other business practices.

There is also inherent uncertainty in determining reserves for these matters. Significant judgment is required in the analysis of these matters, including assessing the probability of potential outcomes and determining 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. Further, it may take time to develop factors on which reasonable judgments and estimates can be based.

We regard our software as proprietary and rely on a variety of methods, including a combination of copyright, patent, trademark, and trade secret laws, and employee and third-party non-disclosure agreements, to protect our proprietary rights. We own or license various copyrights, patents, trademarks, and trade secrets. The process of registering and protecting these rights in various jurisdictions is expensive and time-consuming. Further, we are aware that some unauthorized copying and piracy occurs, and if a significantly greater amount of unauthorized copying or piracy of our software products were to occur, it could negatively impact our business. We also cannot be certain that existing intellectual property laws will provide adequate protection for our products in connection with emerging technologies or that we will be able to effectively protect our intellectual property through litigation and other means.

Our business, products, and distribution are subject to increasing regulation in key territories. If we do not successfully respond to these regulations, our business could be negatively impacted.

The video game industry continues to evolve, and new and innovative business opportunities are often subject to new attempts at regulation. As such, legislation is continually being introduced, and litigation and regulatory enforcement actions are taking place, that may affect the way in which we, and other industry participants, may offer content and features, and distribute and advertise our products. These laws, regulations, and investigations are related to protection of minors, gambling, screen time, business models, consumer privacy, accessibility, advertising, taxation, payments, intellectual property, distribution, and antitrust, among others.

For example, many foreign countries have laws that permit governmental entities to restrict or prohibit marketing or distribution of interactive entertainment software products because of the content therein (and similar legislation has been introduced at one time or another at the federal and state levels in the United States, including legislation that attempts to impose additional taxes based on content). In addition, certain jurisdictions have laws that restrict or prohibit marketing or distribution of interactive entertainment software products with random digital item mechanics, which some of our online games and services include, or subject such products to additional regulation and oversight, such as reporting to regulators. Certain jurisdictions also have laws that restrict or prohibit certain types of esports tournaments. We also sometimes offer consumers of our online and casual games various types of contests and promotional opportunities. We are subject to laws in a number of jurisdictions concerning the operation and offering of tournaments and games, many of which are still evolving and could be interpreted in ways that could harm our business. Further, the growth and development of electronic commerce, virtual items, and currency may prompt calls for more stringent consumer protection laws that may impose additional burdens or limitations on operations of companies such as ours conducting business through the Internet and mobile devices, including related to screen time. Also, existing laws or new laws regarding the marketing of in-app purchases, regulation of currency, banking institutions, unclaimed property, and money laundering may be interpreted to cover virtual currency or goods. Additionally, laws may limit or prevent the auto-renewal of contracts and subscriptions. Further, the European Commission has recently imposed a large antitrust fine on a number of other game publishers who had been geoblocking certain EU countries. In addition, in 2019 the World Health Organization included “gaming disorder” in the 11th Revision of the International Classification of Diseases (ICD-11), leading some countries to consider legislation and policies aimed at addressing this issue. Moreover, the public dialogue concerning interactive entertainment may have an adverse impact on our reputation and consumers’ willingness to purchase our products.

The adoption and enforcement of legislation that restricts the marketing, content, business model, or sales of our products in countries in which we do business may harm the sales of our products, as the products we are able to offer to our customers and the size of the potential audience for our products may be limited. We may be required to modify certain product development processes or products or alter our marketing strategies to comply with regulations, which could be costly or delay the release of our products. In addition, the laws and regulations affecting our products vary by territory and may be inconsistent with one another, imposing conflicting or uncertain restrictions. Failure to comply with any applicable legislation may also result in government-imposed fines or other penalties, as well as harm to our reputation.

Change in government regulations relating to the Internet could negatively impact our business.

We rely on our consumers' access to significant levels of Internet bandwidth for the sale and digital delivery of our content and the functionality of our games with online features. Changes in laws or regulations that adversely affect the growth, popularity, or use of the Internet, including laws impacting "net neutrality" or the availability of bandwidth could impair our consumers' online video game experiences, decrease the demand for our products and services or increase our cost of doing business. Although certain jurisdictions have implemented laws and regulations intended to prevent Internet service providers from discriminating against particular types of legal traffic on their networks, other jurisdictions may lack such laws and regulations or repeal existing laws or regulations. For example, in December 2017, the Federal Communications Commission voted to repeal net neutrality regulations in the U.S. and, following that decision, several states enacted net neutrality regulations. Given uncertainty around these rules relating to the Internet, including changing interpretations, amendments, or repeal of those rules, coupled with the potentially significant political and economic power of local Internet service providers and the relatively significant level of Internet bandwidth access our products and services require, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expenses, or otherwise negatively impact our business.

The laws and regulations concerning data privacy are continually evolving. Failure to comply with these laws and regulations could harm our business.

Consumers play certain of our games online using our own distribution platforms, including Blizzard Battle.net, third-party platforms and networks, through online social platforms, and on mobile devices. We collect and store information about our consumers, including consumers who play these games. In addition, we collect and store information about our employees. We are subject to laws from a variety of jurisdictions regarding privacy and the protection of this information, including the E.U.'s General Data Protection Regulation (the "GDPR"), the U.S. Children's Online Privacy Protection Act, which regulates the collection, use, and disclosure of personal information from children under 13 years of age, and the California Consumer Privacy Act, among others. Failure to comply with any of these laws or regulations may increase our costs, subject us to expensive and distracting government investigations, result in substantial fines, or result in lawsuits and claims against us to the extent these laws include a private right of action.

Data privacy protection laws are rapidly changing and likely will continue to do so for the foreseeable future and may be inconsistent from jurisdiction to jurisdiction. For example, the E.U. has traditionally taken a broader view than the United States and certain other jurisdictions as to what is considered personal information and has imposed greater obligations under data privacy and protection regulations, including those imposed under the GDPR. The U.S. government, including the Federal Trade Commission and the Department of Commerce, as well as various U.S. state governments, are continuing to review the need for greater regulation over the collection, sharing, use, or sale of personal information and information about consumer behavior on the Internet and on mobile devices. Complying with emerging and changing laws could require us to incur substantial costs or impact our approach to operating and marketing our games. Due to the rapidly changing nature of these data privacy protection laws, there is not always clear guidance from the respective governments and regulators regarding the interpretation of the law, which may create the risk of an inadvertent violation. Various government and consumer agencies worldwide have also called for new regulation and changes in industry practices. In addition, in some cases, we are dependent upon our platform providers and external data processors to assist us in ensuring compliance with these various types of regulations, and a violation by one of these third parties may also subject us to government investigations and result in substantial fines.

Player interaction with our games is subject to our privacy policies, end user license agreements ("EULAs"), and terms of service. If we fail to comply with our posted privacy policies, EULAs, or terms of service, or if we fail to comply with existing privacy-related or data protection laws and regulations, it could result in proceedings or litigation against us by governmental authorities or others, which could result in fines or judgments against us, damage our reputation, impact our financial condition, and harm our business. If regulators, the media, consumers, or employees raise any concerns about our privacy and data protection or consumer protection practices, even if unfounded, this could also result in fines or judgments against us, damage our reputation, negatively impact our financial condition, or damage our business.

Our games are subject to scrutiny regarding the appropriateness of their content. If we fail to receive our target ratings for certain titles, or if our retailers refuse to sell such titles due to what they perceive to be objectionable content, it could have a negative impact on our business.

Our console and PC games are subject to ratings by the Entertainment Software Rating Board (the “ESRB”), a self-regulatory body based in the U.S. that provides U.S. and Canadian consumers of interactive entertainment software with ratings information, including information on the content in such software, such as violence, nudity, or sexual content, along with an assessment of the suitability of the content for certain age groups. Certain other countries have also established content rating systems as prerequisites for product sales in those countries. In addition, certain stores use other ratings systems, such as Apple’s use of its proprietary “App Rating System” and Google Play’s use of the International Age Rating Coalition (“IARC”) rating system. If we are unable to obtain the ratings we have targeted for our products, it could have a negative impact on our business. In some instances, we may be required to modify our products to meet the requirements of the rating systems, which could delay or disrupt the release of any given product or may prevent its sale altogether in certain territories. Further, if one of our games is “re-rated” for any reason, a ratings organization could require corrective actions, which could include a recall, retailers could refuse to sell it and demand that we accept the return of any unsold or returned copies or consumers could demand a refund for copies previously purchased.

Additionally, retailers may decline to sell interactive entertainment software containing what they judge to be graphic violence or sexually explicit material or other content that they deem inappropriate for their businesses, whether because a product received a certain rating by the ESRB or other content rating system, or otherwise. If retailers decline to sell our products based upon their opinion that they contain objectionable themes, graphic violence or sexually explicit material, or other generally objectionable content, we might be required to modify particular titles or forfeit the revenue opportunity of selling such titles with that retailer.

Financial and Economic Risks

Changes in tax rates or exposure to additional tax liabilities could negatively impact our business.

Our income tax liability and effective tax rate could be adversely affected by a variety of factors, including changes in our business, the mix of earnings in countries with differing statutory tax rates, changes in tax laws or tax rulings, changes in interpretations of existing laws, or developments in tax examinations or investigations. Any of these factors could have a negative impact on our business or require us to change the manner in which we operate our business. The tax regimes we are subject to, or operate under, are unsettled and may be subject to significant change. Furthermore, tax authorities may choose to examine or investigate our tax reporting or tax liability, including under transfer pricing or permanent establishment theories. These proceedings may lead to adjustments or proposed adjustments to our income taxes or provisions for uncertain tax positions.

Additionally, a number of countries are actively pursuing fundamental changes to the tax laws applicable to multinational companies like us, including an increasing number that have enacted, or are considering enacting, revenue-based taxes on digital services. These digital services taxes target various business activities, including online advertising and, in some cases, video game sales. While the scope and applicability of these taxes often remains unclear, digital services taxes that ultimately apply to us could have an adverse impact on our business.

Fluctuations in currency exchange rates could negatively impact our business.

We transact business in various currencies other than the U.S. dollar and have significant international sales and expenses denominated in currencies other than the U.S. dollar, subjecting us to currency exchange rate risks. A substantial portion of our international sales and expenses are denominated in local currencies, which could fluctuate against the U.S. dollar. 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 have, in the past, utilized currency derivative contracts to hedge certain foreign exchange exposures and managed these exposures with natural offsets. However, there can be no assurance that we will continue our hedging programs, or that we will be successful in managing exposure to currency exchange rate risks whether or not we do so.

Our reported financial results could be significantly impacted by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

Our reported financial results are impacted by the accounting policies promulgated by the SEC and national accounting standards bodies and the methods, estimates, and judgments that we use in applying our accounting policies. Policies affecting revenue recognition have affected, and could further significantly affect, the way we report revenues related to our products and services. We recognize a majority of the revenues from video games that include an online service on a deferred basis over an estimated service period for such games. In addition, we defer the cost of revenues of those products. Further, as we increase our downloadable content and add new features to our online services, our estimate of the service period may change, and we could be required to recognize revenues, and defer related costs, over a shorter or longer period of time. As we enhance, expand, and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and income taxes, could have a significant impact on our reported net revenues, net income and earnings per share under generally accepted accounting principles in the United States in any given period.

The insolvency or business failure of any of our business partners could negatively impact us.

Our sales, whether digital or retail, are concentrated in a small number of large customers, which makes us more vulnerable to collection risk if one or more of these large customers becomes unable to pay for our products or seeks protection under the bankruptcy laws. Retailers and distributors in the interactive entertainment industry have from time to time experienced significant fluctuations in their businesses and a number of them have failed. Challenging economic conditions may impair the ability of our customers to pay for products they have purchased and, as a result, our reserves for doubtful accounts and write-off of accounts receivable could increase and, even if increased, may turn out to be insufficient. While we have insurance to protect against a customer's bankruptcy, insolvency, or liquidation, this insurance typically contains a significant deductible and co-payment obligation and does not cover all instances of non-payment. Further, a payment default or the insolvency or business failure of, other types of business partners could result in disruptions to the manufacturing or distribution of our products or the cancellation of contractual arrangements that we consider to be favorable, and could negatively impact our business. In addition, having such a large portion of our total net revenues concentrated in a few customers reduces our negotiating leverage with these customers.

Because our products and services are discretionary spending, if general economic conditions decline, demand for our products could decline.

Purchases of our products and services involve discretionary spending on the part of consumers. Consumers are generally more willing to make discretionary purchases, including purchases of products and services like ours, during periods in which favorable economic conditions prevail. As a result, our products are sensitive to general economic conditions and economic cycles. A reduction or shift in domestic or international consumer spending could result in an increase in our selling and promotional expenses, in an effort to offset that reduction, and could negatively impact our business.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal corporate and administrative offices, which include our Activision segment's headquarters, are located in Santa Monica, California. Our Activision segment also leases office space for development studio personnel throughout the U.S., primarily in California, New York, and Wisconsin. We also lease office space in Irvine, CA for our Blizzard segment's headquarters, which include administrative and development studio space. We lease office space in London, United Kingdom for our King segment's headquarters, as well as office space for additional administrative and development studio space in Barcelona, Spain and Stockholm, Sweden.

We anticipate no difficulty in extending the leases of our facilities or obtaining comparable facilities in suitable locations, as needed, and we consider our facilities to be adequate for our current needs.

Item 3. LEGAL PROCEEDINGS

Refer to Note 22 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for disclosures regarding our legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

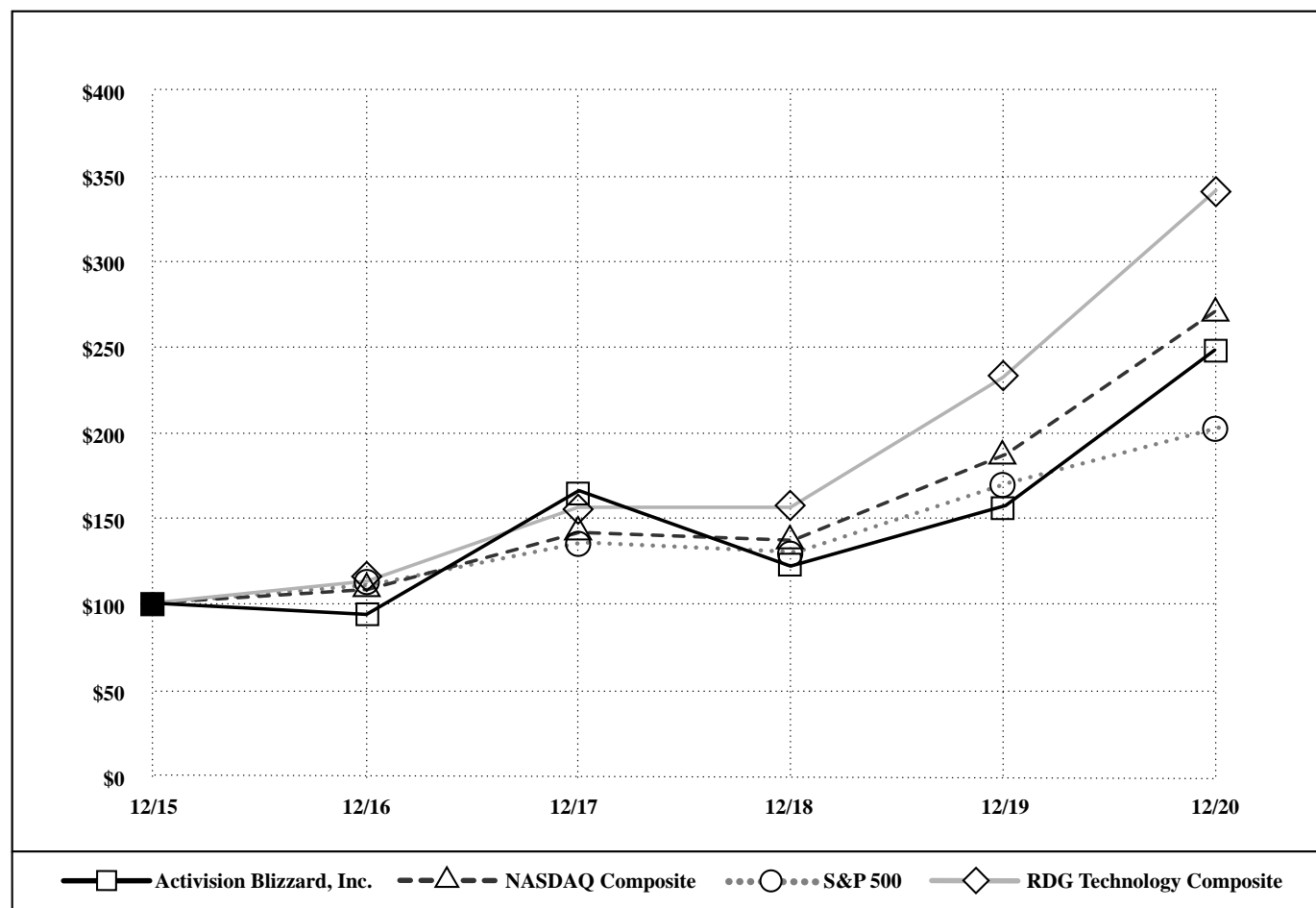
Our common stock is quoted on the Nasdaq National Market under the symbol “ATVI”. At February 16, 2021, there were 1,524 holders of record of our common stock.

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, as amended.

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

The following graph and table compare the cumulative total stockholder return on our common stock, the Nasdaq Composite Index, the S&P 500 Index, and the RDG Technology Composite Index. The graph and table assume that \$100 was invested on December 31, 2015, and that dividends were reinvested daily. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Fiscal year ending December 31:	<u>12/15</u>	<u>12/16</u>	<u>12/17</u>	<u>12/18</u>	<u>12/19</u>	<u>12/20</u>
Activision Blizzard, Inc.	\$ 100.00	\$ 94.04	\$ 165.89	\$ 122.64	\$ 157.75	\$ 248.10
Nasdaq Composite	100.00	108.87	141.13	137.12	187.44	271.64
S&P 500	100.00	111.96	136.40	130.42	171.49	203.04
RDG Technology Composite	100.00	114.21	156.95	157.68	231.96	340.33

Cash Dividends

We have paid a dividend annually since 2010. Below is a summary of cash dividends paid over the past three fiscal years, along with the dividend most recently declared by the Board of Directors that will be paid in May 2021:

<u>Year</u>	<u>Per Share Amount</u>	<u>Record Date</u>	<u>Dividend Payment Date</u>
2021	\$0.47	4/15/2021	5/6/2021
2020	\$0.41	4/15/2020	5/6/2020
2019	\$0.37	3/28/2019	5/9/2019
2018	\$0.34	3/30/2018	5/9/2018

Future dividends will depend upon our earnings, financial condition, cash requirements, anticipated future prospects, and other factors deemed relevant by our Board of Directors. There can be no assurances that dividends will be declared in the future.

Issuer Purchase of Equity Securities

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to \$4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. To date, we have not repurchased any shares under this program.

On January 31, 2019, our Board of Directors authorized a stock repurchase program under which we were authorized to repurchase up to \$1.5 billion of our common stock during the two-year period from February 14, 2019 until the earlier of February 13, 2021 and a determination by the Board of Directors to discontinue the repurchase program. We did not repurchase any shares under this program.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services on video game consoles, PCs, and mobile devices. We also operate esports leagues and offer digital advertising within some of our content. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

Our Segments

Based upon our organizational structure, we conduct our business through three reportable segments, each of which is a leading global developer and publisher of interactive entertainment content and services based primarily on our internally developed intellectual properties.

(i) Activision

Activision delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision also includes the activities of the Call of Duty League, a global professional esports league with city-based teams.

(ii) Blizzard

Blizzard delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, subscriptions, and by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net, which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity, and the creation of user-generated content. Blizzard also includes the activities of the Overwatch League, a global professional esports league with city-based teams.

(iii) King

King delivers content primarily through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on the mobile platform.

Other

We also engage in other businesses that do not represent reportable segments, including the Distribution business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Business Results and Highlights

Financial Results

2020 financial highlights included:

- consolidated net revenues increased 25% to \$8.1 billion and consolidated operating income increased 70% to \$2.7 billion, as compared to consolidated net revenues of \$6.5 billion and consolidated operating income of \$1.6 billion in 2019;
- diluted earnings per common share increased to \$2.82, as compared to \$1.95 in 2019; and
- cash flows from operating activities were approximately \$2.25 billion, an increase of 23%, as compared to \$1.83 billion in 2019.

Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. Net revenues and operating income for the year ended December 31, 2020, include a net effect of \$333 million and \$238 million, respectively, from the deferral of net revenues and related cost of revenues.

Additionally, for the year ended December 31, 2020 and 2019, 16% and 18% of total net revenues recognized were from revenue sources that were recognized at a “point-in-time,” respectively, while “over-time and other” revenues were 84% and 82%, of total net revenues, respectively. Revenue recognized at a “point-in-time” is primarily comprised of the portion of revenue from software products that is recognized when the customer takes control of the product (i.e., upon delivery of the software product) and revenues from our Distribution business. “Over-time and other revenue” is primarily comprised of revenue associated with the online functionality of our games, in-game purchases, and subscriptions.

Content Release and Event Highlights

Throughout the year we regularly release new content through seasonal and live services updates within our franchises, including Call of Duty, Candy Crush, and Hearthstone. In addition to these updates, notable game releases during 2020, included:

- Activision’s *Call of Duty: Warzone*, a free-to-play experience on console and PC platforms;
- Activision’s *Tony Hawk’s™ Pro Skater™ 1 and 2*;
- Activision’s *Crash™ Bandicoot 4: It’s About Time™*;
- Activision’s *Call of Duty: Black Ops Cold War*; and
- Blizzard’s *World of Warcraft: Shadowlands*.

International Sales

International sales are a fundamental part of our business. An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Net revenues from international sales accounted for approximately 52%, 54%, and 54% of our total consolidated net revenues for the years ended December 31, 2020, 2019, and 2018, respectively. The majority of our net revenues from foreign countries are generated by consumers in Australia, Canada, China, France, Germany, Italy, Japan, South Korea, Spain, Sweden, and the U.K. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Operating Metrics

The following operating metrics are key performance indicators that we use to evaluate our business. The key drivers of changes in our operating metrics are presented in the order of significance.

Net bookings and In-game net bookings

We monitor net bookings and in-game net bookings as key operating metrics in evaluating the performance of our business because they enable an analysis of performance based on the timing of actual transactions with our customers and provide a more timely indication of trends in our operating results. Net bookings is the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others. Net bookings is equal to net revenues excluding the impact from deferrals. In-game net bookings primarily includes the net amount of microtransactions and downloadable content sold during the period, and is equal to in-game net revenues excluding the impact from deferrals.

Net bookings and in-game net bookings were as follows (amounts in millions):

	For the Years Ended December 31,		Increase (Decrease)
	2020	2019	
Net bookings	\$ 8,419	\$ 6,388	\$ 2,031
In-game net bookings	\$ 4,852	\$ 3,366	\$ 1,486

Net bookings

The increase in net bookings for 2020, as compared to 2019, was primarily due to:

- a \$1.7 billion increase in Activision net bookings driven by higher net bookings from (1) *Call of Duty: Modern Warfare* (which was released in October 2019, and when referred to herein, is inclusive of *Call of Duty: Warzone*, from its release in March 2020 through December 16, 2020, the launch date of *Call of Duty: Black Ops Cold War* Season 1 content; after December 16, 2020, *Call of Duty: Warzone* revenues are associated with *Call of Duty: Black Ops Cold War* content and included within that title's revenue), as compared to *Call of Duty: Black Ops 4*, which was released in October 2018, (2) *Call of Duty: Mobile*, which was released in October 2019, and (3) the Call of Duty franchise catalog titles, partially offset by lower net bookings from *Sekiro™: Shadows Die Twice*, which was released in March 2019;
- a \$186 million increase in Blizzard net bookings driven by higher net bookings from *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* in November 2020, partially offset by lower net bookings from *Overwatch*;
- a \$133 million increase in King net bookings driven by higher net bookings from advertising and in-game player purchases, primarily in the Candy Crush franchise; and
- a \$116 million increase in net bookings from our Distribution business.

In-game net bookings

The increase in in-game net bookings for 2020, as compared to 2019, was primarily due to:

- a \$1.4 billion increase in Activision in-game net bookings, driven by higher in-game net bookings from (1) *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4* and (2) *Call of Duty: Mobile*; and
- a \$75 million increase in Blizzard in-game net bookings, driven by *World of Warcraft*.

Monthly Active Users

We monitor monthly active users (“MAUs”) as a key measure of the overall size of our user base. MAUs are the number of individuals who accessed a particular game in a given month. We calculate average MAUs in a period by adding the total number of MAUs in each of the months in a given period and dividing that total by the number of months in the period. An individual who accesses two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who accesses the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who accesses the same game on two platforms or devices in the relevant period would generally be counted as a single user. In certain instances, we rely on third parties to publish our games. In these instances, MAU data is based on information provided to us by those third parties, or, if final data is not available, reasonable estimates of MAUs for these third-party published games.

The number of MAUs for a given period can be significantly impacted by the timing of new content releases, since new releases may cause a temporary surge in MAUs. Accordingly, although we believe that overall trending in the number of MAUs can be a meaningful performance metric, period-to-period fluctuations may not be indicative of longer-term trends. The following table details our average MAUs on a sequential quarterly basis for each of our reportable segments (amounts in millions):

	<u>December 31, 2020</u>	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Activision	128	111	125	102	128
Blizzard	29	30	32	32	32
King	240	249	271	273	249
Total	<u>397</u>	<u>390</u>	<u>428</u>	<u>407</u>	<u>409</u>

Average MAUs increased by 7 million, or 2%, for the three months ended December 31, 2020, as compared to the three months ended September 30, 2020, primarily due to an increase in average MAUs for Activision driven by the Call of Duty franchise due to (1) the November 2020 launch of *Call of Duty: Black Ops Cold War*; and (2) the December 2020 launch of *Call of Duty: Mobile* in China. The increase was partially offset by lower average MAUs across various franchises at King.

Average MAUs decreased by 12 million, or 3%, for the three months ended December 31, 2020, as compared to the three months ended December 31, 2019. The year-over-year decrease in average MAUs is due to:

- lower average MAUs across King’s various franchises, primarily from non-Candy Crush franchises; and
- lower average MAUs across Blizzard, primarily from *Overwatch*.

Management’s Overview of Business Trends

Impacts of the Global COVID-19 Pandemic

Refer to the “Impacts of the Global COVID-19 Pandemic” section under Part I, Item 1 “Business” for discussion on the impacts of COVID-19 on our business.

Interactive Entertainment Growth

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate, based on consumer spending, that the total industry has grown, on average, 17% annually from 2017 to 2020. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more commonplace across age groups and as more developing regions gain access to this form of entertainment.

Mobile Gaming and Free-to-Play Games

Wide adoption of smartphones globally and the free-to-play business model on mobile platforms have increased the total addressable audience for gaming significantly by introducing gaming to new age groups and new regions and allowing gaming to occur more widely outside the home. Mobile gaming is estimated to be larger than console and PC gaming, and continues to grow at a significant rate. King is a leading developer of mobile and free-to-play games, and our other business units have mobile efforts underway that present the opportunity for us to expand the reach of, and drive additional player investment in, our franchises. The 2019 launch of *Call of Duty: Mobile* is an example of these efforts.

In addition, the free-to-play business model, which allows players to try a new game with no upfront cost, has begun to receive broader acceptance on PC and console platforms. This provides opportunities for us to increase the reach of our franchises through free-to-play offerings, which, in turn, provides opportunities to further drive player investment, as was seen with our recent *Call of Duty: Warzone* release.

Concentration of Sales Among the Most Popular Franchises

The top titles in the industry are also becoming more consistent as players and revenues concentrate more heavily in established franchises. Of the top 10 gaming franchises in the U.S. in 2020, all 10 were established prior to 2020.

A significant portion of our revenues historically has been derived from video games based on a few popular franchises, and these video games have also been responsible for a disproportionately higher percentage of our profits. For example, in 2020, the Call of Duty, Candy Crush, and World of Warcraft franchises, collectively, accounted for 76% of our consolidated net revenues—and a significantly higher percentage of our operating income.

In addition to investing in new content for our top franchises, with the aim of releasing such content more frequently, we are continually exploring additional ways to expand those franchises, such as our recent release of Activision's *Call of Duty: Warzone*. Additionally, we have been increasing our development efforts to focus on expanding our franchises to the mobile platform, as demonstrated by the release of *Call of Duty: Mobile*, as well as our plans for *Diablo Immortal*[™] and *Crash Bandicoot: On the Run!*[™], which are both currently in development.

Overall, we expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our, and the industry's, revenues and profits in the near future. Accordingly, our ability to maintain our top franchises and our ability to successfully compete against our competitors' top franchises can significantly impact our performance.

Recurring Revenue Business Models

Increased consumer online connectivity has allowed us to offer players new investment opportunities and to shift our business further towards a more consistently recurring and year-round model. While our business does continue to experience some periods of “seasonality” driven primarily by the timing of our releases of new premium full games, our in-game content and free-to-play offerings allow our players to access and invest in new content throughout the year. This incremental content not only provides additional high-margin revenues, but it can also increase player engagement.

Opportunities to Expand Franchises Outside of Games

Our fans spend significant time engaging in our franchises and investing through purchases of our game content, including full games and in-game content. Given the passion our players have for our franchises, we believe there are emerging opportunities to drive additional engagement and investment in our franchises outside of games, such as with our Overwatch and Call of Duty leagues. Our efforts to build these adjacent opportunities are still relatively nascent.

Upcoming Content Release Highlights

In the second half of 2021, we plan to release the next premium title in our Call of Duty franchise. In addition, throughout the year we expect to deliver ongoing content for our various franchises, including continued in-game content for *Call of Duty: Black Ops Cold War*, which includes seasonal content updates for *Call of Duty: Warzone*, seasonal content updates for *Call of Duty: Mobile*, content updates for *World of Warcraft*, expansion packs and content updates for *Hearthstone*, and continued releases of content, features, and services across King's portfolio with an ongoing focus on the Candy Crush franchise. We will also continue to invest in opportunities that we think have the potential to drive our growth over the long-term, including continuing to build on our advertising initiatives and investments in mobile titles, some of which we anticipate will launch in 2021, including *Crash Bandicoot: On the Run* and *Diablo Immortal*.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,			
	2020		2019	
Net revenues				
Product sales	\$ 2,350	29 %	\$ 1,975	30 %
In-game, subscription, and other revenues	5,736	71	4,514	70
Total net revenues	8,086	100	6,489	100
Costs and expenses				
Cost of revenues—product sales:				
Product costs	705	30	656	33
Software royalties, amortization, and intellectual property licenses	269	11	240	12
Cost of revenues—in-game, subscription, and other:				
Game operations and distribution costs	1,131	20	965	21
Software royalties, amortization, and intellectual property licenses	155	3	233	5
Product development	1,150	14	998	15
Sales and marketing	1,064	13	926	14
General and administrative	784	10	732	11
Restructuring and related costs	94	1	132	2
Total costs and expenses	5,352	66	4,882	75
Operating income	2,734	34	1,607	25
Interest and other expense (income), net	87	1	(26)	—
Loss on extinguishment of debt (1)	31	—	—	—
Income before income tax expense	2,616	32	1,633	25
Income tax expense	419	5	130	2
Net income	\$ 2,197	27 %	\$ 1,503	23 %

(1) Represents the loss on extinguishment of debt we recognized in connection with our debt financing activities during the year ended December 31, 2020. Refer to Note 13 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further disclosures regarding our debt obligations.

Consolidated Net Revenues

The key drivers of changes in our consolidated results, operating segment results, and sources of liquidity are presented in the order of significance.

The following table summarizes our consolidated net revenues and in-game net revenues (amounts in millions):

	For the Years Ended December 31,			
	2020	2019	Increase/ (decrease)	% Change
Consolidated net revenues	\$ 8,086	\$ 6,489	\$ 1,597	25 %
In-game net revenues (1)	\$ 4,571	\$ 3,376	\$ 1,195	35 %

(1) In-game net revenues primarily includes the net amount of revenue recognized for microtransactions and downloadable content during the period.

Consolidated net revenues

The increase in consolidated net revenues for 2020, as compared to 2019, was primarily driven by an increase in revenues of \$1.9 billion due to higher revenues from:

- *Call of Duty: Modern Warfare*, which was released in October 2019, as compared to *Call of Duty: Black Ops 4*, which was released in October 2018;
- *Call of Duty: Mobile*, which was released in October 2019;
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* in November 2020;
- our Distribution business;
- the Candy Crush franchise; and
- the Call of Duty franchise catalog titles.

The increase was partially offset by a decrease in revenues of \$339 million due to lower revenues from:

- *Overwatch*;
- *Call of Duty: Black Ops Cold War*, which was released in November 2020, as compared to *Call of Duty: Modern Warfare*; and
- *Sekiro: Shadows Die Twice*, which was released in March 2019.

In-game net revenues

The increase in in-game net revenues for 2020, as compared to 2019, was primarily driven by an increase in in-game net revenues of \$1.2 billion due to higher in-game net revenues from:

- *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*; and
- *Call of Duty: Mobile*.

Operating Segment Results

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

Our operating segments are also consistent with our internal organizational structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments.

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

	For the Year Ended December 31, 2020				Increase / (decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Revenues								
Net revenues from external customers	\$ 3,942	\$ 1,794	\$ 2,164	\$ 7,900	\$ 1,723	\$ 118	\$ 133	\$ 1,974
Intersegment net revenues (1)	—	111	—	111	—	68	—	68
Segment net revenues	\$ 3,942	\$ 1,905	\$ 2,164	\$ 8,011	\$ 1,723	\$ 186	\$ 133	\$ 2,042
Segment operating income	\$ 1,868	\$ 693	\$ 857	\$ 3,418	\$ 1,018	\$ 229	\$ 117	\$ 1,364
	For the Year Ended December 31, 2019							
	Activision	Blizzard	King	Total				
Segment Revenues								
Net revenues from external customers	\$ 2,219	\$ 1,676	\$ 2,031	\$ 5,926				
Intersegment net revenues (1)	—	43	—	43				
Segment net revenues	\$ 2,219	\$ 1,719	\$ 2,031	\$ 5,969				
Segment operating income	\$ 850	\$ 464	\$ 740	\$ 2,054				

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

Reconciliations of total segment net revenues and total segment operating income to consolidated net revenues and consolidated income before income tax expense are presented in the table below (amounts in millions):

	For the Years Ended December 31,	
	2020	2019
Reconciliation to consolidated net revenues:		
Segment net revenues	\$ 8,011	\$ 5,969
Revenues from non-reportable segments (1)	519	462
Net effect from recognition (deferral) of deferred net revenues (2)	(333)	101
Elimination of intersegment revenues (3)	(111)	(43)
Consolidated net revenues	<u>\$ 8,086</u>	<u>\$ 6,489</u>
Reconciliation to consolidated income before income tax expense:		
Segment operating income	\$ 3,418	\$ 2,054
Operating income (loss) from non-reportable segments (1)	(55)	24
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	(238)	52
Share-based compensation expense (Note 16)	(218)	(166)
Amortization of intangible assets	(79)	(203)
Restructuring and related costs (Note 17)	(94)	(137)
Discrete tax-related items (4)	—	(17)
Consolidated operating income	<u>2,734</u>	<u>1,607</u>
Interest and other expense (income), net	87	(26)
Loss on extinguishment of debt	31	—
Consolidated income before income tax expense	<u>\$ 2,616</u>	<u>\$ 1,633</u>

- (1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Distribution business. Also includes unallocated corporate income and expenses.
- (2) Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale of these games and then recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. The related cost of revenues is deferred and recognized as an expense as the related revenues are recognized. This table reflects the net effect from the deferrals of revenues and recognition of deferred revenues, along with the related cost of revenues, on certain of our online enabled products.
- (3) Intersegment revenues reflect licensing and service fees charged between segments.
- (4) Reflects the impact of other unusual or unique tax-related items and activities.

Segment Net Revenues

Activision

The increase in Activision's segment net revenues for 2020, as compared to 2019, was primarily due to higher revenues from:

- *Call of Duty: Modern Warfare*, which was released in October 2019, as compared to *Call of Duty: Black Ops 4*, which was released in October 2018;
- *Call of Duty: Mobile*, which was released in October 2019; and
- the Call of Duty franchise catalog titles.

The increase was partially offset by lower revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019.

Blizzard

The increase in Blizzard's segment net revenues for 2020, as compared to 2019, was primarily due to higher revenues from *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* in November 2020. The increase was partially offset by lower revenues from *Overwatch*.

King

The increase in King's net revenues for 2020, as compared to 2019, was primarily due to higher revenues from advertising and in-game player purchases, primarily in the Candy Crush franchise.

Segment Income from Operations

Activision

The increase in Activision's operating income for 2020, as compared to 2019, was primarily due to higher segment net revenues.

The increase was partially offset by:

- higher cost of revenues and marketing costs for the Call of Duty franchise; and
- higher product development costs driven by higher personnel bonuses as a result of strong business performance.

Blizzard

The increase in Blizzard's operating income for 2020, as compared to 2019, was primarily due to:

- higher segment net revenues;
- lower product development costs, despite an increase in personnel costs, driven by higher capitalization of software development costs from the timing of game development cycles; and
- lower general and administrative costs.

The increase was partially offset by higher cost of revenues, primarily from higher software amortization and higher marketing costs related to the launch of *World of Warcraft: Shadowlands*.

King

The increase in King's operating income for 2020, as compared to 2019, was primarily due to:

- higher segment net revenues; and
- lower general and administrative costs.

The increase was partially offset by higher marketing costs, driven by the Candy Crush franchise.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of \$61 million and a negative impact of \$126 million on reportable segment net revenues for 2020 and 2019, respectively, as compared to the same periods in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

Consolidated Results

Net Revenues by Distribution Channel

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

	For the Years Ended December 31,			
	2020	2019	Increase/ (decrease)	% Change
Net revenues by distribution channel:				
Digital online channels (1)	\$ 6,658	\$ 4,932	\$ 1,726	35 %
Retail channels	741	909	(168)	(18)
Other (2)	687	648	39	6
Total consolidated net revenues	<u>\$ 8,086</u>	<u>\$ 6,489</u>	<u>\$ 1,597</u>	25

- (1) Net revenues from “Digital online channels” include revenues from digitally-distributed downloadable content, microtransactions, subscriptions, and products, as well as licensing royalties.
- (2) Net revenues from “Other” primarily includes revenues from our Distribution business, the Overwatch League, and the Call of Duty League.

Digital Online Channel Net Revenues

The increase in net revenues from digital online channels for 2020, as compared to 2019, was primarily due to higher revenues from:

- *Call of Duty: Modern Warfare*, which was released in October 2019, as compared to *Call of Duty: Black Ops 4*, which was released in October 2018;
- *Call of Duty: Mobile*, which was released in October 2019;
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* in November 2020;
- the Call of Duty franchise catalog titles; and
- the Candy Crush franchise, driven by higher revenues from advertising and in-game player purchases.

This increase was partially offset by lower revenues from *Overwatch*.

Retail Channel Net Revenues

The decrease in net revenues from retail channels for 2020, as compared to 2019, was primarily due to lower revenues from:

- *Call of Duty: Black Ops Cold War*, which was released in November 2020, as compared to *Call of Duty: Modern Warfare*; and
- *Sekiro: Shadows Die Twice*, which was released in March 2019.

The decrease was partially offset by higher revenues from:

- *Crash Bandicoot 4: It's About Time*; which was released in October 2020; and
- *Tony Hawk's Pro Skater 1 and 2*, which was released in September 2020.

Net Revenues by Platform

The following tables detail our net revenues by platform (amounts in millions):

	For the Years Ended December 31,			
	2020	2019	Increase/ (decrease)	% Change
Net revenues by platform:				
Console	\$ 2,784	\$ 1,920	\$ 864	45 %
PC	2,056	1,718	338	20
Mobile and ancillary (1)	2,559	2,203	356	16
Other (2)	687	648	39	6
Total consolidated net revenues	\$ 8,086	\$ 6,489	\$ 1,597	25

(1) Net revenues from “Mobile and ancillary” include revenues from mobile devices, as well as non-platform-specific game-related revenues, such as standalone sales of toys and accessories.

(2) Net revenues from “Other” primarily includes revenues from our Distribution business, the Overwatch League, and the Call of Duty League.

Console

The increase in net revenues from the console platform for 2020, as compared to 2019, was primarily due to higher revenues from *Call of Duty: Modern Warfare*, which was released in October 2019, as compared to *Call of Duty: Black Ops 4*, which was released in October 2018. The increase was partially offset by lower revenues from *Call of Duty: Black Ops Cold War*, which was released in November 2020, as compared to *Call of Duty: Modern Warfare*.

PC

The increase in net revenues from the PC platform for 2020, as compared to 2019, was primarily due to higher revenues from:

- *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*; and
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* in November 2020.

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

Mobile and Ancillary

The increase in net revenues from mobile and ancillary for 2020, as compared to 2019, was primarily due to higher revenues from:

- *Call of Duty: Mobile*, which was released in October 2019; and
- the Candy Crush franchise, driven by higher revenues from advertising and in-game player purchases.

Costs and Expenses

Cost of Revenues

The following tables detail the components of cost of revenues in dollars (amounts in millions) and as a percentage of associated net revenues:

	Year Ended December 31, 2020	% of associated net revenues	Year Ended December 31, 2019	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	\$ 705	30 %	\$ 656	33 %	\$ 49
Software royalties, amortization, intellectual property licenses	269	11	240	12	29
Cost of revenues—in-game, subscription, and other:					
Game operations and distribution costs	1,131	20	965	21	166
Software royalties, amortization, intellectual property licenses	155	3	233	5	(78)
Total cost of revenues	<u>\$ 2,260</u>	28 %	<u>\$ 2,094</u>	32 %	<u>\$ 166</u>

Cost of Revenues—Product Sales:

The increase in product costs for 2020, as compared to 2019, was primarily due to an increase in product costs for our Distribution business as a result of higher revenues.

The increase in software royalties, amortization, and intellectual property licenses related to product sales for 2020, as compared to 2019, was primarily due to a \$32 million increase in software amortization and royalties from Activision, driven by software amortization and royalties from the 2020 releases of (1) *Tony Hawk's Pro Skater 1 and 2*, (2) *Crash Bandicoot 4: It's About Time*, and (3) *Call of Duty: Modern Warfare 2 Campaign Remastered*; partially offset by lower software amortization and royalties from:

- *Sekiro: Shadows Die Twice*, which was released in March 2019; and
- *Call of Duty: Modern Warfare*, which was released in October 2019, as compared to *Call of Duty: Black Ops 4*, which was released in October 2018.

Cost of Revenues—In-game, Subscription, and Other Revenues:

The increase in game operations and distribution costs for 2020, as compared to 2019, was primarily due to (1) an increase of \$114 million in service provider fees such as digital storefront fees (e.g., fees retained by Apple and Google for our sales on their platforms), payment processor fees, and server bandwidth fees, as a result of higher revenues, and (2) an increase of \$64 million associated with our professional esports leagues, which includes event and production costs associated with the inaugural season of the Call of Duty League in 2020.

The decrease in software royalties, amortization, and intellectual property licenses related to in-game, subscription, and other revenues for 2020, as compared to 2019, was primarily due to a decrease of \$128 million in amortization of internally-developed franchise intangible assets acquired as part of our 2016 acquisition of King. The decrease was partially offset by an increase in software amortization and royalties from Activision of \$46 million, driven by *Call of Duty: Mobile*, which was released in October 2019.

Product Development (amounts in millions)

	Year Ended December 31, 2020	% of consolidated net revenues	Year Ended December 31, 2019	% of consolidated net revenues	Increase (Decrease)
Product development	\$ 1,150	14 %	\$ 998	15 %	\$ 152

The increase in product development costs for 2020, as compared to 2019, was primarily due to higher development costs of \$261 million, driven by higher personnel bonuses as a result of strong business performance. The increase was partially offset by a \$108 million increase in capitalization of development costs, driven by the timing of Blizzard's game development cycles.

Sales and Marketing (amounts in millions)

	Year Ended December 31, 2020	% of consolidated net revenues	Year Ended December 31, 2019	% of consolidated net revenues	Increase (Decrease)
Sales and marketing	\$ 1,064	13 %	\$ 926	14 %	\$ 138

The increase in sales and marketing expenses for 2020, as compared to 2019, was primarily due to an increase of \$159 million in marketing spending, driven by the Call of Duty, World of Warcraft, and Candy Crush franchises.

General and Administrative (amounts in millions)

	Year Ended December 31, 2020	% of consolidated net revenues	Year Ended December 31, 2019	% of consolidated net revenues	Increase (Decrease)
General and administrative	\$ 784	10 %	\$ 732	11 %	\$ 52

The increase in general and administrative expenses for 2020 as compared to 2019, was primarily due to a \$48 million increase in personnel costs as a result of higher share-based compensation.

Restructuring and related costs (amounts in millions)

	Year Ended December 31, 2020	% of consolidated net revenues	Year Ended December 31, 2019	% of consolidated net revenues	Increase (Decrease)
Restructuring and related costs	\$ 94	1 %	\$ 132	2 %	\$ (38)

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and to remove unnecessary levels of complexity and duplication from certain parts of our business. Since then, we have been, and will continue focusing on these goals as we continue to execute against our plan. The restructuring and related costs incurred during 2020 relate primarily to severance costs. We do not expect to realize significant net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general and administrative activities is expected to be offset by increased investment in product development. Refer to Note 17 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion.

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

	Year Ended December 31, 2020	% of consolidated net revenues	Year Ended December 31, 2019	% of consolidated net revenues	Increase (Decrease)
Interest and other expense (income), net	\$ 87	1 %	\$ (26)	— %	\$ 113

The increase in interest and other expense (income), net, for 2020, as compared to 2019, was primarily due to:

- a \$58 million decrease in interest income driven by lower returns on our investment portfolio as a result of interest rate cuts, reflecting actions by central banks around the world;
- a \$38 million gain recognized in the prior-year period as a result of adjusting a cost-method equity investment to fair value, as compared to a \$3 million gain recorded in the current year; and
- a \$7 million gain recognized in the prior-year period from the settlement of available for sale securities, as compared to a \$4 million loss recorded in the current year.

Income Tax Expense (amounts in millions)

	<u>Year Ended December 31, 2020</u>	<u>% of Pretax income</u>	<u>Year Ended December 31, 2019</u>	<u>% of Pretax income</u>	<u>Increase (Decrease)</u>
Income tax expense	\$ 419	16 %	\$ 130	8 %	\$ 289

For the years ended December 31, 2020 and 2019, the Company's income before income tax expense was \$2.6 billion and \$1.6 billion, respectively, and our income tax expense was \$419 million (or a 16% effective tax rate) and \$130 million (or an 8% effective tax rate), respectively. Our full year 2020 effective tax rate of 16% is lower than the U.S. statutory rate of 21% primarily due to a U.S. tax benefit from foreign-derived intangible income, a one-time benefit from deferred tax asset remeasurement, and excess tax benefits from share-based payments.

The effective tax rate in 2020 was higher than in 2019, primarily due to one-time tax benefits reported in the prior year related to the intra-entity transfer of certain intellectual property rights, partially offset by changes in the Company's liability for uncertain tax positions and audit settlements.

The overall effective income tax rate in future periods will depend on a variety of factors, such as changes in pre-tax income or loss by 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 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 19 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of \$62 million and a negative impact of \$150 million on our consolidated net revenues in 2020 and 2019, respectively, as compared to the same periods in the previous year.

Changes in foreign exchange rates had a positive impact of \$35 million and a negative impact of \$71 million on our consolidated operating income in 2020 and 2019, respectively, as compared to the same periods in the previous year.

Comparison of 2019 to 2018

For the comparison of 2019 to 2018, refer to Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2019.

Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. Despite the impacts of the COVID-19 pandemic on the global economy, in the near term, we expect our business and financial condition to remain strong and to continue to generate significant operating cash flows, which, we believe, in combination with our existing balance of cash and cash equivalents and short-term investments of \$8.8 billion, our access to capital, and the availability of our \$1.5 billion revolving credit facility, will be sufficient to finance our operational and financing requirements for the next 12 months. Our primary sources of liquidity, which are available to us to fund cash outflows such as potential dividend payments or share repurchases, and scheduled debt maturities (the next of which is in 2026), include our cash and cash equivalents, short-term investments, and cash flows provided by operating activities.

As of December 31, 2020, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$2.5 billion, as compared to \$2.8 billion as of December 31, 2019. These cash balances are generally available for use in the U.S., subject in some cases to certain restrictions.

Our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the fourth quarter due to seasonal and holiday-related sales patterns. We consider, on a continuing basis, various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, joint ventures, share repurchases, and other structural changes. These transactions may result in future cash proceeds or payments.

Sources of Liquidity (amounts in millions)

	For the Years Ended December 31,		
	2020	2019	Increase (Decrease)
Cash and cash equivalents	\$ 8,647	\$ 5,794	\$ 2,853
Short-term investments	170	69	101
	<u>\$ 8,817</u>	<u>\$ 5,863</u>	<u>\$ 2,954</u>
Percentage of total assets	38 %	30 %	

	For the Years Ended December 31,		
	2020	2019	Increase (Decrease)
Net cash provided by operating activities	\$ 2,252	\$ 1,831	\$ 421
Net cash used in investing activities	(178)	(22)	(156)
Net cash provided by (used in) financing activities	711	(237)	948
Effect of foreign exchange rate changes	69	(3)	72
Net increase in cash and cash equivalents and restricted cash	<u>\$ 2,854</u>	<u>\$ 1,569</u>	<u>\$ 1,285</u>

Net Cash Provided by Operating Activities

The primary driver of net cash flows associated with our operating activities is the income generated from the sale of our products and services. These are typically partially offset by: working capital requirements used in the development, sale, and support of our products; payments for interest on our debt; payments for tax liabilities; and payments to our workforce.

Net cash provided by operating activities for 2020 was \$2.25 billion, as compared to \$1.83 billion for 2019. The increase was primarily due to higher net income, partially offset by higher tax payments and changes in our working capital resulting from the timing of collections and payments.

Net Cash Used in Investing Activities

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

Net cash used in investing activities for 2020 was \$178 million, as compared to \$22 million for 2019. The increase in cash used in investing activities was primarily due to the net purchases of available-for-sale investments of \$100 million in 2020, as compared to net proceeds from maturities of available-for-sale investments of \$88 million in 2019. This was partially offset by capital expenditures of \$78 million in 2020, which were lower than the capital expenditures of \$116 million in 2019.

Net Cash Provided by (Used in) Financing Activities

The primary drivers of net cash flows associated with financing activities typically include the proceeds from, and repayments of, our long-term debt and transactions involving our common stock, including the issuance of shares of common stock to employees upon the exercise of stock options, as well as the payment of dividends.

Net cash provided by financing activities for 2020 was \$711 million, as compared to net cash used in financing activities of \$237 million for 2019. The change was primarily attributed to:

- our debt financing activities—for 2020 we had net debt proceeds of approximately \$896 million resulting from the issuance of an aggregate principal amount of \$2.0 billion of new notes and the early redemption of \$1.05 billion of our previously outstanding notes, with no comparable activity for 2019 (refer to Note 13 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion); and

- higher proceeds from issuances of common stock to employees of \$170 million in 2020 as compared to \$105 million in 2019.

The cash flows provided by the activities above were partially offset by higher dividends paid, with \$316 million of dividend payments in 2020, as compared to \$283 million for 2019.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a positive impact of \$69 million and a negative impact of \$3 million on our cash and cash equivalents for the years ended December 31, 2020 and 2019, respectively. The change is primarily due to changes in the value of the U.S. dollar relative to the euro and British pound.

Debt

At December 31, 2020 and December 31, 2019, our total outstanding debt was \$3.6 billion and \$2.7 billion, respectively, bearing interest at a weighted average rate of 2.87% and 3.18%, respectively.

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

	<u>At December 31, 2020</u>	<u>At December 31, 2019</u>
2021 Notes	\$ —	\$ 650
2022 Notes	—	400
2026 Notes	850	\$ 850
2027 Notes	400	\$ 400
2030 Notes	500	\$ —
2047 Notes	400	\$ 400
2050 Notes	1,500	\$ —
Total gross long-term debt	<u>\$ 3,650</u>	<u>\$ 2,700</u>
Unamortized discount and deferred financing costs	(45)	(25)
Total net carrying amount	<u><u>\$ 3,605</u></u>	<u><u>\$ 2,675</u></u>

Refer to Note 13 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further disclosures regarding our debt obligations.

Dividends

On February 4, 2021, our Board of Directors declared a cash dividend of \$0.47 per common share, payable on May 6, 2021, to shareholders of record at the close of business on April 15, 2021.

On February 6, 2020, our Board of Directors declared a cash dividend of \$0.41 per common share. On May 6, 2020, we made an aggregate cash dividend payment of \$316 million to shareholders of record at the close of business on April 15, 2020.

Capital Expenditures

We made capital expenditures of \$78 million in 2020, as compared to \$116 million in 2019. In 2021, we anticipate total capital expenditures of approximately \$100 million, primarily for computer hardware, leasehold improvements, and software purchases.

Commitments

Refer to Note 22 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for disclosures regarding our commitments, including a table showing contractual obligations.

Comparison of 2019 to 2018

For the comparison of 2019 to 2018, refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2019, under the subheading “Liquidity and Capital Resources.”

Off-balance Sheet Arrangements

At December 31, 2020 and 2019, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued new accounting guidance related to revenue recognition. On January 1, 2018, we adopted the new accounting standard and related amendments.

We generate revenue primarily through the sale of our interactive entertainment content and services, principally for the console, PC, and mobile platforms, as well as through the licensing of our intellectual property. Our products span various genres, including first- and third-person action/adventure, role-playing, strategy, and "match three." We primarily offer the following products and services:

- premium full games, which typically provide access to main game content after purchase;
- free-to-play offerings, which allow players to download the game and engage with the associated content for free;
- in-game content for purchase to enhance gameplay (i.e. microtransactions and downloadable content) available within both our full-game and free-to-play offerings; and
- subscriptions to players in our World of Warcraft franchise, which provide ongoing access to the game content.

When control of the promised products and services is transferred to our customers, we recognize revenue in the amount that reflects the consideration we expect to receive in exchange for these products and services.

We determine revenue recognition by:

- identifying the contract, or contracts, with a customer;
- identifying the performance obligations in each contract;
- determining the transaction price;
- allocating the transaction price to the performance obligations in each contract; and
- recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

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 and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment immediately upon purchase or within 30 to 90 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

Product Sales

Product sales consist of sales of our games, including digital full-game downloads and physical products. We recognize revenues from the sale of our products after both (1) control of the products has been transferred to our customers and (2) the underlying performance obligations have been satisfied. Such revenues, which include our software products with significant online functionality and our online hosted software arrangements, are recognized in "Product sales" on our consolidated statement of operations.

Revenues from product sales are recognized after deducting the estimated allowance for returns and price protection, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and price protection are estimated at contract inception and updated at the end of each reporting period as additional information becomes available.

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular advertisement, are recorded as "Sales and marketing" expense 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 good or service.

Products with Online Functionality

For our software products that include both offline functionality (i.e., do not require an Internet connection to access) and significant online functionality, such as for most of our titles from the Call of Duty franchise, we evaluate whether the license of our intellectual property and the online functionality each represent separate and distinct performance obligations. In such instances, we typically have two performance obligations: (1) a license to the game software that is accessible without an Internet connection (predominantly the offline single player campaign or game mode) and (2) ongoing activities associated with the online components of the game, such as content updates, hosting of online content and gameplay, and online matchmaking (the "online functionality"). The online functionality generally operates to support the additional features and functionalities of the game that are only available online, not the offline license. This evaluation is performed for each software product or product add-on, including downloadable content. When we determine that our software products contain a license of intellectual property (i.e., the offline software license) that is separate and distinct from the online functionality, we consider market conditions and other observable inputs to estimate the standalone selling price for the performance obligations, since we do not generally sell the software license on a standalone basis. These products may be sold in a bundle with other products and services, which often results in the recognition of additional performance obligations.

For arrangements that include both a license to the game software that is accessible offline and separate online functionality, we recognize revenue when control of the license transfers to our customers for the portion of the transaction price allocable to the offline software license and ratably over the estimated service period for the portion of the transaction price allocable to the online functionality. Similarly, we defer a portion of the cost of revenues on these arrangements and recognize the costs as the related revenues are recognized. The cost of revenues that are deferred include product costs, distribution costs, and software royalties, amortization, and intellectual property licenses, and excludes intangible asset amortization.

Online Hosted Software Arrangements

For our online hosted software arrangements, such as titles for the Overwatch, World of Warcraft, and Candy Crush franchises, substantially all gameplay and functionality are obtained through our continuous hosting of the game content for the player. In these instances, we typically have a single performance obligation related to our ongoing activities in the hosted arrangement, including content updates, hosting of the gameplay, online matchmaking, and access to the game content. Similar to our software products with online functionality, these arrangements may include other products and services, which often results in the recognition of additional performance obligations. Revenues related to online hosted software arrangements are generally recognized ratably over the estimated service period.

In-game, Subscription, and Other Revenues

In-game Revenues

In-game revenues primarily includes revenue from microtransactions and downloadable content. Microtransaction revenues are derived from the sale of virtual currencies and goods to our players to enhance their gameplay experience. Proceeds from these sales of virtual currencies and goods are initially recorded in deferred revenue. Proceeds from the sales of virtual currencies are recognized as revenues when a player uses the virtual goods purchased with a virtual currency. Proceeds from the direct sales of virtual goods are similarly recognized as revenues when a player uses the virtual goods. We categorize our virtual goods as either “consumable” or “durable.” Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, we recognize revenues from the sale of consumable virtual goods as the goods are consumed and our performance obligation is satisfied. Durable virtual goods represent goods that are accessible to the player over an extended period of time; accordingly, we recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player and our performance obligation is satisfied, which is generally the estimated service period.

Subscription Revenues

Subscription revenue arrangements are mostly derived from *World of Warcraft*, which is only playable online and is generally sold on a subscription-only basis. Revenues associated with the sales of subscriptions are deferred until the subscription service is activated by the consumer and are then recognized ratably over the subscription period as the performance obligations are satisfied.

Revenues attributable to the purchase of *World of Warcraft* software by our customers, including expansion packs, are classified as “Product sales,” whereas revenues attributable to subscriptions and other in-game revenues are classified as “In-game, subscription, and other revenues.”

Other Revenues

Other revenues primarily include revenues from software licensing and licensing of intellectual property other than software. These revenues are recognized in "In-game, subscription, and other revenues" on our consolidated statement of operations.

In certain countries we have software licensing arrangements where we utilize third-party licensees to distribute and host our games in accordance with license agreements, for which the licensees typically pay us a fixed minimum guarantee and sales-based royalties. These arrangements typically include multiple performance obligations, such as an upfront license of intellectual property and rights to specified or unspecified future updates. Our estimate of the selling price is comprised of several factors including, but not limited to, prior selling prices, prices charged separately by other third-party vendors for similar service offerings, and a cost-plus-margin approach. Based on the allocated transaction price, we recognize revenue associated with the minimum guarantee (1) when we transfer control of the upfront license of intellectual property, (2) upon transfer of control of future specified updates, and/or (3) ratably over the contractual term in which we provide the customer with unspecified future updates. Royalty payments in excess of the minimum guarantee are generally recognized when the licensed product is sold by the licensee.

Revenues from the licensing of intellectual property other than software primarily include the licensing of our (1) brand, logo, or franchise to customers and (2) media content. Fixed fee payments from customers for the license of our brand or franchise are generally recognized over the license term. Fixed fee payments from customers for the license of our media content are generally recognized when control has transferred to the customer, which may be upfront or over time.

Significant Judgment around Revenue Arrangements with Multiple Deliverables

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Certain of our games, such as titles in the Call of Duty franchise, may contain a license of our intellectual property to play the game offline, but may also depend on a significant level of integration and interdependency with the online functionality. In these cases, significant judgment is required to determine whether this license of our intellectual property should be considered distinct and accounted for separately, or not distinct and accounted for together with the online functionality provided and recognized over time. Generally, for titles in which the software license is functional without the online functionality and a significant component of gameplay is available offline, we believe we have separate performance obligations for the license of the intellectual property and the online functionality.

Significant judgment is also required to determine the standalone selling price for each distinct performance obligation and to determine whether there is a discount that needs to be allocated based on the relative standalone selling price of the various products and services. To estimate the standalone selling price we generally consider market data, including our pricing strategies for the product being evaluated and other similar products we may offer, competitor pricing to the extent data is available, and the replayability design of both the offline and online components of our games. In limited instances, we may also utilize an expected cost approach to determine whether the estimated selling price yields an appropriate profit margin.

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' first and last days played online, the average total hours played, the average number of days in which player activity stabilizes, and the weighted-average number of days between players' first purchase date and last date played online. We also consider known online trends, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires management's judgment. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for players of our current games are less than 12 months.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- which party has discretion in establishing the price for the specified good or service.

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

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with Accounting Standards Codification 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 expense in the period such determination is made.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC Topic 740 and complex tax laws. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes. 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.

We are also subject to the continuous examination of our income tax returns by the IRS and are regularly subject to audit by other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act which also created a new minimum tax that applies to certain foreign earnings (“GILTI”). We have elected to recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years.

Software Development Costs

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

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

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

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

For a detailed discussion of the application of these and other accounting policies, see Note 2 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

For a detailed discussion regarding the accounting adoption and impacts, see Note 2 and Note 3 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. 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, with a heightened risk for volatility in the future due to potential impacts of COVID-19 on global financial markets. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won, Chinese yuan, and Swedish krona. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions will result in reduced revenues, operating expenses, net income, and cash flows from our international operations. Similarly, our revenues, operating expenses, net income, and cash flows will increase for our international operations if the U.S. dollar weakens against foreign currencies. Since we have significant international sales, but incur the majority of our costs in the United States, the impact of foreign currency fluctuations, particularly the strengthening of the U.S. dollar, may have an asymmetric and disproportional impact on our business. We monitor currency volatility throughout the year.

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

The fair values of our foreign currency contracts are estimated based on the prevailing exchange rates of the various hedged currencies as of the end of the period.

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

For a detailed discussion of our accounting policies for our foreign currency forward contracts, see Note 2 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Foreign Currency Forward Contracts Designated as Hedges (“Cash Flow Hedges”) and Foreign Currency Forward Contracts Not Designated as Hedges

Refer to Note 10 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for disclosures regarding our Cash Flow Hedges and foreign currency forward contracts not designated as hedges.

In the absence of hedging activities for the year ended December 31, 2020, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately \$191 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 this 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, as our outstanding debt is all at fixed rates. 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, 2020, our \$8.6 billion of cash and cash equivalents was comprised primarily of money market funds.

As of December 31, 2020, based on the composition of our investment portfolio and recent actions by central banks around the world, including the interest rate cuts by the U.S. Federal Reserve, we anticipate investment yields may remain low, which would continue to negatively impact our future interest income. Such impact is not expected to be material to the Company's liquidity.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at December 31, 2020 and 2019	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2020, 2019, and 2018	F-4
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019, and 2018	F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2020, 2019, and 2018	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019, and 2018	F-7
Notes to Consolidated Financial Statements	F-8
Schedule II—Valuation and Qualifying Accounts at December 31, 2020, 2019, and 2018	F-54

Other financial statement schedules are omitted because the information called for is not applicable or is shown either in the Consolidated Financial Statements or the Notes thereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Definition and Limitations of Disclosure Controls and Procedures.

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is: (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2020, 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, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized, and reported on a timely basis, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of December 31, 2020, 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, 2020.

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, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2020. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2020, 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. Additionally, we have not experienced any material impact to our internal control over financial reporting or our disclosure controls and procedures despite the fact that most of our employees are working remotely for their health and safety during the COVID-19 pandemic. We are continually monitoring and assessing the potential impact of COVID-19 on our internal controls to minimize the impact on their design and operating effectiveness.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item, other than the information regarding executive officers, which is included in Item 1 of this report, is incorporated by reference to the sections of our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders entitled “Proposal 1—Election of Directors,” “Corporate Governance Matters—Board of Directors and Committees—Board Committees,” “Corporate Governance Matters—Code of Conduct,” and, if applicable, “Beneficial Ownership Matters—Delinquent Section 16(a) Reports” to be filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders entitled “Executive Compensation” and “Director Compensation” to be filed with the SEC.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders entitled “Beneficial Ownership Matters” and “Equity Compensation Plan Information” to be filed with the SEC.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders entitled “Corporate Governance Matters—Board of Directors and Committees” and “Certain Relationships and Related Person Transactions” to be filed with the SEC.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2021 Annual Meeting of Shareholders entitled “Audit-Related Matters” to be filed with the SEC.

PART IV**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) 1 *Financial Statements* See Item 8.—Consolidated Financial Statements and Supplementary Data for index to Financial Statements and Financial Statement Schedule on page 55 herein.
- 2 *Financial Statement Schedule* The following financial statement schedule of Activision Blizzard for the years ended December 31, 2020, 2019, and 2018 is filed as part of this report on page F-54 and should be read in conjunction with the consolidated financial statements of Activision Blizzard:

Schedule II—Valuation and Qualifying Accounts

Other financial statement schedules are omitted because the information called for is not applicable or is shown either in the Consolidated Financial Statements or the Notes thereto.

- 3 The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Annual Report on Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Activision Blizzard, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 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, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

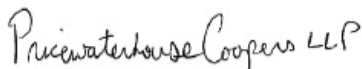
The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Determination of Service Period for Online Functionality

As described in Note 2 to the consolidated financial statements, a portion of the Company's \$8.1 billion of revenues for the year ended December 31, 2020, is recognized ratably over the estimated service period for the portion of the transaction price allocable to the online functionality, which is generally less than twelve months. When determining the estimated service period for players of the Company's games, management considers a variety of data points including the weighted-average number of days between the players' first and last days played online, the average total hours played, the average number of days in which the player activity stabilizes, and the weighted-average number of days between players' first purchase date and last date played online. Management also considers known online trends, the service period of their previously released games, and the service period of their competitors' games that are similar in nature, to the extent they are publicly available. Determining the estimated service period is subjective and requires management's judgment.

The principal considerations for our determination that performing procedures relating to revenue recognition - determination of the service period for the online functionality is a critical audit matter are the significant judgment by management when determining the service period, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to the data used in developing the service period assumption, such as the player data assessed by management for historical or comparable titles to determine the weighted-average number of days between players' first purchase date and last date played online, as well as qualitative factors utilized by management, such as analysis of competitor information.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the determination of the service period for the online functionality. These procedures also included, among others, (i) testing management's process for determining the service period, (ii) testing management's method of analyzing player data, (iii) testing the completeness and accuracy of underlying data used in the determination of the service period estimate, and (iv) evaluating the reasonableness of the service period by comparing it to similar or historical titles and competitor information.



Los Angeles, California
February 23, 2021

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in millions, except share data)

	At December 31, 2020	At December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,647	\$ 5,794
Accounts receivable, net of allowances of \$83 and \$132, at December 31, 2020 and December 31, 2019, respectively	1,052	848
Software development	352	322
Other current assets	514	328
Total current assets	10,565	7,292
Software development	160	54
Property and equipment, net	209	253
Deferred income taxes, net	1,318	1,293
Other assets	641	658
Intangible assets, net	451	531
Goodwill	9,765	9,764
Total assets	\$ 23,109	\$ 19,845
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 295	\$ 292
Deferred revenues	1,689	1,375
Accrued expenses and other liabilities	1,116	1,248
Total current liabilities	3,100	2,915
Long-term debt, net	3,605	2,675
Deferred income taxes, net	418	505
Other liabilities	949	945
Total liabilities	8,072	7,040
Commitments and contingencies (Note 22)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,202,906,087 and 1,197,436,644 shares issued at December 31, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	11,531	11,174
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2020 and December 31, 2019	(5,563)	(5,563)
Retained earnings	9,691	7,813
Accumulated other comprehensive loss	(622)	(619)
Total shareholders' equity	15,037	12,805
Total liabilities and shareholders' equity	\$ 23,109	\$ 19,845

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,		
	2020	2019	2018
Net revenues			
Product sales	\$ 2,350	\$ 1,975	\$ 2,255
In-game, subscription, and other revenues	5,736	4,514	5,245
Total net revenues	8,086	6,489	7,500
Costs and expenses			
Cost of revenues—product sales:			
Product costs	705	656	719
Software royalties, amortization, and intellectual property licenses	269	240	371
Cost of revenues—in-game, subscription, and other:			
Game operations and distribution costs	1,131	965	1,028
Software royalties, amortization, and intellectual property licenses	155	233	399
Product development	1,150	998	1,101
Sales and marketing	1,064	926	1,062
General and administrative	784	732	822
Restructuring and related costs	94	132	10
Total costs and expenses	5,352	4,882	5,512
Operating income	2,734	1,607	1,988
Interest and other expense (income), net (Note 18)	87	(26)	71
Loss on extinguishment of debt	31	—	40
Income before income tax expense	2,616	1,633	1,877
Income tax expense	419	130	29
Net income	\$ 2,197	\$ 1,503	\$ 1,848
Earnings per common share			
Basic	\$ 2.85	\$ 1.96	\$ 2.43
Diluted	\$ 2.82	\$ 1.95	\$ 2.40
Weighted-average number of shares outstanding			
Basic	771	767	762
Diluted	778	771	771

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,		
	2020	2019	2018
Net income	\$ 2,197	\$ 1,503	\$ 1,848
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	35	5	(9)
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	(36)	(15)	38
Unrealized gains (losses) on investments, net of tax	(2)	(8)	5
Total other comprehensive income (loss)	\$ (3)	\$ (18)	\$ 34
Comprehensive income	\$ 2,194	\$ 1,485	\$ 1,882

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, 2020, 2019, and 2018
(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, 2017	1,186	\$ —	(429)	\$ (5,563)	\$ 10,747	\$ 4,916	\$ (638)	\$ 9,462
Cumulative impact from adoption of new revenue accounting standard	—	—	—	—	—	88	3	91
Components of comprehensive income:								
Net income	—	—	—	—	—	1,848	—	1,848
Other comprehensive income (loss)	—	—	—	—	—	—	34	34
Issuance of common stock pursuant to employee stock options	5	—	—	—	98	—	—	98
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(93)	—	—	(93)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	211	—	—	211
Dividends (\$0.34 per common share)	—	—	—	—	—	(259)	—	(259)
Balance at December 31, 2018	1,192	\$ —	(429)	\$ (5,563)	\$ 10,963	\$ 6,593	\$ (601)	\$ 11,392
Components of comprehensive income:								
Net income	—	—	—	—	—	1,503	—	1,503
Other comprehensive income (loss)	—	—	—	—	—	—	(18)	(18)
Issuance of common stock pursuant to employee stock options	4	—	—	—	105	—	—	105
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(58)	—	—	(58)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	164	—	—	164
Dividends (\$0.37 per common share)	—	—	—	—	—	(283)	—	(283)
Balance at December 31, 2019	1,197	\$ —	(429)	\$ (5,563)	\$ 11,174	\$ 7,813	\$ (619)	\$ 12,805
Cumulative impact from adoption of new credit loss standard	—	—	—	—	—	(3)	—	(3)
Components of comprehensive income:								
Net income	—	—	—	—	—	2,197	—	2,197
Other comprehensive income (loss)	—	—	—	—	—	—	(3)	(3)
Issuance of common stock pursuant to employee stock options	5	—	—	—	171	—	—	171
Issuance of common stock pursuant to restricted stock units	1	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	—	—	—	—	(40)	—	—	(40)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	226	—	—	226
Dividends (\$0.41 per common share)	—	—	—	—	—	(316)	—	(316)
Balance at December 31, 2020	1,203	\$ —	(429)	\$ (5,563)	\$ 11,531	\$ 9,691	\$ (622)	\$ 15,037

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,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 2,197	\$ 1,503	\$ 1,848
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(94)	(352)	(35)
Non-cash operating lease cost	65	64	—
Depreciation and amortization	197	328	509
Amortization of capitalized software development costs and intellectual property licenses (1)	249	225	489
Share-based compensation expense (2)	218	166	209
Other	59	19	53
Changes in operating assets and liabilities:			
Accounts receivable, net	(194)	182	(114)
Software development and intellectual property licenses	(378)	(275)	(372)
Other assets	(119)	171	(56)
Deferred revenues	216	(154)	(122)
Accounts payable	(10)	31	(65)
Accrued expenses and other liabilities	(154)	(77)	(554)
Net cash provided by operating activities	<u>2,252</u>	<u>1,831</u>	<u>1,790</u>
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	121	153	116
Purchases of available-for-sale investments	(221)	(65)	(209)
Capital expenditures	(78)	(116)	(131)
Other investing activities	—	6	(6)
Net cash used in investing activities	<u>(178)</u>	<u>(22)</u>	<u>(230)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	170	105	99
Tax payment related to net share settlements on restricted stock units	(39)	(59)	(94)
Dividends paid	(316)	(283)	(259)
Proceeds from debt issuances, net of discounts	1,994	—	—
Repayment of long-term debt	(1,050)	—	(1,740)
Payment of financing costs	(20)	—	—
Premium payment for early redemption of note	(28)	—	(25)
Other financing activities	—	—	(1)
Net cash provided by (used in) financing activities	<u>711</u>	<u>(237)</u>	<u>(2,020)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>69</u>	<u>(3)</u>	<u>(31)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	2,854	1,569	(491)
Cash and cash equivalents and restricted cash at beginning of period	<u>5,798</u>	<u>4,229</u>	<u>4,720</u>
Cash and cash equivalents and restricted cash at end of period	<u>\$ 8,652</u>	<u>\$ 5,798</u>	<u>\$ 4,229</u>
Supplemental cash flow information:			
Cash paid for income taxes, net of refunds	\$ 806	\$ 319	\$ 560
Cash paid for interest	82	86	150

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Description of Business

Activision Blizzard, Inc. is a leading global developer and publisher of interactive entertainment content and services. We develop and distribute content and services on video game consoles, personal computers (“PC”s), and mobile devices. We also operate esports leagues and offer digital advertising within some of our content. The terms “Activision Blizzard,” the “Company,” “we,” “us,” and “our” are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

Our Segments

Based upon our organizational structure, we conduct our business through three reportable segments, each of which is a leading global developer and publisher of interactive entertainment content and services based primarily on our internally developed intellectual properties.

(i) Activision Publishing, Inc.

Activision Publishing, Inc. (“Activision”) delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision’s key product franchise is Call of Duty[®], a first-person action franchise. Activision also includes the activities of the Call of Duty League[™], a global professional esports league with city-based teams.

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (“Blizzard”) delivers content through both premium and free-to-play offerings and primarily generates revenue from full-game and in-game sales, subscriptions, and by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net[®], which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity, and the creation of user-generated content. Blizzard’s key product franchises include: World of Warcraft[®], a subscription-based massive multi-player online role-playing franchise; Hearthstone[®], an online collectible card franchise based in the Warcraft universe; Diablo[®], an action role-playing franchise; and Overwatch[®], a team-based first-person action franchise. Blizzard also includes the activities of the Overwatch League[™], a global professional esports league with city-based teams.

(iii) King Digital Entertainment

King Digital Entertainment (“King”) delivers content primarily through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on the mobile platform. King’s key product franchise is Candy Crush[™], a “match three” franchise.

Other

We also engage in other businesses that do not represent reportable segments, including the Activision Blizzard Distribution (“Distribution”) business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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, for 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 in debt securities designated as available-for-sale 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 on the Company's available-for-sale debt securities are excluded from earnings and are reported as a component of "Other comprehensive income (loss)."

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

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

Investments in equity securities which are not accounted for under the equity method and for which there is not a readily determinable fair value are carried at cost, less impairment, and adjusted for changes resulting from observable price changes in orderly transactions for identical or similar investment of the same issuer.

Financial Instruments

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

We transact business in various foreign currencies and have 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, 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.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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 values 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.

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

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

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

Concentration of Credit Risk

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

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

Our customer base includes first party digital storefronts, 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.

For the year ended December 31, 2020, Sony Interactive Entertainment, Inc. (“Sony”), Apple Inc. (“Apple”), Google Inc. (“Google”), and Microsoft Corporation (“Microsoft”) were our most significant customers with revenues of 17%, 15%, 14%, and 11%, respectively. For the years ended December 31, 2019 and 2018, Apple, Google, and Sony were our most significant customers with revenues of 17%, 13%, and 11%, respectively, for 2019, and 15%, 11%, and 13%, respectively, for 2018. No other customer accounted for 10% or more of our net revenues in those periods.

We had two customers—Microsoft and Sony—who accounted for 28% and 21%, respectively, of consolidated gross receivables at December 31, 2020, and 11% and 18%, respectively, at December 31, 2019. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Software Development Costs and Intellectual Property Licenses

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

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

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

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Assets Recognized from Costs to Obtain a Contract with a Customer

We apply the practical expedient to expense, as incurred, costs to obtain a contract with a customer when the amortization period would have been one year or less for certain similar contracts in which commissions are paid to internal personnel or third parties. We believe application of the practical expedient has a limited effect on the amount and timing of cost recognition. Total capitalized costs to obtain a contract were immaterial as of December 31, 2020 and 2019.

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 of the asset (i.e., 25 to 33 years for buildings, and 2 to 5 years for computer equipment, office furniture and other equipment). 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.

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

Our annual goodwill impairment test is performed at the reporting unit level. As of December 31, 2020 and 2019, our reporting units were the same as our operating segments. We generally test goodwill for possible impairment first by performing 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. If a qualitative assessment is not used, or if the qualitative assessment is not conclusive, a quantitative impairment test is performed. If a quantitative test is performed, we determine the fair value of the related reporting unit and compare 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, an impairment charge is recorded for this amount under revised accounting guidance effective for the year ended December 31, 2020, and future periods. Refer to Note 3 for further discussion on the revised accounting guidance. Based on our annual impairment assessment, no impairments of goodwill were identified for the years ended December 31, 2020, 2019, and 2018.

We test our acquired trade names for possible impairment by applying the same process as for goodwill. In the instance when a qualitative test is not performed or is inconclusive, a quantitative test is performed by using a discounted cash flow model to estimate fair value of our acquired trade names. Based on our annual impairment assessment, no impairments of our acquired trade names were identified for the years ended December 31, 2020, 2019, and 2018.

Changes in our assumptions underlying our estimates could result in future impairment charges.

Amortizable Intangible and Other Long-lived Assets.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

We evaluate the recoverability of our definite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. We consider certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. We did not record an impairment charge to our definite-lived intangible assets for the years ended December 31, 2020, 2019, and 2018.

Leases

In February 2016, the FASB issued new guidance related to the accounting for leases. The new standard replaced all current U.S. GAAP guidance on this topic. On January 1, 2019, we adopted the new lease accounting standard.

We determine if an arrangement is or contains a lease at contract inception. In certain of our lease arrangements, primarily those related to our data center arrangements, judgment is required in determining if a contract contains a lease. For these arrangements, there is judgment in evaluating if the arrangement provides us with an asset that is physically distinct, or that represents substantially all of the capacity of the asset, and if we have the right to direct the use of the asset. Lease assets and liabilities are recognized based on the present value of future lease payments over the lease term at the commencement date. Included in the lease liability are future lease payments that are fixed, in-substance fixed, or are payments based on an index or rate known at the commencement date of the lease. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. The operating lease right-of-use ("ROU") asset also includes any lease payments made prior to the lease commencement date, initial direct costs incurred, and lease incentives received. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate in determining the present value of future payments. The incremental borrowing rate represents an approximation of the rate that would be charged to borrow funds to purchase the leased asset over a similar term, and is based on the information available at the commencement date of the lease. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets.

In determining our lease liability, the lease term includes options to extend the lease when it is reasonably certain that we will exercise such option. For operating leases, the lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Finance lease assets are depreciated on a straight-line basis over the estimated life of the asset, not to exceed the length of the lease, with interest expense associated with finance lease liabilities recorded using the effective interest method. Leases with an initial term of 12 months or less are not recorded on the balance sheet and we recognize lease expense for these leases on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components. For our real estate, server and data center, and event production and broadcasting equipment leases, we elected the practical expedient to account for the lease and non-lease components as a single lease component. In all other lease arrangements, we account for lease and non-lease components separately. Additionally, for certain leases that have a group of leased assets with similar characteristics in size and composition, we may apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Operating lease ROU assets are presented in "Other assets" and operating lease liabilities are presented in "Accrued expenses and other current liabilities" and "Other liabilities" on our consolidated balance sheet.

Finance lease ROU assets are presented in "Property and equipment, net" and finance lease liabilities are presented in "Accrued expenses and other current liabilities" and "Other liabilities" on our consolidated balance sheet.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Revenue Recognition

In May 2014, the FASB issued new accounting guidance related to revenue recognition. On January 1, 2018, we adopted the new accounting standard and related amendments.

We generate revenue primarily through the sale of our interactive entertainment content and services, principally for the console, PC, and mobile platforms, as well as through the licensing of our intellectual property. Our products span various genres, including first- and third-person action/adventure, role-playing, strategy, and “match three.” We primarily offer the following products and services:

- premium full games, which typically provide access to main game content after purchase;
- free-to-play offerings, which allows players to download the game and engage with the associated content for free;
- in-game content for purchase to enhance gameplay (i.e. microtransactions and downloadable content) available within both our full-game and free-to-play offerings; and
- subscriptions to players in our World of Warcraft franchise that provide ongoing access to the game content.

When control of the promised products and services is transferred to our customers, we recognize revenue in the amount that reflects the consideration we expect to receive in exchange for these products and services.

We determine revenue recognition by:

- identifying the contract, or contracts, with a customer;
- identifying the performance obligations in each contract;
- determining the transaction price;
- allocating the transaction price to the performance obligations in each contract; and
- recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

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 and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment immediately upon purchase or within 30 to 90 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Product Sales

Product sales consist of sales of our games, including digital full-game downloads and physical products. We recognize revenues from the sale of our products after both (1) control of the products has been transferred to our customers and (2) the underlying performance obligations have been satisfied. Such revenues, which include our software products with significant online functionality and our online hosted software arrangements, are recognized in "Product sales" on our consolidated statement of operations.

Revenues from product sales are recognized after deducting the estimated allowance for returns and price protection, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and price protection are estimated at contract inception and updated at the end of each reporting period as additional information becomes available.

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular advertisement, are recorded as "Sales and marketing" expense 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 good or service.

Products with Online Functionality

For our software products that include both offline functionality (i.e., do not require an Internet connection to access) and significant online functionality, such as for most of our titles from the Call of Duty franchise, we evaluate whether the license of our intellectual property and the online functionality each represent separate and distinct performance obligations. In such instances, we typically have two performance obligations: (1) a license to the game software that is accessible without an Internet connection (predominantly the offline single player campaign or game mode) and (2) ongoing activities associated with the online components of the game, such as content updates, hosting of online content and gameplay, and online matchmaking (the "online functionality"). The online functionality generally operates to support the additional features and functionalities of the game that are only available online, not the offline license. This evaluation is performed for each software product or product add-on, including downloadable content. When we determine that our software products contain a license of intellectual property (i.e., the offline software license) that is separate and distinct from the online functionality, we consider market conditions and other observable inputs to estimate the standalone selling price for the performance obligations, since we do not generally sell the software license on a standalone basis. These products may be sold in a bundle with other products and services, which often results in the recognition of additional performance obligations.

For arrangements that include both a license to the game software that is accessible offline and separate online functionality, we recognize revenue when control of the license transfers to our customers for the portion of the transaction price allocable to the offline software license and ratably over the estimated service period for the portion of the transaction price allocable to the online functionality. Similarly, we defer a portion of the cost of revenues on these arrangements and recognize the costs as the related revenues are recognized. The cost of revenues that are deferred include product costs, distribution costs, and software royalties, amortization, and intellectual property licenses, and excludes intangible asset amortization.

Online Hosted Software Arrangements

For our online hosted software arrangements, such as titles for the Overwatch, World of Warcraft, and Candy Crush franchises, substantially all gameplay and functionality are obtained through our continuous hosting of the game content for the player. In these instances, we typically have a single performance obligation related to our ongoing activities in the hosted arrangement, including content updates, hosting of the gameplay, online matchmaking, and access to the game content. Similar to our software products with online functionality, these arrangements may include other products and services, which often results in the recognition of additional performance obligations. Revenues related to online hosted software arrangements are generally recognized ratably over the estimated service period.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In-game, Subscription, and Other Revenues

In-game Revenues

In-game revenues primarily includes revenues from microtransactions and downloadable content. Microtransaction revenues are derived from the sale of virtual currencies and goods to our players to enhance their gameplay experience. Proceeds from these sales of virtual currencies and goods are initially recorded in deferred revenue. Proceeds from the sales of virtual currencies are recognized as revenues when a player uses the virtual goods purchased with a virtual currency. Proceeds from the direct sales of virtual goods are similarly recognized as revenues when a player uses the virtual goods. We categorize our virtual goods as either “consumable” or “durable.” Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, we recognize revenues from the sale of consumable virtual goods as the goods are consumed and our performance obligation is satisfied. Durable virtual goods represent goods that are accessible to the player over an extended period of time; accordingly, we recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player and our performance obligation is satisfied, which is generally the estimated service period.

Subscription Revenues

Subscription revenue arrangements are mostly derived from *World of Warcraft*, which is only playable online and is generally sold on a subscription-only basis. Revenues associated with the sales of subscriptions are deferred until the subscription service is activated by the consumer and are then recognized ratably over the subscription period as the performance obligations are satisfied.

Revenues attributable to the purchase of *World of Warcraft* software by our customers, including expansion packs, are classified as “Product sales,” whereas revenues attributable to subscriptions and other in-game revenues are classified as “In-game, subscription, and other revenues.”

Other Revenues

Other revenues primarily include revenues from software licensing and licensing of intellectual property other than software. These revenues are recognized in "In-game, subscription, and other revenues" on our consolidated statement of operations.

In certain countries we have software licensing arrangements where we utilize third-party licensees to distribute and host our games in accordance with license agreements, for which the licensees typically pay us a fixed minimum guarantee and sales-based royalties. These arrangements typically include multiple performance obligations, such as an upfront license of intellectual property and rights to specified or unspecified future updates. Our estimate of the selling price is comprised of several factors including, but not limited to, prior selling prices, prices charged separately by other third-party vendors for similar service offerings, and a cost-plus-margin approach. Based on the allocated transaction price, we recognize revenue associated with the minimum guarantee (1) when we transfer control of the upfront license of intellectual property, (2) upon transfer of control of future specified updates, and/or (3) ratably over the contractual term in which we provide the customer with unspecified future updates. Royalty payments in excess of the minimum guarantee are generally recognized when the licensed product is sold by the licensee.

Revenues from the licensing of intellectual property other than software primarily include the licensing of our (1) brand, logo, or franchise to customers and (2) media content. Fixed fee payments from customers for the license of our brand or franchise are generally recognized over the license term. Fixed fee payments from customers for the license of our media content are generally recognized when control has transferred to the customer, which may be upfront or over time.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Significant Judgment around Revenue Arrangements with Multiple Deliverables

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Certain of our games, such as titles in the Call of Duty franchise, may contain a license of our intellectual property to play the game offline, but may also depend on a significant level of integration and interdependency with the online functionality. In these cases, significant judgment is required to determine whether this license of our intellectual property should be considered distinct and accounted for separately, or not distinct and accounted for together with the online functionality provided and recognized over time. Generally, for titles in which the software license is functional without the online functionality and a significant component of gameplay is available offline, we believe we have separate performance obligations for the license of the intellectual property and the online functionality.

Significant judgment is also required to determine the standalone selling price for each distinct performance obligation and to determine whether there is a discount that needs to be allocated based on the relative standalone selling price of the various products and services. To estimate the standalone selling price we generally consider market data, including our pricing strategies for the product being evaluated and other similar products we may offer, competitor pricing to the extent data is available, and the replayability design of both the offline and online components of our games. In limited instances, we may also utilize an expected cost approach to determine whether the estimated selling price yields an appropriate profit margin.

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' first and last days played online, the average total hours played, the average number of days in which player activity stabilizes, and the weighted-average number of days between players' first purchase date and last date played online. We also consider known online trends, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires management's judgment. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for players of our current games are less than 12 months.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- which party has discretion in establishing the price for the specified good or service.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Allowances for Returns and Price Protection

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

Management uses judgment in estimates made with respect to potential future product returns and price protection related to current period product revenues and when establishing the allowance for returns and price protection. 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, and record revenue for the transferred products in the amount of consideration to which we expect to be entitled.

Based upon historical experience, we believe that our estimates are reasonable. However, actual returns and price protection could vary from our allowance estimates and therefore impact the amount and timing of our revenues for any period if conditions change or if matters resolve in a manner that is inconsistent with management's assumptions utilized in determining the allowances.

Contract Balances

We generally record a receivable related to revenue when we have an unconditional right to invoice and receive payment, and record deferred revenue when cash payments are received or due in advance of our performance, even if amounts are refundable.

The allowance for doubtful accounts reflects our best estimate of expected credit losses inherent in our accounts receivable balance. 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.

Deferred revenue is comprised primarily of unearned revenue related to the sale of products with online functionality or online hosted arrangements. We typically invoice, and collect payment for, these sales at the beginning of the contract period and recognize revenue ratably over the estimated service period. Deferred revenue also includes payments for: product sales pending delivery or activation; subscription revenues; licensing revenues with fixed minimum guarantees; and other revenues for which we have been paid in advance and earn the revenue when we transfer control of the product or service.

Refer to Note 11 for further information, including changes in deferred revenue during the period.

Shipping and Handling

Shipping and handling costs consist primarily of packaging and transportation charges incurred to move finished goods to customers. We recognize all shipping and handling costs as an expense in "Cost of revenues-product costs," including those incurred when control of the product has already transferred to the customer.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Cost of Revenues

Our cost of revenues consist of the following:

Cost of revenues—product sales:

- (1) “Product costs”—includes the manufacturing costs of goods produced and sold. These generally include product costs, manufacturing royalties (net of volume discounts), personnel-related costs, warehousing, and distribution costs. We generally recognize volume discounts when they are earned (typically in connection with the achievement of unit-based milestones).
- (2) “Software royalties, amortization, and intellectual property licenses”—includes the amortization of capitalized software costs and royalties attributable to product sales revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to product sales revenues.

Cost of revenues—in-game, subscription, and other revenues:

- (1) “Game operations and distribution costs”—includes costs to operate our games, such as customer service, Internet bandwidth and server costs, platform provider fees, and payment provider fees, along with costs to associated with our esports activities.
- (2) “Software royalties, amortization, and intellectual property licenses”—includes the amortization of capitalized software costs and royalties attributable to in-game, subscription, and other revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to in-game, subscription, and other revenues.

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising, which are deferred and charged to expense when the related advertisement is run for the first time. Advertising expenses for the years ended December 31, 2020, 2019, and 2018 were \$746 million, \$587 million, and \$631 million, respectively, and are included in “Sales and marketing” in the consolidated statements of operations.

Income Taxes

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

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

The Tax Cuts and Jobs Act (the “U.S. Tax Reform Act”) reduced the U.S. corporate income tax rate from 35% to 21% beginning in 2018 and imposed a one-time tax on deemed repatriated earnings of foreign subsidiaries. Among other things, the U.S. Tax Reform Act also created a new minimum tax that applies to certain foreign earnings (“GILTI”). We have elected to recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Excess tax benefits and tax deficiencies from share-based payments are recorded as an income tax expense or benefit in the consolidated statement of operations. The tax effects of exercised or vested equity awards are treated as discrete items in the reporting period in which they occur.

Foreign Currency Translation

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

Earnings (Loss) Per Common Share

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

Share-Based Payments

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

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Loss Contingencies

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

3. Recently Issued Accounting Pronouncements

Recently adopted accounting pronouncements

Cloud Computing Arrangements

In August 2018, the FASB issued new guidance related to a customer's accounting for implementation costs incurred in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract. The new guidance requires customers to capitalize implementation costs for these arrangements by applying the same criteria that are utilized for existing internal-use software guidance. The capitalized costs are required to be amortized over the associated term of the arrangement, generally on a straight-line basis, with amortization of these costs presented in the same financial statement line item as other costs associated with the arrangement. We adopted the new standard under a prospective approach during the first quarter of 2020 and it did not have a material impact on our consolidated financial statements.

Goodwill

In January 2017, the FASB issued new guidance that eliminates Step 2 from the goodwill impairment test. Instead, if an entity forgoes a Step 0 test, that entity will be required to perform its annual or interim goodwill impairment test by (1) comparing the fair value of a reporting unit, as determined in Step 1 from the goodwill impairment test, with its carrying amount and (2) recognizing an impairment charge, if any, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. We adopted the new standard under a prospective approach during the first quarter of 2020 and it did not have a material impact on our consolidated financial statements.

Financial Instruments - Credit Losses

In June 2016, the FASB issued new guidance related to accounting for credit losses on financial instruments. The update replaces the existing incurred loss impairment model with a methodology that reflects a current expected credit losses model which requires the use of historical and forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will generally result in earlier recognition of credit losses. We adopted the new standard under a modified retrospective basis, with the cumulative effect of adoption recorded as an adjustment to retained earnings during the first quarter of 2020. The adoption of this standard did not have a material impact on our consolidated financial statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Recent Accounting Pronouncements Not Yet Adopted

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued new guidance which is intended to simplify various aspects to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 for recognizing deferred taxes for investments, performing an intraperiod allocation and calculating income taxes in interim periods. The amendment also clarifies and amends certain areas of existing guidance to reduce complexity and improve consistency in the application of Topic 740. The new standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. Generally the topics must be applied prospectively upon adoption, with the exception of certain topics which are required to be applied on a retrospective or modified retrospective basis. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

4. Cash and Cash Equivalents

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

	At December 31,	
	2020	2019
Cash	\$ 268	\$ 437
Foreign government treasury bills	34	37
Money market funds	8,345	5,320
Cash and cash equivalents	<u>\$ 8,647</u>	<u>\$ 5,794</u>

5. Software Development and Intellectual Property Licenses

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

	At December 31,	
	2020	2019
Internally-developed software costs	\$ 485	\$ 345
Payments made to third-party software developers	27	31
Total software development costs	<u>\$ 512</u>	<u>\$ 376</u>

As of both December 31, 2020 and December 31, 2019, capitalized intellectual property licenses were not material.

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

	For the Years Ended December 31,		
	2020	2019	2018
Amortization of capitalized software development costs and intellectual property licenses	\$ 263	\$ 241	\$ 501

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment, Net

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

	At December 31,	
	2020	2019
Land	\$ 1	\$ 1
Buildings	4	4
Leasehold improvements	246	252
Computer equipment	704	654
Office furniture and other equipment	95	91
Total cost of property and equipment	1,050	1,002
Less accumulated depreciation	(841)	(749)
Property and equipment, net	\$ 209	\$ 253

Depreciation expense for the years ended December 31, 2020, 2019, and 2018 was \$117 million, \$124 million, and \$138 million, respectively.

7. Intangible Assets, Net

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

	Estimated useful lives	At December 31, 2020		
		Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	\$ 1,154	\$ (1,151)	\$ 3
Developed software	2 - 5 years	601	(601)	—
Trade names	7 years	54	(40)	14
Other	1 - 10 years	19	(18)	1
Total definite-lived intangible assets		\$ 1,828	\$ (1,810)	\$ 18
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			\$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				\$ 433
Total intangible assets, net				\$ 451

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	At December 31, 2019			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	\$ 1,154	\$ (1,105)	\$ 49
Developed software	2 - 5 years	601	(579)	22
Trade names	7 - 10 years	54	(30)	24
Other	1 - 15 years	19	(16)	3
Total definite-lived intangible assets		<u>\$ 1,828</u>	<u>\$ (1,730)</u>	<u>\$ 98</u>
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			\$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				<u>\$ 433</u>
Total intangible assets, net				<u>\$ 531</u>

Amortization expense of intangible assets was \$80 million, \$204 million, and \$371 million for the years ended December 31, 2020, 2019, and 2018, respectively.

At December 31, 2020, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2021	\$ 10
2022	6
2023	2
2024	—
2025	—
Thereafter	—
Total	<u>\$ 18</u>

8. Goodwill

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

	Activision	Blizzard	King	Total
Balance at December 31, 2018	\$ 6,897	\$ 190	\$ 2,675	\$ 9,762
Other	1	—	1	2
Balance at December 31, 2019	<u>\$ 6,898</u>	<u>\$ 190</u>	<u>\$ 2,676</u>	<u>\$ 9,764</u>
Other	1	—	—	1
Balance at December 31, 2020	<u>\$ 6,899</u>	<u>\$ 190</u>	<u>\$ 2,676</u>	<u>\$ 9,765</u>

At December 31, 2020, 2019, and 2018, there were no accumulated impairment losses.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

9. Other Assets and Liabilities

Included in “Accrued expenses and other liabilities” in our consolidated balance sheets are accrued payroll-related costs of \$406 million and \$395 million at December 31, 2020 and 2019, respectively, and the current portion of income taxes payable of \$100 million and \$436 million at December 31, 2020 and 2019, respectively.

10. Fair Value Measurements

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

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Fair Value Measurements on a Recurring Basis

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

	Fair Value Measurements at December 31, 2020 Using				Balance Sheet Classification
	As of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial Assets:					
Recurring fair value measurements:					
Money market funds	\$ 8,345	\$ 8,345	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	164	164	—	—	Other current assets
Total recurring fair value measurements	\$ 8,543	\$ 8,543	\$ —	\$ —	
Financial Liabilities:					
Foreign currency forward contracts not designated as hedges	\$ (2)	\$ —	\$ (2)	\$ —	Accrued expenses and other liabilities
Foreign currency forward contracts designated as hedges	\$ (24)	\$ —	\$ (24)	\$ —	Accrued expenses and other liabilities

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Fair Value Measurements at December 31, 2019 Using				Balance Sheet Classification
	As of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial Assets:					
Recurring fair value measurements:					
Money market funds	\$ 5,320	\$ 5,320	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	37	37	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	65	65	—	—	Other current assets
Total recurring fair value measurements	\$ 5,422	\$ 5,422	\$ —	\$ —	
Financial Liabilities:					
Foreign currency forward contracts not designated as hedges	\$ (2)	\$ —	\$ (2)	\$ —	Accrued expenses and other liabilities
Foreign currency forward contracts designated as hedges	\$ (2)	\$ —	\$ (2)	\$ —	Accrued expenses and other liabilities

Foreign Currency Forward Contracts

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

The total gross notional amounts and fair values of our Cash Flow Hedges, all of which have remaining maturities of 11 months or less, are as follows (amounts in millions):

	As of December 31, 2020		As of December 31, 2019	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell Euro	\$ 542	\$ (24)	\$ 350	\$ (2)

The amounts of pre-tax net realized gains (losses) associated with our Cash Flow Hedges that were reclassified out of “Accumulated other comprehensive income (loss)” and into earnings are as follows (amounts in millions):

	For the Years Ended December 31,			Statement of Operations Classification
	2020	2019	2018	
Cash Flow Hedges	\$ (3)	\$ 39	\$ 7	Net revenues

Foreign Currency Forward Contracts Not Designated as Hedges

The total gross notional amounts and fair values of our foreign currency forward contracts not designated as hedges are as follows (amounts in millions):

	As of December 31, 2020		As of December 31, 2019	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell GBP	\$ 116	\$ (2)	\$ 25	\$ (2)

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

During the years ended December 31, 2020, 2019, and 2018, pre-tax net gains and losses associated with these forward contracts were recorded in “General and administrative expenses” and were not material.

11. Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of the fulfillment of our associated performance obligations. The aggregate of the current and non-current balances of deferred revenues as of December 31, 2019 and December 31, 2020, were \$1.4 billion and \$1.7 billion, respectively. For the year ended December 31, 2020, the additions to our deferred revenues balance were primarily due to cash payments received or due in advance of satisfying our performance obligations, while the reductions to our deferred revenues balance were primarily due to the recognition of revenues upon fulfillment of our performance obligations, both of which were in the ordinary course of business. During the years ended December 31, 2020, December 31, 2019, and December 31, 2018, \$1.3 billion, \$1.5 billion, and \$1.7 billion of revenues, respectively, were recognized that were included in the deferred revenues balance at the beginning of the period.

As of December 31, 2020, the aggregate amount of contracted revenues allocated to our unsatisfied performance obligations is \$2.5 billion, which includes our deferred revenues balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately \$1.9 billion over the next 12 months, \$0.4 billion in the subsequent 12-month period, and the remainder thereafter. This balance does not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee or any estimated amounts of variable consideration that are subject to constraint in accordance with the new revenue standard.

12. Leases

Our lease arrangements are primarily for: (1) corporate, administrative, and development studio offices; and (2) data centers and server equipment. Our existing leases have remaining lease terms ranging from one to nine years. In certain instances, such leases include one or more options to renew, with renewal terms that generally extend the lease term by one to five years for each option. The exercise of lease renewal options is generally at our sole discretion. All of our existing leases are classified as operating leases.

Components of our lease costs are as follows (amounts in millions):

	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
Operating leases		
Operating lease costs	\$ 75	\$ 75
Variable lease costs	20	20

Rental expense prior to our adoption of the new lease standard was \$75 million for the year ended December 31, 2018.

Supplemental information related to our operating leases is as follows (amounts in millions):

	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
Supplemental Operating Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities	\$ 77	\$ 80
ROU assets obtained in exchange for new lease obligations	80	65

	<u>At December 31, 2020</u>	<u>At December 31, 2019</u>
Weighted Average Lease terms and discount rates		
Remaining lease term	4.48 years	5.00 years
Discount rate	3.40 %	4.02 %

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Future undiscounted lease payments for our operating lease liabilities, and a reconciliation of these payments to our operating lease liabilities at December 31, 2020, are as follows (amounts in millions):

For the years ending December 31,

2021	\$	75
2022		71
2023		64
2024		53
2025		33
Thereafter		18
Total future lease payments	\$	<u>314</u>
Less imputed interest		<u>(24)</u>
Total lease liabilities	\$	<u><u>290</u></u>

Operating lease ROU assets and liabilities recorded on our consolidated balance sheet as of December 31, 2020 and December 31, 2019, were as follows (amounts in millions):

	<u>At December 31, 2020</u>	<u>At December 31, 2019</u>	<u>Balance Sheet Classification</u>
ROU assets	\$ 243	\$ 232	Other assets
Current lease liabilities	\$ 66	\$ 63	Accrued expenses and other current liabilities
Non-current lease liabilities	224	210	Other liabilities
	<u>\$ 290</u>	<u>\$ 273</u>	Total lease liabilities

13. Debt

Credit Facilities

As of December 31, 2020 and December 31, 2019, we had \$1.5 billion available under a revolving credit facility (the “Revolver”) pursuant to a credit agreement entered into on October 11, 2013 (as amended thereafter and from time to time, the “Credit Agreement”). To date, we have not drawn on the Revolver.

The Revolver is scheduled to mature on August 24, 2023. Borrowings under the Revolver will bear interest, at the Company’s option, at either (1) a base rate equal to the highest of (i) the federal funds rate, plus 0.5%, (ii) the prime commercial lending rate of Bank of America, N.A. and (iii) the London Interbank Offered Rate (“LIBOR”) for an interest period of one month beginning on such day plus 1.00%, or (2) LIBOR, in each case, plus an applicable interest margin. LIBOR will be subject to a floor of 0% and base rate will be subject to an effective floor of 1.00%. The applicable interest margin for borrowings under the Revolver will range from 0.875% to 1.375% for LIBOR borrowings and from 0% to 0.375% for base rate borrowings and will be determined by reference to a pricing grid based on the Company’s credit ratings. Up to \$50 million of the Revolver may be used for letters of credit.

Under the Credit Agreement, we are subject to a financial covenant requiring the Company’s Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) not to exceed 3.75:1.00 (or, at the Company’s option and for a limited period of time upon the consummation of a Qualifying Acquisition (as defined in the Credit Agreement), 4.25:1.00. The Credit Agreement contains covenants customary for transactions of this type for issuer with similar credit ratings. These include those restricting liens, debt of non-guarantor subsidiaries and certain fundamental changes, in each case with exceptions, including exceptions for secured debt and debt of non-guarantor subsidiaries of the Company, in each case up to an amount not exceeding 7.5% of Total Assets (as defined in the Credit Agreement). We were in compliance with the terms of the Credit Agreement as of December 31, 2020.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Unsecured Senior Notes

As of December 31, 2020 and December 31, 2019, we had \$3.7 billion and \$2.7 billion, respectively, of gross unsecured senior notes outstanding. A summary of our outstanding unsecured notes is as follows (amounts in millions):

Unsecured Senior Notes	Interest Rate	Semi-Annual Interest Payments Due On	Maturity	At December 31, 2020		At December 31, 2019	
				Principal	Fair Value (Level 2)	Principal	Fair Value (Level 2)
2021 Notes	2.30%	Mar. 15 & Sept. 15	Sept. 2021	\$ —	\$ —	\$ 650	\$ 653
2022 Notes	2.60%	Jun. 15 & Dec. 15	Jun. 2022	—	—	400	405
2026 Notes	3.40%	Mar. 15 & Sept. 15	Sept. 2026	850	970	850	893
2027 Notes	3.40%	Jun. 15 & Dec. 15	Jun. 2027	400	454	400	417
2030 Notes	1.35%	Mar. 15 & Sept. 15	Sept. 2030	500	490	—	—
2047 Notes	4.50%	Jun. 15 & Dec. 15	Jun. 2047	400	525	400	456
2050 Notes	2.50%	Mar. 15 & Sept. 15	Sept. 2050	1,500	1,462	—	—
Total gross long-term debt				<u>\$ 3,650</u>		<u>\$ 2,700</u>	
Unamortized discount and deferred financing costs				(45)		(25)	
Total net carrying amount				<u>\$ 3,605</u>		<u>\$ 2,675</u>	

On August 5, 2020, we issued the 2030 Notes and 2050 Notes in a public underwritten offering, for an aggregate principal amount of \$2.0 billion in new debt. In connection with the issuance, we incurred approximately \$26 million of debt discount and financing costs that were capitalized and recorded within “Long-term debt, net” in our consolidated balance sheet.

On September 4, 2020, we redeemed all of our outstanding 2021 Notes and 2022 Notes at a redemption price equal to 100% of their respective principal amounts plus (1) a “make-whole” premium of \$28 million and (2) accrued and unpaid interest to the redemption date. The redemption of the 2021 Notes and 2022 Notes resulted in a “Loss on extinguishment of debt” recorded in the consolidated statement of operations of \$31 million.

We may redeem some or all of each class of the unsecured senior notes. Any such redemption will be at a price equal to 100% of the aggregate principal amount thereof plus accrued and unpaid interest as well as, for a redemption prior to the permitted redemption date for that class of notes, a “make-whole” premium.

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

The outstanding 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 Revolver described above. The notes are not secured and are effectively junior to any of the Company’s existing and future indebtedness that is secured to the extent of the value of the collateral securing such indebtedness. The notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of secured debt, entry into sale or leaseback transactions, and certain merger or consolidation transactions. We were in compliance with the terms of the notes outstanding as of December 31, 2020.

As of December 31, 2020, we have no contractual principal repayments of our long-term debt within the next five years.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

14. Accumulated Other Comprehensive Income (Loss)

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

	For the Year Ended December 31, 2020			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for- sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2019	\$ (624)	\$ (3)	\$ 8	\$ (619)
Other comprehensive income (loss) before reclassifications	37	(6)	(39)	(8)
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	(2)	4	3	5
Balance at December 31, 2020	<u>\$ (589)</u>	<u>\$ (5)</u>	<u>\$ (28)</u>	<u>\$ (622)</u>

	For the Year Ended December 31, 2019			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for- sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2018	\$ (629)	\$ 5	\$ 23	\$ (601)
Other comprehensive income (loss) before reclassifications	5	—	24	29
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	(8)	(39)	(47)
Balance at December 31, 2019	<u>\$ (624)</u>	<u>\$ (3)</u>	<u>\$ 8</u>	<u>\$ (619)</u>

15. Operating Segments and Geographic Regions

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

Our operating segments are also consistent with our internal organizational structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	Year Ended December 31, 2020			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	\$ 3,942	\$ 1,794	\$ 2,164	\$ 7,900
Intersegment net revenues (1)	—	111	—	111
Segment net revenues	<u>\$ 3,942</u>	<u>\$ 1,905</u>	<u>\$ 2,164</u>	<u>\$ 8,011</u>
Segment operating income	<u>\$ 1,868</u>	<u>\$ 693</u>	<u>\$ 857</u>	<u>\$ 3,418</u>
	Year Ended December 31, 2019			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	\$ 2,219	\$ 1,676	\$ 2,031	\$ 5,926
Intersegment net revenues (1)	—	43	—	43
Segment net revenues	<u>\$ 2,219</u>	<u>\$ 1,719</u>	<u>\$ 2,031</u>	<u>\$ 5,969</u>
Segment operating income	<u>\$ 850</u>	<u>\$ 464</u>	<u>\$ 740</u>	<u>\$ 2,054</u>
	Year Ended December 31, 2018			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	\$ 2,458	\$ 2,238	\$ 2,086	\$ 6,782
Intersegment net revenues (1)	—	53	—	53
Segment net revenues	<u>\$ 2,458</u>	<u>\$ 2,291</u>	<u>\$ 2,086</u>	<u>\$ 6,835</u>
Segment operating income	<u>\$ 1,011</u>	<u>\$ 685</u>	<u>\$ 750</u>	<u>\$ 2,446</u>

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Reconciliations of total segment net revenues and total segment operating income to consolidated net revenues and consolidated income before income tax expense are presented in the table below (amounts in millions):

	Years Ended December 31,		
	2020	2019	2018
Reconciliation to consolidated net revenues:			
Segment net revenues	\$ 8,011	\$ 5,969	\$ 6,835
Revenues from non-reportable segments (1)	519	462	480
Net effect from recognition (deferral) of deferred net revenues (2)	(333)	101	238
Elimination of intersegment revenues (3)	(111)	(43)	(53)
Consolidated net revenues	<u>\$ 8,086</u>	<u>\$ 6,489</u>	<u>\$ 7,500</u>
Reconciliation to consolidated income before income tax expense:			
Segment operating income	\$ 3,418	\$ 2,054	\$ 2,446
Operating income from non-reportable segments (1)	(55)	24	31
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	(238)	52	100
Share-based compensation expense (Note 16)	(218)	(166)	(209)
Amortization of intangible assets	(79)	(203)	(370)
Restructuring and related costs (Note 17)	(94)	(137)	(10)
Discrete tax-related items (4)	—	(17)	—
Consolidated operating income	<u>2,734</u>	<u>1,607</u>	<u>1,988</u>
Interest and other expense (income), net	87	(26)	71
Loss on extinguishment of debt	31	—	40
Consolidated income before income tax expense	<u>\$ 2,616</u>	<u>\$ 1,633</u>	<u>\$ 1,877</u>

- (1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Distribution business. Also includes unallocated corporate income and expenses.
- (2) Reflects the net effect from recognition (deferral) of deferred net revenues, along with related cost of revenues, on certain of our online-enabled products.
- (3) Intersegment revenues reflect licensing and service fees charged between segments.
- (4) Reflects the impact of other unusual or unique tax-related items and activities.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Net revenues by distribution channel, including a reconciliation to each of our reportable segment's net revenues, were as follows (amounts in millions):

	Year Ended December 31, 2020					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	\$ 2,930	\$ 1,672	\$ 2,167	\$ —	\$ (111)	\$ 6,658
Retail channels	702	39	—	—	—	741
Other (2)	57	92	—	538	—	687
Total consolidated net revenues	<u>\$ 3,689</u>	<u>\$ 1,803</u>	<u>\$ 2,167</u>	<u>\$ 538</u>	<u>\$ (111)</u>	<u>\$ 8,086</u>
Change in deferred revenues:						
Digital online channels (1)	\$ 365	\$ 102	\$ (3)	\$ —	\$ —	\$ 464
Retail channels	(112)	—	—	—	—	(112)
Other (2)	—	—	—	(19)	—	(19)
Total change in deferred revenues	<u>\$ 253</u>	<u>\$ 102</u>	<u>\$ (3)</u>	<u>\$ (19)</u>	<u>\$ —</u>	<u>\$ 333</u>
Segment net revenues:						
Digital online channels (1)	\$ 3,295	\$ 1,774	\$ 2,164	\$ —	\$ (111)	\$ 7,122
Retail channels	590	39	—	—	—	629
Other (2)	57	92	—	519	—	668
Total segment net revenues	<u>\$ 3,942</u>	<u>\$ 1,905</u>	<u>\$ 2,164</u>	<u>\$ 519</u>	<u>\$ (111)</u>	<u>\$ 8,419</u>

	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	\$ 1,366	\$ 1,580	\$ 2,029	\$ —	\$ (43)	\$ 4,932
Retail channels	818	91	—	—	—	909
Other (2)	3	181	—	464	—	648
Total consolidated net revenues	<u>\$ 2,187</u>	<u>\$ 1,852</u>	<u>\$ 2,029</u>	<u>\$ 464</u>	<u>\$ (43)</u>	<u>\$ 6,489</u>
Change in deferred revenues:						
Digital online channels (1)	\$ 122	\$ (128)	\$ 2	\$ —	\$ —	\$ (4)
Retail channels	(90)	(5)	—	—	—	(95)
Other (2)	—	—	—	(2)	—	(2)
Total change in deferred revenues	<u>\$ 32</u>	<u>\$ (133)</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (101)</u>
Segment net revenues:						
Digital online channels (1)	\$ 1,488	\$ 1,452	\$ 2,031	\$ —	\$ (43)	\$ 4,928
Retail channels	728	86	—	—	—	814
Other (2)	3	181	—	462	—	646
Total segment net revenues	<u>\$ 2,219</u>	<u>\$ 1,719</u>	<u>\$ 2,031</u>	<u>\$ 462</u>	<u>\$ (43)</u>	<u>\$ 6,388</u>

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Year Ended December 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	\$ 1,740	\$ 2,009	\$ 2,090	\$ —	\$ (53)	\$ 5,786
Retail channels	998	109	—	—	—	1,107
Other (2)	—	148	—	459	—	607
Total consolidated net revenues	<u>\$ 2,738</u>	<u>\$ 2,266</u>	<u>\$ 2,090</u>	<u>\$ 459</u>	<u>\$ (53)</u>	<u>\$ 7,500</u>
Change in deferred revenues:						
Digital online channels (1)	\$ (96)	\$ 32	\$ (4)	\$ —	\$ —	\$ (68)
Retail channels	(184)	(7)	—	—	—	(191)
Other (2)	—	—	—	21	—	21
Total change in deferred revenues	<u>\$ (280)</u>	<u>\$ 25</u>	<u>\$ (4)</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ (238)</u>
Segment net revenues:						
Digital online channels (1)	\$ 1,644	\$ 2,041	\$ 2,086	\$ —	\$ (53)	\$ 5,718
Retail channels	814	102	—	—	—	916
Other (2)	—	148	—	480	—	628
Total segment net revenues	<u>\$ 2,458</u>	<u>\$ 2,291</u>	<u>\$ 2,086</u>	<u>\$ 480</u>	<u>\$ (53)</u>	<u>\$ 7,262</u>

- (1) Net revenues from “Digital online channels” include revenues from digitally-distributed downloadable content, microtransactions, subscriptions, and products, as well as licensing royalties.
- (2) Net revenues from “Other” primarily includes revenues from our Distribution business, the Overwatch League, and the Call of Duty League.
- (3) Intersegment revenues reflect licensing and service fees charged between segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Geographic information presented below is based on the location of the paying customer. Net revenues by geographic region, including a reconciliation to each of our reportable segment's net revenues, were as follows (amounts in millions):

	Year Ended December 31, 2020					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	\$ 2,316	\$ 794	\$ 1,384	\$ —	\$ (60)	\$ 4,434
EMEA (1)	1,061	550	568	538	(37)	2,680
Asia Pacific	312	459	215	—	(14)	972
Total consolidated net revenues	<u>\$ 3,689</u>	<u>\$ 1,803</u>	<u>\$ 2,167</u>	<u>\$ 538</u>	<u>\$ (111)</u>	<u>\$ 8,086</u>
Change in deferred revenues:						
Americas	\$ 228	\$ 58	\$ (1)	\$ —	\$ —	\$ 285
EMEA (1)	36	43	(1)	(19)	—	59
Asia Pacific	(11)	1	(1)	—	—	(11)
Total change in deferred revenues	<u>\$ 253</u>	<u>\$ 102</u>	<u>\$ (3)</u>	<u>\$ (19)</u>	<u>\$ —</u>	<u>\$ 333</u>
Segment net revenues:						
Americas	\$ 2,544	\$ 852	\$ 1,383	\$ —	\$ (60)	\$ 4,719
EMEA (1)	1,097	593	567	519	(37)	2,739
Asia Pacific	301	460	214	—	(14)	961
Total segment net revenues	<u>\$ 3,942</u>	<u>\$ 1,905</u>	<u>\$ 2,164</u>	<u>\$ 519</u>	<u>\$ (111)</u>	<u>\$ 8,419</u>
	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	\$ 1,286	\$ 822	\$ 1,254	\$ —	\$ (21)	\$ 3,341
EMEA (1)	691	543	557	464	(16)	2,239
Asia Pacific	210	487	218	—	(6)	909
Total consolidated net revenues	<u>\$ 2,187</u>	<u>\$ 1,852</u>	<u>\$ 2,029</u>	<u>\$ 464</u>	<u>\$ (43)</u>	<u>\$ 6,489</u>
Change in deferred revenues:						
Americas	\$ 16	\$ (62)	\$ 2	\$ —	\$ —	\$ (44)
EMEA (1)	12	(57)	—	(2)	—	(47)
Asia Pacific	4	(14)	—	—	—	(10)
Total change in deferred revenues	<u>\$ 32</u>	<u>\$ (133)</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (101)</u>
Segment net revenues:						
Americas	\$ 1,302	\$ 760	\$ 1,256	\$ —	\$ (21)	\$ 3,297
EMEA (1)	703	486	557	462	(16)	2,192
Asia Pacific	214	473	218	—	(6)	899
Total segment net revenues	<u>\$ 2,219</u>	<u>\$ 1,719</u>	<u>\$ 2,031</u>	<u>\$ 462</u>	<u>\$ (43)</u>	<u>\$ 6,388</u>

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Year Ended December 31, 2018

	<u>Activision</u>	<u>Blizzard</u>	<u>King</u>	<u>Non-reportable segments</u>	<u>Elimination of intersegment revenues (2)</u>	<u>Total</u>
Net revenues by geographic region:						
Americas	\$ 1,622	\$ 1,004	\$ 1,269	\$ 13	\$ (28)	\$ 3,880
EMEA (1)	897	692	599	446	(16)	2,618
Asia Pacific	219	570	222	—	(9)	1,002
Total consolidated net revenues	<u>\$ 2,738</u>	<u>\$ 2,266</u>	<u>\$ 2,090</u>	<u>\$ 459</u>	<u>\$ (53)</u>	<u>\$ 7,500</u>
Change in deferred revenues:						
Americas	\$ (163)	\$ 15	\$ (3)	\$ —	\$ —	\$ (151)
EMEA (1)	(127)	16	(1)	21	—	(91)
Asia Pacific	10	(6)	—	—	—	4
Total change in deferred revenues	<u>\$ (280)</u>	<u>\$ 25</u>	<u>\$ (4)</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ (238)</u>
Segment net revenues:						
Americas	\$ 1,459	\$ 1,019	\$ 1,266	\$ 13	\$ (28)	\$ 3,729
EMEA (1)	770	708	598	467	(16)	2,527
Asia Pacific	229	564	222	—	(9)	1,006
Total segment net revenues	<u>\$ 2,458</u>	<u>\$ 2,291</u>	<u>\$ 2,086</u>	<u>\$ 480</u>	<u>\$ (53)</u>	<u>\$ 7,262</u>

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

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

The Company’s net revenues in the U.S. were 48%, 46%, and 46% of consolidated net revenues for the years ended December 31, 2020, 2019, and 2018, respectively. The Company’s net revenues in the United Kingdom (“U.K.”) for each of the years ended December 31, 2020, 2019, and 2018 were 12% of consolidated net revenues. No other country’s net revenues exceeded 10% of consolidated net revenues for the years ended December 31, 2020, 2019, or 2018.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Net revenues by platform, including a reconciliation to each of our reportable segment's net revenues, were as follows (amounts in millions):

	Year Ended December 31, 2020					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	\$ 2,668	\$ 116	\$ —	\$ —	\$ —	\$ 2,784
PC	582	1,489	96	—	(111)	2,056
Mobile and ancillary (1)	382	106	2,071	—	—	2,559
Other (2)	57	92	—	538	—	687
Total consolidated net revenues	<u>\$ 3,689</u>	<u>\$ 1,803</u>	<u>\$ 2,167</u>	<u>\$ 538</u>	<u>\$ (111)</u>	<u>\$ 8,086</u>
Change in deferred revenues:						
Console	\$ 140	\$ (8)	\$ —	\$ —	\$ —	\$ 132
PC	64	115	—	—	—	179
Mobile and ancillary (1)	49	(5)	(3)	—	—	41
Other (2)	—	—	—	(19)	—	(19)
Total change in deferred revenues	<u>\$ 253</u>	<u>\$ 102</u>	<u>\$ (3)</u>	<u>\$ (19)</u>	<u>\$ —</u>	<u>\$ 333</u>
Segment net revenues:						
Console	\$ 2,808	\$ 108	\$ —	\$ —	\$ —	\$ 2,916
PC	646	1,604	96	—	(111)	2,235
Mobile and ancillary (1)	431	101	2,068	—	—	2,600
Other (2)	57	92	—	519	—	668
Total segment net revenues	<u>\$ 3,942</u>	<u>\$ 1,905</u>	<u>\$ 2,164</u>	<u>\$ 519</u>	<u>\$ (111)</u>	<u>\$ 8,419</u>

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Year Ended December 31, 2019

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	\$ 1,783	\$ 137	\$ —	\$ —	\$ —	\$ 1,920
PC	298	1,346	117	—	(43)	1,718
Mobile and ancillary (1)	103	188	1,912	—	—	2,203
Other (2)	3	181	—	464	—	648
Total consolidated net revenues	<u>\$ 2,187</u>	<u>\$ 1,852</u>	<u>\$ 2,029</u>	<u>\$ 464</u>	<u>\$ (43)</u>	<u>\$ 6,489</u>
Change in deferred revenues:						
Console	\$ (36)	\$ (18)	\$ —	\$ —	\$ —	\$ (54)
PC	57	(110)	—	—	—	(53)
Mobile and ancillary (1)	11	(5)	2	—	—	8
Other (2)	—	—	—	(2)	—	(2)
Total change in deferred revenues	<u>\$ 32</u>	<u>\$ (133)</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (101)</u>
Segment net revenues:						
Console	\$ 1,747	\$ 119	\$ —	\$ —	\$ —	\$ 1,866
PC	355	1,236	117	—	(43)	1,665
Mobile and ancillary (1)	114	183	1,914	—	—	2,211
Other (2)	3	181	—	462	—	646
Total segment net revenues	<u>\$ 2,219</u>	<u>\$ 1,719</u>	<u>\$ 2,031</u>	<u>\$ 462</u>	<u>\$ (43)</u>	<u>\$ 6,388</u>

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Year Ended December 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	\$ 2,351	\$ 187	\$ —	\$ —	\$ —	\$ 2,538
PC	368	1,711	154	—	(53)	2,180
Mobile and ancillary (1)	19	220	1,936	—	—	2,175
Other (2)	—	148	—	459	—	607
Total consolidated net revenues	<u>\$ 2,738</u>	<u>\$ 2,266</u>	<u>\$ 2,090</u>	<u>\$ 459</u>	<u>\$ (53)</u>	<u>\$ 7,500</u>
Change in deferred revenues:						
Console	\$ (257)	\$ (8)	\$ —	\$ —	\$ —	\$ (265)
PC	(23)	33	(1)	—	—	9
Mobile and ancillary (1)	—	—	(3)	—	—	(3)
Other (2)	—	—	—	21	—	21
Total change in deferred revenues	<u>\$ (280)</u>	<u>\$ 25</u>	<u>\$ (4)</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ (238)</u>
Segment net revenues:						
Console	\$ 2,094	\$ 179	\$ —	\$ —	\$ —	\$ 2,273
PC	345	1,744	153	—	(53)	2,189
Mobile and ancillary (1)	19	220	1,933	—	—	2,172
Other (2)	—	148	—	480	—	628
Total segment net revenues	<u>\$ 2,458</u>	<u>\$ 2,291</u>	<u>\$ 2,086</u>	<u>\$ 480</u>	<u>\$ (53)</u>	<u>\$ 7,262</u>

- (1) Net revenues from “Mobile and ancillary” include revenues from mobile devices, as well as non-platform specific game-related revenues, such as standalone sales of physical merchandise and accessories.
- (2) Net revenues from “Other” primarily includes revenues from our Distribution business, the Overwatch League, and the Call of Duty League.
- (3) Intersegment revenues reflect licensing and service fees charged between segments.

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

	At December 31,		
	2020	2019	2018
Long-lived assets* by geographic region:			
Americas	\$ 270	\$ 322	\$ 203
EMEA	166	142	62
Asia Pacific	17	21	17
Total long-lived assets by geographic region	<u>\$ 453</u>	<u>\$ 485</u>	<u>\$ 282</u>

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

16. Share-Based Payments

Activision Blizzard Equity Incentive Plans

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

While the Compensation Committee has broad discretion to create equity incentives, our current share-based compensation program generally utilizes a combination of options and restricted stock units. The majority of our options have time-based vesting schedules, generally vesting annually over a period of three years to five years, and expire 10 years from the grant date. In addition, under the terms of the 2014 Plan, the exercise price for the options must be equal to or greater than the closing price per share of our common stock on the date the award is granted, as reported on Nasdaq. Restricted stock units have time-based vesting schedules, generally vesting in their entirety on an anniversary of the date of grant, or vest annually over a period of three years to five years, and may also be contingent on the achievement of specified performance measures, including those which are market-based. Achievement against such performance measures typically results in vesting of amounts that are different than the target shares at grant based on over- or under-achievement against the performance targets. Typically, performance-based RSU’s provide for vesting up to 125% of the grant date target shares if performance targets are sufficiently overachieved (and will be cancelled without the vesting of any shares if the threshold level of performance measures is not met), but in certain instances performance-based RSU’s can vest up to 500% of the grant date target amount based on achievement against the performance targets.

As of the date it was approved by our shareholders, there were 46 million shares available for issuance under the 2014 Plan. The number of shares of our common stock reserved for issuance under the 2014 Plan has been, and may be further, increased from time to time by: (1) the number of shares relating to awards outstanding under any Prior Plan that: (i) expire, or are forfeited, terminated or canceled, without the issuance of shares; (ii) are settled in cash in lieu of shares; or (iii) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; (2) if the exercise price of any option outstanding under any Prior Plans is, or the tax withholding requirements with respect to any award outstanding under any Prior Plans are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares; and (3) if a share appreciation right is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred. As of December 31, 2020, we had approximately 20 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.

Fair Value Valuation Assumptions

Valuation of Stock Options

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	Employee Stock Options		
	For the Years Ended December 31,		
	2020	2019	2018
Expected life (in years)	7.70	7.85	7.64
Volatility	30.89 %	30.00 %	32.37 %
Risk free interest rate	0.70 %	1.90 %	3.10 %
Dividend yield	0.53 %	0.76 %	0.61 %
Weighted-average grant date fair value	\$ 25.93	\$ 17.12	\$ 21.03
Stock price volatility range:			
Low	30.00 %	30.00 %	31.72 %
High	39.00 %	38.17 %	36.73 %

Expected life

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

Volatility

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

Risk-free interest rate

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

Dividend yield

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Valuation of Restricted Stock Units (“RSUs”)

The fair value of the Company’s RSU awards granted are generally based upon the closing price of the Company’s stock on the date of grant reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We also grant market-based RSU awards, from time to time, whose fair value is determined using a Monte Carlo simulation. Such market-based RSU awards include performance conditions based on our own stock price, and may also include performance conditions that compare our stock price performance to an index, such as the S&P 500 Total Shareholder Return index. The Monte Carlo model simulates performance of our stock, as well as any applicable stock index performance, over the performance measurement period to determine the performance payout, with the resulting achievement discounted back to the valuation date, at the risk-free rate, to arrive at the fair value of the awards. Additionally, the Monte Carlo simulation provides an output of the service period to achieve the market condition in instances where such market condition can impact the vesting date of the market-based RSU. The valuation assumptions utilized in the Monte Carlo model are generally consistent with those discussed in the valuation of stock options above. The weighted average risk free interest rate, volatility, and dividend yield utilized in the Monte Carlo model for market-based RSU awards in 2020 were 0.11%, 37.39%, and 0.47%, respectively.

Accuracy of Fair Value Estimates

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

Stock Option Activity

Stock option activity is as follows:

	Number of shares (in thousands)	Weighted- average exercise price per stock option	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding stock options at December 31, 2019	14,029	\$ 44.31		
Granted	2,419	78.19		
Exercised	(4,543)	37.49		
Forfeited	(573)	52.98		
Expired	(35)	52.68		
Outstanding stock options at December 31, 2020	<u>11,297</u>	\$ 53.84	7.68	\$ 441
Vested and expected to vest at December 31, 2020	<u>10,669</u>	\$ 53.05	7.60	\$ 425
Exercisable at December 31, 2020	3,710	\$ 41.56	5.75	\$ 190

The aggregate intrinsic values in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the closing stock price is greater than the exercise price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the market value of our stock. The total intrinsic value of options actually exercised was \$174 million, \$80 million, and \$196 million for the years ended December 31, 2020, 2019, and 2018, respectively. The total grant date fair value of options that vested during the years ended December 31, 2020, 2019, and 2018 was \$62 million, \$94 million, and \$45 million, respectively.

At December 31, 2020, \$66 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.25 years.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

RSU Activity

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

The following table summarizes our RSU activity with performance-based RSUs, including those with market conditions, presented at 100% of the target level shares that may potentially vest (amounts in thousands, except per share data):

	<u>Number of shares</u>	<u>Weighted- average grant date fair value per RSU</u>
Unvested RSUs at December 31, 2019	7,181	\$ 54.23
Granted	2,254	201.25
Vested	(1,513)	49.76
Forfeited	(820)	55.39
Unvested RSUs at December 31, 2020	<u>7,102</u>	\$ <u>82.50</u>

Certain of our performance-based RSUs did not have an accounting grant date as of December 31, 2020, as there is not a mutual understanding between the Company and the employee of the performance terms. Generally, these performance terms relate to operating income performance for future years where the performance goals have not yet been set. As of December 31, 2020, based on the target potential shares that could be earned, there were 2.4 million performance-based RSUs outstanding for which the accounting grant date had not been set, of which 1.4 million were 2020 grants. Accordingly, no grant date fair value was established and the weighted average grant date fair values calculated above excludes these RSUs.

At December 31, 2020, approximately \$170 million of total unrecognized compensation cost was related to RSUs and is expected to be recognized over a weighted-average period of 0.75 years. Of the total unrecognized compensation cost, \$154 million was related to performance-based RSUs, which is expected to be recognized over a weighted-average period of 0.75 years. The total grant date fair value of RSUs that vested during the years ended December 31, 2020, 2019, and 2018 was \$82 million, \$147 million, and \$120 million, respectively.

The income tax benefit from stock option exercises and RSU vestings was \$61 million, \$47 million, and \$94 million for the years ended December 31, 2020, 2019, and 2018, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Share-Based Compensation Expense

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

	For the Years Ended December 31,		
	2020	2019	2018
Cost of revenues—product sales: Software royalties, amortization, and intellectual property licenses	\$ 14	\$ 19	\$ 13
Cost of revenues—in-game, subscription, and other: Game Operations and Distribution Costs	1	1	2
Cost of revenues—in-game, subscription, and other: Software royalties, amortization, and intellectual property licenses	—	1	3
Product development	42	53	61
Sales and marketing	21	10	15
General and administrative	140	82	115
Share-based compensation expense before income taxes	218	166	209
Income tax benefit	(28)	(29)	(46)
Total share-based compensation expense, net of income tax benefit	<u>\$ 190</u>	<u>\$ 137</u>	<u>\$ 163</u>

17. Restructuring

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity from certain parts of our business. We have been:

- increasing our investment in development for our largest, internally-owned franchises—across upfront releases, in-game content, mobile, and geographic expansion;
- reducing certain non-development and administrative-related costs across our business; and
- integrating our global and regional sales and “go-to-market,” partnerships, and sponsorships capabilities across the business, which we believe will enable us to provide better opportunities for talent, and greater expertise and scale on behalf of our business units.

Since initial implementation in 2019, we have expanded the scope of certain actions within our plan that are aimed at integrating our global and regional functions to allow continued focus on investing in our largest, internally-owned franchises and to provide us with the ability to better leverage our scale across the organization. The restructuring actions remain in progress as we continue to focus on these goals and will continue into 2021.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The following table summarizes accrued restructuring and related costs included in “Accrued expenses and other liabilities” in our consolidated balance sheet (amounts in millions) related to this plan:

	Severance and employee related costs	Facilities and related costs	Other costs	Total
Balance at December 31, 2018	\$ —	\$ —	\$ —	\$ —
Costs charged to expense	76	29	27	132
Cash payments	(44)	—	(12)	(56)
Non-cash charge adjustment (1)	—	(29)	(12)	(41)
Balance at December 31, 2019	\$ 32	\$ —	\$ 3	\$ 35
Costs charged to expense	76	6	5	87
Cash payments	(20)	—	(5)	(25)
Non-cash charge adjustment (1)	—	(6)	—	(6)
Balance at December 31, 2020	\$ 88	\$ —	\$ 3	\$ 91
Cumulative charges incurred through December 31, 2020	\$ 152	\$ 35	\$ 32	\$ 219

- (1) Adjustments relate to non-cash charges included in “Costs charged to expense” for the write-down of assets from canceled projects and the write-down of assets for our lease facilities, inclusive of lease right-of-use assets and associated fixed assets, that were vacated.

Total restructuring and related costs by segment are (amounts in millions):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Activision	\$ 13	\$ 19
Blizzard	71	68
King	(1)	20
Other segments (1)	4	25
Total	\$ 87	\$ 132

- (1) Includes charges for operating segments managed outside the reportable segments and our corporate and administrative functions.

During the year ended December 31, 2020, we incurred additional restructuring charges that are not included in the plan discussed above. Such amounts were not material.

During the year ended December 31, 2019, we also recorded \$5 million to write-down inventory as a result of changes to certain of our consumer product activities as part of our restructuring actions, whereby those activities will now operate under a licensing business model rather than being direct sales. This write-down is recorded within “Cost of revenues—product sales: Product costs” in our consolidated statement of operations.

We expect to incur total aggregate pre-tax restructuring charges of approximately \$310 million associated with the plan, of which the remaining charges that have not yet been incurred are expected to largely be incurred within the next 12 months. The charges associated with the plan are expected to relate to severance and employee-related costs (approximately 60% of the aggregate charge), facilities and related costs (approximately 20% of the aggregate charge), and other costs (approximately 20% of the aggregate charge), including charges for restructuring related fees and the write-down of assets. A substantial majority (approximately 70%) of the total pre-tax charge associated with the restructuring is expected to be paid in cash using amounts on hand, and such cash outlays are largely expected to be completed by the end of 2021. We do not expect to realize significant

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general and administrative activities is expected to be offset by increased investment in product development.

The total charges incurred through December 31, 2020 and total expected pre-tax restructuring charges related to the plan by segment, inclusive of amounts already incurred and inclusive of the inventory write-down discussed above, are presented below (amounts in millions):

	Total Charges Incurred Through December 31, 2020	Total Charges Expected as of December 31, 2020
Activision	\$ 32	\$ 42
Blizzard	144	200
King	19	25
Other segments (1)	29	43
Total	\$ 224	\$ 310

(1) Includes charges for operating segments managed outside the reportable segments and our corporate and administrative functions.

18. Interest and Other Expense (Income), Net

Interest and other expense (income), net is comprised of the following (amounts in millions):

	For the Years Ended December 31,		
	2020	2019	2018
Interest income	\$ (21)	\$ (79)	\$ (65)
Interest expense from debt and amortization of debt discount and deferred financing costs	99	90	140
Unrealized gain on equity investment	(3)	(38)	—
Other expense (income), net	12	1	(4)
Interest and other expense (income), net	\$ 87	\$ (26)	\$ 71

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

19. 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,		
	2020	2019	2018
Income before income tax expense:			
Domestic	\$ 1,160	\$ 328	\$ 432
Foreign	1,456	1,305	1,445
	<u>\$ 2,616</u>	<u>\$ 1,633</u>	<u>\$ 1,877</u>
Income tax expense (benefit):			
Current:			
Federal	\$ 206	\$ 136	\$ (208)
State	92	24	(15)
Foreign	218	323	280
Total current	<u>516</u>	<u>483</u>	<u>57</u>
Deferred:			
Federal	(84)	781	(153)
State	(10)	(16)	106
Foreign	(3)	(1,118)	19
Total deferred	<u>(97)</u>	<u>(353)</u>	<u>(28)</u>
Income tax expense	<u>\$ 419</u>	<u>\$ 130</u>	<u>\$ 29</u>

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,					
	2020		2019		2018	
Federal income tax provision at statutory rate	\$ 549	21 %	\$ 343	21 %	\$ 394	21 %
State taxes, net of federal benefit	49	2	20	1	36	2
Research and development credits	(70)	(3)	(38)	(2)	(46)	(2)
Foreign rate differential	(103)	(4)	(104)	(7)	(198)	(11)
Foreign-derived intangible income	(40)	(2)	(1)	—	—	—
Change in tax reserves	60	2	96	6	285	15
Audit settlements	—	—	54	3	(115)	(6)
Excess tax benefits related to share-based payments	(30)	(1)	(2)	—	(58)	(3)
U.S. Tax Reform Act	—	—	—	—	(340)	(18)
Change in valuation allowance	35	2	11	1	61	3
Intra-entity IP Transfer	(31)	(1)	(230)	(14)	—	—
Other	—	—	(19)	(1)	10	1
Income tax expense	<u>\$ 419</u>	<u>16 %</u>	<u>\$ 130</u>	<u>8 %</u>	<u>\$ 29</u>	<u>2 %</u>

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In October 2019, we completed an intra-entity transfer of certain intellectual property rights to one of our subsidiaries in the U.K., aligning the ownership of these rights with our evolving business. The transfer did not result in a taxable gain; however, our U.K. subsidiary received a step-up in tax basis based on the fair value of the transferred intellectual property rights. Such fair value was determined based on our expectations of future cash flows, long-term growth rates, and discount rates. We recorded a one-time benefit of \$230 million in the quarter ended December 31, 2019 for the recognition of a \$1.1 billion deferred tax asset in the U.K. related to the amortizable tax basis in the transferred intellectual property, net of uncertain tax positions and a valuation allowance, partially offset by a related \$920 million deferred tax liability for U.S. taxes on foreign earnings. The U.K. amortizable tax basis will be recovered over a period of three years to 25 years and the related deferred tax asset was measured using the enacted U.K. corporate tax rates for the years in which the amortization will be realized. We recorded a valuation allowance of \$110 million in 2019 for the portion of the deferred tax asset for which it is more-likely-than-not that a benefit will not be realized. We will update the measurement and realizability analysis going forward and record the impact from any change in determination in the period of the change.

During the year ended December 31, 2020, we completed an intra-entity transfer of certain intellectual property rights to the U.S. to better align the profits related to these rights with our evolving business activities. As a result, a significant portion of these earnings began qualifying for preferential treatment as foreign-derived intangible income during 2020. The transfer resulted in a one-time benefit of \$31 million in connection with the remeasurement of a U.S. deferred tax asset related to foreign earnings.

On June 27, 2018, we entered into a closing agreement with the Internal Revenue Service (“IRS”) to resolve certain intercompany transfer pricing arrangements for tax periods starting in 2009 (the “Closing Agreement”). The primary adjustments related to the Closing Agreement were recognized in the second quarter of 2018 and consisted of a tax expense of \$70 million and a reduction in unrecognized tax benefits of \$437 million. In addition, we recognized \$185 million of tax benefits related to other tax adjustments resulting from the changes in U.S. tax attributes and taxable income caused by the primary adjustments. The Closing Agreement resulted in federal and state cash tax payments totaling approximately \$345 million, of which federal tax payments of \$334 million were made in October 2018.

On December 22, 2017, the U.S. Tax Reform Act was enacted. The U.S. Tax Reform Act, among other things, reduced the U.S. corporate income tax rate from 35% to 21%, beginning in 2018, and implemented the Transition Tax. In the fourth quarter of 2018, we completed our analysis of the effect of the U.S. Tax Reform Act and recorded a net tax benefit of \$340 million. This is primarily related to adoption of GILTI deferred tax accounting and remeasurement of deferred tax assets and liabilities partially offset by tax expense related to Transition Tax.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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,	
	2020	2019
Deferred tax assets:		
Deferred revenue	\$ 274	\$ 119
Tax attributes carryforwards	123	93
Share-based compensation	51	54
Intangibles	1,287	1,289
Capitalized software development expenses	21	67
Other	160	156
Deferred tax assets	1,916	1,778
Valuation allowance	(228)	(181)
Deferred tax assets, net of valuation allowance	1,688	1,597
Deferred tax liabilities:		
Intangibles	(147)	(142)
U.S. deferred taxes on foreign earnings	(577)	(594)
Other	(63)	(73)
Deferred tax liabilities	(787)	(809)
Net deferred tax assets	\$ 901	\$ 788

As of December 31, 2020, we had gross tax credit carryforwards of \$227 million for state purposes. The tax credit carryforwards are included in deferred tax assets net of unrealized tax benefits that would apply upon the realization of uncertain tax positions. In addition, we had foreign net operating loss carryforwards of \$46 million at December 31, 2020, most of which carry forward indefinitely.

We evaluate deferred tax assets each period for recoverability. We record a valuation allowance for assets that do not meet the threshold of “more likely than not” to be realized in the future. To make that determination, we evaluate the likelihood of realization based on the weight of all positive and negative evidence available. As of December 31, 2020 and December 31, 2019, we maintained a valuation allowance related to our California research and development credit carryforwards of \$107 million and \$71 million, respectively. We will reassess this determination quarterly and record a tax benefit if and when future evidence allows for a partial or full release of this valuation allowance.

In addition, we remeasured the U.K. deferred tax asset related to previously transferred intellectual property rights and corresponding U.S. deferred tax liability due to the change in the U.K.'s corporate income tax rate during 2020. As of December 31, 2020, the U.K. deferred tax asset net of valuation allowance is \$1.1 billion and the corresponding U.S. deferred tax liability is \$881 million.

Activision Blizzard's tax years after 2008 remain open to examination by certain major taxing jurisdictions to which we are subject. The Internal Revenue Service is currently examining our federal tax returns for the 2012 through 2016 tax years. We also have several state and non-U.S. audits pending. In addition, King's pre-acquisition tax returns remain open in various jurisdictions, primarily as a result of transfer pricing matters. We anticipate resolving King's transfer pricing for both pre- and post-acquisition tax years through a collaborative multilateral process with the tax authorities in the relevant jurisdictions, which include the U.K. and Sweden. While the outcome of this process remains uncertain, it could result in an agreement that changes the allocation of profits and losses between these and other relevant jurisdictions or a failure to reach an agreement that results in unilateral adjustments to the amount and timing of taxable income in the jurisdictions in which King operates.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In December 2017, we received a Notice of Reassessment from the French Tax Authority (the “FTA”) related to transfer pricing for intercompany transactions involving one of our French subsidiaries for the 2011 through 2013 tax years. The total assessment, including penalties and interest, was approximately €571 million (approximately \$638 million). In December 2019, the Company reached a settlement with the FTA for the 2011 through 2018 tax years, resulting in the recognition of \$54 million of tax expense in the period ended December 31, 2019 and a tax payment of €161 million (approximately \$179 million), including interest and penalties, in January 2020.

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

As of December 31, 2020, we had \$1.2 billion of gross unrecognized tax benefits, \$706 million of which would affect our effective tax rate, if recognized. A reconciliation of total gross unrecognized tax benefits is as follows (amounts in millions):

	For the Years Ended December 31,		
	2020	2019	2018
Unrecognized tax benefits balance at January 1	\$ 1,037	\$ 926	\$ 1,138
Gross increase for tax positions taken during a prior year	97	151	103
Gross decrease for tax positions taken during a prior year	(1)	(168)	(123)
Gross increase for tax positions taken during the current year	38	291	132
Settlement with taxing authorities	(3)	(163)	(312)
Lapse of statute of limitations	(2)	—	(12)
Unrecognized tax benefits balance at December 31	\$ 1,166	\$ 1,037	\$ 926

As of December 31, 2020, 2019, and 2018, we had approximately \$93 million, \$72 million, and \$87 million, respectively, of accrued interest and penalties related to uncertain tax positions. For the years ended December 31, 2020, 2019, and 2018, we recorded \$19 million, \$14 million, and \$11 million, respectively, of interest expense related to uncertain tax positions.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

20. 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,		
	2020	2019	2018
Numerator:			
Consolidated net income	\$ 2,197	\$ 1,503	\$ 1,848
Denominator:			
Denominator for basic earnings per common share—weighted-average common shares outstanding	771	767	762
Effect of dilutive stock options and awards under the treasury stock method	7	4	9
Denominator for diluted earnings per common share—weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	778	771	771
Basic earnings per common share	\$ 2.85	\$ 1.96	\$ 2.43
Diluted earnings per common share	\$ 2.82	\$ 1.95	\$ 2.40

The vesting of certain of our employee-related restricted stock units is contingent upon the satisfaction of predefined performance measures. The shares underlying these equity awards are included in the weighted-average dilutive common shares only if the performance measures are met as of the end of the reporting period. Additionally, 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.

Weighted-average shares excluded from the computation of diluted earnings per share were as follows (amounts in millions):

	For the For the Years Ended December 31,		
	2020	2019	2018
Restricted stock units with performance measures not yet met	2	2	4
Anti-dilutive employee stock options	1	6	3

21. Capital Transactions

Repurchase Programs

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to of \$4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. To date, we have not repurchased any shares under this program.

On January 31, 2019, our Board of Directors authorized a stock repurchase program under which we were authorized to repurchase up to \$1.5 billion of our common stock from February 14, 2019 until the earlier of February 13, 2021 and a determination by the Board of Directors to discontinue the repurchase program. We did not repurchase any shares under this program.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Dividends

On February 4, 2021, our Board of Directors declared a cash dividend of \$0.47 per common share. Such dividend is payable on May 6, 2021, to shareholders of record at the close of business on April 15, 2021.

On February 6, 2020, our Board of Directors declared a cash dividend of \$0.41 per common share. On May 6, 2020, made an aggregate cash dividend payment of \$316 million to shareholders of record at the close of business on April 15, 2020.

On February 12, 2019, our Board of Directors declared a cash dividend of \$0.37 per common share. On May 9, 2019, we made an aggregate cash dividend payment of \$283 million to shareholders of record at the close of business on March 28, 2019.

On February 8, 2018, our Board of Directors declared a cash dividend of \$0.34 per common share. On May 9, 2018, we made an aggregate cash dividend payment of \$259 million to shareholders of record at the close of business on March 30, 2018.

22. Commitments and Contingencies

Commitments and Obligations

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products which may include obtaining rights to intellectual property, and for hosting services to support our games and our administrative functions. Under these agreements, we commit to provide specified payments to a lessor, developer, or hosting provider, 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 typically are deemed to be advances and, as such, are recoupable against future royalties earned by the developer based on sales of the related game. Additionally, we also enter into arrangements in which we commit to spend specified amounts for marketing to support and promote our content and services. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2020, are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations (1)				
	Facility and Equipment Leases	Developer and Hosting	Marketing	Long-Term Debt Obligations (2)	Total
For the years ending December 31,					
2021	\$ 77	\$ 95	\$ 158	\$ 109	\$ 439
2022	72	84	166	105	427
2023	65	85	66	105	321
2024	54	3	—	105	162
2025	33	—	—	105	138
Thereafter	19	—	—	5,057	5,076
Total	\$ 320	\$ 267	\$ 390	\$ 5,586	\$ 6,563

(1) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of the potential issue resolution of the underlying matters. Specifically, either (a) the underlying positions have not been fully developed under audit to quantify at this time or (b) the years relating to the matters for certain jurisdictions are not currently under audit. At December 31, 2020, we had \$466 million of net unrecognized tax benefits included in “Other liabilities,” in our consolidated balance sheet.

Additionally, at December 31, 2020, we have a remaining net Transition Tax liability of \$153 million associated with the U.S. Tax Reform Act. The remaining Transition Tax liability is payable over the next six years and is not reflected in our Contractual Obligations table above.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- (2) Long-term debt obligations represent our obligations related to the contractual principal repayments and interest payments for our outstanding unsecured notes, which are subject to fixed interest rates, as of December 31, 2020. There was no outstanding balance under our Revolver as of December 31, 2020. We have calculated the expected interest obligation based on the outstanding principal balance and interest rate applicable at December 31, 2020. Refer to Note 13 for additional information on our debt obligations.

Legal Proceedings

We are party to routine claims, suits, investigations, audits, and other proceedings arising in the ordinary course of business, including with respect to intellectual property, competition and antitrust matters, regulatory matters, tax matters, privacy matters, labor and employment matters, compliance matters, unclaimed property matters, liability and personal injury claims, product damage claims, collection matters, and/or commercial claims. 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.

Letters of Credit

As described in Note 13, 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, 2020, we did not have any letters of credit issued or outstanding under the Revolver.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Amounts in millions)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions(A)	Col. D Deductions(B)	Col. E Balance at End of Period
At December 31, 2020				
Allowances for sales returns and price protection and other allowances	\$ 118	\$ (29)	\$ (26)	\$ 63
Valuation allowance for deferred tax assets	\$ 181	\$ 49	\$ (2)	\$ 228
At December 31, 2019				
Allowances for sales returns and price protection and other allowances	\$ 186	\$ 11	\$ (79)	\$ 118
Valuation allowance for deferred tax assets	\$ 61	\$ 127	\$ (7)	\$ 181
At December 31, 2018				
Allowances for sales returns and price protection and other allowances	\$ 274	\$ 24	\$ (112)	\$ 186
Valuation allowance for deferred tax assets	\$ —	\$ 61	\$ —	\$ 61

(A) Includes increases and reversals of allowances for sales returns, price protection, and valuation allowance for deferred tax assets due to normal reserving terms.

(B) Includes actual write-offs and utilization of allowances for sales returns, price protection, and releases of income tax valuation allowances and foreign currency translation and other adjustments.

EXHIBIT INDEX

Pursuant to the rules and regulations of the SEC, the Company has filed certain agreements as exhibits to this Annual Report on Form 10-K. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (1) may have been qualified by disclosures made to such other party or parties, (2) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in the Company's public disclosure, (3) may reflect the allocation of risk among the parties to such agreements, and (4) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the Company's actual state of affairs at the date hereof and should not be relied upon.

Exhibit Number	Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of Activision Blizzard, Inc., dated June 5, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed June 6, 2014).
3.2	Fourth Amended and Restated Bylaws of Activision Blizzard, Inc., adopted as of February 1, 2018 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K/A, filed March 21, 2018).
4.1	Indenture, dated as of September 19, 2016, among Activision Blizzard, Inc., the guarantors named therein and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.300% Unsecured Senior Notes due 2021 and the Company's 3.400% Unsecured Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed September 19, 2016).
4.2	Base Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed May 26, 2017).
4.3	First Supplemental Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.600% Unsecured Senior Notes due 2022, the Company's 3.400% Unsecured Senior Notes due September 2027 and the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.4	Second Supplemental Indenture, dated August 10, 2020, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 1.350% Unsecured Senior Notes due 2030, and the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.5	Form of certificate for the Company's 3.400% Unsecured Senior Notes due 2027 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.6	Form of certificate for the Company's 1.350% Unsecured Senior Notes due 2030 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.7	Form of certificate for the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.8	Form of certificate for the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.9	Description of Securities (incorporated by reference to Exhibit 4.7 of the Company's Form 10-K for the year ended December 31, 2019).
10.1*	Activision Blizzard, Inc. Amended and Restated 2008 Incentive Plan, as amended and restated on June 7, 2012 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed June 12, 2012).
10.2*	Activision Blizzard, Inc. 2014 Incentive Plan, amended and restated as of March 2, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed May 4, 2017).
10.3*	Activision Blizzard, Inc. KDE Equity Incentive Plan, amended as of November 1, 2016 (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the year ended December 31, 2016).
10.4*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of November 12, 2008) (incorporated by reference to Exhibit 10.44 of the Company's Form 10-K for the year ended December 31, 2008).
10.5*	Form of Notice of Stock Option Award for grants to persons other than directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of November 12, 2008) (incorporated by reference to Exhibit 10.45 of the Company's Form 10-K for the year ended December 31, 2008).
10.6*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of March 6, 2013) (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the quarter ended March 31, 2013).

Exhibit Number	Exhibit
10.7*	Form of Notice of Stock Option Award for grants to persons other than directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of March 6, 2013) (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the quarter ended March 31, 2013).
10.8*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of June 5, 2014) (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.9*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of June 5, 2014) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.10*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of June 5, 2014) (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.11*	Form of Notice of Restricted Share Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of June 5, 2014) (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.12*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.13*	Form of Notice of Restricted Share Unit Award for grants to non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.14*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.15*	Form of Notice of Stock Option Award for grants to U.S. employees pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 1, 2016) (incorporated by reference to Exhibit 10.44 of the Company's Form 10-K for the year ended December 31, 2016).
10.16*	Form of Notice of Stock Option Award for grants to non-U.S. employees pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 1, 2016) (incorporated by reference to Exhibit 10.45 of the Company's Form 10-K for the year ended December 31, 2016).
10.17*	Form of Notice of Restricted Share Unit Award for grants to non-U.S. employees pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 1, 2016) (incorporated by reference to Exhibit 10.46 of the Company's Form 10-K for the year ended December 31, 2016).
10.18*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.19*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.20*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 26, 2018) (incorporated by reference to Exhibit 10.21 of the Company's Form 10-K for the year ended December 31, 2018).
10.21*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 26, 2018) (incorporated by reference to Exhibit 10.20 of the Company's Form 10-K for the year ended December 31, 2018).
10.22*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2019).
10.23*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2019).
10.24*	Form of Notice of Stock Option Awards for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 18, 2020).
10.25*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of December 4, 2020).
10.26*	Amended and Restated CEO Recognition Program (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.27*	Activision Blizzard, Inc. Corporate Annual Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2015).

Exhibit Number

Exhibit

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- 10.28* Employment Agreement, dated as of November 1, 2016, between Chris B. Walther and the Company (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended March 31, 2019).
- 10.29* Employment Agreement, dated February 25, 2019, between Dennis Durkin and the Company (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2018).
- 10.30* Employment Agreement, dated as of November 22, 2016, between Robert A. Kotick and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 25, 2016).
- 10.31* Form of Notice of Performance Share Unit Award to Robert A. Kotick (incorporated by reference to Exhibit 10.26 of the Company's Form 10-K for the year ended December 31, 2018).
- 10.32* Form of Notice of 2018 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.27 of the Company's Form 10-K for the year ended December 31, 2018).
- 10.33* Form of Notice of 2019 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2019).
- 10.34* Employment Agreement, dated as of July 24, 2019, between Claudine Naughton and the Company (incorporated by reference to Exhibit 10.33 to the Company's Form 10-K for the year ended December 31, 2019).
- 10.35* Employment Agreement, dated March 9, 2020, between Activision Blizzard, Inc. and Daniel Alegre (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed March 11, 2020).
- 10.36* Non-Affiliated Director Compensation Program and Stock Ownership Guidelines, as amended and restated as of May 1, 2018 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended June 30, 2018).
- 10.37 Credit Agreement, dated as of October 11, 2013, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, a group of lenders, Bank of America, N.A., as administrative agent and collateral agent for the lenders, J.P. Morgan Securities LLC, as syndication agent, Bank of America Merrill Lynch and J.P. Morgan Securities LLC, as joint lead arrangers and joint bookrunners, and Goldman Sachs & Co., HSBC Securities (USA) Inc., Mitsubishi UFJ Securities (USA), Inc., Mizuho Securities USA Inc., RBC Capital Markets, SunTrust Bank and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed October 18, 2013).
- 10.38 First Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 3, 2015).
- 10.39 Second Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 17, 2015).
- 10.40 Third Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's form 8-K, filed December 14, 2015).
- 10.41 Fourth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed April 1, 2016).
- 10.42 Fifth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 24, 2016).
- 10.43 Sixth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed February 6, 2017).
- 10.44 Seventh Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 29, 2018).

Exhibit Number	Exhibit
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
24.1	Power of Attorney of each Executive Officer and Director signing this report (included in the signature page hereto).
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Dennis Durkin pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Dennis Durkin pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Indicates a management contract or compensatory plan, contract or arrangement in which a director or executive officer of the Company participates.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 23, 2021

ACTIVISION BLIZZARD, INC.

By: /s/ ROBERT A. KOTICK
Robert A. Kotick
Director and Chief Executive Officer of Activision Blizzard, Inc.
(Principal Executive Officer)

POWER OF ATTORNEY

Each individual whose signature appears below constitutes and appoints Robert A. Kotick and Dennis Durkin and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his, her, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	<u> /s/ ROBERT A. KOTICK </u>	Director, Chief Executive Officer (Principal Executive Officer)	February 23, 2021
	(Robert A. Kotick)		
By:	<u> /s/ DENNIS DURKIN </u>	Chief Financial Officer (Principal Financial Officer)	February 23, 2021
	(Dennis Durkin)		
By:	<u> /s/ JESSE YANG </u>	Chief Accounting Officer (Principal Accounting Officer)	February 23, 2021
	(Jesse Yang)		
By:	<u> /s/ REVETA BOWERS </u>	Director	February 23, 2021
	(Reveta Bowers)		
By:	<u> /s/ ROBERT J. CORTI </u>	Director	February 23, 2021
	(Robert J. Corti)		
By:	<u> /s/ HENDRIK J. HARTONG III </u>	Director	February 23, 2021
	(Hendrik J. Hartong III)		
By:	<u> /s/ BRIAN G. KELLY </u>	Chairman of the Board and Director	February 23, 2021
	(Brian G. Kelly)		
By:	<u> /s/ BARRY MEYER </u>	Director	February 23, 2021
	(Barry Meyer)		
By:	<u> /s/ ROBERT J. MORGADO </u>	Director	February 23, 2021
	(Robert J. Morgado)		
By:	<u> /s/ PETER NOLAN </u>	Director	February 23, 2021
	(Peter Nolan)		
By:	<u> /s/ DAWN OSTROFF </u>	Director	February 23, 2021
	(Dawn Ostroff)		
By:	<u> /s/ CASEY WASSERMAN </u>	Director	February 23, 2021
	(Casey Wasserman)		

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

Year Ended December 31, 2020	Net Revenues	Cost of Revenues —Product Sales: —Product Sales: —Product Sales: —Product Sales:	Cost of Revenues —In-game/Subs/ Other: Game Operations and Distribution Costs	Cost of Revenues —In-game/Subs/ Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	\$ 8,086	\$ 705	\$ 269	\$ 1,131	\$ 1,150	\$ 1,064	\$ 784	\$ 94	\$ 5,352
Share-based compensation ¹	—	—	(14)	(1)	(42)	(21)	(140)	—	(218)
Amortization of intangible assets ²	—	—	—	—	(68)	—	(11)	—	(79)
Restructuring and related costs ³	—	—	—	—	—	—	—	(94)	(94)
Non-GAAP Measurement	\$ 8,086	\$ 705	\$ 255	\$ 1,130	\$ 1,108	\$ 1,043	\$ 633	\$ —	\$ 4,961
Net effect of deferred revenues and related cost of revenues ⁴	\$ 333	\$ (40)	\$ 111	\$ 13	\$ —	\$ —	\$ —	\$ —	\$ 95

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	\$ 2,734	\$ 2,197	\$ 2.85	\$ 2.82
Share-based compensation ¹	218	218	0.28	0.28
Amortization of intangible assets ²	79	79	0.10	0.10
Restructuring and related costs ³	94	94	0.12	0.12
Loss on extinguishment of debt ⁵	—	31	0.04	0.04
Income tax impacts from items above ⁶	—	(123)	(0.16)	(0.16)
Non-GAAP Measurement	\$ 3,125	\$ 2,496	\$ 3.24	\$ 3.21

Net effect of deferred revenues and related cost of revenues⁴ \$ 238 \$ 205 \$ 0.26 \$ 0.26

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

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

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

Year Ended December 31, 2019	Net Revenues	Cost of Revenues —Product Sales: Software Royalties and Amortization	Cost of Revenues —In-game/Subs/Other: Game Operations and Distribution Costs	Cost of Revenues —In-game/Subs/Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	\$ 6,489	\$ 656	\$ 240	\$ 965	\$ 233	\$ 998	\$ 732	\$ 132	\$ 4,882
Share-based compensation ¹	—	—	(19)	(1)	(1)	(53)	(82)	—	(166)
Amortization of intangible assets ²	—	—	—	—	(196)	—	(7)	—	(203)
Restructuring and related costs ³	—	(5)	—	—	—	—	—	(132)	(137)
Discrete tax-related items ⁴	—	—	—	(5)	—	(3)	(4)	—	(17)
Non-GAAP Measurement	\$ 6,489	\$ 651	\$ 221	\$ 959	\$ 36	\$ 942	\$ 639	\$ —	\$ 4,359

Net effect of deferred revenues and related cost of revenues⁵ \$ (101) \$ (23) \$ (25) \$ (2) \$ 1 \$ — \$ — \$ — \$ (49)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	\$ 1,607	\$ 1,503	\$ 1.96	\$ 1.95
Share-based compensation ¹	166	166	0.22	0.22
Amortization of intangible assets ²	203	203	0.26	0.26
Restructuring and related costs ³	137	137	0.18	0.18
Income tax impacts from items above ⁶	—	(95)	(0.13)	(0.12)
Discrete tax-related items ⁴	17	(131)	(0.17)	(0.17)
Non-GAAP Measurement	\$ 2,130	\$ 1,783	\$ 2.33	\$ 2.31

Net effect of deferred revenues and related cost of revenues⁵ \$ (52) \$ (47) \$ (0.07) \$ (0.06)

¹ Includes expenses related to share-based compensation.
² Reflects amortization of intangible assets from purchase price accounting.
³ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.
⁴ Reflects the impact of significant discrete tax-related items, including amounts related to changes in tax laws, amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities.
⁵ Activision Blizzard provided additional information in our Form 10-K for the year ended December 31, 2019.
⁶ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products, including the effects of taxes.
Reflects the income tax impact associated with the above items. Tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

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

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

Year Ended December 31, 2018	Net Revenues	Cost of Revenues		Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
		—Product Sales: Software Amortization	—In-game/Subs/Other: Game Operations and Distribution Costs					
GAAP Measurement	\$ 7,500	\$ 719	\$ 1,028	\$ 399	\$ 1,101	\$ 1,062	\$ 822	\$ 5,512
Share-based compensation ¹	—	—	(2)	(3)	(61)	(15)	(115)	(209)
Amortization of intangible assets ²	—	—	—	(318)	—	(44)	(8)	(370)
Restructuring and related costs ³	—	—	—	—	—	—	—	(10)
Non-GAAP Measurement	\$ 7,500	\$ 719	\$ 1,026	\$ 78	\$ 1,040	\$ 1,003	\$ 699	\$ 4,923
Net effect of deferred revenues and related cost of revenues ⁴	\$ (238)	\$ (48)	\$ (2)	\$ (12)	\$ —	\$ —	\$ —	\$ (138)

	Operating Income	Net Income ⁸	Basic Earnings per Share ⁸	Diluted Earnings per Share ⁸
GAAP Measurement	\$ 1,988	\$ 1,848	\$ 2.43	\$ 2.40
Share-based compensation ¹	209	209	0.27	0.27
Amortization of intangible assets ²	370	370	0.48	0.48
Restructuring and related costs ³	10	10	0.01	0.01
Loss on extinguishment of debt ⁵	—	40	0.05	0.05
Income tax impacts from items above ⁶	—	(167)	(0.22)	(0.22)
Discrete tax-related items ⁷	—	(211)	(0.27)	(0.27)
Non-GAAP Measurement	\$ 2,577	\$ 2,099	\$ 2.76	\$ 2.72

Net effect of deferred revenues and related cost of revenues⁴ \$ (100) \$ (96) \$ (0.13) \$ (0.12)

- ¹ Includes expenses related to share-based compensation.
- ² Reflects amortization of intangible assets from purchase price accounting.
- ³ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.
- ⁴ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products, including the effects of taxes.
- ⁵ Reflects the loss on extinguishment of debt from redemption activities.
- ⁶ Reflects the income tax impact associated with the above items. Tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.
- ⁷ Reflects the impact of significant discrete tax-related items, including amounts related to changes in tax laws, amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities. Activision Blizzard provided additional information in our Form 10-K for the year ended December 31, 2018.
- ⁸ GAAP Net Income, GAAP EPS, and Discrete tax-related items, as presented above, have been revised to reflect the reduction in income tax expense for Q4 2018 that was identified in Q1 2019, as previously discussed.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
OPERATING SEGMENTS INFORMATION
For the Years Ended December 31, 2020 and 2019
(Amounts in millions)

Years Ended:	December 31, 2020				\$ Increase / (Decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Net Revenues								
Net revenues from external customers	\$ 3,942	\$ 1,794	\$ 2,164	\$ 7,900	\$ 1,723	\$ 118	\$ 133	\$ 1,974
Intersegment net revenues ¹	—	111	—	111	—	68	—	68
Segment net revenues	<u>\$ 3,942</u>	<u>\$ 1,905</u>	<u>\$ 2,164</u>	<u>\$ 8,011</u>	<u>\$ 1,723</u>	<u>\$ 186</u>	<u>\$ 133</u>	<u>\$ 2,042</u>
Segment operating income	\$ 1,868	\$ 693	\$ 857	\$ 3,418	\$ 1,018	\$ 229	\$ 117	\$ 1,364
Operating Margin				42.7 %				

	December 31, 2019			
	Activision	Blizzard	King	Total
Segment Net Revenues				
Net revenues from external customers	\$ 2,219	\$ 1,676	\$ 2,031	\$ 5,926
Intersegment net revenues ¹	—	43	—	43
Segment net revenues	<u>\$ 2,219</u>	<u>\$ 1,719</u>	<u>\$ 2,031</u>	<u>\$ 5,969</u>
Segment operating income	\$ 850	\$ 464	\$ 740	\$ 2,054
Operating Margin				34.4 %

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

Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker (“CODM”). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense; amortization of intangible assets as a result of purchase price accounting; fees and other expenses (including legal fees, costs, expenses and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring and related costs; and other non-cash charges. See the following page for the reconciliation tables of segment revenues and operating income to consolidated net revenues and consolidated income before income tax expense.

Our operating segments are also consistent with our internal organization structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
OPERATING SEGMENTS INFORMATION
For the Years Ended December 31, 2020 and 2019
(Amounts in millions)

	Years Ended December 31,	
	2020	2019
Reconciliation to consolidated net revenues:		
Segment net revenues	\$ 8,011	\$ 5,969
Revenues from non-reportable segments ¹	519	462
Net effect from recognition (deferral) of deferred net revenues ²	(333)	101
Elimination of intersegment revenues ³	(111)	(43)
Consolidated net revenues	<u>\$ 8,086</u>	<u>\$ 6,489</u>
Reconciliation to consolidated income before income tax expense:		
Segment operating income	\$ 3,418	\$ 2,054
Operating income (loss) from non-reportable segments ¹	(55)	24
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues ²	(238)	52
Share-based compensation expense	(218)	(166)
Amortization of intangible assets	(79)	(203)
Restructuring and related costs ⁴	(94)	(137)
Discrete tax-related items ⁵	—	(17)
Consolidated operating income	<u>2,734</u>	<u>1,607</u>
Interest and other expense (income), net	87	(26)
Loss on extinguishment of debt	31	—
Consolidated income before income tax expense (benefit)	<u>\$ 2,616</u>	<u>\$ 1,633</u>

¹ Includes other income and expenses from operating segments managed outside the reportable segments, including our distribution business. Also includes unallocated corporate income and expenses.

² Reflects the net effect from (deferral) of revenues and recognition of deferred revenues, along with related cost of revenues, on certain of our online enabled products.

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

⁴ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

⁵ Reflects the impact of other unusual or unique tax-related items and activities.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY DISTRIBUTION CHANNEL
For the Years Ended December 31, 2020 and 2019
(Amounts in millions)

	Years Ended					
	December 31, 2020		December 31, 2019		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total ¹	Amount	% of Total ¹		
Net Revenues by Distribution Channel						
Digital online channels ²	\$ 6,658	82 %	\$ 4,932	76 %	\$ 1,726	35 %
Retail channels	741	9	909	14	(168)	(18)
Other ³	687	8	648	10	39	6
Total consolidated net revenues	<u>\$ 8,086</u>	<u>100 %</u>	<u>\$ 6,489</u>	<u>100 %</u>	<u>\$ 1,597</u>	<u>25</u>
Change in deferred revenues⁴						
Digital online channels ²	\$ 464		\$ (4)			
Retail channels	(112)		(95)			
Other ³	(19)		(2)			
Total changes in deferred revenues	<u>\$ 333</u>		<u>\$ (101)</u>			

- 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 downloadable content, microtransactions, subscriptions, and products, as well as licensing royalties.
- ³ Net revenues from Other primarily includes revenues from our distribution business, the Overwatch League, and the Call of Duty League.
- ⁴ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY PLATFORM
For the Years Ended December 31, 2020 and 2019
(Amounts in millions)

	Years Ended					
	December 31, 2020		December 31, 2019		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total ¹	Amount	% of Total ¹		
Net Revenues by Platform						
Console	\$ 2,784	34 %	\$ 1,920	30 %	\$ 864	45 %
PC	2,056	25	1,718	26	338	20
Mobile and ancillary ²	2,559	32	2,203	34	356	16
Other ³	687	8	648	10	39	6
Total consolidated net revenues	<u>\$ 8,086</u>	<u>100 %</u>	<u>\$ 6,489</u>	<u>100 %</u>	<u>\$ 1,597</u>	<u>25</u>
Change in deferred revenues⁴						
Console	\$ 132		\$ (54)			
PC	179		(53)			
Mobile and ancillary ²	41		8			
Other ³	(19)		(2)			
Total changes in deferred revenues	<u>\$ 333</u>		<u>\$ (101)</u>			

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

² Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform specific game related revenues, such as standalone sales of physical merchandise and accessories.

³ Net revenues from Other primarily includes revenues from our distribution business, the Overwatch League, and the Call of Duty League.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY GEOGRAPHIC REGION
For the Years Ended December 31, 2020 and 2019
(Amounts in millions)

	Years Ended					
	December 31, 2020		December 31, 2019		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total ¹	Amount	% of Total ¹		
Net Revenues by Geographic Region						
Americas	\$ 4,434	55 %	\$ 3,341	51 %	\$ 1,093	33 %
EMEA ²	2,680	33	2,239	35	441	20
Asia Pacific	972	12	909	14	63	7
Total consolidated net revenues	<u>\$ 8,086</u>	<u>100 %</u>	<u>\$ 6,489</u>	<u>100 %</u>	<u>\$ 1,597</u>	<u>25</u>
Change in deferred revenues³						
Americas	\$ 285		\$ (44)			
EMEA ²	59		(47)			
Asia Pacific	(11)		(10)			
Total changes in deferred revenues	<u>\$ 333</u>		<u>\$ (101)</u>			

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 EMEA consist of the Europe, Middle East, and Africa geographic regions.

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

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

	Three Months Ended						Year over Year % Increase (Decrease)		
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020		September 30, 2020	December 31, 2020
Cash Flow Data									
Operating Cash Flow	\$ 450	\$ 154	\$ 309	\$ 918	\$ 148	\$ 768	\$ 196	\$ 1,140	24 %
Capital Expenditures	18	27	34	37	19	13	24	22	(41)
Non-GAAP Free Cash Flow ¹	\$ 432	\$ 127	\$ 275	\$ 881	\$ 129	\$ 755	\$ 172	\$ 1,118	27
Operating Cash Flow - TTM ²	\$ 1,711	\$ 1,856	\$ 1,912	\$ 1,831	\$ 1,529	\$ 2,143	\$ 2,030	\$ 2,252	23
Capital Expenditures - TTM ²	118	115	113	116	117	103	93	78	(33)
Non-GAAP Free Cash Flow ¹ - TTM ²	\$ 1,593	\$ 1,741	\$ 1,799	\$ 1,715	\$ 1,412	\$ 2,040	\$ 1,937	\$ 2,174	27 %

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 June 30, 2018, three months ended September 30, 2018, and three months ended December 31, 2018 was \$9 million, \$253 million, and \$999 million, respectively. Capital Expenditures for the three months ended June 30, 2018, three months ended September 30, 2018, and three months ended December 31, 2018 was \$30 million, \$36 million, and \$34 million, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
EBITDA AND ADJUSTED EBITDA
For the Trailing Twelve Months Ended December 31, 2020
(Amounts in millions)

	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	Trailing Twelve Months Ended December 31, 2020
GAAP Net Income	\$ 505	\$ 580	\$ 604	\$ 508	\$ 2,197
Interest and other expense (income), net	8	22	25	31	87
Loss on extinguishment of debt	—	—	31	—	31
Provision for income taxes	99	147	118	55	419
Depreciation and amortization	62	43	46	45	197
EBITDA	674	792	824	639	2,931
Share-based compensation expense ¹	43	42	53	80	218
Restructuring and related costs ²	23	6	9	55	94
Adjusted EBITDA	\$ 740	\$ 840	\$ 886	\$ 774	\$ 3,243
Change in deferred net revenues and related cost of revenues ³	\$ (171)	\$ 152	\$ (150)	\$ 407	\$ 238

¹ Includes expenses related to share-based compensation.

² Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

³ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online enabled products.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
OPERATING METRICS
(Amounts in millions)

Net Bookings¹

	Year Ended December 31,			
	2020	2019	\$ Increase (Decrease)	% Increase (Decrease)
Net bookings ¹	\$ 8,419	\$ 6,388	\$ 2,031	32 %
In-game net bookings ²	4,852	3,366	1,486	44

¹ We monitor net bookings as a key operating metric in evaluating the performance of our business as it enables an analysis of performance based on the timing of actual transactions with our customers, along with providing a more timely indication of trends in our operating results. Net bookings is the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others, and is equal to net revenues excluding the impact from deferrals.

² In-game net bookings primarily includes the net amount of downloadable content and microtransactions sold during the period, and is equal to in-game net revenues excluding the impact from deferrals.

Monthly Active Users³

	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Activision	128	102	125	111	128
Blizzard	32	32	32	30	29
King	249	273	271	249	240
Total MAUs	409	407	428	390	397

³ We monitor our average monthly active users (“MAUs”) as a key measure of the overall size of our user base. MAUs are the number of individuals who accessed a particular game in a given month. We calculate average MAUs in a period by adding the total number of MAUs in each of the months in a given period and dividing that total by the number of months in the period. An individual who accesses two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who accesses the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who accesses the same game on two platforms or devices in the relevant period would generally be counted as a single user. In certain instances, we rely on third parties to publish our games. In these instances, MAU data is based on information provided to us by those third parties, or, if final data is not available, reasonable estimates of MAUs for these third-party published games.

Corporate Information

Board of Directors

Reveta Bowers
Independent Governance and
Organizational Consultant

Robert J. Corti
Retired Chief Financial Officer,
Avon Products

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

Brian G. Kelly
Chairman of the Board,
Activision Blizzard

Robert A. Kotick
Chief Executive Officer,
Activision Blizzard

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

Robert J. Morgado
Lead Independent Director,
Activision Blizzard
Former Chairman and
Chief Executive Officer,
Warner Music Group

Peter Nolan
Senior Advisor,
Leonard Green & Partners

Dawn Ostroff
Chief Content and
Advertising Business Officer,
Spotify

Casey Wasserman
Chairman and Chief
Executive Officer,
Wasserman

Officers

Robert A. Kotick
Chief Executive Officer,
Activision Blizzard

Daniel Alegre
President and Chief
Operating Officer,
Activision Blizzard

Dennis Durkin
Chief Financial Officer
Activision Blizzard

Claudine Naughton
Chief People Officer,
Activision Blizzard

Chris Walther
Chief Legal Officer,
Activision Blizzard

Special Advisors

Thomas Tippl
Vice Chairman,
Activision Blizzard

Transfer Agent

Broadridge Corporate
Issuer Solutions
(800) 685-4509

Auditor

PricewaterhouseCoopers LLP
Los Angeles, California

Worldwide Website

www.activisionblizzard.com

E-mail

IR@activisionblizzard.com

Annual Meeting

June 10, 2021, 9:00 am PDT
To be held via live audio webcast.

Annual Report on Form 10-K

Activision Blizzard's Annual Report
on Form 10-K for the year ended
December 31, 2020, 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 2020
Form 10-K, as filed with the SEC, are
included within this Annual Report.
Other than these portions of the
Form 10-K, all other portions of this
Annual Report are not "filed" with
the SEC and shall not be deemed so.

Corporate Headquarters

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

Domestic Offices

Albany, New York
Austin, Texas
Carlsbad, California
Dallas, Texas
Eden Prairie, Minnesota
El Segundo, California
Foster City, California
Irvine, California
Los Angeles, California
Middleton, Wisconsin
New York, New York
Novato, California
Portland, Maine
Redmond, Washington
Rogers, Arkansas
Santa Monica, California
Sherman Oaks, California
Woodland Hills, California

International Offices

Amsterdam, The Netherlands
Barcelona, Spain
Berlin, Germany
Birmingham, United Kingdom
Burglengenfeld, Germany
Cork, Ireland
Datchet, United Kingdom
Dublin, Ireland
Krakow, Poland
London, United Kingdom
Madrid, Spain
Malmö, Sweden
Melbourne, Australia
Mexico City, Mexico
Mississauga, Canada
Munich, Germany
Paris, France
Quebec City, Canada
São Paulo, Brazil
Seoul, South Korea
Shanghai, China
Stockholm, Sweden
St. Julians, Malta
Sydney, Australia
Taipei, Region of Taiwan
Tokyo, Japan
Vancouver, Canada
Venlo, The Netherlands
Versailles, France
Warrington, United Kingdom

ACTIVISION.

BILZARD

King



activisionblizzard.com