

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2019

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
(State or other jurisdiction of
incorporation or organization)

95-4803544
(I.R.S. Employer Identification No.)

3100 Ocean Park Boulevard, Santa Monica, CA
(Address of principal executive offices)

90405
(Zip Code)

(310) 255-2000
(Registrant's telephone number, including area code)

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

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, 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

Non-accelerated Filer

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock outstanding at April 25, 2019 was 766,006,719.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

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

We caution that a number of important factors could cause our actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Such factors include, but are not limited to: our ability to consistently deliver popular, high-quality titles in a timely manner; our ability to satisfy the expectations of consumers with respect to our brands, games, services, and/or business practices; concentration of revenue among a small number of titles; the continued growth in the scope and complexity of our business, including the diversion of management time and attention to issues relating to the operations of our newly acquired or started businesses and the potential impact of our expansion into new businesses on our existing businesses; our ability to realize the expected financial and operational benefits of, and effectively manage, our recently announced restructuring plans; increasing importance of revenues derived from digital distribution channels; risks associated with the retail sales business model; substantial influence of third-party platform providers over our products and costs; success and availability of video game consoles manufactured by third parties; risks associated with the free-to-play business model, including dependence on a relatively small number of consumers for a significant portion of revenues and profits from any given game; risks and costs associated with legal proceedings; changes in tax rates or exposure to additional tax liabilities, as well as the outcome of current or future tax disputes; rapid changes in technology and industry standards; competition, including from other forms of entertainment; our ability to sell products at assumed pricing levels; our ability to attract, retain, and motivate skilled personnel; reliance on external developers for development of some of our software products; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; counterparty risks relating to customers, licensees, licensors, and manufacturers; intellectual property claims; piracy and unauthorized copying of our products; risks and uncertainties of conducting business outside the U.S.; fluctuations in currency exchange rates; increasing regulation of our business, products, and distribution in key territories; compliance with continually evolving laws and regulations concerning data privacy; potential data breaches and other cybersecurity risks; and the other factors identified in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Activision Blizzard, Inc.’s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard, Inc. All other product or service names are the property of their respective owners. All dollar amounts referred to in, or contemplated by, this Quarterly Report on Form 10-Q refer to United States (“U.S.”) dollars, unless otherwise explicitly stated to the contrary.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	At March 31, 2019	At December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,696	\$ 4,225
Accounts receivable, net of allowances of \$106 and \$190, at March 31, 2019 and December 31, 2018, respectively	594	1,035
Inventories, net	45	43
Software development	184	264
Other current assets	518	539
Total current assets	6,037	6,106
Software development	80	65
Property and equipment, net	264	282
Deferred income taxes, net	373	458
Other assets	751	482
Intangible assets, net	680	735
Goodwill	9,763	9,762
Total assets	<u>\$ 17,948</u>	<u>\$ 17,890</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 166	\$ 253
Deferred revenues	931	1,493
Accrued expenses and other liabilities	1,198	896
Total current liabilities	2,295	2,642
Long-term debt, net	2,672	2,671
Deferred income taxes, net	22	18
Other liabilities	1,363	1,167
Total liabilities	6,352	6,498
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,194,600,733 and 1,192,093,991 shares issued at March 31, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	11,004	10,963
Less: Treasury stock, at cost, 428,676,471 shares at March 31, 2019 and December 31, 2018	(5,563)	(5,563)
Retained earnings	6,757	6,593
Accumulated other comprehensive loss	(602)	(601)
Total shareholders' equity	11,596	11,392
Total liabilities and shareholders' equity	<u>\$ 17,948</u>	<u>\$ 17,890</u>

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in millions, except per share data)

	For the Three Months Ended March 31,	
	2019	2018
Net revenues		
Product sales	\$ 656	\$ 720
Subscription, licensing, and other revenues	1,169	1,245
Total net revenues	1,825	1,965
Costs and expenses		
Cost of revenues—product sales:		
Product costs	152	162
Software royalties, amortization, and intellectual property licenses	111	146
Cost of revenues—subscription, licensing, and other revenues:		
Game operations and distribution costs	239	270
Software royalties, amortization, and intellectual property licenses	61	84
Product development	249	259
Sales and marketing	207	251
General and administrative	179	198
Restructuring and related costs	57	—
Total costs and expenses	1,255	1,370
Operating income	570	595
Interest and other expense (income), net	3	28
Income before income tax expense	567	567
Income tax expense	120	67
Net income	\$ 447	\$ 500
Earnings per common share		
Basic	\$ 0.58	\$ 0.66
Diluted	\$ 0.58	\$ 0.65
Weighted-average number of shares outstanding		
Basic	764	759
Diluted	770	770

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Amounts in millions)

	For the Three Months Ended March 31,	
	2019	2018
Net income	\$ 447	\$ 500
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of tax	2	1
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	2	(12)
Unrealized gains (losses) on investments, net of tax	(5)	(3)
Total other comprehensive income (loss)	\$ (1)	\$ (14)
Comprehensive income	\$ 446	\$ 486

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in millions)

	For the Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 447	\$ 500
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	86	29
Depreciation and amortization	87	155
Amortization of capitalized software development costs and intellectual property licenses (1)	104	150
Share-based compensation expense (2)	63	54
Other	30	10
Changes in operating assets and liabilities:		
Accounts receivable, net	438	503
Inventories	(2)	4
Software development and intellectual property licenses	(46)	(100)
Other assets	(19)	22
Deferred revenues	(582)	(551)
Accounts payable	(91)	(160)
Accrued expenses and other liabilities	(65)	(87)
Net cash provided by operating activities	450	529
Cash flows from investing activities:		
Proceeds from maturities of available-for-sale investments	13	—
Purchases of available-for-sale investments	—	(20)
Capital expenditures	(18)	(31)
Net cash used in investing activities	(5)	(51)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	30	47
Tax payment related to net share settlements on restricted stock units	(6)	(39)
Net cash provided by financing activities	24	8
Effect of foreign exchange rate changes on cash and cash equivalents	2	18
Net increase in cash and cash equivalents and restricted cash	471	504
Cash and cash equivalents and restricted cash at beginning of period	4,229	4,720
Cash and cash equivalents and restricted cash at end of period	\$ 4,700	\$ 5,224

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2019 and March 31, 2018

(Unaudited)

(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, 2018	1,192	\$ —	(429)	\$ (5,563)	\$ 10,963	\$ 6,593	\$ (601)	\$ 11,392
Components of comprehensive income:								
Net income	—	—	—	—	—	447	—	447
Other comprehensive loss	—	—	—	—	—	—	(1)	(1)
Issuance of common stock pursuant to employee stock options	2	—	—	—	30	—	—	30
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(45)	—	—	(45)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	56	—	—	56
Dividends (\$0.37 per common share)	—	—	—	—	—	(283)	—	(283)
Balance at March 31, 2019	1,195	\$ —	(429)	\$ (5,563)	\$ 11,004	\$ 6,757	\$ (602)	\$ 11,596
	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	—	—	—	—	—	500	—	500
Other comprehensive loss	—	—	—	—	—	—	(14)	(14)
Issuance of common stock pursuant to employee stock options	3	—	—	—	47	—	—	47
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(64)	—	—	(64)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	56	—	—	56
Dividends (\$0.34 per common share)	—	—	—	—	—	(259)	—	(259)
Balance at March 31, 2018	1,190	\$ —	(429)	\$ (5,563)	\$ 10,786	\$ 5,245	\$ (649)	\$ 9,819

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business and Basis of Consolidation and Presentation

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

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

Our Segments

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

(i) Activision Publishing, Inc.

Activision Publishing, Inc. (“Activision”) is a leading global developer and publisher of interactive software products and entertainment content, particularly for the console platform. Activision primarily delivers content through retail and digital channels, including full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision develops, markets, and sells products primarily based on our internally developed intellectual properties, as well as some licensed properties. Activision’s key product franchise is Call of Duty®, a first-person shooter for the console and PC platforms.

In 2010, Activision entered into an exclusive relationship with Bungie, Inc. (“Bungie”) to publish games in the Destiny franchise. Effective December 31, 2018, Activision and Bungie mutually agreed to terminate their publishing relationship related to the Destiny franchise. As part of this termination, Activision agreed to transfer its publishing rights for the Destiny franchise to Bungie in exchange for cash and Bungie’s assumption of on-going customer obligations of Activision. Activision no longer has any material rights or obligations related to the Destiny franchise.

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (“Blizzard”) is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as 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™, the first major global professional esports league with city-based teams, and our Major League Gaming (“MLG”) business, which is responsible for various esports events and serves as a multi-platform network for Activision Blizzard esports content.

Blizzard’s key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing game for the PC platform; StarCraft®, a real-time strategy franchise for the PC platform; Diablo®, an action role-playing franchise for the PC and console platforms; Hearthstone®, an online collectible card franchise for the PC and mobile platforms; and Overwatch®, a team-based first-person shooter for the PC and console platforms.

(iii) King Digital Entertainment

King Digital Entertainment (“King”) is a leading global developer and publisher of interactive entertainment content and services, primarily on the mobile platform, including for Google Inc.’s Android and Apple Inc.’s iOS. King also distributes its content and services on the PC platform, primarily via Facebook. King’s games are free to play; however, players can acquire in-game items, either with virtual currency or real currency, and we continue to focus on in-game advertising as a growing source of additional revenue.

King's key product franchises, all of which are for the mobile and PC platforms, include: Candy Crush™, which features "match three" games; Farm Heroes™, which also features "match three" games; and Bubble Witch™, which features "bubble shooter" games.

Other

We also engage in other businesses that do not represent reportable segments, including:

- the Activision Blizzard Studios ("Studios") business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in September 2018, released the third season of the animated TV series *Skylanders™ Academy* on Netflix; and
- the Activision Blizzard Distribution ("Distribution") business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Basis of Consolidation and Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been condensed or omitted if they substantially duplicate the disclosures contained in our annual audited consolidated financial statements. Additionally, the year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The accompanying condensed consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated.

During the three months ended March 31, 2019, we identified an error principally related to the initial recognition of global intangible low-taxed income of foreign subsidiaries income taxes which should have been recorded in the three months and year ended December 31, 2018. Income tax expense for the three months and year ended December 31, 2018 should have been reduced by \$35 million. This amount is not material to the consolidated financial statements for the year ended December 31, 2018, and we will revise our 2018 consolidated financial statements to correct this matter in our Annual Report on Form 10-K for the year ending December 31, 2019. Our condensed consolidated balance sheet as of December 31, 2018, as presented in this Form 10-Q, has been revised to reflect the correction of this error.

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

Supplemental Cash Flow Information

As of March 31, 2019 and 2018, we had the following amounts associated with investing and financing activities recorded within "Accrued expenses and other liabilities":

- dividends payable of \$283 million and \$259 million, respectively; and
- accrued withholding tax payments related to net share settlements on restricted stock units of \$40 million and \$26 million, respectively.

The beginning and ending cash and cash equivalents and restricted cash reported within our condensed consolidated statement of cash flows included restricted cash amounts as follows (amounts in millions):

	At March 31,	
	2019	2018
Beginning restricted cash	\$ 4	\$ 7
Ending restricted cash	4	6

2. Summary of Significant Accounting Policies

Adoption of Accounting Standards Codification ("ASC") 842: Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued new guidance related to the accounting for leases. The new standard replaces all current U.S. GAAP guidance on this topic. The new standard, among other things, requires a lessee to classify a lease as either an operating or financing lease, and to recognize a lease liability and a right-of-use ("ROU") asset for its leases. On January 1, 2019, we adopted the new lease accounting standard. As a result, we have updated our significant accounting policy disclosure to include our accounting policy for leases under the new standard. Refer to Note 3 for information about the impact of adoption on our condensed consolidated financial statements.

Leases

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 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 ROU asset also includes any lease payments made prior to commencement, 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 the rate required to borrow funds over a similar term to purchase the leased asset, and is based on the information available at the commencement date of the lease. For leased assets with similar lease terms and asset type we applied a portfolio approach in determining a single incremental borrowing rate to apply to the leased assets.

In determining our lease liability, the lease term includes options to extend or terminate 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 condensed 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 condensed consolidated balance sheet.

3. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Leases

As noted in Note 2 above, we adopted the new lease accounting standard effective January 1, 2019. We elected to apply an optional adoption method, which uses the effective date as the initial date of application on transition with no retrospective adjustments to prior periods. Additionally, we elected to apply the package of transition practical expedients which permitted us to, among other things, (1) not reassess if existing contracts contained leases under the new lease accounting standard and (2) carry forward our historical lease classifications.

The impact from the adoption of the new lease accounting standard to our condensed consolidated balance sheet at January 1, 2019, was as follows (amounts in millions):

Condensed Consolidated Balance Sheet:	Balance at December 31, 2018	Adjustments due to adoption of new lease accounting standard	Balance at January 1, 2019
Assets			
Other current assets	\$ 539	\$ (8)	\$ 531
Other assets	482	252	734
Liabilities			
Accrued expenses and other liabilities	\$ 896	\$ 54	\$ 950
Other liabilities	1,167	190	1,357

The adoption of this standard did not have an impact on our condensed consolidated income statements or condensed consolidated statements of cash flows.

Recent Accounting Pronouncements Not Yet Adopted

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, an entity will be required to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit, as determined in Step 1 from the goodwill impairment test, with its carrying amount and recognize 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. The new standard is effective for fiscal years beginning after December 15, 2019, and should be applied prospectively. Early adoption is permitted. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. We are evaluating the impact, if any, of adopting this new accounting guidance on our consolidated financial statements.

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. The new standard is effective for fiscal years beginning after December 15, 2019, and can be applied retrospectively or prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

4. Inventories, Net

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

	At March 31, 2019	At December 31, 2018
Finished goods	\$ 44	\$ 40
Purchased parts and components	1	3
Inventories, net	<u>\$ 45</u>	<u>\$ 43</u>

At March 31, 2019 and December 31, 2018, inventory reserves were \$20 million and \$22 million, respectively.

5. Software Development and Intellectual Property Licenses

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

	At March 31, 2019	At December 31, 2018
Internally-developed software costs	\$ 244	\$ 291
Payments made to third-party software developers	20	38
Total software development costs	<u>\$ 264</u>	<u>\$ 329</u>

As of both March 31, 2019 and December 31, 2018, 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 Three Months Ended March 31,	
	2019	2018
Amortization of capitalized software development costs and intellectual property licenses	\$ 110	\$ 152

6. Intangible Assets, Net

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

	At March 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	\$ (1,052)	\$ 102
Developed software	2 - 5 years	601	(490)	111
Trade names	7 - 10 years	54	(24)	30
Other	1 - 15 years	19	(15)	4
Total definite-lived intangible assets (1)		<u>\$ 1,828</u>	<u>\$ (1,581)</u>	<u>\$ 247</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>\$ 680</u>

(1) At March 31, 2019, the balances of the customer base intangible assets have been removed as such amounts were fully amortized in the prior year.

At December 31, 2018

	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	\$ 1,154	\$ (1,032)	\$ 122
Developed software	2 - 5 years	601	(456)	145
Customer base	2 years	617	(617)	—
Trade names	7 - 10 years	54	(23)	31
Other	1 - 15 years	19	(15)	4
Total definite-lived intangible assets		\$ 2,445	\$ (2,143)	\$ 302
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				\$ 433
Total intangible assets, net				\$ 735

Amortization expense of our intangible assets was \$55 million and \$119 million for the three months ended March 31, 2019 and 2018, respectively.

At March 31, 2019, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

For the year ending December 31,	
2019 (remaining nine months)	\$ 149
2020	74
2021	12
2022	7
2023	2
Thereafter	3
Total	\$ 247

7. Goodwill

The changes in the carrying amount of goodwill by reportable 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
Balance at March 31, 2019	\$ 6,898	\$ 190	\$ 2,675	\$ 9,763

8. 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):

	As of March 31, 2019	Fair Value Measurements at March 31, 2019 Using			Balance Sheet Classification
		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	\$ 3,991	\$ 3,991	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	139	139	—	—	Other current assets
Foreign currency forward contracts designated as hedges	21	—	21	—	Other current assets
Foreign currency forward contracts not designated as hedges	1	—	1	—	Other current assets
Total recurring fair value measurements	\$ 4,186	\$ 4,164	\$ 22	\$ —	

Financial liabilities:					
Foreign currency forward contracts not designated as hedges	\$ (3)	\$ —	\$ (3)	\$ —	Accrued expenses and other liabilities

	As of December 31, 2018	Fair Value Measurements at December 31, 2018 Using			Balance Sheet Classification
		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	\$ 3,925	\$ 3,925	\$ —	\$ —	Cash and cash equivalents
Foreign government treasury bills	32	32	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	150	150	—	—	Other current assets
Foreign currency forward contracts designated as hedges	13	—	13	—	Other current assets
Foreign currency forward contracts not designated as hedges	1	—	1	—	Other current assets
Total recurring fair value measurements	\$ 4,121	\$ 4,107	\$ 14	\$ —	

Financial liabilities:					
Foreign currency forward contracts designated as hedges	\$ (1)	\$ —	\$ (1)	\$ —	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 are as follows (amounts in millions):

	As of March 31, 2019		As of December 31, 2018	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell Euro	\$ 530	\$ 21	\$ 723	\$ 12

At March 31, 2019, our Cash Flow Hedges have remaining maturities of nine months or less. Additionally, \$4 million of net realized but unrecognized gains are recorded within “Accumulated other comprehensive income (loss)” at March 31, 2019 for Cash Flow Hedges that had settled but were deferred and will be amortized into earnings, along with the associated hedged revenues. Such amounts will be reclassified into earnings within the next 12 months.

The amount 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 was as follows (amounts in millions):

	For the Three Months Ended March 31,		Statement of Operations Classification
	2019	2018	
Cash Flow Hedges	\$ 11	\$ (10)	Net revenues

Foreign Currency Forward Contracts Not Designated as Hedges

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

	As of March 31, 2019		As of December 31, 2018	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell SEK	\$ 396	\$ (1)	\$ —	\$ —
Buy USD, Sell EUR	64	1	—	—
Buy EUR, Sell USD	64	(1)	—	—
Buy USD, Sell GBP	43	(1)	55	1

For the three months ended March 31, 2019 and 2018, pre-tax net gains (losses) associated with these forward contracts were recorded in “General and administrative expenses” and were not material.

Fair Value Measurements on a Non-Recurring Basis

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

For the three months ended March 31, 2019 and 2018, there were no impairment charges related to assets that are measured on a non-recurring basis.

9. Deferred revenues

We record deferred revenues when cash payments are received or due in advance of the fulfillment of our associated performance obligations. The opening balance of deferred revenues as of January 1, 2019 and the ending balance as of March 31, 2019, were \$1.6 billion and \$1.0 billion, respectively, including our current and non-current balances. For the three months ended March 31, 2019, 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 three months ended March 31, 2019, \$0.9 billion of revenues were recognized that were included in the deferred revenues balance at the beginning of the period.

As of March 31, 2019, the aggregate amount of contracted revenues allocated to our unsatisfied performance obligations is \$2.2 billion, which includes our deferred revenues balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately \$1.1 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.

10. Leases

Our lease arrangements are primarily for: (1) corporate, administrative, and development studio offices; (2) data centers and server equipment; and (3) live event production equipment. Our existing leases have remaining lease terms ranging from one to 10 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. Additionally, the majority of our leases are classified as operating leases; our financing leases are not material.

Information related to our operating leases are as follows (amounts in millions):

	Three Months Ended March 31, 2019
Lease costs	
Operating lease costs	\$ 20
Variable lease costs	\$ 4
Supplemental Operating Cash Flows Information	
Cash paid for amounts included in the measurement of lease liabilities	\$ 22
ROU assets obtained in exchange for new lease obligations	\$ 19
Weighted Average Lease terms and discount rates	
Remaining lease term	5.23 years
Discount rate	4.15%

Future undiscounted lease payments for our operating lease liabilities, and a reconciliation of these payments to our operating lease liabilities at March 31, 2019, are as follows (amounts in millions):

For the years ending December 31,	
2019 (remaining nine months)	\$ 56
2020	67
2021	51
2022	46
2023	38
Thereafter	60
Total future lease payments	\$ 318
Less imputed interest	(35)
Total lease liabilities	\$ 283

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

	At March 31, 2019	Balance Sheet Classification
ROU assets	\$ 248	Other assets
Current lease liabilities	\$ 62	Accrued expenses and other current liabilities
Non-current lease liabilities	221	Other liabilities
	<u>\$ 283</u>	Total lease liabilities

Future minimum lease payments as of December 31, 2018, prior to our adoption of the new lease accounting standard, were as follows:

For the years ending December 31,		
2019	\$	80
2020		70
2021		53
2022		45
2023		38
Thereafter		60
Total	<u>\$</u>	<u>346</u>

11. Debt

Credit Facilities

As of March 31, 2019 and December 31, 2018, 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, and we were in compliance with the terms of the Credit Agreement as of March 31, 2019.

Refer to Note 13 contained in our Annual Report on Form 10-K for the year ended December 31, 2018 for further details regarding the Credit Agreement, its key terms, and previous amendments made to it.

Unsecured Senior Notes

At March 31, 2019 and December 31, 2018, we had the following unsecured senior notes outstanding:

- \$650 million of 2.3% unsecured senior notes due September 2021 (the "2021 Notes") and \$850 million of 3.4% unsecured senior notes due September 2026 (the "2026 Notes"); and
- \$400 million of 2.6% unsecured senior notes due June 2022 (the "2022 Notes"), \$400 million of 3.4% unsecured senior notes due June 2027 (the "2027 Notes"), and \$400 million of 4.5% unsecured senior notes due June 2047 (the "2047 Notes", and together with the 2021 Notes, the 2022 Notes, the 2026 Notes, and the 2027 Notes, the "Notes").

The Notes are general senior obligations of the Company and rank *pari passu* in right of payment to all of the Company's existing and future senior indebtedness, including the 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. We were in compliance with the terms of the Notes as of March 31, 2019.

Interest is payable semi-annually in arrears on March 15 and September 15 of each year for the 2021 Notes and the 2026 Notes, and payable semi-annually in arrears on June 15 and December 15 of each year for the 2022 Notes, the 2027 Notes, and the 2047 Notes. Accrued interest payable is recorded within "Accrued expenses and other liabilities" in our condensed consolidated balance sheets. As of March 31, 2019 and December 31, 2018, we had accrued interest payable of \$14 million and \$15 million, respectively, related to the Notes.

Refer to Note 13 contained in our Annual Report on Form 10-K for the year ended December 31, 2018 for further details regarding key terms under our indentures that govern the Notes.

Interest Expense and Financing Costs

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

For the three months ended March 31, 2019 and March 31, 2018, interest expense was \$21 million and \$40 million, respectively, and amortization of the debt discount and deferred financing costs was \$1 million and \$2 million, respectively.

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

	At March 31, 2019		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2021 Notes	\$ 650	\$ (3)	\$ 647
2022 Notes	400	(3)	397
2026 Notes	850	(8)	842
2027 Notes	400	(4)	396
2047 Notes	400	(10)	390
Total long-term debt	\$ 2,700	\$ (28)	\$ 2,672

	At December 31, 2018		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2021 Notes	\$ 650	\$ (3)	\$ 647
2022 Notes	400	(3)	397
2026 Notes	850	(8)	842
2027 Notes	400	(5)	395
2047 Notes	400	(10)	390
Total long-term debt	\$ 2,700	\$ (29)	\$ 2,671

As of March 31, 2019, the scheduled maturities and contractual principal repayments of our debt for each of the five succeeding years and thereafter are as follows (amounts in millions):

For the year ending December 31,		
2019 (remaining nine months)		\$ —
2020		—
2021		650
2022		400
2023		—
Thereafter		1,650
Total		\$ 2,700

With the exception of the 2047 Notes, using Level 2 inputs (i.e., observable market prices in less-than-active markets) at March 31, 2019, the carrying values of the Notes approximated their fair values, as the interest rates were similar to the current rates at which we could borrow funds over the selected interest periods. At March 31, 2019, based on Level 2 inputs, the fair value of the 2047 Notes was \$378 million.

Using Level 2 inputs at December 31, 2018, the carrying values of the 2021 Notes and the 2022 Notes approximated their fair values, as the interest rates were similar to the current rates at which we could borrow funds over the selected interest periods. At December 31, 2018, based on Level 2 inputs, the fair values of the 2026 Notes, the 2027 Notes, and the 2047 Notes were \$800 million, \$376 million, and \$360 million, respectively.

12. Accumulated Other Comprehensive Income (Loss)

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

	For the Three Months Ended March 31, 2019			
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on available-for-sale securities	Total
Balance at December 31, 2018	\$ (629)	\$ 23	\$ 5	\$ (601)
Other comprehensive income (loss) before reclassifications	2	13	(6)	9
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	(11)	1	(10)
Balance at March 31, 2019	\$ (627)	\$ 25	\$ —	\$ (602)

	For the Three Months Ended March 31, 2018			
	Foreign currency translation adjustments	Unrealized gain (loss) on forward contracts	Unrealized gain (loss) on available-for-sale securities	Total
Balance at December 31, 2017	\$ (623)	\$ (15)	\$ —	\$ (638)
Cumulative impact from adoption of new revenue accounting standard	3	—	—	3
Other comprehensive income (loss) before reclassifications	1	(22)	(3)	(24)
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	10	—	10
Balance at March 31, 2018	\$ (619)	\$ (27)	\$ (3)	\$ (649)

13. Operating Segments and Geographic Region

Currently, 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 reportable segment net revenues and operating income for the three months ended March 31, 2019 and 2018, are presented below (amounts in millions):

	Three Months Ended March 31, 2019			
	Activision	Blizzard	King	Total
Segment Net Revenues				
Net revenues from external customers	\$ 317	\$ 339	\$ 529	\$ 1,185
Intersegment net revenues (1)	—	5	—	5
Segment net revenues	\$ 317	\$ 344	\$ 529	\$ 1,190
Segment operating income	\$ 73	\$ 55	\$ 178	\$ 306

	Three Months Ended March 31, 2018			
	Activision	Blizzard	King	Total
Segment Net Revenues				
Net revenues from external customers	\$ 312	\$ 479	\$ 534	\$ 1,325
Intersegment net revenues (1)	—	1	—	1
Segment net revenues	\$ 312	\$ 480	\$ 534	\$ 1,326
Segment operating income	\$ 92	\$ 122	\$ 191	\$ 405

(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):

	Three Months Ended March 31,	
	2019	2018
Reconciliation to consolidated net revenues:		
Segment net revenues	\$ 1,190	\$ 1,326
Revenues from non-reportable segments (1)	73	59
Net effect from recognition (deferral) of deferred net revenues (2)	567	581
Elimination of intersegment revenues (3)	(5)	(1)
Consolidated net revenues	\$ 1,825	\$ 1,965
Reconciliation to consolidated income before income tax expense:		
Segment operating income	\$ 306	\$ 405
Operating income (loss) from non-reportable segments (1)	(3)	(11)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	441	373
Share-based compensation expense	(63)	(53)
Amortization of intangible assets	(54)	(119)
Restructuring and related costs (4)	(57)	—
Consolidated operating income	570	595
Interest and other expense (income), net	3	28
Consolidated income before income tax expense	\$ 567	\$ 567

- (1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. 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 restructuring initiatives, primarily severance and other restructuring-related costs.

Net revenues by distribution channel, including a reconciliation to each of our reportable segment's revenues, for the three months ended March 31, 2019 and 2018, were as follows (amounts in millions):

	Three Months Ended March 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	\$ 466	\$ 406	\$ 526	\$ —	\$ (5)	\$ 1,393
Retail channels	297	16	—	—	—	313
Other (2)	—	39	—	80	—	119
Total consolidated net revenues	\$ 763	\$ 461	\$ 526	\$ 80	\$ (5)	\$ 1,825
Change in deferred revenues:						
Digital online channels (1)	\$ (217)	\$ (114)	\$ 3	\$ —	\$ —	\$ (328)
Retail channels	(229)	(4)	—	—	—	(233)
Other (2)	—	1	—	(7)	—	(6)
Total change in deferred revenues	\$ (446)	\$ (117)	\$ 3	\$ (7)	\$ —	\$ (567)
Segment net revenues:						
Digital online channels (1)	\$ 249	\$ 292	\$ 529	\$ —	\$ (5)	\$ 1,065
Retail channels	68	12	—	—	—	80
Other (2)	—	40	—	73	—	113
Total segment net revenues	\$ 317	\$ 344	\$ 529	\$ 73	\$ (5)	\$ 1,258

Three Months Ended March 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	\$ 476	\$ 455	\$ 533	\$ —	\$ (1)	\$ 1,463
Retail channels	396	13	—	—	—	409
Other (2)	—	40	—	53	—	93
Total consolidated net revenues	\$ 872	\$ 508	\$ 533	\$ 53	\$ (1)	\$ 1,965
Change in deferred revenues:						
Digital online channels (1)	\$ (232)	\$ (27)	\$ 1	\$ —	\$ —	\$ (258)
Retail channels	(328)	(2)	—	—	—	(330)
Other (2)	—	1	—	6	—	7
Total change in deferred revenues	\$ (560)	\$ (28)	\$ 1	\$ 6	\$ —	\$ (581)
Segment net revenues:						
Digital online channels (1)	\$ 244	\$ 428	\$ 534	\$ —	\$ (1)	\$ 1,205
Retail channels	68	11	—	—	—	79
Other (2)	—	41	—	59	—	100
Total segment net revenues	\$ 312	\$ 480	\$ 534	\$ 59	\$ (1)	\$ 1,384

(1) Net revenues from “Digital online channels” include revenues from digitally-distributed subscriptions, downloadable content, microtransactions, and products, as well as licensing royalties.

(2) Net revenues from “Other” include revenues from our Studios and Distribution businesses, as well as revenues from MLG and the Overwatch League.

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

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, for the three months ended March 31, 2019 and 2018, were as follows (amounts in millions):

Three Months Ended March 31, 2019						
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	\$ 458	\$ 207	\$ 326	\$ —	\$ (3)	\$ 988
EMEA (1)	243	148	144	80	(1)	614
Asia Pacific	62	106	56	—	(1)	223
Total consolidated net revenues	<u>\$ 763</u>	<u>\$ 461</u>	<u>\$ 526</u>	<u>\$ 80</u>	<u>\$ (5)</u>	<u>\$ 1,825</u>
Change in deferred revenues:						
Americas	\$ (267)	\$ (54)	\$ 3	\$ —	\$ —	\$ (318)
EMEA (1)	(146)	(47)	—	(7)	—	(200)
Asia Pacific	(33)	(16)	—	—	—	(49)
Total change in deferred revenues	<u>\$ (446)</u>	<u>\$ (117)</u>	<u>\$ 3</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ (567)</u>
Segment net revenues:						
Americas	\$ 191	\$ 153	\$ 329	\$ —	\$ (3)	\$ 670
EMEA (1)	97	101	144	73	(1)	414
Asia Pacific	29	90	56	—	(1)	174
Total segment net revenues	<u>\$ 317</u>	<u>\$ 344</u>	<u>\$ 529</u>	<u>\$ 73</u>	<u>\$ (5)</u>	<u>\$ 1,258</u>
Three Months Ended March 31, 2018						
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	\$ 510	\$ 234	\$ 322	\$ —	\$ (1)	\$ 1,065
EMEA (1)	305	169	160	53	—	687
Asia Pacific	57	105	51	—	—	213
Total consolidated net revenues	<u>\$ 872</u>	<u>\$ 508</u>	<u>\$ 533</u>	<u>\$ 53</u>	<u>\$ (1)</u>	<u>\$ 1,965</u>
Change in deferred revenues:						
Americas	\$ (328)	\$ (6)	\$ 1	\$ —	\$ —	\$ (333)
EMEA (1)	(198)	(8)	—	6	—	(200)
Asia Pacific	(34)	(14)	—	—	—	(48)
Total change in deferred revenues	<u>\$ (560)</u>	<u>\$ (28)</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ (581)</u>
Segment net revenues:						
Americas	\$ 182	\$ 228	\$ 323	\$ —	\$ (1)	\$ 732
EMEA (1)	107	161	160	59	—	487
Asia Pacific	23	91	51	—	—	165
Total segment net revenues	<u>\$ 312</u>	<u>\$ 480</u>	<u>\$ 534</u>	<u>\$ 59</u>	<u>\$ (1)</u>	<u>\$ 1,384</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 49% and 47% of consolidated net revenues for the three months ended March 31, 2019 and 2018, respectively. The Company’s net revenues in the U.K. were 10% and 11% of consolidated net revenues for the three months ended March 31, 2019 and 2018, respectively. No other country’s net revenues exceeded 10% of consolidated net revenues for either the three months ended March 31, 2019 or 2018.

Net revenues by platform, including a reconciliation to each of our reportable segment’s net revenues, for the three months ended March 31, 2019 and 2018, were as follows (amounts in millions):

	Three Months Ended March 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	\$ 635	\$ 42	\$ —	\$ —	\$ —	\$ 677
PC	124	342	33	—	(5)	494
Mobile and ancillary (1)	4	38	493	—	—	535
Other (2)	—	39	—	80	—	119
Total consolidated net revenues	<u>\$ 763</u>	<u>\$ 461</u>	<u>\$ 526</u>	<u>\$ 80</u>	<u>\$ (5)</u>	<u>\$ 1,825</u>
Change in deferred revenues:						
Console	\$ (386)	\$ (12)	\$ —	\$ —	\$ —	\$ (398)
PC	(59)	(90)	—	—	—	(149)
Mobile and ancillary (1)	(1)	(16)	3	—	—	(14)
Other (2)	—	1	—	(7)	—	(6)
Total change in deferred revenues	<u>\$ (446)</u>	<u>\$ (117)</u>	<u>\$ 3</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ (567)</u>
Segment net revenues:						
Console	\$ 249	\$ 30	\$ —	\$ —	\$ —	\$ 279
PC	65	252	33	—	(5)	345
Mobile and ancillary (1)	3	22	496	—	—	521
Other (2)	—	40	—	73	—	113
Total segment net revenues	<u>\$ 317</u>	<u>\$ 344</u>	<u>\$ 529</u>	<u>\$ 73</u>	<u>\$ (5)</u>	<u>\$ 1,258</u>

Three Months Ended March 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	\$ 769	\$ 48	\$ —	\$ —	\$ —	\$ 817
PC	99	378	43	—	(1)	519
Mobile and ancillary (1)	4	42	490	—	—	536
Other (2)	—	40	—	53	—	93
Total consolidated net revenues	<u>\$ 872</u>	<u>\$ 508</u>	<u>\$ 533</u>	<u>\$ 53</u>	<u>\$ (1)</u>	<u>\$ 1,965</u>
Change in deferred revenues:						
Console	\$ (491)	\$ (19)	\$ —	\$ —	\$ —	\$ (510)
PC	(69)	—	—	—	—	(69)
Mobile and ancillary (1)	—	(10)	1	—	—	(9)
Other (2)	—	1	—	6	—	7
Total change in deferred revenues	<u>\$ (560)</u>	<u>\$ (28)</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ (581)</u>
Segment net revenues:						
Console	\$ 278	\$ 29	\$ —	\$ —	\$ —	\$ 307
PC	30	378	43	—	(1)	450
Mobile and ancillary (1)	4	32	491	—	—	527
Other (2)	—	41	—	59	—	100
Total segment net revenues	<u>\$ 312</u>	<u>\$ 480</u>	<u>\$ 534</u>	<u>\$ 59</u>	<u>\$ (1)</u>	<u>\$ 1,384</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 toys and accessories from our Skylanders® franchise and other physical merchandise and accessories.

(2) Net revenues from “Other” include revenues from our Studios and Distribution businesses, as well as revenues from MLG and the Overwatch 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 March 31, 2019	At December 31, 2018
Long-lived assets (1) by geographic region:		
Americas	\$ 192	\$ 203
EMEA	58	62
Asia Pacific	14	17
Total long-lived assets by geographic region	<u>\$ 264</u>	<u>\$ 282</u>

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

14. Restructuring

On February 12, 2019, the Company committed to a Board-authorized restructuring plan under which the Company plans to refocus its resources on its largest opportunities and to remove unnecessary levels of complexity and duplication from certain parts of the business. More specifically, we are:

- 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.

The restructuring actions are in process and are largely expected to be completed by the end of 2019, although the timing of cash payments may continue into 2020.

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

	Severance & employee related costs		Other costs		Total
Balance at December 31, 2018	\$ —		\$ —		\$ —
Costs charged to expense	43		14		57
Cash payments	(11)		(1)		(12)
Non-cash charge adjustment (1)	—		(11)		(11)
Balance at March 31, 2019	<u>\$ 32</u>		<u>\$ 2</u>		<u>\$ 34</u>

(1) Adjustment relates to non-cash charges included in “Costs charged to expense” related to the write-downs of assets from canceled projects.

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

	Three Months Ended March 31, 2019
Activision	\$ 9
Blizzard	26
King	8
Other segments (1)	14
Total	<u>\$ 57</u>

(1) Includes charges related to operating segments managed outside the reportable segments, including our studios and distribution businesses. Also includes restructuring charges for our corporate and administrative functions.

We expect to incur aggregate pre-tax restructuring charges of approximately \$150 million in 2019 associated with the restructuring plan. These charges will primarily relate to severance (approximately 60% of the aggregate charge), including, in many cases, amounts above those that are legally required, facilities costs (approximately 15% of the aggregate charge), and asset write-downs and other costs (approximately 25% of the aggregate charge). A majority of the total pre-tax charge associated with the restructuring will be paid in cash using amounts on hand and the outlays are expected to be largely incurred throughout 2019.

The total expected pre-tax restructuring charges related to the restructuring plan by segment, inclusive of amounts already incurred, are presented below (amounts in millions):

	Year Ending December 31, 2019
Activision	\$ 17
Blizzard	60
King	34
Other segments (1)	39
Total	\$ 150

(1) Includes charges related to operating segments managed outside the reportable segments, including our studios and distribution businesses. Also includes restructuring charges for our corporate and administrative functions.

15. Interest and Other Expense (Income), Net

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

	For the Three Months Ended March 31,	
	2019	2018
Interest income	\$ (21)	\$ (14)
Interest expense from debt and amortization of debt discount and deferred financing costs	23	41
Other expense (income), net	1	1
Interest and other expense (income), net	\$ 3	\$ 28

16. Income Taxes

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

The income tax expense of \$120 million for the three months ended March 31, 2019, reflects an effective tax rate of 21%, which is higher than the effective tax rate of 12% for the three months ended March 31, 2018. The increase is primarily due to lower excess tax benefits from share-based payments and higher foreign earnings subject to U.S. tax, partially offset by changes in uncertain tax positions.

The effective tax rate of 21% for the three months ended March 31, 2019, is consistent with the U.S. statutory rate of 21%. This reflects the impact of our foreign earnings being taxed below the U.S. statutory rate, offset by changes in uncertain tax positions.

Activision Blizzard's 2009 through 2018 tax years remain open to examination by certain major taxing jurisdictions to which we are subject. The IRS 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, including the French and Swedish audits discussed below. In addition, we are currently in negotiations with the tax authorities in the UK, Sweden and other relevant jurisdictions, with respect to King's transfer pricing for tax years dating back to 2013. While the outcome of these negotiations remains uncertain, they 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.

In December 2018, we received a decision from the Swedish Tax Agency ("STA") informing us of an audit assessment to a Swedish subsidiary of King for the 2016 tax year. The STA decision described the basis for issuing a transfer pricing assessment of approximately 3.5kr billion (approximately \$400 million), primarily concerning an alleged intercompany asset transfer. We disagree with the STA's decision and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve the matter, including administrative remedies with the STA, multilateral procedures with other relevant taxing jurisdictions, and, if necessary, judicial remedies. Further, we may be required to pay the full assessment to the STA in advance of the final resolution of the matter. While we believe our tax provisions at March 31, 2019, are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities.

In December 2017, we received a Notice of Reassessment from the French Tax Authority ("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 \$640 million). We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve this matter, including administrative remedies with the FTA and, if necessary, judicial remedies. While we believe our tax provisions at March 31, 2019, are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities. In addition to the risk of additional tax for the 2011 through 2013 tax years, if litigation regarding this matter were adversely determined and/or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities.

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.

We regularly assess the likelihood of adverse outcomes resulting from these examinations and monitor the progress of ongoing discussions with tax authorities in determining the appropriateness of our tax provisions. 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.

17. Computation of Basic/Diluted Earnings Per Common Share

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

	For the Three Months Ended March 31,	
	2019	2018
Numerator:		
Consolidated net income	\$ 447	\$ 500
Denominator:		
Denominator for basic earnings per common share—weighted-average common shares outstanding	764	759
Effect of potential dilutive common shares under the treasury stock method—employee stock options and awards	6	11
Denominator for basic earnings per common share—weighted-average dilutive common shares outstanding	770	770
Basic earnings per common share	\$ 0.58	\$ 0.66
Diluted earnings per common share	\$ 0.58	\$ 0.65

The vesting of certain of our employee-related restricted stock units and options is contingent upon the satisfaction of pre-defined 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. Approximately 3 million and 6 million shares are not included in the computation of diluted earnings per share for the three months ended March 31, 2019 and 2018, respectively, as their underlying performance measures had not yet been met.

Potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive. Therefore, approximately 6 million and 2 million options to purchase shares of common stock were not included in the calculation of diluted earnings per common share for the three months ended March 31, 2019 and 2018, respectively, as the effect of their inclusion would be anti-dilutive.

18. Capital Transactions**Repurchase Program**

On January 31, 2019, our Board of Directors authorized a stock repurchase program under which we are 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. As of March 31, 2019, we have not repurchased any shares under this program.

Dividends

On February 12, 2019, our Board of Directors declared a cash dividend of \$0.37 per common share. Such dividend is payable on May 9, 2019, to shareholders of record at the close of business on March 28, 2019. We have recorded \$283 million of dividends payable in "Accrued expenses and other liabilities" on our condensed consolidated balance sheet as of March 31, 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.

19. Commitments and Contingencies

Legal Proceedings

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

Item 2. 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, personal computers ("PC"s), and mobile devices. We also operate esports leagues and events and create film and television content based on our intellectual property. The terms "Activision Blizzard," the "Company," "we," "us," and "our" are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries.

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

Our Segments

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

(i) Activision Publishing, Inc.

Activision Publishing, Inc. ("Activision"), is a leading global developer and publisher of interactive software products and entertainment content, particularly for the console platform. Activision primarily delivers content through retail and digital channels, including full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision develops, markets, and sells products primarily based on our internally developed intellectual properties, as well as some licensed properties. Activision's key product franchise is Call of Duty®, a first-person shooter for the console and PC platforms.

In 2010, Activision entered into an exclusive relationship with Bungie, Inc. ("Bungie") to publish games in the Destiny franchise. Effective December 31, 2018, Activision and Bungie mutually agreed to terminate their publishing relationship related to the Destiny franchise. As part of this termination, Activision agreed to transfer its publishing rights for the Destiny franchise to Bungie in exchange for cash and Bungie's assumption of on-going customer obligations of Activision. Activision no longer has any material rights or obligations related to the Destiny franchise.

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. ("Blizzard") is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as 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™, the first major global professional esports league with city-based teams, and our Major League Gaming ("MLG") business, which is responsible for various esports events and serves as a multi-platform network for Activision Blizzard esports content.

Blizzard's key product franchises include: World of Warcraft®, a subscription-based massive multi-player online role-playing game for the PC platform; StarCraft®, a real-time strategy franchise for the PC platform; Diablo®, an action role-playing franchise for the PC and console platforms; Hearthstone®, an online collectible card franchise for the PC and mobile platforms; and Overwatch®, a team-based first-person shooter for the PC and console platforms.

(iii) King Digital Entertainment

King Digital Entertainment ("King") is a leading global developer and publisher of interactive entertainment content and services, particularly on the mobile platform, including for Google Inc.'s ("Google") Android and Apple Inc.'s ("Apple") iOS. King also distributes its content and services on the PC platform, primarily via Facebook. King's games are free to play; however, players can acquire in-game items, either with virtual currency or real currency, and we continue to focus on in-game advertising as a growing source of additional revenue.

King's key product franchises, all of which are for the mobile and PC platforms, include: Candy Crush™, which features "match three" games; Farm Heroes™, which also features "match three" games; and Bubble Witch™, which features "bubble shooter" games.

Other

We also engage in other businesses that do not represent reportable segments, including:

- the Activision Blizzard Studios ("Studios") business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in September 2018, released the third season of the animated TV series *Skylanders™ Academy* on Netflix; and
- the Activision Blizzard Distribution ("Distribution") business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Business Results and Highlights

Financial Results

For the three months ended March 31, 2019:

- consolidated net revenues decreased 7% to \$1.83 billion, and consolidated operating income decreased 4% to \$570 million, as compared to consolidated net revenues of \$1.97 billion and consolidated operating income of \$595 million for the three months ended March 31, 2018;
- revenues from digital online channels were \$1.39 billion, or 76% of consolidated net revenues, as compared to \$1.46 billion, or 74% of consolidated net revenues, for the three months ended March 31, 2018;
- operating margin was 31.2%, which includes \$57 million in restructuring and related costs, as compared to 30.3% for the three months ended March 31, 2018;
- cash flows from operating activities were \$450 million, a decrease of 15%, as compared to \$529 million for the three months ended March 31, 2018;
- consolidated net income decreased 11% to \$447 million, as compared to \$500 million for the three months ended March 31, 2018; and
- diluted earnings per common share decreased 11% to \$0.58, as compared to \$0.65 for the three months ended March 31, 2018.

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 three months ended March 31, 2019, include a net effect of \$567 million and \$441 million, respectively, from the recognition of deferred net revenues and related cost of revenues.

Content Release and Event Highlights

During the three months ended March 31, 2019, Activision released *Sekiro™: Shadows Die Twice*, a new intellectual property developed in collaboration with FromSoftware, a third-party game developer. Additionally, Blizzard commenced the second season of the Overwatch League, which included eight new teams now competing in the league, bringing the total to 20 teams.

Operating Metrics

The following operating metrics are key performance indicators that we use to evaluate our business.

Net Bookings

We monitor net bookings as a key operating metric in evaluating the performance of our business. 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.

Net bookings was as follows (amounts in millions):

	March 31, 2019		March 31, 2018		Increase (Decrease)
Net bookings					
Three Months Ended	\$ 1,258	\$	1,384	\$	(126)

The decrease in net bookings for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower net bookings from *World of Warcraft*, primarily due to the prior year including net bookings associated with in-game content delivered to customers upon pre-purchase of *World of Warcraft: Battle for Azeroth™*, with no comparable net bookings in the current period; and
- lower net bookings from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

The decrease was partially offset by net bookings from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

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.

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):

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Activision	41	53	46	45	51	55
Blizzard	32	35	37	37	38	40
King	272	268	262	270	285	290
Total	345	356	345	352	374	385

Average MAUs decreased by 11 million, or 3%, for the three months ended March 31, 2019, as compared to the three months ended December 31, 2018 primarily driven by a decrease in average MAUs for Activision. The decrease in Activision's average MAUs is primarily due to (1) the Destiny franchise, as Destiny MAUs are no longer included in our average MAU metric since we sold our publishing rights in the Destiny franchise to Bungie in December 2018, and (2) decreases in the Call of Duty franchise. The decrease is partially offset by an increase in average MAUs for King, driven by the Candy Crush franchise.

Average MAUs decreased by 29 million, or 8%, for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018. The year-over-year decrease in average MAUs is due to:

- decreases across King's various franchises, primarily from less engaged users leaving the network, partially offset by an increase in average MAUs for the Candy Crush franchise;
- lower average MAUs for Activision, primarily due to lower average MAUs from the Call of Duty franchise and the absence of Destiny MAUs in our operating metric; and
- lower average MAUs for Blizzard, primarily due to lower average MAUs for *Hearthstone* and *Overwatch*.

King MAUs were also negatively impacted by a King network outage in the second quarter of 2018, resulting from changes made by a third-party partner which inadvertently impacted some users' ability to play and spend money in King games.

Management's Overview of Business Trends

Interactive Entertainment and Mobile Gaming Growth

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate the total industry has grown, on average, 18% annually from 2015 to 2018. 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.

The wide adoption of smart phones globally and the free-to-play business model on those platforms has 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 from, our franchises.

Opportunities to Expand Franchises Outside of Games

Our fans spend significant time investing in our franchises through purchases of our game content, whether through purchases of full games or downloadable content or via microtransactions. 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. Our efforts to build these adjacent opportunities are still relatively nascent, but we view them as potentially significant sources of future revenues.

For example, as part of our efforts to take advantage of esports opportunities, during 2017, we completed the sale of 12 teams for the Overwatch League, which concluded its inaugural season in July 2018. During 2018, we also completed the sale of eight additional teams for the Overwatch League, which are competing in the league's second season that began in February 2019. Additionally, as recently announced, we have sold the first five teams for our professional Call of Duty city-based league.

Concentration of Sales Among the Most Popular Franchises

The concentration of retail revenues among key titles has continued as a trend in the overall interactive entertainment industry. According to The NPD Group, the top 10 titles accounted for 38% of the retail sales in the U.S. interactive entertainment industry in 2018. Similarly, a significant portion of our revenues historically has been derived from video games based on a few popular franchises, and these video games have been responsible for a disproportionately high percentage of our profits. For example, the Call of Duty, Candy Crush, and World of Warcraft franchises, collectively, accounted for 58% of our consolidated net revenues—and a significantly higher percentage of our operating income—for 2018.

In addition to investing in, and developing sequels and content for, our top franchises, we are continually exploring additional ways to expand those franchises. Further, while there is no guarantee of success, we invest in new properties in an effort to develop future top franchises. For example, in 2014, we released *Hearthstone*, and in 2016, we released *Overwatch*. Additionally, to diversify our portfolio of key franchises and increase our presence on the mobile platform, in 2016, we acquired King.

Overall, we do expect that a limited number of popular franchises will continue to produce a disproportionately high percentage of our, and the industry's, revenues and profits in the near future. 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. Offering downloadable content and microtransactions, in addition to full games, allows our players to access and invest in new content throughout the year. This incremental content not only provides additional high-margin revenues, it can also increase player engagement. Also, mobile games, and free-to-play games more broadly, are generally less seasonal than games developed primarily for the console or PC platforms.

Consolidated Statements of Operations Data

The following table sets forth condensed 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 Three Months Ended March 31,			
	2019		2018	
Net revenues				
Product sales	\$ 656	36%	\$ 720	37%
Subscription, licensing, and other revenues	1,169	64	1,245	63
Total net revenues	1,825	100	1,965	100
Costs and expenses:				
Cost of revenues—product sales:				
Product costs	152	23	162	23
Software royalties, amortization, and intellectual property licenses	111	17	146	20
Cost of revenues—subscription, licensing, and other revenues:				
Game operations and distribution costs	239	20	270	22
Software royalties, amortization, and intellectual property licenses	61	5	84	7
Product development	249	14	259	13
Sales and marketing	207	11	251	13
General and administrative	179	10	198	10
Restructuring and related costs	57	3	—	—
Total costs and expenses	1,255	69	1,370	70
Operating income	570	31	595	30
Interest and other expense (income), net	3	—	28	1
Income before income tax expense	567	31	567	29
Income tax expense	120	7	67	3
Net income	\$ 447	24%	\$ 500	25%

Consolidated Net Revenues

The following table summarizes our consolidated net revenues and the increase (decrease) in deferred net revenues recognized (amounts in millions):

	For the Three Months Ended March 31,			
	2019	2018	Increase (Decrease)	% Change
Consolidated net revenues	\$ 1,825	\$ 1,965	\$ (140)	(7)%
Net effect from recognition (deferral) of deferred net revenues	567	581	(14)	

Consolidated Net Revenues

The decrease in consolidated net revenues for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a decrease of \$109 million in revenues recognized from Activision, primarily due to lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed. The decrease in revenues recognized from the Destiny franchise was partially offset by revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Change in Deferred Revenues Recognized

The decrease in net deferred revenues recognized for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a decrease of \$114 million in net deferred revenues recognized from Activision, primarily due to lower net deferred revenues recognized from the Destiny franchise, partially offset by higher net deferred revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

The decrease from Activision was partially offset by an increase of \$89 million in net deferred revenues recognized from Blizzard, due to higher net deferred revenues recognized for *World of Warcraft*, driven by *World of Warcraft: Battle for Azeroth*, which was released in August 2018, with no comparable release in 2017.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$66 million on our consolidated net revenues for the three months ended March 31, 2019, as compared to the same period in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and the British pound.

Operating Segment Results

Currently, 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 reportable segment net revenues and operating income for the three months ended March 31, 2019 and 2018, are presented below (amounts in millions):

	Three Months Ended March 31, 2019				\$ Increase / (Decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Net Revenues								
Net revenues from external customers	\$ 317	\$ 339	\$ 529	\$ 1,185	\$ 5	\$ (140)	\$ (5)	\$ (140)
Intersegment net revenues (1)	—	5	—	5	—	4	—	4
Segment net revenues	<u>\$ 317</u>	<u>\$ 344</u>	<u>\$ 529</u>	<u>\$ 1,190</u>	<u>\$ 5</u>	<u>\$ (136)</u>	<u>\$ (5)</u>	<u>\$ (136)</u>
Segment operating income	\$ 73	\$ 55	\$ 178	\$ 306	\$ (19)	\$ (67)	\$ (13)	\$ (99)
	Three Months Ended March 31, 2018							
	Activision	Blizzard	King	Total				
Segment Net Revenues								
Net revenues from external customers	\$ 312	\$ 479	\$ 534	\$ 1,325				
Intersegment net revenues (1)	—	1	—	1				
Segment net revenues	<u>\$ 312</u>	<u>\$ 480</u>	<u>\$ 534</u>	<u>\$ 1,326</u>				
Segment operating income	\$ 92	\$ 122	\$ 191	\$ 405				

(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 Three Months Ended March 31,	
	2019	2018
Reconciliation to consolidated net revenues:		
Segment net revenues	\$ 1,190	\$ 1,326
Revenues from non-reportable segments (1)	73	59
Net effect from recognition (deferral) of deferred net revenues	567	581
Elimination of intersegment revenues (2)	(5)	(1)
Consolidated net revenues	<u>\$ 1,825</u>	<u>\$ 1,965</u>
Reconciliation to consolidated income before income tax expense:		
Segment operating income	\$ 306	\$ 405
Operating income (loss) from non-reportable segments (1)	(3)	(11)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues	441	373
Share-based compensation expense	(63)	(53)
Amortization of intangible assets	(54)	(119)
Restructuring and related costs (3)	(57)	—
Consolidated operating income	<u>570</u>	<u>595</u>
Interest and other expense (income), net	3	28
Consolidated income before income tax expense	<u>\$ 567</u>	<u>\$ 567</u>

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

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

(3) Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

Segment Net Revenues

Activision

Activision's net revenues for the three months ended March 31, 2019, were roughly equal to net revenues for the three months ended March 31, 2018, reflecting revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018, which were offset by:

- lower revenues from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and
- lower revenues from Call of Duty franchise catalog titles.

Blizzard

The decrease in Blizzard's net revenues for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower revenues from *World of Warcraft*, primarily due to the prior year including revenues associated with in-game content delivered to customers upon pre-purchase of *World of Warcraft: Battle for Azeroth*, with no comparable revenues in the current period;
- lower revenues from *Overwatch*, primarily driven by lower in-game purchases; and
- lower revenues from *Hearthstone*.

King

King's net revenues for the three months ended March 31, 2019, were roughly equal to net revenues for the three months ended March 31, 2018.

Segment Income from Operations

Activision

The decrease in Activision's operating income for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, despite revenues being comparable, as discussed above, was primarily due to:

- higher cost of revenues, primarily driven by the March 2019 release of *Sekiro: Shadows Die Twice*, with no comparable release in 2018; and
- an increase in bad debt provisions.

The decrease is partially offset by lower operating costs associated with the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed.

Blizzard

The decrease in Blizzard's operating income for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to lower revenues, as discussed above. The decrease is partially offset by:

- lower sales and marketing spend, primarily driven by the Overwatch League; and
- lower personnel costs.

King

The decrease in King's operating income for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to higher sales and marketing costs driven by the Candy Crush franchise.

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$42 million on reportable segment net revenues for the three months ended March 31, 2019, as compared to the same period in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and the 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 Three Months Ended March 31,		
	2019	2018	Increase (Decrease)
Net revenues by distribution channel:			
Digital online channels (1)	\$ 1,393	\$ 1,463	\$ (70)
Retail channels	313	409	(96)
Other (2)	119	93	26
Total consolidated net revenues	<u>\$ 1,825</u>	<u>\$ 1,965</u>	<u>\$ (140)</u>

(1) Net revenues from "Digital online channels" include revenues from digitally-distributed subscriptions, downloadable content, microtransactions, and products, as well as licensing royalties.

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

Digital Online Channel Net Revenues

The decrease in net revenues from digital online channels for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed; and
- lower revenues recognized from *Overwatch*, primarily driven by lower in-game purchases.

The decrease was partially offset by:

- higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and
- revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Retail Channel Net Revenues

The decrease in net revenues from retail channels for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower revenues recognized from the Destiny franchise; and
- lower revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

The decrease was partially offset by revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Net Revenues by Geographic Region

The following table details our consolidated net revenues by geographic region (amounts in millions):

	For the Three Months Ended March 31,		
	2019	2018	Increase (Decrease)
Net revenues by geographic region:			
Americas	\$ 988	\$ 1,065	\$ (77)
EMEA (1)	614	687	(73)
Asia Pacific	223	213	10
Consolidated net revenues	\$ 1,825	\$ 1,965	\$ (140)

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

Americas

The decrease in net revenues from the Americas region for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed. The decrease was partially offset by:

- revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018; and
- higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

EMEA

The decrease in net revenues from the EMEA region for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to lower revenues recognized from the Destiny franchise. The decrease was partially offset by revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Asia Pacific

The increase in net revenues from the Asia Pacific region for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017, partially offset by lower revenues recognized from the Destiny franchise.

Net Revenues by Platform

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

	For the Three Months Ended March 31,		
	2019	2018	Increase (Decrease)
Net revenues by platform:			
Console	\$ 677	\$ 817	\$ (140)
PC	494	519	(25)
Mobile and ancillary (1)	535	536	(1)
Other (2)	119	93	26
Total consolidated net revenues	\$ 1,825	\$ 1,965	\$ (140)

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

(2) Net revenues from “Other” include revenues from our Studios and Distribution businesses, as well as revenues from MLG and the Overwatch League.

Console

The decrease in net revenues from the console platform for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed; and
- lower revenues recognized from Call of Duty franchise catalog titles.

The decrease was partially offset by revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

PC

The decrease in net revenues from the PC platform for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- lower revenues recognized from the Destiny franchise; and
- lower revenues recognized from *Overwatch*.

The decrease was partially offset by:

- higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and
- revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Mobile and Ancillary

Net revenues from mobile and ancillary for the three months ended March 31, 2019, were roughly equal to net revenues for the three months ended March 31, 2018.

Costs and Expenses

Cost of Revenues

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

	Three Months Ended March 31, 2019	% of associated net revenues	Three Months Ended March 31, 2018	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	\$ 152	23%	\$ 162	23%	\$ (10)
Software royalties, amortization, and intellectual property licenses	111	17	146	20	(35)
Cost of revenues—subscription, licensing, and other revenues:					
Game operations and distribution costs	239	20	270	22	(31)
Software royalties, amortization, and intellectual property licenses	61	5	84	7	(23)
Total cost of revenues	\$ 563	31%	\$ 662	34%	\$ (99)

Cost of Revenues—Product Sales:

The decrease in product costs for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was in line with the decrease in product sales.

The decrease in software royalties, amortization, and intellectual property licenses related to product sales for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a decrease of \$42 million in software amortization and royalties from Activision, driven by the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed. The decrease in software amortization and royalties from the Destiny franchise was partially offset by:

- higher software amortization and royalties for *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and
- software amortization and royalties from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Cost of Revenues—Subscription, Licensing, and Other Revenues:

The decrease in game operations and distribution costs for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a decrease of \$19 million in digital storefront fees (e.g. fees retained by Apple and Google for our sales on their platforms) and payment processor fees.

The decrease in software royalties, amortization, and intellectual property licenses related to subscription, licensing, and other revenues for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a decrease of \$20 million in amortization of internally-developed franchise intangible assets acquired as part of our acquisition of King.

Product Development (amounts in millions)

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 249	14%	\$ 259	13%	\$ (10)

The decrease in product development costs for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily driven by lower product development costs from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed.

Sales and Marketing (amounts in millions)

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 207	11%	\$ 251	13%	\$ (44)

The decrease in sales and marketing expenses for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to:

- a decrease of \$44 million in amortization of the customer base intangible asset acquired as part of our acquisition of King, as the asset was fully amortized during the first quarter of 2018; and
- a decrease of \$12 million in marketing spending and personnel costs, primarily associated with lower marketing costs for the Overwatch League, partially offset by higher marketing costs for the Candy Crush franchise and for *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

The decrease was partially offset by an increase in bad debt provisions.

General and Administrative (amounts in millions)

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 179	10%	\$ 198	10%	\$ (19)

The decrease in general and administrative expenses for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to a \$15 million decrease in personnel costs.

Restructuring and related costs (amounts in millions)

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 57	3%	\$ —	—%	\$ 57

On February 12, 2019, the Company committed to a Board-authorized restructuring plan under which we are refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. The costs incurred during the three months ended March 31, 2019, relate primarily to severance costs and the write-downs of assets from canceled projects. Refer to Note 14 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for further discussion.

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

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)
Three Months Ended	\$ 3	—%	\$ 28	1%	\$ (25)

The decrease in interest and other expense (income), net, for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was primarily due to an \$18 million decrease in interest expense and amortization of deferred financing costs associated with our debt obligations due to our lower total debt outstanding as a result of our debt redemptions and repayment activities during 2018.

Income Tax Expense (amounts in millions)

	March 31, 2019		March 31, 2018		Increase (Decrease)	
Three Months Ended	\$	% of pretax income	\$	% of pretax income	\$	
	120	21%	67	12%	53	

The income tax expense of \$120 million for the three months ended March 31, 2019, reflects an effective tax rate of 21%, which is higher than the effective tax rate of 12% for the three months ended March 31, 2018. The increase is primarily due to lower excess tax benefits from share-based payments and higher foreign earnings subject to U.S. tax, partially offset by changes in uncertain tax positions.

The effective tax rate of 21% for the three months ended March 31, 2019 is consistent with the U.S. statutory rate of 21%. This reflects the impact of our foreign earnings being taxed below the U.S. statutory rate, offset by changes in uncertain tax positions.

Our effective tax rate could be different from the statutory U.S. income tax rate due to the effect of state and local income taxes, tax rates that apply to our foreign income (including U.S. tax on foreign income), research and development credits, and certain nondeductible expenses. Our effective tax rate could fluctuate significantly from quarter to quarter based on recurring and nonrecurring factors including, but not limited to: variations in the estimated and actual level of pre-tax income or loss by jurisdiction; changes in enacted tax laws and regulations, and interpretations thereof, including with respect to tax credits and state and local income taxes; developments in tax audits and other matters; recognition of excess tax benefits and tax deficiencies from share-based payments; and certain nondeductible expenses. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition, or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

Further information about our income taxes is provided in Note 16 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. 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 \$4.8 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 our anticipated dividend payments, share repurchases, and scheduled debt maturities, include our cash and cash equivalents, short-term investments, and cash flows provided by operating activities.

As of March 31, 2019, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$1.7 billion, as compared to \$1.4 billion as of December 31, 2018. 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)

	March 31, 2019	December 31, 2018	Increase (Decrease)
Cash and cash equivalents	\$ 4,696	\$ 4,225	\$ 471
Short-term investments	143	155	(12)
	<u>\$ 4,839</u>	<u>\$ 4,380</u>	<u>\$ 459</u>
Percentage of total assets	27%	24%	

	For the Three Months Ended March 31,		
	2019	2018	Increase (Decrease)
Net cash provided by operating activities	\$ 450	\$ 529	\$ (79)
Net cash used in investing activities	(5)	(51)	46
Net cash provided by financing activities	24	8	16
Effect of foreign exchange rate changes	2	18	(16)
Net increase in cash and cash equivalents and restricted cash	<u>\$ 471</u>	<u>\$ 504</u>	<u>\$ (33)</u>

Net Cash Provided by Operating Activities

The primary driver of net cash flows associated with our operating activities is the collection of customer receivables generated from the sale of our products and services. These collections are typically partially offset by: payments to vendors for the manufacturing, distribution, and marketing of our products; payments for customer service support for our consumers; payments to third-party developers and intellectual property holders; payments for interest on our debt; payments for software development; payments for tax liabilities; and payments to our workforce.

Net cash provided by operating activities for the three months ended March 31, 2019, was \$450 million, as compared to \$529 million for the three months ended March 31, 2018. The decrease was primarily due to lower net income and a decrease in non-cash adjustments to net income.

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 the three months ended March 31, 2019, was \$5 million, as compared to \$51 million for the three months ended March 31, 2018. The decrease was primarily due to cash flow activities associated with available-for-sale investments, for which, in the three months ended March 31, 2019, there were \$13 million of cash proceeds from the maturities of available-for-sale investments as compared to purchases of available-for-sale investments of \$20 million in the prior-year period. Additionally, we had lower capital expenditures of \$18 million for the three months ended March 31, 2019, as compared to \$31 million in the prior-year period.

Net Cash Provided by 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 the three months ended March 31, 2019, was \$24 million, as compared to \$8 million for the three months ended March 31, 2018. The increase was due to lower tax payments made for net share settlements on restricted stock units of \$6 million for the three months ended March 31, 2019, as compared to \$39 million for the three months ended March 31, 2018, partially offset by lower proceeds from stock option exercises of \$30 million for the three months ended March 31, 2019, as compared to \$47 million for the three months ended March 31, 2018.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a positive impact of \$2 million on our cash and cash equivalents and restricted cash for the three months ended March 31, 2019, as compared to a positive impact of \$18 million for the three months ended March 31, 2018. The change was primarily due to changes in the value of the U.S. dollar relative to the euro and the British pound.

Debt

As of March 31, 2019 and December 31, 2018, our total outstanding debt was \$2.7 billion, bearing interest at a weighted average rate of 3.18%.

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

	At March 31, 2019		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2021 Notes	\$ 650	\$ (3)	\$ 647
2022 Notes	400	(3)	397
2026 Notes	850	(8)	842
2027 Notes	400	(4)	396
2047 Notes	400	(10)	390
Total long-term debt	\$ 2,700	\$ (28)	\$ 2,672

	At December 31, 2018		
	Gross Carrying Amount	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
2021 Notes	\$ 650	\$ (3)	\$ 647
2022 Notes	400	(3)	397
2026 Notes	850	(8)	842
2027 Notes	400	(5)	395
2047 Notes	400	(10)	390
Total long-term debt	\$ 2,700	\$ (29)	\$ 2,671

Refer to Note 11 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for further disclosures regarding our debt obligations.

Dividends

On February 12, 2019, our Board of Directors declared a cash dividend of \$0.37 per common share. Such dividend is payable on May 9, 2019, to shareholders of record at the close of business on March 28, 2019. We have recorded \$283 million of dividends payable in "Accrued expenses and other liabilities" on our condensed consolidated balance sheet as of March 31, 2019.

Capital Expenditures

For the year ending December 31, 2019, we anticipate total capital expenditures of approximately \$135 million, primarily for leasehold improvements, computer hardware, and software purchases. During the three months ended March 31, 2019, capital expenditures were \$18 million.

Off-Balance Sheet Arrangements

At each of March 31, 2019 and December 31, 2018, 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

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles require us to make certain estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that they are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments, and assumptions, and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results, include the following:

- Revenue Recognition;
- Income Taxes;
- Allowances for Returns and Price Protection;
- Software Development Costs;
- Fair Value Estimates (including Business Combinations and Assessment of Impairment of Assets); and
- Share-Based Payments.

During the three months ended March 31, 2019, there were no significant changes to the above critical accounting policies and estimates. Refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, for a more complete discussion of our critical accounting policies and estimates.

Recently Issued Accounting Pronouncements

Below are recently issued accounting pronouncements that were most significant to our accounting policy activities. For a detailed discussion of all relevant recently issued accounting pronouncements, see Note 3 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Recently Adopted Accounting Pronouncements

Leases

As noted in Note 2 of the notes to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, we adopted the new lease accounting standard effective January 1, 2019. We elected to apply an optional adoption method, which uses the effective date as the initial date of application on transition with no retrospective adjustments to prior periods. Additionally, we elected to apply the package of transition practical expedients which permitted us to, among other things, (1) not reassess if existing contracts contained leases under the new lease accounting standard and (2) carry forward our historical lease classifications.

For additional discussion regarding the impact of our adoption of the new lease accounting standard to our condensed consolidated balance sheet, see Note 3 of the notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won, 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.

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

The total gross notional amounts and fair values of our Cash Flow Hedges are as follows (amounts in millions):

	As of March 31, 2019		As of December 31, 2018	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell Euro	\$ 530	\$ 21	\$ 723	\$ 12

At March 31, 2019, our Cash Flow Hedges have remaining maturities of nine months or less. Additionally, \$4 million of net realized but unrecognized gains are recorded within “Accumulated other comprehensive income (loss)” at March 31, 2019 for Cash Flow Hedges that had settled but were deferred and will be amortized into earnings, along with the associated hedged revenues. Such amounts will be reclassified into earnings within the next 12 months.

The amount 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 was as follows (amounts in millions):

	For the Three Months Ended March 31,		Statement of Operations Classification
	2019	2018	
Cash Flow Hedges	\$ 11	\$ (10)	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 March 31, 2019		As of December 31, 2018	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell SEK	\$ 396	\$ (1)	\$ —	\$ —
Buy USD, Sell EUR	64	1	—	—
Buy EUR, Sell USD	64	(1)	—	—
Buy USD, Sell GBP	43	(1)	55	1

For the three months ended March 31, 2019 and 2018, pre-tax net gains (losses) associated with these forward contracts were recorded in “General and administrative expenses” and were not material.

In the absence of hedging activities for the three months ended March 31, 2019, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately \$41 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 March 31, 2019, our \$4.7 billion of cash and cash equivalents was comprised primarily of money market funds.

The Company has determined that, based on the composition of our investment portfolio as of March 31, 2019, there was no material interest rate risk exposure to the Company’s consolidated financial condition, results of operations, or liquidity as of that date.

Item 4. Controls and Procedures

Definition and Limitations of Disclosure Controls and Procedures

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) are designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act is: (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at March 31, 2019, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at March 31, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

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 fiscal quarter ended March 31, 2019. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at March 31, 2019, 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. There were no significant changes to our internal control over financial reporting due to the adoption of the new lease accounting standard.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Various risks associated with our business are described in Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are hereby incorporated by reference into this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

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).
10.1*	Employment Agreement, dated as of May 18, 2016, between Brian Stolz and the Company.
10.2*	Employment Agreement, dated as of November 1, 2016, between Chris B. Walther and the Company.
10.3*†	King Profit Sharing Plan, effective as of January 1, 2019.
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	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	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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

† Confidential treatment requested as to portions of the exhibit. Confidential materials omitted and filed separately with the Securities and Exchange Commission.

SIGNATURE

Pursuant to the requirements 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: May 2, 2019

ACTIVISION BLIZZARD, INC.

/s/ DENNIS DURKIN

Dennis Durkin
*Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

/s/ STEPHEN WEREB

Stephen Werek
*Deputy Chief Financial Officer, Chief Accounting Officer,
and Principal Accounting Officer of
Activision Blizzard, Inc.*

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into effective as of the date signed by the Employer, between Activision Blizzard, Inc. (the "**Employer**" or "**Activision Blizzard**" and, together with its subsidiaries, the "**Activision Blizzard Group**"), and Brian Stolz ("**you**").

RECITAL

The Employer desires to employ you, and you desire to be so employed by the Employer, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises set forth in this Agreement, the Employer and you hereby agree as follows:

1. Term of Employment

(a) The term of your employment under this Agreement (the "**Term**") shall commence on May 30, 2016 (the "**Effective Date**") and shall end on May 31, 2019 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 9). The Employer shall have the option to extend the Term by up to one year by notifying you in writing of its intent to do so at least six (6) months prior to the original Expiration Date. The final date of any such extended Term shall thereafter be referred to as the "Expiration Date" for purposes of this Agreement and the Term shall end on such date (or such earlier date on which your employment is terminated). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.

(b) You and the Employer each agree to provide the other with at least six (6) months' notice of any intent not to continue your employment following the Expiration Date. If your employment continues beyond the Expiration Date, you shall be an at-will employee whose employment may be terminated by either party to this Agreement at any time for any reason.

2. Compensation

(a) Subject to the provisions of this Agreement, in full consideration for all rights and services provided by you under this Agreement, during the Term you shall receive only the compensation set forth in this Section 2.

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$650,000, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) You will be eligible to receive an annual discretionary bonus (the “**Annual Bonus**”). Your target Annual Bonus for each calendar year will be seventy-five percent (75%) of your Base Salary. In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15th day of the third month, of the year following the year to which the Annual Bonus relates. Except as otherwise set forth herein, you must remain continuously employed by the Activision Blizzard Group through the date on which an Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the “**Compensation Committee**”), Activision Blizzard will grant to you equity awards with a total target grant value of \$6,500,000 (and a total grant value of \$7,475,000 if the 2016 Maximum PSU Grant Value (as defined below) were achieved) as follows:

- (i) Activision Blizzard shall grant to you non-qualified stock options to purchase shares of Activision Blizzard’s common stock with a total grant value of approximately \$2,600,000 (the “**2016 Options**”). The actual number of stock options awarded to you on the grant date shall be determined based on the official closing price of Activision Blizzard’s common stock on the effective date of the grant, as reported by NASDAQ (the “**Grant Date Price**”), and an applicable binomial factor selected by Activision Blizzard. The number of stock options awarded shall be rounded to the nearest whole number, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. The 2016 Options shall be awarded with an exercise price that is equal to the Grant Date Price. Finally, three-quarters of the 2016 Options shall vest on May 30, 2019, and one-quarter of the 2016 Options shall vest on May 30, 2020, in each case, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.
- (ii) Activision Blizzard shall grant to you performance-vesting restricted share units which represent the conditional right to receive shares of Activision Blizzard’s common stock (the “**2016 Performance Share Units**”), with a target value at the time of grant of approximately \$3,900,000 (the “**2016 Target PSU Grant Value**”). The actual number of 2016 Performance Share Units awarded to you on the grant date shall be equal to the 2016 Target PSU Grant Value divided by the Grant Date Price (it being recognized that if the maximum performance objectives are met for all of the 2016 Performance Share Units, the value of the shares received upon vesting for all of the 2016 Performance Share Units would have been \$4,875,000 at the time of grant of the 2016 Performance Share Units, representing 125% of the 2016 Target PSU Grant Value (the “**2016 Maximum PSU Grant Value**”). The number of 2016 Performance Share Units awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in its sole discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. Subject to your remaining

employed by the Activision Blizzard Group through the applicable vesting dates, the actual number of shares of Activision Blizzard's common stock ("**Shares**") that shall be received on each of the applicable vesting dates is determined as follows:

- a. One-fourth of the 2016 Performance Share Units (the "**First Tranche 2016 Performance Share Units**") shall vest on May 30, 2019, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2016 for Activision Blizzard ("**2016 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2016 (the "**2016 AOP OI Objective**"). If the 2016 OI is less than 85% of the 2016 AOP OI Objective, then the First Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2016 OI is 85% or more of the 2016 AOP OI Objective, the number of Shares that shall be received with regard to the First Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of First Tranche 2016 Performance Share Units; and (2) the ratio of the 2016 OI to the 2016 AOP OI Objective, up to a maximum of 125%.
- b. One-fourth of the 2016 Performance Share Units (the "**Second Tranche 2016 Performance Share Units**") shall vest on May 30, 2019, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2017 for Activision Blizzard ("**2017 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2017 (the "**2017 AOP OI Objective**"). If the 2017 OI is less than 85% of the 2017 AOP OI Objective, then the Second Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2017 OI is 85% or more of the 2017 AOP OI Objective, the number of Shares that shall be received with regard to the Second Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Second Tranche 2016 Performance Share Units; and (2) the ratio of the 2017 OI to the 2017 AOP OI Objective, up to a maximum of 125%.
- c. One-fourth of the 2016 Performance Share Units (the "**Third Tranche 2016 Performance Share Units**") shall vest on May 30, 2019, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2018 for Activision Blizzard ("**2018 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2018 (the "**2018 AOP OI Objective**"). If the 2018 OI is less than 85% of the 2018 AOP OI Objective, then the Third Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2018 OI is 85% or more of the 2018 AOP OI Objective, the number of Shares that shall be received with regard to the Third Tranche 2016

Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Third Tranche 2016 Performance Share Units; and (2) the ratio of the 2018 OI to the 2018 AOP OI Objective, up to a maximum of 125%.

- d. One-fourth of the 2016 Performance Share Units (the “**Fourth Tranche 2016 Performance Share Units**”) shall vest on May 30, 2020, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2019 for Activision Blizzard (“**2019 OI**”) is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2019 (the “**2019 AOP OI Objective**”). If the 2019 OI is less than 85% of the 2019 AOP OI Objective, then the Fourth Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2019 OI is 85% or more of the 2019 AOP OI Objective, the number of Shares that shall be received with regard to the Fourth Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Fourth Tranche 2016 Performance Share Units; and (2) the ratio of the 2019 OI to the 2019 AOP OI Objective, up to a maximum of 125%.

If, prior to the vesting of any portion of the 2016 Performance Share Units, as provided for in this provision, your job responsibilities are changed to include a different or additional business unit, then Activision Blizzard, in its sole discretion, acting through the Compensation Committee or Activision Blizzard’s management, as applicable, may adjust the performance objective for the relevant fiscal year(s) by substituting the OI and AOP OI Objective of your new or additional business unit for that of your original business unit or by prorating or otherwise combining the OI and AOP OI Objective of the applicable business units, in each case for purposes of determining whether or not the conditions of the unvested 2016 Performance Share Units have been satisfied.

Collectively, the 2016 Options and the 2016 Performance Share Units shall be referred to as the “**2016 Equity Awards**”. You acknowledge that the grant of 2016 Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The 2016 Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the “**Incentive Plan**”), Activision Blizzard’s standard forms of award agreement, and, in the event that Activision Blizzard determines that you are an Executive Officer (as defined by the Securities Exchange Act of 1934, as amended) of Activision Blizzard, the Employer’s Executive Stock Ownership Guidelines (including, but not limited to, all of the limitations on equity awards described therein) which are attached as Exhibit E. In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. These Equity Awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.

- (e) Subject to the approval of the Compensation Committee, beginning in 2016, you will be eligible to receive an annual equity grant of performance-vesting restricted share units with

(i) performance objectives based upon non-GAAP operating income for Activision Blizzard, (ii) a vesting date which will be no later than the last day of the third month following the third fiscal year from grant (i.e. if granted in November 2016, the vesting will be no later than March 31, 2020), (iii) the formula for vesting of the total number of performance-vesting restricted shares being equal to product of: (a) the number of performance-vesting restricted share units and (b) the percentage of achievement, which shall be calculated by dividing the operating income achieved by the operating income performance objective, with a minimum ratio of 85% (provided that achievement is equal to or greater than 85%, otherwise no vesting shall occur at all) and a maximum ratio of 125%, and (iv) a target value of \$500,000 (with the actual amount, performance objectives, and vesting schedule, to be determined by the Compensation Committee, which has discretion to approve or disapprove all equity incentive awards and to determine and/or make modification to the terms of such awards). Such annual awards, if and when approved by the Compensation Committee, shall be subject to all terms of the Incentive Plan, Activision Blizzard's standard forms of award agreement, and, in the event that Activision Blizzard determines that you are an Executive Officer (as defined by the Securities Exchange Act of 1934, as amended) of Activision Blizzard, the Employer's Executive Stock Ownership Guidelines (including, but not limited to, all of the limitations on equity awards described therein); in the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. In addition, such annual awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.

(f) Contingent upon your beginning employment on or before June 1, 2016 and your remaining continuously employed by the Activision Blizzard Group through each payment date, the Employer will provide you with a sign on bonus in the amount of \$2,100,000 (less applicable taxes), which shall be paid in two parts: (i) \$1,000,000 shall be paid within three (3) weeks of your signing this Agreement and (ii) \$1,100,000 will be paid on or about May 30, 2017. This bonus will not be fully earned by you unless you have been employed continuously by the Activision Blizzard Group through the third anniversary of the Effective Date. Specifically, should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) prior to the third anniversary of the Effective Date, you agree to repay this bonus, prorated based on a fraction, with the numerator being equal to 1095 less the number of days of completed service with Activision Blizzard Group from the Effective Date and the denominator being 1095. You further agree that repayment shall occur within 60 days of termination of your employment. The fact that you are receiving this bonus and the terms under which you will be required to repay the bonus in no way affect your other obligations under this Agreement.

(g) In connection with your relocation to the Los Angeles area, you shall be entitled to the relocation benefits set forth in, and determined in accordance with and otherwise subject to the terms and conditions of, the "Relocation Summary" attached hereto as Exhibit D hereto. Notwithstanding anything to the contrary in this Agreement or in the Relocation Summary, should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) prior to the first anniversary of the Effective Date, you agree to repay the Employer 100% of any relocation expenses for which you were reimbursed by the Employer within 60 days of the termination of your employment.

3. Title; Location

You shall serve as Chief People Officer. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to time for business reasons.

4. Duties

You shall report directly to the President and Chief Executive Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by it in its sole and absolute discretion) and shall have such duties commensurate with your position as may be assigned to you from time to time by the President and Chief Executive Officer (or, as applicable, such other executive designated by the Employer). You are also required to read, review and observe all of the Activision Blizzard Group's policies, procedures, rules and regulations in effect from time to time during the Term that apply to employees of the Employer, including, without limitation, the Code of Business Conduct and Ethics, as amended from time to time. You shall devote your full-time working time to the performance of your duties hereunder, shall faithfully serve the Employer, shall in all respects conform to and comply with the lawful directions and instructions given to you by the President and Chief Executive Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by the Employer in its sole and absolute discretion) and shall use your best efforts to promote and serve the interests of the Activision Blizzard Group. Further, you shall at all times place the Employer's interests above your own, not take any actions that would conflict with the Employer's interests and shall perform all your duties for the Employer with the highest duty of care. Further, you shall not, directly or indirectly, render services of any kind to any other person or organization, whether on your own behalf or on behalf of others, without the consent of the President and Chief Executive Officer or otherwise engage in activities that would interfere with your faithful and diligent performance of your duties hereunder; provided, however, that you may serve on civic or charitable boards or engage in charitable activities without remuneration if doing so is not inconsistent with, or adverse to, your employment hereunder.

5. Expenses

To the extent you incur necessary and reasonable travel or other business expenses in the course of your employment, you shall be reimbursed for such expenses, upon presentation of written documentation in accordance with the Employer's policies in effect from time to time.

6. Other Benefits

(a) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available to executives of the Employer from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement.

(b) You expressly agree and acknowledge that, after the Expiration Date (or such earlier date on which your employment is terminated), you shall not be entitled to any additional benefits, except as specifically provided in this Agreement and the benefit plans in which you participate during the Term, and subject in each case to the then-prevailing terms and conditions of each such plan.

7. Vacation and Paid Holidays

(a) You will generally be entitled to paid vacation days in accordance with the normal vacation policies of the Employer in effect from time to time; provided, however, that you will be entitled to accrue no less than twenty (20) paid vacation days per year unless your vacation balance exceeds the Employer's then-current maximum.

(b) You shall be entitled to all paid holidays allowed by the Employer to its full-time employees in the United States.

8. Protection of the Employer's Interests

(a) **Duty of Loyalty.** During the Term, you will owe a "**Duty of Loyalty**" to the Employer, which includes, but is not limited to, you not competing in any manner, whether directly or indirectly, as a principal, employee, agent, owner, or otherwise, with any entity in the Activision Blizzard Group; provided, however, that nothing in this Section 8(a) will limit your right to own up to five percent (5%) of any of the debt or equity securities of any business organization that is then required to file reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

(b) **Property of the Activision Blizzard Group.** All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you, whether on your own time or not, alone or with others, during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of the Activision Blizzard Group, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of the Activision Blizzard Group, (iii) were created using the time or resources of the Activision Blizzard Group, or (iv) are based on any property owned or idea conceived by the Activision Blizzard Group, shall be deemed to be a work made for hire and shall be the sole and exclusive property of the Activision Blizzard Group. You agree to execute, acknowledge and deliver to the Employer, at the Employer's request, such further documents, including copyright and patent assignments, as the Employer finds appropriate to evidence the Activision Blizzard Group's rights in such property. Your agreement to assign to the Activision Blizzard Group any of your rights as set forth in this Section 8(b) shall not apply to any invention that qualifies fully under the provisions of California Labor Code Section 2870, where no equipment, supplies, facility or trade secret information of the Activision Blizzard Group was used, where the invention was developed entirely upon your own time, where the invention does not relate to the Activision Blizzard Group's business, and where the invention does not result from any work performed by you for the Activision Blizzard Group.

(c) **Covenant Not to Shop.** Other than during the final six (6) months of the Term, you shall not negotiate for employment with any entity or person outside of the Activision Blizzard Group. During the search process and thereafter you shall remain strictly subject to your continuing obligations under this Agreement, including, without limitation, your Duty of Loyalty, compliance with the Activision Blizzard Group's policies and your confidentiality obligations.

(d) **Confidentiality.** You acknowledge, and the Employer agrees, that during your employment you will have access to and become informed of confidential and proprietary information concerning the Activision Blizzard Group. During your employment and at all times following the termination of your employment, confidential or proprietary information of any entity in the Activision Blizzard Group shall not be used by you or disclosed or made available by

you to any person except as required in the course of your employment with the Activision Blizzard Group or as otherwise provided for in the Employee Confidential Information Agreement attached as Exhibit A hereto (the "**Confidential Information Agreement**"). Upon the termination of your employment (or at any time on the Employer's request), you shall return to the Activision Blizzard Group all such information that exists, whether in electronic, written, or other form (and all copies or extracts thereof) under your control and shall not retain such information in any form, including without limitation on any devices, disks or other media. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the Confidential Information Agreement as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

(e) **Return of Property and Resignation from Office.** You acknowledge that, upon termination of your employment for any reason whatsoever (or at any time on the Employer's request), you will promptly deliver to the Activision Blizzard Group or surrender to the Activision Blizzard Group's representative all property of any entity in the Activision Blizzard Group, including, without limitation, all documents and other materials (and all copies thereof) relating to the Activision Blizzard Group's business, all identification and access cards, all contact lists and third party business cards however and wherever preserved, and any equipment provided by any entity in the Activision Blizzard Group, including, without limitation, computers, telephones, personal digital assistants, memory cards and similar devices that you possess or have in your custody or under your control. You will cooperate with the Activision Blizzard Group by participating in interviews to share any knowledge you may have regarding the Activision Blizzard Group's intellectual or other property with personnel designated by the Activision Blizzard Group. You also agree to resign from any office held by you within the Activision Blizzard Group immediately upon termination of your employment for any reason whatsoever (or at any time on the Employer's request) and you irrevocably appoint any person designated as the Activision Blizzard Group's representative at that time as your delegate to effect such resignation.

(f) **Covenant Not to Solicit.**

- (i) During your employment, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly: (a) offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment or engagement of the Activision Blizzard Group, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group; or (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (ii) For a period of two (2) years following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, either

alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly solicit the employment or engagement of, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group (or any person who was employed or otherwise engaged by the Activision Blizzard Group during your final ninety (90) days of employment), whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group.

- (iii) During your employment and at all times following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, use the confidential, trade secret information of the Activision Blizzard Group or any other unlawful means to directly or indirectly solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you do not violate your Duty of Loyalty or any other fiduciary duty to the Employer, and are reasonable in all circumstances in scope, duration and all other respects. The provisions of this Section 8(f) shall survive the expiration or earlier termination of this Agreement.

9. Termination of Employment

(a) By the Employer for Cause.

- (i) At any time during the Term, the Employer may terminate your employment for "**Cause**," which shall mean a good-faith determination by the Employer that you (i) engaged in misconduct or gross negligence in the performance of your duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of your employment; (ii) engaged in fraud, dishonesty, or any other conduct that causes or has the potential to cause, harm to any entity in the Activision Blizzard Group, including its business or reputation; (iii) violated any lawful directives or policies of the Activision Blizzard Group or any applicable laws, rules or regulations; (iv) materially breached this Agreement; (v) materially breached any proprietary information or confidentiality agreement with any entity in the Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (vii) breached your fiduciary duties to the Activision Blizzard Group.
- (ii) In the case of any termination for Cause pursuant to clause (iii) of the definition thereof, the Employer shall give you at least thirty (30) days written

notice of its intent to terminate your employment. The notice shall specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within fifteen (15) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause. Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.

(iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts) under clauses (i), (ii), (v), (vi) or (vii) of the definition of Cause, your termination shall be treated as a termination by the Employer for Cause.

(b) **By the Employer Without Cause.** The Employer may terminate your employment without Cause at any time during the Term and such termination shall not be deemed a breach by the Employer of any term of this Agreement or any other duty or obligation, expressed or implied, which the Employer may owe to you pursuant to any principle or provision of law.

(c) **By You If Your Principal Place of Business Is Relocated Without Your Consent.** At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part, the Employer reassigns your principal place of business to a location that is more than fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 9(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the "**Cure Period**"). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 9(c) will no longer exist.

(d) **Death.** In the event of your death during the Term, your employment shall terminate immediately as of the date of your death.

(e) **Disability.** In the event that you are or become "**disabled**," the Employer shall, to the extent permitted by applicable law, have the right to terminate your employment. For purposes of this Agreement, "disabled" shall mean that either (i) you have a physical or mental impairment that renders you unable to perform the duties required of you under this Agreement, even with the Employer providing you a reasonable accommodation, as determined by a physician selected by the Employer in its sole discretion or (ii) you are receiving benefits under any long-term disability plan of the Employer then in effect. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any determination of whether you are disabled within ten (10) days of such a request. Without limiting the generality of the foregoing,

to the extent provided by the Employer's policies and practices then in effect, you shall not receive any Base Salary during any period in which you are disabled; provided, however, that nothing in this Section 9(e) shall impact any right you may have to any payments under the Employer's short-term and long-term disability plans, if any.

10. Termination of Obligations and Severance Payments

(a) **General.** Upon the termination of your employment pursuant to Section 9, your rights and the Employer's obligations to you under this Agreement shall immediately terminate except as provided in this Section 10 and Section 11(s), and you (or your heirs or estate, as applicable) shall be entitled to receive any amounts or benefits set forth below (subject in all cases to Sections 10(f), 11(q) and 11(r)). The payments and benefits provided pursuant to this Section 10 are (x) in lieu of any severance or income continuation protection under any plan of the Activision Blizzard Group that may now or hereafter exist and (y) deemed to satisfy and be in full and final settlement of all obligations of the Activision Blizzard Group to you under this Agreement. You shall have no further right to receive any other compensation benefits following your termination of employment for any reason except as set forth in this Section 10.

For the purposes of this Agreement, the following terms shall have the following meanings:

"Basic Severance" shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

"Bonus Severance" shall mean payment of:

- (i) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for any year that ended prior to the Termination Date had you remained employed through the date such bonus would have been otherwise been paid (in the event that your Termination Date occurs before such bonus would have been paid); and
- (ii) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for the year in which your Termination Date occurs had you had remained employed through the date such bonus would have been paid, multiplied by a fraction, the numerator of which is the number corresponding to the calendar month in which the Termination Date occurs and the denominator of which is 12, where, for purposes of calculating the amount of such bonus, any goals will be measured by actual performance.

"Termination Date" shall mean the effective date of your termination of employment pursuant to Sections 9(a)-(e).

(b) **Death.** In the event your employment is terminated under Section 9(d):

- (i) Basic Severance. Your heirs or estate, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) Lump Sum Payment of Two Times Base Salary. Your heirs or estate, as the case may be, shall receive payment of an amount equal to two (2) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date; provided, however, that this amount shall be reduced by any payments to which you become entitled upon death under any Employer-sponsored plan;
- (iii) Bonus Severance. Your heirs or estate, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates; and
- (iv) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested Performance Share Units shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) one (1) year after the Termination Date or (y) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately.

(c) **Termination by the Employer Without Cause, by You if Your Principal Place of Business Is Relocated Without Your Consent or by the Employer if You Become Disabled.** In the event the Employer terminates your employment under Section 9(b), you terminate your employment under Section 9(c) or the Employer terminates your employment under Section 9(e):

- (i) Basic Severance. You or your legal representative, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) Salary Continuation. You or your legal representative, as the case may be, shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date, which amount shall be paid in equal installments commencing on the first payroll date following the 60th day following the Termination Date in accordance with the Employer's payroll practices as in effect from time to time, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date; provided, however, that, to the extent doing so will not result in the imposition of additional taxes under Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended and the rules and regulations promulgated thereunder (the "Code"), this amount shall be

reduced by any payments which you have received or to which you become entitled under any Employer-sponsored long-term disability plan;

(iii) **Bonus Severance.** You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates;

(iv) **Impact on Equity Awards.**

a. All outstanding Equity Awards shall cease to vest. All vested Performance Share Units shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of your Termination Date will be cancelled immediately; and

b. In the event the Employer terminates your employment under Section 9(b) or you terminate your employment under Section 9(c), all unvested 2016 Performance Share Units will cease to vest and be cancelled immediately. Notwithstanding the foregoing, in the event that (i) your Termination Date occurs after the completion of one or more performance periods (i.e. fiscal years 2016, 2017, 2018 and/or 2019), (ii) your employment is terminated pursuant to Section 9(b) or 9(c); and (iii) the Compensation Committee determines that the applicable performance objective(s) (i.e. 2016 Performance Objective, 2017 Performance Objective, 2018 Performance Objective and/or 2019 Performance Objective) have been achieved for each performance period completed prior to your Termination Date, then an amount to be calculated as provided for below in Paragraph 10(c)(iv)(b)[i] shall be paid to you, (the "**PSU Termination Consideration**"). This amount shall be paid no later than the later of the 60th day following the Termination Date and 30 days after the date the Compensation Committee determines that the applicable performance objective(s) (i.e. 2016 Performance Objective, 2017 Performance Objective, 2018 Performance Objective and/or 2019 Performance Objective) have been achieved (if any), and will be subject to applicable taxes and withholdings.

[i] The formula for determining the PSU Termination Consideration for each applicable tranche of cancelled 2016 Performance Share Units, if any, (i.e. the First Tranche 2016 Performance Share Units, the Second Tranche 2016 Performance Share Units, the Third Tranche 2016 Performance Share Units and/or the Fourth Tranche 2016 Performance Share Units) is as follows: multiply the Grant Date Price by the product of the number of performance share units for the applicable tranche by the ratio, as determined by the Compensation Committee, in its discretion, of the non-GAAP operating income (the "**OI**") for the applicable fiscal year to the AOP OI Objective for the applicable fiscal year (e.g. the performance objective for the applicable fiscal year), up to a maximum of 125%.

For clarity, the following examples are provided as illustration, but not by way of limitation:

(x) in the event that your employment terminates on January 1, 2017, pursuant to Section 9(b) or 9(c), the Compensation Committee determines that 86% of the 2016 Performance Objective is achieved, the number of performance share units granted for the First Tranche 2016 Performance Share Units is 26,351, and the Grant Date Price is \$37, then \$838,489 (less applicable taxes and withholdings) will be paid using the following calculation: $\$37 \times [26,351 \times .86] = \$838,489$. You will receive no payment with respect to the cancelled Second, Third, or Fourth Tranche 2016 Performance Share Units.

(y) in the event that your employment terminates on January 1, 2018, pursuant to Section 9(b) or 9(c), the Compensation Committee determines that 80% of the 2016 Performance Objective is achieved, 135% of the 2017 Performance Objective is achieved, the Grant Date Price is \$37 and the number of performance share units granted for each of the First Tranche 2016 Performance Share Units and the Second Tranche 2016 Performance Share Units is 26,351, then \$1,218,734 (less applicable taxes and withholdings) will be paid using the following calculation: $\$37 \times [26,351 \times 1.25] = \$1,218,734$. You will receive no payment with respect to the cancelled Third or Fourth Tranche 2016 Performance Share Units.

(v) Additional Severance.

a. You or your legal representative, as the case may be, shall receive payment of \$650,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2016, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2016 OI is \$1 or greater and [ii] 2016 OI is 85% or greater than the 2016 AOP OI Objective;

b. You or your legal representative, as the case may be, shall receive payment of \$650,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2017, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2017 OI is \$1 or greater and [ii] 2017 OI is 85% or greater than the 2017 AOP OI Objective;

c. You or your legal representative, as the case may be, shall receive payment of \$650,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2018, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2018 OI is \$1 or greater and [ii] 2018 OI is 85% or greater than the 2018 AOP OI Objective; and

d. You or your legal representative, as the case may be, shall receive payment of \$650,000, if and only if, (i) your employment is terminated

pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2019, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2019 OI is \$1 or greater and [ii] 2019 OI is 85% or greater than the 2019 AOP OI Objective.

The amounts set forth in Sections 10(d)(v)a. through 10(d)(v)d. are intended to be cumulative to the extent the applicable conditions are satisfied; provided, however, no payment pursuant to Section 10(d)(v)a., 10(d)(v)b., or 10(d)(v)c. shall be due to you if your Termination Date is on or after May 31, 2019. All amounts owed pursuant to this Section 10(d)(v) will be paid to you no later than the later of the 60th day following the Termination Date and 30 days after the date the Compensation Committee determines that the applicable OI conditions have been achieved (if any), and will be subject to applicable taxes; and

(vi) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(c)(ii)-(v) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60th day following the Termination Date, you shall not be entitled to any payments under this Section 10(c) other than the Basic Severance.

(d) **Termination by the Employer For Cause**. In the event your employment is terminated by the Employer under Section 9(a), then:

(i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and

(ii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.

(e) **Termination on the Expiration Date**. In the event your employment terminates on the Expiration Date, then:

(i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;

(ii) Bonus Severance. You shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates; and

- (iii) Impact on Equity Awards. All outstanding Equity Awards shall cease to vest. All vested Performance Share Units shall be paid in accordance with their terms. Any vested portion of the Option shall remain exercisable until the earlier of (x) thirty (30) days after the Termination Date and (y) the original expiration date of the Option. Any Equity Awards that are not vested as of the Expiration Date will be cancelled immediately.

(f) **Breach of Post-termination Obligations or Subsequent Employment.**

- (i) Breach of Post-termination Obligations. In the event that you breach any of your obligations under Section 8, the Employer's obligation, if any, to make payments and provide benefits under Section 10 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.
- (ii) Subsequent Employment. Notwithstanding anything to the contrary contained herein, if, at any time during the Salary Continuation Period, you obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity, you must promptly notify the Employer and payments under Section 10(c)(ii), (iv)b. and (v) shall be refunded by you to the Employer (to the extent already paid) and shall be offset (to the extent payable in the future) by the amount of Base Compensation (as defined below) earned by, paid to, or granted to you during or with respect to the Salary Continuation Period. "**Base Compensation**" shall mean the amount of your base salary or, if applicable, wages you earn (or are paid or granted) during or with respect to any subsequent employment or services arrangement; provided, however, such base salary or wages shall be deemed, in all cases, to equal no less than 35% of the total compensation (including, without limitation, any and all amounts of salary, bonus and all other kinds of cash or in-kind or equity-based compensation) you earn, are paid, or are granted during or with respect to such subsequent employment or services arrangement and which are paid to you, vest or otherwise accrue with respect to services performed by you, during or with respect to the Salary Continuation Period.

11. General Provisions

(a) **Entire Agreement.** This Agreement, together with the Confidential Information Agreement, the Activision Blizzard Group Dispute Resolution Agreement (the "**Dispute Resolution Agreement**", as referenced in Section 11(k) below), the New Employee Letter and Certification, and the Employer's Executive Stock Ownership Guidelines, supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard Group, and no amendment or modification of these agreements shall be binding unless it is set forth in a writing signed by both the Employer and you. To the extent that this Agreement conflicts with any of the Employer's policies, procedures, rules or regulations, this Agreement shall supersede the other policies, procedures, rules or regulations.

(b) **Use of Employee's Name and Likeness.** You hereby irrevocably grant the Activision Blizzard Group the right, but not the obligation, to use your name or likeness in any product made by the Activision Blizzard Group or for any publicity or advertising purpose in any medium now known or hereafter existing.

(c) **Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by you without the prior written consent of the Employer. The Employer may assign this Agreement or all or any part of its rights and obligations under this Agreement at any time and following such assignment all references to the Employer shall be deemed to refer to such assignee and the Employer shall thereafter have no obligation under this Agreement.

(d) **No Conflict with Prior Agreements.** You represent to the Employer that neither your commencement of employment under this Agreement nor the performance of your duties under this Agreement conflicts or will conflict with any contractual or legal commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party. If you have acquired any confidential or proprietary information in the course of your prior employment or otherwise in connection with your provision of services to any entity outside the Activision Blizzard Group, during the Term you will fully comply with any duties to such entity then-applicable to you not to disclose or otherwise use such information. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the New Employee Letter and Certification attached as Exhibit C hereto (the "*New Employee Letter and Certification*") as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

(e) **Successors.** This Agreement shall be binding on and inure to the benefit of the Employer and its successors and assigns, including successors by merger and operation of law. This Agreement shall also be binding on and inure to the benefit of you and your heirs, executors, administrators and legal representatives.

(f) **Waiver.** No waiver by you or the Employer at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No waiver of any provision of this Agreement shall be implied from any course of dealing between or among the parties hereto or from any failure by any party hereto to assert its rights hereunder on any occasion or series of occasions.

(g) **Expiration.** This Agreement does not constitute a commitment of the Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon the Expiration Date, or, if earlier, the termination of this Agreement pursuant to Section 9, neither the Employer nor you shall have any obligation to the other with respect to your continued employment.

(h) **Taxation.** The Employer may withhold from any payments made under the Agreement all federal, state, city or other applicable taxes or amounts as shall be required or permitted pursuant to any law, governmental regulation or ruling or agreement with you.

(i) **Immigration.** In accordance with the Immigration Reform and Control Act of 1986, employment under this Agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(j) **Choice of Law.** Except to the extent governed by federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California or whatever other state in which you were last employed by the Employer, without regard to conflict of law principles.

(k) **Arbitration.** Except as otherwise provided in this Agreement, both parties agree that any dispute or controversy between them will be settled by final and binding arbitration pursuant to the terms of the Dispute Resolution Agreement (attached hereto as Exhibit B).

(l) **Severability.** It is expressly agreed by the parties that each of the provisions included in Section 8(f) is separate, distinct, and severable from the other and remaining provisions of Section 8(f), and that the invalidity or unenforceability of any Section 8(f) provision shall not affect the validity or enforceability of any other provision or provisions of this Agreement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under, or would require the commission of any act contrary to, existing or future laws effective during the Term, such provisions shall be fully severable, the Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a legal and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

(m) **Services Unique.** You recognize that the services being performed by you under this Agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages in the event of a breach of this Agreement by you.

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to obtain injunctive relief for such breaches or threatened breaches in any court of competent jurisdiction. The injunctive relief provided for in Exhibit B and this Section 11(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

(o) **Remedies Cumulative.** The remedies in this Agreement are not exclusive, and the parties shall have the right to pursue any other legal or equitable remedies to enforce the terms of this Agreement.

(p) **Headings.** The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this Agreement.

(q) **Section 409A.** To the extent applicable, it is intended that the Agreement comply with the provisions of Section 409A. The Agreement will be administered and interpreted in a manner consistent with this intent, and any provision that would cause the Agreement to fail to satisfy Section 409A will have no force and effect until amended to comply therewith (which amendment may be retroactive to the extent permitted by Section 409A). Notwithstanding anything contained herein to the contrary, to the extent any payment under this Agreement is subject to Section 409A, you shall not be considered to have terminated employment with the Employer for purposes of the Agreement and no payments shall be due to you under the Agreement which are payable upon your termination of employment unless you would be considered to have incurred a “separation from service” from the Employer within the meaning of Section 409A. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Agreement during the six-month period immediately following your termination of employment shall instead be paid on the first business day after the date that is six months following your termination of employment (or upon your death, if earlier). In addition, for purposes of the Agreement, each amount to be paid or benefit to be provided to you pursuant to the Employment Agreement shall be construed as a separate identified payment for purposes of Section 409A. With respect to expenses eligible for reimbursement under the terms of the Agreement, (i) the amount of such expenses eligible for reimbursement in any taxable year shall not affect the expenses eligible for reimbursement in another taxable year and (ii) any reimbursements of such expenses shall be made no later than the end of the calendar year following the calendar year in which the related expenses were incurred, except, in each case, to the extent that the right to reimbursement does not provide for a “deferral of compensation” within the meaning of Section 409A; provided, however that with respect to any reimbursements for any taxes to which you become entitled under the terms of the Agreement, the payment of such reimbursements shall be made by the Employer no later than the end of the calendar year following the calendar year in which you remit the related taxes.

(r) **Section 280G and Section 162(m).** Notwithstanding anything herein to the contrary, in the event that you receive any payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute “parachute payments” within the meaning of Section 280G of the Code, and the net after-tax amount of the parachute payment is less than the net after-tax amount if the aggregate payment to be made to you were three times your “base amount” (as defined in Section 280G(b)(3) of the Code), less \$1.00, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times your base amount, less \$1.00. To the extent the aggregate of the amounts constituting the parachute payments are required to be so reduced, the amounts provided under Section 10 of this Agreement shall be reduced (if necessary, to zero) with amounts that are payable first reduced first; provided, however, that, in all events the payments provided under Section 10 of this Agreement which are not subject to Section 409A shall be reduced first. Similarly, you agree that no payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, shall be made to you if the Employer reasonably anticipates that Section 162(m) of the Code would prevent the Employer from receiving a deduction for such payment. If, however, any payment is not made pursuant to the previous sentence, the Employer shall make such payment as soon as practicable in the first calendar year that it reasonably determines that it can do so and still receive a deduction for such payment. The determinations to be made with respect to this Section 11(r) shall be made by a certified public accounting firm designated by the Employer.

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

ACCEPTED AND AGREED TO:

Employer

Employee

ACTIVISION BLIZZARD, INC.

By: _____
Chris B. Walther
Chief Legal Officer

By: _____
Brian Stolz

Date: _____

Date: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into as of the date signed by the Employer, between Activision Blizzard, Inc. (the "**Employer**") or "**Activision Blizzard**" and, together with its subsidiaries, the "**Activision Blizzard Group**"), and Christopher B. Walther ("**you**").

RECITAL

The Employer desires to employ you, and you desire to be so employed by the Employer, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises set forth in this Agreement, the Employer and you hereby agree as follows:

1. Term of Employment

(a) The term of your employment under this Agreement (the "**Term**") shall commence on October 1, 2016 (the "**Effective Date**") and shall end on March 31, 2020 (the "**Expiration Date**") (or such earlier date on which your employment is terminated under Section 9). The Employer shall have the option to extend the Term by up to one year by notifying you in writing of its intent to do so at least six (6) months prior to the original or any extended Expiration Date. The final date of any such extended Term shall thereafter be referred to as the "Expiration Date" for purposes of this Agreement and the Term shall end on such date (or such earlier date on which your employment is terminated). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations and rights under this Agreement shall immediately lapse.

(b) You and the Employer each agree to provide the other with at least six (6) months' notice of any intent not to continue your employment following the Expiration Date. If your employment continues beyond the Expiration Date, you shall be an at-will employee whose employment may be terminated by either party to this Agreement at any time for any reason.

2. Compensation

(a) Subject to the provisions of this Agreement, in full consideration for all rights and services provided by you under this Agreement, during the Term you shall receive only the compensation set forth in this Section 2.

(b) Commencing on the Effective Date, you shall receive an annual base salary ("**Base Salary**") of \$707,911, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) You will be eligible to receive an annual discretionary bonus (the “**Annual Bonus**”). Your target Annual Bonus for each calendar year will be seventy-five percent (75%) of your Base Salary. In all instances, the actual amount of the Annual Bonus, if any, shall be determined by the Employer, in its sole and absolute discretion, and may be based on, among other things, your base salary and target bonus prior to the Term for calendar year 2016, the portion of the year falling in the Term, your overall performance and the performance of the Employer, Activision Blizzard and the Activision Blizzard Group. The Annual Bonus, if any, will be paid at the same time bonuses for that year are generally paid to other executives, but in no event earlier than the first day of the first month, or later than the 15th day of the third month, of the year following the year to which the Annual Bonus relates. In all instances, you must remain continuously employed by the Activision Blizzard Group through the date on which an Annual Bonus, if any, is paid to be eligible to receive such Annual Bonus.

(d) Subject to the approval of the Compensation Committee of the Board of Directors of Activision Blizzard (the “**Compensation Committee**”), Activision Blizzard will grant to you equity awards with a total target grant value of \$7,500,000 (and a total grant value of \$8,675,000 if the 2016 Maximum PSU Grant Value (as defined below) were achieved) as follows:

- (i) Activision Blizzard shall grant to you non-qualified stock options to purchase shares of Activision Blizzard’s common stock with a total grant value of approximately \$2,800,000 (the “**2016 Options**”). The actual number of stock options awarded to you on the grant date shall be determined based on the official closing price of Activision Blizzard’s common stock on the effective date of the grant, as reported by NASDAQ (the “**Grant Date Price**”), and an applicable binomial factor selected by Activision Blizzard. The number of stock options awarded shall be rounded to the nearest whole number, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. The 2016 Options shall be awarded with an exercise price that is equal to the Grant Date Price. Finally, three-quarters of the 2016 Options shall vest on March 14, 2020, and one-quarter of the 2016 Options shall vest on March 14, 2021, in each case, subject to your remaining employed by the Activision Blizzard Group through the applicable vesting date.
- (ii) Activision Blizzard shall grant to you performance-vesting restricted share units which represent the conditional right to receive shares of Activision Blizzard’s common stock (the “**2016 Performance Share Units**”), with a target value at the time of grant of approximately \$4,700,000 (the “**2016 Target PSU Grant Value**”). The actual number of 2016 Performance Share Units awarded to you on the grant date shall be equal to the 2016 Target PSU Grant Value divided by the Grant Date Price (it being recognized that if the maximum performance objectives are met for all of the 2016 Performance Share Units, the value of the shares received upon vesting for all of the 2016 Performance Share Units would have been \$5,875,000 at the time of grant of the 2016 Performance Share Units, representing 125% of the 2016 Target PSU Grant Value (the “**2016 Maximum PSU Grant Value**”). The number of 2016 Performance Share Units awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in

its sole discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed. Subject to your remaining employed by the Activision Blizzard Group through the applicable vesting dates, the actual number of shares of Activision Blizzard's common stock ("**Shares**") that shall be received on each of the applicable vesting dates is determined as follows:

- a. One-fourth of the 2016 Performance Share Units (the "**First Tranche 2016 Performance Share Units**") shall vest on March 14, 2018, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2017 for Activision Blizzard ("**2017 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2017 (the "**2017 AOP OI Objective**"). If the 2017 OI is less than 85% of the 2017 AOP OI Objective, then the First Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2017 OI is 85% or more of the 2017 AOP OI Objective, the number of Shares that shall be received with regard to the First Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of First Tranche 2016 Performance Share Units; and (2) the ratio of the 2017 OI to the 2017 AOP OI Objective, up to a maximum of 125%;
- b. One-fourth of the 2016 Performance Share Units (the "**Second Tranche 2016 Performance Share Units**") shall vest on March 14, 2019, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2018 for Activision Blizzard ("**2018 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2018 (the "**2018 AOP OI Objective**"). If the 2018 OI is less than 85% of the 2018 AOP OI Objective, then the Second Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2018 OI is 85% or more of the 2018 AOP OI Objective, the number of Shares that shall be received with regard to the Second Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Second Tranche 2016 Performance Share Units; and (2) the ratio of the 2018 OI to the 2018 AOP OI Objective, up to a maximum of 125%;
- c. One-fourth of the 2016 Performance Share Units (the "**Third Tranche 2016 Performance Share Units**") shall vest on March 14, 2020, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2019 for Activision Blizzard ("**2019 OI**") is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2019 (the "**2019 AOP OI Objective**"). If the 2019 OI is less than 85% of the 2019 AOP OI Objective, then the Third Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the

2019 OI is 85% or more of the 2019 AOP OI Objective, the number of Shares that shall be received with regard to the Third Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Third Tranche 2016 Performance Share Units; and (2) the ratio of the 2019 OI to the 2019 AOP OI Objective, up to a maximum of 125%; and

- d. One-fourth of the 2016 Performance Share Units (the “**Fourth Tranche 2016 Performance Share Units**”) shall vest on March 14, 2021, if, and only if, the Compensation Committee determines that non-GAAP operating income for 2020 for Activision Blizzard (“**2020 OI**”) is 85% or more of the annual operating plan operating income objective established by the Board of Directors for Activision Blizzard for 2020 (the “**2020 AOP OI Objective**”). If the 2020 OI is less than 85% of the 2020 AOP OI Objective, then the Fourth Tranche 2016 Performance Share Units will not vest and shall be forfeited. If the 2020 OI is 85% or more of the 2020 AOP OI Objective, the number of Shares that shall be received with regard to the Fourth Tranche 2016 Performance Share Units on the applicable vesting date shall be equal to the product of: (1) the number of Fourth Tranche 2016 Performance Share Units; and (2) the ratio of the 2020 OI to the 2020 AOP OI Objective, up to a maximum of 125%.

If, prior to the vesting of any portion of the 2016 Performance Share Units, as provided for in this provision, your job responsibilities are changed to include a different or additional business unit, then Activision Blizzard, in its sole discretion, acting through the Compensation Committee or Activision Blizzard’s management, as applicable, may adjust the performance objective for the relevant fiscal year(s) by substituting the OI and AOP OI Objective of your new or additional business unit for that of your original business unit or by prorating or otherwise combining the OI and AOP OI Objective of the applicable business units, in each case for purposes of determining whether or not the conditions of the unvested 2016 Performance Share Units have been satisfied.

Collectively, the 2016 Options and the 2016 Performance Share Units shall be referred to as the “**2016 Equity Awards**”. You acknowledge that the grant of 2016 Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee and that the Compensation Committee has discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The 2016 Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the “**Incentive Plan**”), Activision Blizzard’s standard forms of award agreement, and, in the event that Activision Blizzard determines that you are an Executive Officer (as defined by the Securities Exchange Act of 1934, as amended) of Activision Blizzard, the Employer’s Executive Stock Ownership Guidelines (including, but not limited to, all of the limitations on equity awards described therein) which are attached as Exhibit C. In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. These 2016 Equity Awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.

(e) Subject to the approval of the Compensation Committee, beginning in 2016, you will be eligible to receive an annual equity grant of performance-vesting restricted share units with (i) performance objectives contingent upon cumulative operating income performance as compared to Activision Blizzard's three-year plan, (ii) a vesting date which will be no later than the last day of the third month following the third full fiscal year from grant (i.e. if granted in November 2016, the vesting will be no later than March 30, 2020), (iii) the formula for vesting of the total number of performance-vesting restricted shares being equal to product of: (a) the target number of performance-vesting restricted share units and (b) the percentage of achievement, which shall be calculated by dividing the operating income achieved by the operating income performance objective, with a minimum ratio of 85% (provided that achievement is equal to or greater than 85% of the performance objective, otherwise no vesting shall occur at all) and a maximum ratio of 125%, and (iv) a target value of \$625,000 (with the actual amount, performance objectives, and vesting schedule, to be determined by the Compensation Committee, which has discretion to approve or disapprove all equity incentive awards and to determine and/or make modification to the terms of such awards). Such annual awards, if and when approved by the Compensation Committee, shall be subject to all terms of the Incentive Plan, Activision Blizzard's standard forms of award agreement, and, in the event that Activision Blizzard determines that you are an Executive Officer (as defined by the Securities Exchange Act of 1934, as amended) of Activision Blizzard, the Employer's Executive Stock Ownership Guidelines (including, but not limited to, all of the limitations on equity awards described therein); in the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, the Incentive Plan or the award agreements, as applicable, shall govern. In addition, such annual awards, if and when approved by the Compensation Committee, shall be in addition to any previous equity incentive awards made to you.

3. Title; Location

You shall serve as Chief Legal Officer of Activision Blizzard. Your principal place of business initially shall be the Employer's headquarters in Santa Monica, California; provided, however, that you acknowledge and agree that you may be required to travel from time to time for business reasons.

4. Duties

You shall report directly to the Chief Executive Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by it in its sole and absolute discretion) and shall have such duties commensurate with your position as may be assigned to you from time to time by the Chief Executive Officer (or, as applicable, such other executive designated by the Employer). You are also required to read, review and observe all of the Activision Blizzard Group's policies, procedures, rules and regulations in effect from time to time during the Term that apply to employees of the Employer, including, without limitation, the Code of Conduct, as amended from time to time. You shall devote your full-time working time to the performance of your duties hereunder, shall faithfully serve the Employer, shall in all respects conform to and comply with the lawful directions and instructions given to you by the Chief Executive Officer (or such other executive of the Activision Blizzard Group as may be determined from time to time by the Employer in its sole and absolute discretion) and shall use your best efforts to promote and serve the interests of the Activision Blizzard Group. Further, you shall at all times place the Employer's interests above your own, not take any actions that would conflict with the Employer's interests and shall

perform all your duties for the Employer with the highest duty of care. Further, you shall not, directly or indirectly, render services of any kind to any other person or organization, whether on your own behalf or on behalf of others, without the consent of the Chief Executive Officer or otherwise engage in activities that would interfere with your faithful and diligent performance of your duties hereunder; provided, however, that you may serve on civic or charitable boards or engage in charitable activities without remuneration if doing so is not inconsistent with, or adverse to, your employment hereunder.

5. Expenses

To the extent you incur necessary and reasonable travel or other business expenses in the course of your employment, you shall be reimbursed for such expenses, upon presentation of written documentation in accordance with the Employer's policies in effect from time to time.

6. Other Benefits

(a) You shall be eligible to participate in all health, welfare, retirement, pension, life insurance, disability, perquisite and similar plans, programs and arrangements generally available to executives of the Employer from time to time during the Term, subject to the then-prevailing terms, conditions and eligibility requirements of each such plan, program, or arrangement. In addition to the foregoing benefits, Employer will provide you during the Term, at Employer's expense, with a supplemental term life insurance policy with a face amount of \$2,000,000 through a carrier of Employer's choice (the "**Target Face Amount**"), subject to your insurability. If it is determined that you are insurable at a higher cost than a healthy individual of like age, the face amount of such insurance coverage will be reduced to the maximum face amount of coverage that may be obtained for the cost of coverage of the Target Face Amount for such healthy individual.

(b) You expressly agree and acknowledge that, after the Expiration Date (or such earlier date on which your employment is terminated), you shall not be entitled to any additional benefits, except as specifically provided in this Agreement and the benefit plans in which you participate during the Term, and subject in each case to the **then-prevailing** terms and conditions of each such plan.

7. Vacation and Paid Holidays

(a) You will generally be entitled to paid vacation days in accordance with the normal vacation policies of the Employer in effect from time to time; provided, however, that you will be entitled to take and accrue no less than twenty (20) paid vacation days per year, unless your vacation accrual balance exceeds the Employer's then-current maximum accrual cap, in which case you shall cease accruing vacation leave until your accrual balance has fallen below the cap again.

(b) You shall be entitled to all paid holidays allowed by the Employer to its full-time employees in the United States.

8. Protection of the Employer's Interests

(a) **Duty of Loyalty.** During the Term, you will owe a "**Duty of Loyalty**" to the Employer, which includes, but is not limited to, you not competing in any manner, whether directly

or indirectly, as a principal, employee, agent, owner, or otherwise, with any entity in the Activision Blizzard Group; provided, however, that nothing in this Section 8(a) will limit your right to own up to five percent (5%) of any of the debt or equity securities of any business organization that is then required to file reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

(b) **Property of the Activision Blizzard Group.** All rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by you, whether on your own time or not, alone or with others, during the term of your employment or resulting from your services which (i) relate in any manner at the time of conception or reduction to practice to the actual or demonstrably anticipated business of the Activision Blizzard Group, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of the Activision Blizzard Group, (iii) were created using the time or resources of the Activision Blizzard Group, or (iv) are based on any property owned or idea conceived by the Activision Blizzard Group, shall be deemed to be a work made for hire and shall be the sole and exclusive property of the Activision Blizzard Group. You agree to execute, acknowledge and deliver to the Employer, at the Employer's request, such further documents, including copyright and patent assignments, as the Employer finds appropriate to evidence the Activision Blizzard Group's rights in such property. Your agreement to assign to the Activision Blizzard Group any of your rights as set forth in this Section 8(b) shall not apply to any invention that qualifies fully under the provisions of California Labor Code Section 2870, where no equipment, supplies, facility or trade secret information of the Activision Blizzard Group was used, where the invention was developed entirely upon your own time, where the invention does not relate to the Activision Blizzard Group's business, and where the invention does not result from any work performed by you for the Activision Blizzard Group.

(c) **Covenant Not to Shop.** Other than during the final six (6) months of the Term, you shall not negotiate for employment with any entity or person outside of the Activision Blizzard Group. During the search process and thereafter you shall remain strictly subject to your continuing obligations under this Agreement, including, without limitation, your Duty of Loyalty, compliance with the Activision Blizzard Group's policies and your confidentiality obligations.

(d) **Confidentiality.** You acknowledge, and the Employer agrees, that during your employment you will have access to and become informed of confidential and proprietary information concerning the Activision Blizzard Group. During your employment and at all times following the termination of your employment, confidential or proprietary information of any entity in the Activision Blizzard Group shall not be used by you or disclosed or made available by you to any person except as required in the course of your employment with the Activision Blizzard Group or as otherwise provided for in the Employee Confidential Information Agreement attached as Exhibit A hereto (the "**Confidential Information Agreement**"). Upon the termination of your employment (or at any time on the Employer's request), you shall return to the Activision Blizzard Group all such information that exists, whether in electronic, written, or other form (and all copies or extracts thereof) under your control and shall not retain such information in any form, including without limitation on any devices, disks or other media. Without limiting the generality of the foregoing, you acknowledge signing and delivering to the Employer the Confidential Information Agreement as of the Effective Date and you agree that all terms and conditions contained in such agreement, and all of your obligations and commitments provided for in such agreement, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein.

(e) **Return of Property and Resignation from Office.** You acknowledge that, upon termination of your employment for any reason whatsoever (or at any time on the Employer's request), you will promptly deliver to the Activision Blizzard Group or surrender to the Activision Blizzard Group's representative all property of any entity in the Activision Blizzard Group, including, without limitation, all documents and other materials (and all copies thereof) relating to the Activision Blizzard Group's business, all identification and access cards, all contact lists and third party business cards however and wherever preserved, and any equipment provided by any entity in the Activision Blizzard Group, including, without limitation, computers, telephones, personal digital assistants, memory cards and similar devices that you possess or have in your custody or under your control. You will cooperate with the Activision Blizzard Group by participating in interviews to share any knowledge you may have regarding the Activision Blizzard Group's intellectual or other property with personnel designated by the Activision Blizzard Group. You also agree to resign from any office held by you within the Activision Blizzard Group immediately upon termination of your employment for any reason whatsoever (or at any time on the Employer's request) and you irrevocably appoint any person designated as the Activision Blizzard Group's representative at that time as your delegate to effect such resignation.

(f) **Covenant Not to Solicit.**

- (i) During your employment, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly: (a) offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment or engagement of the Activision Blizzard Group, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group; or (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (ii) For a period of two (2) years following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, either alone or jointly, with or on behalf of others, whether as principal, partner, agent, representative, equity holder, director, employee, consultant or otherwise, directly or indirectly solicit the employment or engagement of, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by any entity in the Activision Blizzard Group (or any person who was employed or otherwise engaged by the Activision Blizzard Group during your final ninety (90) days of employment), whether or not such person would commit any breach of a contract by reason of his or her leaving the service of the Activision Blizzard Group.

- (iii) During your employment and at all times following the termination of your employment for any reason whatsoever, you shall not, at any time or for any reason, use the confidential, trade secret information of the Activision Blizzard Group or any other unlawful means to directly or indirectly solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of any entity in the Activision Blizzard Group to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with the Activision Blizzard Group.
- (iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect the Activision Blizzard Group's confidential information and trade secrets and to ensure that you do not violate your Duty of Loyalty or any other fiduciary duty to the Employer, and are reasonable in all circumstances in scope, duration and all other respects. The provisions of this Section 8(f) shall survive the expiration or earlier termination of this Agreement.

9. Termination of Employment

(a) By the Employer for Cause.

- (i) At any time during the Term, the Employer may terminate your employment for "**Cause**," which shall mean a reasonable and good-faith determination by the Employer that you (i) engaged in gross negligence in the performance of your duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of your employment; (ii) engaged in fraud, dishonesty, or any other serious misconduct that causes or has the potential to cause, harm to any entity in the Activision Blizzard Group, including its business or reputation; (iii) materially violated any lawful directives or policies of the Activision Blizzard Group or any laws, rules or regulations applicable to your employment with the Activision Blizzard Group; (iv) materially breached this Agreement; (v) materially breached any proprietary information or confidentiality agreement with any entity in the Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (vii) materially breached your fiduciary duties to the Activision Blizzard Group.
- (ii) In the case of any termination for Cause that is curable without any residual damage (financial or otherwise) to the Employer or any entity in the Activision Blizzard Group, the Employer shall give you at least thirty (30) days written notice of its intent to terminate your employment; provided, that in no event shall any termination pursuant to clause (vi) of the definition of Cause be deemed curable. The notice shall specify (x) the effective date of your termination and (y) the particular acts or circumstances that constitute Cause for such termination. You shall be given the opportunity within fifteen (15) days after receiving the notice to explain why Cause does not exist or to cure any basis for Cause (other than a termination pursuant to clause (vi) of the definition thereof). Within fifteen (15) days after any such explanation or cure, the Employer will make its final determination regarding whether

Cause exists and deliver such determination to you in writing. If the final decision is that Cause exists and no cure has occurred, your employment with the Employer shall be terminated for Cause as of the date of termination specified in the original notice. If the final decision is that Cause does not exist or a cure has occurred, your employment with the Employer shall not be terminated for Cause at that time.

- (iii) If your employment terminates for any reason other than a termination by the Employer for Cause, at a time when the Employer had Cause to terminate you (or would have had Cause if it then knew all relevant facts) under clauses (i), (ii), (v), (vi) or (vii) of the definition of Cause, your termination shall be treated as a termination by the Employer for Cause.

(b) **By the Employer Without Cause.** The Employer may terminate your employment without Cause at any time during the Term and such termination shall not be deemed a breach by the Employer of any term of this Agreement or any other duty or obligation, expressed or implied, which the Employer may owe to you pursuant to any principle or provision of law.

(c) **By You If Your Principal Place of Business Is Relocated Without Your Consent.** At any time during the Term, you may terminate your employment if, without your written agreement or other voluntary action on your part, the Employer reassigns your principal place of business to a location that is more than fifty (50) miles from your principal place of business as of the Effective Date and that materially and adversely affects your commute; provided, however, that you must (i) provide the Employer with written notice of your intent to terminate your employment under this Section 9(c) and a description of the event you believe gives you the right to do so within thirty (30) days after the initial existence of the event and (ii) the Employer shall have ninety (90) days after you provide the notice described above to cure any such default (the “*Cure Period*”). You will have five (5) days following the end of the Cure Period to terminate your employment, after which your ability to terminate your employment under this Section 9(c) will no longer exist.

(d) **Death.** In the event of your death during the Term, your employment shall terminate immediately as of the date of your death.

(e) **Disability.** In the event that you are or become “*disabled*,” the Employer shall, to the extent permitted by applicable law, have the right to terminate your employment. For purposes of this Agreement, “disabled” shall mean that either (i) you are receiving benefits under any long-term disability plan of the Employer then in effect, or (ii) if there is no such long-term disability plan of the Employer then in effect, you have a long-term and continuous physical or mental impairment that renders you unable to perform the duties required of you under this Agreement, even with the Employer providing you a reasonable accommodation, as determined by a physician mutually acceptable to you and the Employer. You shall cooperate and make yourself available for any medical examination requested by the Employer with respect to any determination of whether you are disabled within ten (10) days of such a request. Without limiting the generality of the foregoing, to the extent provided by the Employer’s policies and practices then in effect, you shall not receive any Base Salary during any period in which you are disabled; provided, however, that nothing in this Section 9(e) shall impact any right you may have to any payments under the Employer’s short-term and long-term disability plans, if any.

10. Termination of Obligations and Severance Payments

(a) **General.** Upon the termination of your employment pursuant to Section 9, your rights and the Employer's obligations to you under this Agreement shall immediately terminate except as provided in this Section 10 and Section 11(s), and you (or your heirs or estate, as applicable) shall be entitled to receive any amounts or benefits set forth below (subject in all cases to Sections 10(f), 11(q) and 11(r)). The payments and benefits provided pursuant to this Section 10 are (x) in lieu of any severance or income continuation protection under any plan of the Activision Blizzard Group that may now or hereafter exist and (y) deemed to satisfy and be in full and final settlement of all obligations of the Activision Blizzard Group to you under this Agreement. You shall have no further right to receive any other compensation benefits following your termination of employment for any reason except as set forth in this Section 10.

For the purposes of this Agreement, the following terms shall have the following meanings:

"Basic Severance" shall mean payment of (1) any Base Salary earned but unpaid as of the Termination Date; (2) any business expenses incurred but not reimbursed under Section 5 as of the Termination Date; and (3) payment in lieu of any vacation accrued under Section 7 but unused as of the Termination Date.

"Bonus Severance" shall mean payment of:

- (i) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for any year that ended prior to the Termination Date had you remained employed through the date such bonus would have been otherwise been paid (in the event that your Termination Date occurs before such bonus would have been paid); and
- (ii) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received in accordance with Section 2(c) for the year in which your Termination Date occurs had you had remained employed through the date such bonus would have been paid, multiplied by a fraction, the numerator of which is the number corresponding to the calendar month in which the Termination Date occurs and the denominator of which is 12, where, for purposes of calculating the amount of such bonus, any goals will be measured by actual performance.

"Termination Date" shall mean the effective date of your termination of employment pursuant to Sections 9(a)-(e).

(b) **Death.** In the event your employment is terminated under Section 9(d):

- (i) Basic Severance. Your heirs or estate, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;

- (ii) Lump Sum Payment of Two Times Base Salary. Your heirs or estate, as the case may be, shall receive payment of an amount equal to two (2) times the Base Salary (at the rate in effect as of the Termination Date) in a lump sum within thirty (30) days following the Termination Date; provided, however, that this amount shall be reduced by any payments to which you become entitled upon death under any Employer-sponsored plan other than the \$2,000,000 life insurance policy;
- (iii) Bonus Severance. Your heirs or estate, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates; and
- (iv) Impact on Equity Awards. All outstanding equity awards shall cease to vest. All vested performance share units shall be paid in accordance with their terms. Any vested portion of stock options shall remain exercisable until the earlier of (x) one (1) year after the Termination Date or (y) the original expiration date of stock options. Any equity awards that are not vested as of your Termination Date will be cancelled immediately.

(c) **Termination by the Employer Without Cause, by You if Your Principal Place of Business Is Relocated Without Your Consent or by the Employer if You Become Disabled**. In the event the Employer terminates your employment under Section 9(b), you terminate your employment under Section 9(c) or the Employer terminates your employment under Section 9(e):

- (i) Basic Severance. You or your legal representative, as the case may be, shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan;
- (ii) Salary Continuation. Subject to Section 10(f)(ii), you or your legal representative, as the case may be, shall receive the payment of an amount equal to the Base Salary (at the rate in effect on the Termination Date) that you would have received had you remained employed through the Expiration Date (the "Salary Continuation Period"), which amount shall be paid in equal installments commencing on the first payroll date following the 60th day following the Termination Date in accordance with the Employer's payroll practices in effect on the Termination Date, provided that the first such payment shall include any installments relating to the 60 day period following the Termination Date; provided, however, that, to the extent doing so will not result in the imposition of additional taxes under Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended and the rules and regulations promulgated thereunder (the "Code"), this amount shall be reduced by any payments which you have received or to which you become entitled under any Employer-sponsored long-term disability plan;
- (iii) Bonus Severance. You or your legal representative, as the case may be, shall receive payment of the Bonus Severance in a lump sum no later than the 15th

day of the third month of the year following the year to which the underlying amount relates;

(iv) Additional Severance.

a. You or your legal representative, as the case may be, shall receive payment of \$700,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2017, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2017 OI is \$1 or greater and [ii] 2017 OI is 85% or greater than the 2017 AOP OI Objective;

b. You or your legal representative, as the case may be, shall receive payment of \$700,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2018, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2018 OI is \$1 or greater and [ii] 2018 OI is 85% or greater than the 2018 AOP OI Objective;

c. You or your legal representative, as the case may be, shall receive payment of \$700,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2019, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2019 OI is \$1 or greater and [ii] 2019 OI is 85% or greater than the 2019 AOP OI Objective; and

d. You or your legal representative, as the case may be, shall receive payment of \$700,000, if and only if, (i) your employment is terminated pursuant to Section 9(b) or 9(c), (ii) your Termination Date is after December 31, 2020, and (iii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's [i] 2020 OI is \$1 or greater and [ii] 2020 OI is 85% or greater than the 2020 AOP OI Objective.

The amounts set forth in Sections 10(c)(iv)a. through 10(c)(iv)d. are intended to be cumulative to the extent the applicable conditions are satisfied; provided, however, no payment pursuant to Section 10(c)(iv)a., 10(c)(iv)b., or 10(c)(iv)c. shall be due to you if your Termination Date is on or after March 14, 2020 and no payment pursuant to Section 10(c)(iv)d. shall be due to you if your Termination Date is on or after March 14, 2021. All amounts owed pursuant to this Section 10(c)(iv) will be paid within 30 days after the date the Compensation Committee determines that the applicable OI conditions have been achieved (if any), provided that this is no sooner than the 60th day following the Termination Date, and will be subject to applicable taxes and withholdings.

(v) Impact on Equity Awards.

a. All outstanding equity awards shall cease to vest. All vested performance share units shall be paid in accordance with their terms. Any

vested portion of stock options shall remain exercisable until the earlier of (x) ninety (90) days after the Termination Date (or, in the event of termination by the Employer if you become disabled, then one (1) year) and (y) the original expiration date of stock options. Any equity awards that are not vested as of your Termination Date will be cancelled immediately; and

b. In the event the Employer terminates your employment under Section 9(b) or you terminate your employment under Section 9(c), all unvested 2016 Performance Share Units will cease to vest and be cancelled immediately. Notwithstanding the foregoing, in the event that (i) your Termination Date occurs after the completion of one or more performance periods (i.e. fiscal years 2017, 2018, 2019 and/or 2020), (ii) your employment is terminated pursuant to Section 9(b) or 9(c); (iii) the Compensation Committee determines that the applicable performance objective(s) (i.e. 2017 Performance Objective, 2018 Performance Objective, 2019 Performance Objective, and/or 2020 Performance Objective) have been achieved for a performance period completed prior to your Termination Date, and (iv) the applicable tranche (i.e. the First Tranche 2016 Performance Share Units, the Second Tranche 2016 Performance Share Units, the Third Tranche 2016 Performance Share Units, and/or the Fourth Tranche 2016 Performance Share Units) has not vested as of the Termination Date, then an amount to be calculated as provided for below in Paragraph 10(c)(iv)b.[i] shall be paid to you, (the "PSU Termination Consideration"). This amount shall be paid within 30 days after the date the Compensation Committee determines that the applicable performance objective(s) (i.e. 2017 Performance Objective, 2018 Performance Objective, 2019 Performance Objective, and/or 2020 Performance Objective) have been achieved (if any), provided that this is no sooner than the 60th day following the Termination Date, and will be subject to applicable taxes and withholdings.

[i] The formula for determining the PSU Termination Consideration for each applicable tranche of cancelled 2016 Performance Share Units, if any, (i.e. the First Tranche 2016 Performance Share Units, the Second Tranche 2016 Performance Share Units, the Third Tranche 2016 Performance Share Units and/or the Fourth Tranche 2016 Performance Share Units) is as follows: multiply the Grant Date Price by the product of the number of performance share units for the applicable tranche by the ratio, as determined by the Compensation Committee, in its discretion, of the non-GAAP operating income (the "OI") for the applicable fiscal year to the AOP OI Objective for the applicable fiscal year (e.g. the performance objective for the applicable fiscal year), up to a maximum of 125%.

For clarity, the following examples are provided as illustration, but not by way of limitation:

(x) in the event that your employment terminates on January 1, 2018, pursuant to Section 9(b) or 9(c), the Compensation Committee determines

that 86% of the 2017 Performance Objective is achieved, the number of performance share units granted for the First Tranche 2016 Performance Share Units is 29,375, and the Grant Date Price is \$40, then \$1,010,500 (less applicable taxes and withholdings) will be paid using the following calculation: $\$40 \times [29,375 \times .86] = \$1,010,500$. You will receive no payment with respect to the cancelled Second, Third, or Fourth Tranche 2016 Performance Share Units.

(y) in the event that your employment terminates on January 1, 2019, pursuant to Section 9(b) or 9(c), the Compensation Committee determines that 80% of the 2017 Performance Objective is achieved, 135% of the 2018 Performance Objective is achieved, the Grant Date Price is \$40 and the number of performance share units granted for each of the First Tranche 2016 Performance Share Units and the Second Tranche 2016 Performance Share Units is 29,375, then \$1,468,750 (less applicable taxes and withholdings) will be paid using the following calculation: $\$40 \times [29,375 \times 1.25] = \$1,468,750$. You will receive no payment with respect to the cancelled Third or Fourth Tranche 2016 Performance Share Units.

(vi) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(c)(ii)-10(c)(v) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared by the Employer and that release becoming effective and irrevocable in its entirety within 60 days of the Termination Date. Unless otherwise provided by the Employer, if the release referenced above does not become effective and irrevocable on or prior to the 60th day following the Termination Date, you shall not be entitled to any payments under this Section 10(c) other than the Basic Severance.

(d) **Termination by the Employer For Cause.** In the event your employment is terminated by the Employer under Section 9(a), then:

(i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation, incentive or benefit plan, in which case payment shall be made in accordance with such plan; and

(ii) Impact on Equity Awards. All outstanding equity awards shall cease to vest and, whether or not vested, shall no longer be exercisable and shall be cancelled immediately.

(e) **Termination on the Expiration Date.** In the event your employment terminates on the Expiration Date, then:

(i) Basic Severance. You shall receive payment of the Basic Severance in a lump sum within thirty (30) days following the Termination Date unless a different payment date is prescribed by an applicable compensation,

incentive or benefit plan, in which case payment shall be made in accordance with such plan;

- (ii) **Bonus Severance.** You shall receive payment of the Bonus Severance in a lump sum no later than the 15th day of the third month of the year following the year to which the underlying amount relates; and
- (iii) **Impact on Equity Awards.** All outstanding equity awards shall cease to vest. All vested performance share units shall be paid in accordance with their terms. Any vested portion of stock options shall remain exercisable until the earlier of (x) ninety (90) days after the Termination Date and (y) the original expiration date of stock options. Any equity awards that are not vested as of the Expiration Date will be cancelled immediately.

(f) Breach of Post-termination Obligations or Subsequent Employment.

- (i) **Breach of Post-termination Obligations.** In the event that you materially breach any of your obligations under Section 8, the Employer's obligation, if any, to make payments and provide benefits under Section 10 (other than payment of the Basic Severance) shall immediately and permanently cease and you shall not be entitled to any such payments or benefits.
- (ii) **Subsequent Employment.** Notwithstanding anything to the contrary contained herein, if, at any time during the Salary Continuation Period, you obtain subsequent employment and/or provide services of any kind for compensation, whether as principal, owner, partner, agent, shareholder, director, employee, consultant, advisor or otherwise, to any person, company, venture or other person or business entity, you must promptly notify the Employer and payments under Section 10(c)(ii) shall be refunded by you to the Employer (to the extent already paid) and shall be offset (to the extent payable in the future) by the amount of Base Compensation (as defined below) earned by, paid to, or granted to you during or with respect to the Salary Continuation Period. "**Base Compensation**" shall mean the amount of your base salary or, if applicable, wages you earn (or are paid or granted) during or with respect to any subsequent employment or services arrangement; provided, however, such base salary or wages shall be deemed, in all cases, to equal no less than 35% of the total compensation (including, without limitation, any and all amounts of salary, bonus and all other kinds of cash or in-kind or equity-based compensation) you earn, are paid, or are granted during or with respect to such subsequent employment or services arrangement and which are paid to you, vest or otherwise accrue with respect to services performed by you, during or with respect to the Salary Continuation Period.

11. General Provisions

(a) **Entire Agreement.** This Agreement, together with the Confidential Information Agreement, the Activision Blizzard Group Dispute Resolution Agreement (the "**Dispute Resolution Agreement**"), as referenced in Section 11(k) below), and the Employer's Executive

Stock Ownership Guidelines, supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard Group, and no amendment or modification of these agreements shall be binding unless it is set forth in a writing signed by both the Employer and you. To the extent that this Agreement conflicts with any of the Employer's policies, procedures, rules or regulations, this Agreement shall supersede the other policies, procedures, rules or regulations. Without limiting the generality of the foregoing, you acknowledge that this Agreement supersedes your prior written employment agreement with the Activision Blizzard Group (dated August 31, 2009, assigned to Activision Blizzard on January 1, 2012, and amended on July 15, 2013 and July 28, 2015), and such agreement is hereby terminated and of no further force and effect.

(b) **Use of Employee's Name and Likeness.** You hereby irrevocably grant the Activision Blizzard Group the right, but not the obligation, to use your name or likeness in any product made by the Activision Blizzard Group or for any publicity or advertising purpose in any medium now known or hereafter existing.

(c) **Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by you without the prior written consent of the Employer. The Employer may assign this Agreement or all or any part of its rights and obligations under this Agreement at any time to any member of the Activision Blizzard Group or to a successor to all or substantially all of the business or assets of the Employer and following such assignment all references to the Employer shall be deemed to refer to such assignee and the Employer shall thereafter have no obligation under this Agreement.

(d) **No Conflict with Prior Agreements.** You represent to the Employer that neither your commencement of employment under this Agreement nor the performance of your duties under this Agreement conflicts or will conflict with any contractual or legal commitment on your part to any third party, nor does it or will it violate or interfere with any rights of any third party. If you have acquired any confidential or proprietary information in the course of your prior employment or otherwise in connection with your provision of services to any entity outside the Activision Blizzard Group, during the Term you will fully comply with any duties to such entity then-applicable to you not to disclose or otherwise use such information.

(e) **Successors.** This Agreement shall be binding on and inure to the benefit of the Employer and its successors and assigns, including successors by merger and operation of law. This Agreement shall also be binding on and inure to the benefit of you and your heirs, executors, administrators and legal representatives.

(f) **Waiver.** No waiver by you or the Employer at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No waiver of any provision of this Agreement shall be implied from any course of dealing between or among the parties hereto or from any failure by any party hereto to assert its rights hereunder on any occasion or series of occasions.

(g) **Expiration.** This Agreement does not constitute a commitment of the Employer with regard to your employment, express or implied, other than to the extent expressly provided for herein. Upon the Expiration Date, or, if earlier, the termination of this Agreement pursuant to

Section 9, neither the Employer nor you shall have any obligation to the other with respect to your continued employment.

(h) **Taxation.** The Employer may withhold from any payments made under the Agreement all federal, state, city or other applicable taxes or amounts as shall be required or permitted pursuant to any law, governmental regulation or ruling or agreement with you.

(i) **Immigration.** In accordance with the Immigration Reform and Control Act of 1986, employment under this Agreement is conditioned upon satisfactory proof of your identity and legal ability to work in the United States.

(j) **Choice of Law.** Except to the extent governed by federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California or whatever other state in which you were last employed by the Employer, without regard to conflict of law principles.

(k) **Arbitration.** Except as otherwise provided in this Agreement, both parties agree that any dispute or controversy between them will be settled by final and binding arbitration pursuant to the terms of the Dispute Resolution Agreement (attached hereto as Exhibit B).

(l) **Severability.** It is expressly agreed by the parties that each of the provisions included in Section 8(f) is separate, distinct, and severable from the other and remaining provisions of Section 8(f), and that the invalidity or unenforceability of any Section 8(f) provision shall not affect the validity or enforceability of any other provision or provisions of this Agreement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under, or would require the commission of any act contrary to, existing or future laws effective during the Term, such provisions shall be fully severable, the Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a legal and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

(m) **Services Unique.** You recognize that the services being performed by you under this Agreement are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages in the event of a breach of this Agreement by you.

(n) **Injunctive Relief.** In the event of a breach of or threatened breach of the provisions of this Agreement regarding the exclusivity of your services and the provisions of Section 8, you agree that any remedy at law would be inadequate. Accordingly, you agree that the Employer is entitled to obtain injunctive relief for such breaches or threatened breaches in any court of competent jurisdiction. The injunctive relief provided for in Exhibit B and this Section 11(n) is in addition to, and is not in limitation of, any and all other remedies at law or in equity otherwise available to the applicable party. The parties agree to waive the requirement of posting a bond in connection with a court or arbitrator's issuance of an injunction.

(o) **Remedies Cumulative.** The remedies in this Agreement are not exclusive, and the parties shall have the right to pursue any other legal or equitable remedies to enforce the terms of this Agreement.

(p) **Headings.** The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this Agreement.

(q) **Section 409A.** To the extent applicable, it is intended that the Agreement comply with the provisions of Section 409A. The Agreement will be administered and interpreted in a manner consistent with this intent, and any provision that would cause the Agreement to fail to satisfy Section 409A will have no force and effect until amended to comply therewith (which amendment may be retroactive to the extent permitted by Section 409A). Notwithstanding anything contained herein to the contrary, to the extent any payment under this Agreement is subject to Section 409A, you shall not be considered to have terminated employment with the Employer for purposes of the Agreement and no payments shall be due to you under the Agreement which are payable upon your termination of employment unless you would be considered to have incurred a "separation from service" from the Employer within the meaning of Section 409A. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Agreement during the six-month period immediately following your termination of employment shall instead be paid on the first business day after the date that is six months following your termination of employment (or upon your death, if earlier). In addition, for purposes of the Agreement, each amount to be paid or benefit to be provided to you pursuant to the Employment Agreement shall be construed as a separate identified payment for purposes of Section 409A. With respect to expenses eligible for reimbursement under the terms of the Agreement, (i) the amount of such expenses eligible for reimbursement in any taxable year shall not affect the expenses eligible for reimbursement in another taxable year and (ii) any reimbursements of such expenses shall be made no later than the end of the calendar year following the calendar year in which the related expenses were incurred, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A; provided, however that with respect to any reimbursements for any taxes to which you become entitled under the terms of the Agreement, the payment of such reimbursements shall be made by the Employer no later than the end of the calendar year following the calendar year in which you remit the related taxes.

(r) **Section 280G and Section 162(m).** Notwithstanding anything herein to the contrary, in the event that you receive any payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute "parachute payments" within the meaning of Section 280G of the Code, and the net after-tax amount of the parachute payment is less than the net after-tax amount if the aggregate payment to be made to you were three times your "base amount" (as defined in Section 280G(b)(3) of the Code), less \$1.00, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times your base amount, less \$1.00. To the extent the aggregate of the amounts constituting the parachute payments are required to be so reduced, the amounts provided under Section 10 of this Agreement shall be reduced (if necessary, to zero) with amounts that are payable first reduced first; provided, however, that, in all events the payments provided under Section 10 of this Agreement which are not subject to Section 409A shall be reduced first.

Similarly, you agree that no payments or distributions, whether payable, distributed or distributable pursuant to the terms of this Agreement or otherwise, shall be made to you if the Employer reasonably anticipates that Section 162(m) of the Code would prevent the Employer from receiving a deduction for such payment. If, however, any payment is not made pursuant to the previous sentence, the Employer shall make such payment as soon as practicable in the first calendar year that it reasonably determines that it can do so and still receive a deduction for such payment. The determinations to be made with respect to this Section 11(r) shall be made by a certified public accounting firm designated by the Employer.

(s) **Survivability.** The provisions of Sections 8, 10, 11 and 12, as well as Exhibits A through Ex. C, shall survive the termination or expiration of this Agreement

(t) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same instrument.

(u) **Legal Counsel.** You acknowledge that you have been given the opportunity to consult with legal counsel or any other advisor of your own choosing regarding this Agreement. You understand and agree that any attorney retained by the Employer, the Activision Blizzard Group or any member of management who has discussed any term or condition of this Agreement with you or your advisor is only acting on behalf of the Employer and not on your behalf.

(v) **Right to Negotiate.** You hereby acknowledge that you have been given the opportunity to participate in the negotiation of the terms of this Agreement. You acknowledge and confirm that you have read this Agreement and fully understand its terms and contents.

(w) **No Broker.** You have given no indication, representation or commitment of any nature to any broker, finder, agent or other third party to the effect that any fees or commissions of any nature are, or under any circumstances might be, payable by the Activision Blizzard Group in connection with your employment under this Agreement.

12. Indemnification

The Employer agrees that it shall indemnify and hold you harmless to the fullest extent permitted by Delaware law from and against any and all third-party liabilities, costs and claims, and all expenses actually and reasonably incurred by you in connection therewith by reason of the fact that you are or were employed by the Activision Blizzard Group, including, without limitation, all costs and expenses actually and reasonably incurred by you in defense of litigation arising out of your employment hereunder.

13. Notices

All notices which either party is required or may desire to give the other shall be in writing and given either personally or by depositing the same in the United States mail addressed to the party to be given notice as follows:

To the Employer:

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405
Attention: Chief Legal Officer

To You:

Christopher B. Walther
(to be sent to last known home address on file with
Human Resources)

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

ACCEPTED AND AGREED TO:

Employer

Employee

ACTIVISION BLIZZARD, INC.

By: _____
Brian Stolz
Chief People Officer

By: _____
Christopher B. Walther

Date: _____

Date: _____

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Double asterisks denote omissions.

King
PROFIT SHARING PLAN

This King Profit Sharing Plan, effective January 1, 2019, is for eligible employees of King Digital Entertainment plc ("King") and its subsidiaries.

1. DEFINITIONS

"AB" shall mean Activision Blizzard, Inc., being the parent company of King.

"Company" shall mean, individually or collectively, King and its subsidiaries.

"King" shall mean King Digital Entertainment plc and references to matters being agreed by or requiring the agreement, consent or approval of King shall mean agreed by or the agreement, consent or approval (as the case may be) of the most senior executive of King for the time being, as determined by AB in its sole discretion.

"King Contribution" shall mean, for each Plan Year,

A. the earnings (using a methodology determined from time to time by AB in a manner consistent with the methodology used with respect to the Blizzard Profit Sharing Plan) before interest and taxes of the Company for that Plan Year REDUCED BY

B. the sum of the following items, to the extent not included in A. above:

i. Stock-based incentive and other compensation for employees directly managed by the Company (other than compensation relating to this Plan), including associated payroll taxes and social charges;

ii. Restructuring charges, if applicable, related to the Company operations, except restructuring charges that commence within 12 months of completion of the acquisition of the Company by AB as a direct result of the acquisition of the Company; and

iii. One-time charges (such as legal settlement expenses or gains relating to the Company's operations, cash payment relating to contingent earn-out of the Company's business acquisitions, impairment or write-downs or amortization expenses of intangible assets resulting from acquisition of business by the Company etc., in such a way that all revenues and income received and receivable, and costs and expenses paid and payable relating to the Company's operations are captured).

Provided, however, that (a) any allocations of AB's fixed costs for services performed on behalf of the Company (including, but not limited to, Sales, Marketing, Corporate Service Center and G&A) shall not be deducted in determining the King Contribution, except as mutually agreed between AB and King, (b) charges for impairment or write-downs of intangible assets, that arises from purchase price accounting from acquisition of the Company by AB, will not be deducted in calculating the King Contribution and (c) compensation pursuant to this Plan shall not be deducted in calculating the King

Contribution (and in each such case, to the extent taken into account in A. above, shall be added back).

For clarity, the earnings before interest and taxes of the Company referred to in A above shall capture all revenues and income received and receivable, expenses and losses paid and payable for running the Company's operations, and be computed consistently with the non-GAAP operating income of the Company's operations, as determined appropriate, being disclosed in AB's earnings release. For example, under AB's current definition, non-GAAP operating income excludes from US GAAP operating income the impact from (a) stock-based compensation expenses, (b) changes in deferral of net revenues and related cost of sales, (c) amortization of and any impairment of intangible assets from purchase price accounting, (d) other one-time charges that AB deems to be non-recurring and non-operational, and the income tax adjustments associated with any of the above items.

"Participant" shall mean an eligible employee of the Company designated to share in the Profit Sharing Pool.

"Plan" shall mean the King Profit Sharing Plan, as amended from time to time, approved by AB.

"Plan Year" shall mean a fiscal year, as defined by AB pursuant to its then-current governance practices.

"Profit Sharing Pool" shall mean the Profit Sharing Pool determined for each Plan Year in accordance with Section 3.

2. PURPOSE

The purposes of this Plan are to further the growth and success of King, to provide Participants with cash awards in recognition of meeting business goals, to motivate Participants to make contributions to the profitable growth of the Company, and to incent the long-term attraction and retention of employees.

3. PLAN YEAR PROFIT SHARING POOL

For each Plan Year, King shall establish and maintain an unfunded bookkeeping reserve for purposes of the Plan (the "Profit Sharing Pool") with a corresponding charge to income for the Plan Year. The Profit Sharing Pool shall be equal to [**]% of the King Contribution (i.e. prior to profit sharing expense), as approved by AB.

4. AMOUNT OF ANNUAL AWARD FROM PROFIT SHARING POOL

Whether an individual employee participates and the amount of a Participant's award payable out of the Profit Sharing Pool for any Plan Year may be proposed by King and subject to the approval of AB, as well as the Compensation Committee of the Board of Directors of AB (where applicable pursuant to the then prevailing Compensation Committee procedures). The amount of a Participant's award will be determined based upon actual performance and contribution, in addition to other factors. AB retains the sole discretion to determine the amount and timing of all awards.

The award, if any, to an employee for any Plan Year will be determined independently of his or her award in any other Plan Year. Any prior award is not a guarantee of a future award.

5. CONDITIONS FOR PAYMENT OF AWARDS

Except as may otherwise be provided in his or her employment or service agreement, an employee will earn the right to receive payment of an award for a Plan Year only if he or she remains continuously employed by the Company until the award for the Plan Year is paid. If an employee ceases to be an employee of the Company prior to payment of the award for the Plan Year for any reason, except as may otherwise be provided in his or her employment or service agreement, the employee will not be entitled to payment under this Plan for that Plan Year and the Company and AB will have no further obligation under this Plan to the employee.

6. TIMING OF AWARDS

With respect to each Plan Year, awards, if any, shall be made at such times as King may propose, subject to the approval of AB, or as AB may determine, and may include deferrals.

Once approved or determined by AB, such awards, if any, shall be made and paid within the first 90 days following the end of the applicable Plan Year.

Notwithstanding the above, AB retains the sole discretion to determine the amount of any awards, to whom such awards are made, if there are any deferrals and the amount thereof as well as the payment schedule and timing of all deferrals of any such awards.

7. PLAN INTERPRETATION, TERMINATION, OR MODIFICATION

Except for the most senior executive of King, the most senior Human Resources Officer of AB, the Chief Executive Officer of AB, the Chief Operating Officer of AB and, the Compensation Committee (where applicable, pursuant to the then prevailing Compensation Committee procedures), in each case acting within his or its authority as specifically set forth in the provisions of the Plan, no employee has the authority to bind the Company with respect to any aspect of the Plan. Any course of dealings will not be applicable to the interpretation or implementation of the Plan and no employee will be entitled to rely on any past, current or future practices. Although the provisions of this Plan reflect the current methodology by which the Company and AB anticipate operating the Plan, the Plan is completely discretionary and AB retains the right to change, interpret and/or terminate the Plan in its sole discretion, with or without notice, and regardless of whether or not work has been initiated or completed, and the AB's determination on these matters will be final and binding.

8. GENERAL

- A. Right to Withhold Taxes. The Company shall have the right to withhold such amounts from any payment under this Plan as it determines (acting reasonably) necessary to fulfill any federal, state, or local wage or compensation withholding requirements.
- B. Non-Transferability of Rights. A Participant may not assign or transfer his/her rights and interests under the Plan in whole or in part either directly or by operation of law or otherwise (except in an event of the Participant's death), including, but not limited to, by way of execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner, and no such rights or interests of any Participant under the Plan shall be subject to any obligation or liability of such Participant other than any obligations or liabilities owed by the Participant to the Company or AB.

- C. No Right to Continued Employment. Neither the Plan, nor any compensation payable under the Plan, shall confer upon any Participant any right to continuance of employment by the Company or AB nor shall they interfere in any way with the right of the Company or AB to terminate any Participant's employment at any time. In the event of termination, the Participant's right to payment under this Plan will be determined pursuant to Section 5 above.
- D. No Claim Against Assets. Nothing in this Plan shall be construed as giving any Participant or his or her legal representative, or designated beneficiary, any claim against any specific assets of the Company or AB or as imposing any trustee relationship upon the Company or AB in respect of the Participant. The Company shall not be required to segregate any assets in order to provide for the satisfaction of the obligations hereunder. If and to the extent that the Participant or his or her legal representative or designated beneficiary acquires a right to receive any payment pursuant to this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company or AB.
- E. Payment to Designated Beneficiary. In the event of a Participant's death or total disability, payment of the Participant's incentive compensation shall be made to a beneficiary (or beneficiaries) designated by the Participant in the form and a manner prescribed by the Company, or to the Participant's legal representative. If a Participant does not have a properly designated beneficiary, payment shall be made to the Participant's estate.
- F. No Other Agreements or Understandings. Except as expressly provided herein, this Plan represents the sole agreement among the Company, AB and the Participants concerning its subject matter and it supersedes all prior agreements, arrangements, understandings, warranties, representations, and statements among the Company, AB and the Participants concerning its subject matter.
- G. Headings. Section headings are used in this Plan for convenience of reference only and shall not affect the meaning of any provision of the Plan.
- H. Governing Law. The Plan and all actions taken pursuant thereto shall be governed by, and construed in accordance with, the laws of England applied without regard to conflict of law principles.

/s/ Robert A. Kotick

Robert A. Kotick, Chief Executive Officer

[signature page to King Profit Sharing Plan]

CERTIFICATION

I, Robert A. Kotick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ ROBERT A. KOTICK

Robert A. Kotick
*Chief Executive Officer and
Principal Executive Officer of
Activision Blizzard, Inc.*

CERTIFICATION

I, Dennis Durkin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Activision Blizzard, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ DENNIS DURKIN

Dennis Durkin

*Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert A. Kotick, Chief Executive Officer and Principal Executive Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2019

/s/ ROBERT A. KOTICK

Robert A. Kotick

*Chief Executive Officer and
Principal Executive Officer of
Activision Blizzard, Inc.*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Activision Blizzard, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Durkin, Chief Financial Officer and Principal Financial Officer of the Company, certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2019

/s/ DENNIS DURKIN

Dennis Durkin

*Chief Financial Officer and
Principal Financial Officer of
Activision Blizzard, Inc.*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.