PUBLIC

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
OFFICE OF ADMINSTRATIVE LAW JUDGES

In the Matter of **Microsoft Corp.** a corporation, and **Activision Blizzard, Inc.,** a corporation.	**DOCKET NO. 9412**

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INTRODUCTION

This case is about the competitive future of the video game industry, the largest and fasting growing segment in the entertainment industry, and how that future is threatened by the largest merger in the industry's history. Besides the traditional buy-to-play model in which gamers buy individual titles for play on a video game console, gamers can purchase a multi-game subscription service that offers access to a library of games and also can stream games (with or without a video game console) via the cloud. Across these products and services that enable players to play games, content is king. Microsoft Corporation ("Microsoft") is one of the most powerful competitors in distributing video game content to players with its Xbox console, Game Pass multigame subscription service, and xCloud cloud gaming service. The Proposed Transaction would give Microsoft permanent control over Activision Blizzard, Inc. ("Activision"), which produces some of the most valuable video game content. This presents a broad range of competitive threats that may substantially lessen competition in multiple markets and harm millions of American consumers.

The most advanced video game consoles are the so-called "Generation 9" consoles that Microsoft and Sony launched in 2020. The Generation 9 consoles are Microsoft's Xbox Series and Sony's PlayStation 5, which compete directly with each other on performance, price, and video game content available on each console. Nintendo launched its Switch portable console—which has lower performance and is not a "Generation 9" console—in 2017. The Switch has been extremely successful, but gamers who want a console that can play the most advanced games must choose either an Xbox Series or PlayStation 5. The console market is a relatively mature market, and the future of video gaming appears to lie in subscription services and cloud gaming.

Microsoft's Xbox Game Pass service is the most popular multigame subscription service, with over 25 million subscribers at the end of 2022. Sony's PlayStation Plus multigame subscription service is [redacted] Amazon, Electronic Arts, and Ubisoft also provide similar services, [redacted] *See infra* Section I.C.

Microsoft's xCloud (also called Xbox Cloud Gaming) is the runaway leader in cloud gaming [redacted] Cloud gaming, a nascent but rapidly growing market, allows games to be run on remote servers; gamers can play the most advanced games on less powerful devices, including tablets, mobile devices, and smart TVs. Amazon, Nvidia, and Sony also compete in this market. Google recently shut down its cloud gaming service because of the cost and difficulty of securing gaming content. *See infra* Section I.D.

Consumers and industry participants agree that AAA content is "king" in the gaming industry. AAA games typically have the highest development costs and are the most anticipated among gamers. AAA games are a powerful driver of sales for consoles, multigame library subscription services, and cloud gaming services. Microsoft and its rivals view securing adequate AAA content as a key priority for their gaming businesses. *See infra* Sections I.E. & I.F.

Activision's games are particularly valuable AAA content. Among AAA games, Activision content is [redacted] in the words of Microsoft executives. Its "legendary franchises" include *Call of Duty*, *World of Warcraft*, *Diablo*, and *Overwatch*. *Call of Duty*, *Overwatch*, and *Diablo* have each earned more than $1 billion in lifetime revenues, which has led Activision to refer to these games as "super franchises." In 2022, *Call of Duty Modern Warfare 2* earned $1 billion globally in the first ten days following its launch. *See* https://www.economist.com/business/2022/11/29/microsoft-activision-blizzard-and-the-future-of-gaming, *infra* Section I.G.

Microsoft has a history of making valuable content exclusive to Xbox products and services after acquiring gaming studios. In 2020, Microsoft completed its $7.5 billion acquisition of ZeniMax, another developer of AAA games. Despite assurances that Microsoft did not have an incentive to make ZeniMax content exclusive, Microsoft executives decided that they would pursue a strategy of making future ZeniMax games exclusive to Microsoft's products and services. Microsoft followed through on that strategy, announcing that the first two ZeniMax titles over which it had control, *Starfield* and *Redfall*, would become Microsoft exclusives. *See infra* Section III.C.

Here, the quantitative and qualitative evidence show that Microsoft will have both the ability and incentive to fully or partially foreclose Activision content from its rivals in each relevant market. Complaint Counsel's expert, Professor Robin Lee, used quantitative and qualitative work to show the combined firm would find it profitable to engage in foreclosure strategies. Microsoft itself modeled that [redacted] *See infra* Sections III.A & III.B.

Importantly, Microsoft need not engage in a full foreclosure strategy of pulling content off rival platforms for the Proposed Acquisition to harm consumers. Partial foreclosure strategies—including making certain content available first or better on Microsoft products and services—also will harm consumers. Microsoft engaging in either full or partial foreclosure is likely to damage its rivals' ability to compete across multiple markets. This loss of competition would reduce consumer choice in the relevant markets as gamers seek to play Activision content, drive up rivals' costs (which are passed on to consumers), and reduce innovation in the relevant markets. *See infra* Section III.D.

Against the serious threat of competitive harm, Respondents cannot point to any cognizable efficiencies. Microsoft claims four principal efficiencies or procompetitive benefits that will result from the Transaction: (1) making *Call of Duty* titles available on Nintendo; (2) "plans to make Activision content available in Game Pass"; (3) bringing Activision titles to its own cloud gaming service as well as competing services; and (4) "allow[ing] Microsoft to expand into mobile gaming." *See infra* Section III.F.ii. Respondents have presented no analysis to substantiate the procompetitive benefits of *any* of these claimed efficiencies. For example, Microsoft's plans to put *Call of Duty* on Nintendo are not merger specific, as Activision itself has indicated that it could and would likely work with Nintendo to bring *Call of Duty* to its future platform. *See infra* Section III.F.ii. The same is true for the plans to make Activision content available in Game Pass as well as xCloud and a handful of other (mostly international) cloud gaming services; the evidence shows that Activision likely would have licensed its content to these services, which are increasingly important to the future of the gaming industry. *See infra* Section III.F.ii. Finally, Microsoft's claimed mobile benefits are out of market and entirely speculative.

Microsoft's attempt to unilaterally remedy the Transaction's likely anticompetitive effects with a series of hastily assembled side deals fails. None of these side deals were presented to the Commission as formal remedies, and there is no evidence in the record to substantiate Microsoft's claim that they fully ameliorate any competitive concerns. *See infra* Section III.E.

PROCEDURAL HISTORY

The Commission commenced this proceeding on December 7, 2022. Complaint Counsel did not also seek preliminary relief in federal district court pursuant to FTC Act § 13(b), 15 U.S.C. § 53(b), because Respondents were prohibited from closing the Transaction due to

ongoing regulatory reviews in foreign jurisdictions. And, indeed, Respondents did not move to consummate their merger. The parties proceeded with discovery pursuant to the Scheduling Order this Court entered and completed fact discovery in accord with that Order in April 2023.

In May 2023, the United Kingdom Competition & Markets Authority issued orders that appeared to block consummation of the Transaction. *See* 18 May 2023 Notice of intention to make a final order and 5 May 2023 Interim Order at *https://www.gov.uk/cma-cases/microsoft-slash-activision-blizzard-merger-inquiry*. In June 2023, after press reports indicated that Respondents may consummate the Transaction despite the U.K. orders and after Respondents declined to provide assurance that they would not complete the Transaction despite the U.K. orders, the FTC filed a complaint in the U.S. District Court for the Northern District of California requesting a preliminary injunction pursuant to § 13(b). *See* Compl. (ECF 1), *FTC v. Microsoft Corp.*, No. 3:23-cv-02880-JSC (N.D. Cal. June 12, 2023). The FTC also moved for a temporary restraining order, and that motion was granted. *See* Order (ECF 37), *FTC v. Microsoft Corp.*, No. 3:23-cv-02880-JSC (N.D. Cal. June 13, 2023). The Court set a two-day evidentiary hearing, later enlarged to five days, to commence on June 22, 2023. *See id*. at 2; *see* Order (ECF 76) at 3, *FTC v. Microsoft Corp.*, No. 3:23-cv-02880-JSC (N.D. Cal. June 14, 2023).

During the five-day evidentiary hearing on the request for a preliminary injunction, the FTC introduced just some of the evidence it had gathered in support of the allegation that the Proposed Transaction violates the antitrust laws. The district court heard testimony from some of the witnesses the parties had identified on the final witness lists served here (time did not permit the parties to call all of the fact witnesses previously identified). The district court received into evidence some of the documents identified on the parties' exhibit lists here. The district court did not accept—let alone consider—all of the evidence that is part of the record here.

On July 10, 2023, the district court issued an opinion denying the FTC's request for a preliminary injunction. *See* Opinion (ECF 305), *FTC v. Microsoft Corp.*, No. 3:23-cv-02880-JSC (N.D. Cal. July 10, 2023). The opinion found that the FTC had met its burden in that proceeding of demonstrating the existence of a "High-Performance Console Market," assumed that the Multigame Library Content Subscription Services and Cloud Gaming markets were proper product markets, found that the relevant geographic market for the console market was the United States (and not the entire world), assumed the same geographic market of the United States for the other markets, and found that Microsoft would have the ability to foreclose Activision content from competitors if the Transaction is completed. *See id*. at 27-30, 33. The district court, however, concluded that the FTC had not adequately shown that Microsoft would have the incentive to foreclose rivals. *See id*. at 33-50.

On July 12, 2023, the FTC appealed district court decision. Notice of Appeal (ECF 307), *FTC v. Microsoft Corp.*, No. 3:23-cv-02880-JSC (N.D. Cal. July 12, 2023). On July 13, after the district court denied a request to enjoin the transaction pending appeal, the FTC moved in the appellate court to enjoin the Proposed Transaction while the appeal is pending. *See* Motion for Injunction Pending Appeal, *FTC v. Microsoft Corp.*, No. 23-15992 (9th Cir. July 13, 2023). As described in the FTC's motion, the district court opinion suffers from numerous fundamental legal errors, including applying the wrong legal standard and failing to enter an injunction even though the district court agreed that it was likely that Microsoft would make Activision content exclusive to Game Pass and foreclose rival subscription services. *See id*. at 7-17.

I. BACKGROUND

A. Gaming is the Largest Category in the Entertainment Industry, and It Continues to Grow

Gaming is the largest and fasting growing segment in the entertainment industry, with revenues larger than the film, music, and print industries. PX1777 (Microsoft) at 032-33. There are over 3 billion gamers worldwide, and this number is expected to grow by more than 1 billion gamers over the next decade. PX1777 (Microsoft) at 032-33.

Games can be played on video game consoles, PCs, or mobile phones, and the gaming experience is different depending on the device. Video game consoles are played with controllers which have specific buttons for different actions in the game. The three primary video game consoles today are the Xbox Series X|S made by Microsoft, the PlayStation 5 made by Sony and the Switch made by Nintendo. PX1777 (Microsoft) at 008. Games played on PC are controlled by the mouse and/or the keyboard. General-use PCs can only handle lower-powered games, whereas gaming PCs have more advanced hardware that allow them to play more computationally demanding games. PX8001 (Ryan (Sony) Decl.) ¶ 15. Mobile games are played by tapping the screen or moving the phone and have lower-quality graphics and are less sophisticated than games played on consoles or gaming PCs. PX0003 at 073.

Games are made by both developers and publishers. A developer creates the games, including writing the code and designing the art. A game publisher then brings the games to market, sometimes providing the funding to do so. First-party content is developed and published by a console manufacturer in-house. For example, Microsoft's in-house Xbox Games Studios creates first-party games such as *DOOM*, *Forza*, *Halo*, *Minecraft*, and *The Elder Scrolls*. Third-party games are independently developed and published by a studio not associated with a console

manufacturer.[1] The four major independent publishers, collectively known as the "Big 4," are Activision, Entertainment Arts ("EA"), Take-Two, and Ubisoft. PX1019 at 004. Console manufacturers have publisher license agreements ("PLA") for third-party content, setting the terms for titles that will be brought to their console. Console manufacturers also create development kits for second- or third- party developers which provide the elements needed for coding games for that console. PX8001 (Ryan (Sony) Decl.) at ¶ 5, PX0003 at 016.

B. Console Gaming

Video game consoles are consumer devices that are designed for, and whose primary use is, to play video games. PX8001 (Ryan (Sony) Decl.) at ¶ 10. Consumers make their decision to purchase a particular console based on the hardware features of that console and the availability of gaming content on that console. PX8001 (Ryan (Sony) Decl.) at ¶¶ 4, 11; PX7053 (Ryan (Sony) Dep. Vol. I) at 21:1-5. A trio of console makers—Microsoft (under its Xbox brand), Sony (under its PlayStation brand), and Nintendo—make the most popular consoles. PX0003 at 060. Console manufacturers historically release a new "generation" of console every five to seven years. PX0003 at 060, 105; *see* PX9037 at 001-03. Microsoft and Sony released their Generation 9 consoles, the Xbox Series X|S and PlayStation 5, respectively, in November 2020. PX0003 at 105. Nintendo's current console, the Switch, is a Generation 8 console released in 2017. PX0003 at 60, 105.

i. PlayStation and Xbox are Fierce Competitors, and Nintendo is Differentiated

Microsoft and Sony are each other's primary console rivals, competing head-to-head in terms of performance, pricing, and exclusive content in what is referred to as the "console wars."

[1] Occasionally, console manufacturers will publish titles developed by a third-party studio, which is sometimes called a second-party game.

See PX1638 (Microsoft) at 019 ("Historically, Sony has been Microsoft's primary competitor in gaming, with similar products, services, and business models vying for similar customers."). Each generation of the "console wars" represents an opportunity to "win" the generation by shifting the distribution of gamers onto their respective consoles. PX9061 at 001; PX9037 at 006. For example, Microsoft's Xbox 360 won Generation 7 against Sony's PlayStation 3, but in Generation 8, Sony's PlayStation 4 won against Microsoft's Xbox One. PX8001 (Ryan (Sony) Decl.) at ¶ 11. Generation 10 is expected to launch sometime in 2026 to 2028. PX0003 at 105.

The Xbox Series X|S and PlayStation 5 offer similar performance capabilities and are both able to run the most computationally demanding and graphics-intensive games. PX5000 (Lee Report) ¶195 and Figure 13; PX1635 (Microsoft) at 004 [redacted] Nintendo, on the other hand, provides a differentiated console in form, feature, and content. PX8002 (Prata (Nintendo) Decl.) at ¶ 3. The Switch lacks the computational performance of the Xbox Series X|S and PlayStation 5. PX7053 (Ryan (Sony) Dep. Vol. I) at 21:6-22:3 [redacted] As Armin Zerza, Activision's Chief Financial Officer, summarizes, [redacted] PX7004 (Zerza (Activision) IH) at 74:2-14; *see also* PX7028 (Spencer (Microsoft) Dep.) at 114:18-21.

Instead, Nintendo differentiates the Switch by its unique hybrid form factor—it can be played as a battery-powered, portable handheld device or connected to a television screen with detachable controllers. PX7059 (Prata (Nintendo) Dep.) at 59:23-60:7; PX1950 (Microsoft) at 001 [redacted]

[redacted] The Switch also appeals to a different gaming audience than Xbox and PlayStation consoles, with Nintendo focusing on family-friendly gaming experiences and an audience that skews younger. PX7053 (Ryan (Sony) Dep. Vol. I) at 22:11-22 [redacted]

ii. High-Performance Consoles are Distinct from PC and Mobile Gaming

Unlike consoles, PCs are general purpose devices that can be used for functions other than gaming. PX0003 at 136; PX8001 (Ryan (Sony) Decl.) at ¶ 15; PX7067 (Bond (Microsoft) Hr'g) at 130:18-23. Many general-purpose PCs cannot run graphically intensive games that Generation 9 consoles can. PX7067 (Bond (Microsoft) Hr'g) at 143:23-144:2. Gaming PCs, which contain specialized parts to run graphically intensive games, are significantly more expensive than gaming consoles and frequently require a higher level of technical competency because PC gamers will often select individual, modular parts to build their own devices. PX8001 (Ryan (Sony) Decl.) at ¶ 15. [redacted] *See, e.g.*, PX1563 (Microsoft) at 025-30.

Mobile gaming is also distinct from console gaming. Game development for mobile devices is significantly less expensive, relies on smaller developer teams, and requires less technological innovation. PX0003 at 053, 073. Mobile games have to be specifically built for the mobile operating system and they cannot play the same computationally demanding and graphically intensive games as consoles. PX6000 at 055-566 (Wright (Microsoft) Trial Tr.). Unlike Xbox and PlayStation consoles, mobile devices also possess smaller screens and touch screen controls which provide different player experiences and which require different design considerations in game development. PX7035 (Kotick (Activision) Dep.) at 143:5-25; 147:25-

148:5. For these reasons, [redacted] PX6000 at 051 (Wright (Microsoft) Trial Tr.).

C. Multi-Game Content Subscription Services

Multi-game content subscription services, also called "content subscription services," provide subscribers access to a library of video games for a periodic subscription fee. PX0003 at 018; PX0006 at 013. Content subscription services stand in contrast to buy-to-play games in which gamers pay an upfront cost to receive a physical or digital version of the game. PX0003 at 018; PX0006 at 013.

Microsoft launched its content subscription service, called Game Pass, in 2017. PX0006 at 013. Microsoft CEO Satya Nadella described Game Pass a "Netflix for Games." PX7010 (Nadella (Microsoft) IH) at 78:17-79:3; PX1283 (Microsoft) at 008. Game Pass is available in two different tiers. PX0003 at 018. The lower tiers of service, Xbox Game Pass for Console and Xbox Game Pass for PC, provides subscribers access to a library of over 500 first-party and third-party games that subscribers can download onto either their Xbox consoles or Windows PCs (but not both). PX0003 at 018. The upper tier, Xbox Game Pass Ultimate, provides access to a library of games for both Xbox consoles and Windows PCs, and allows subscribers to use Xbox Cloud Gaming to stream games to their devices rather than download them. PX0003 at 018. Game Pass is the leading content subscription service, with over 25 million subscribers in 2022. PX1516 (Microsoft) at 043; PX9003 at 003; PX8001 (Ryan (Sony) Decl.) at ¶ 9.

Sony has the second most popular content subscription service with its PlayStation Plus PlayStation Plus Extra and PlayStation Plus Premium tiers. PX7053 (Ryan (Sony) Dep. Vol. I) at 17:9-22. PlayStation Plus Extra provides access to a library of up to 400 first-party and third-party games; PlayStation Plus Premium provides access to an even larger library of games and access to PlayStation's cloud gaming service for certain games. PX8001 (Ryan (Sony) Decl.) at ¶

9. As of July 2022, approximately [redacted] subscribed to PlayStation Plus Extra and approximately [redacted] subscribed to PlayStation Plus Premium. PX7053 (Ryan (Sony) Dep. Vol. I) at 17:23-18:4; PX8001 at ¶ 9.

Both Microsoft and Sony also offer gamers the option to play games online with other gamers for a subscription fee through their Xbox Live Gold and PlayStation Plus Essential subscription products, respectively. PX0003 at 018; PX8001 (Ryan (Sony) Decl.) at ¶ 9; PX7053 (Ryan (Sony) Dep. Vol. I) at 17:1-8. Neither Xbox Live Gold nor PlayStation Plus Essential are content subscription services because they do not provide access to a library of hundreds of games. PX0003 at 018; PX8001 at ¶ 9.

Several other video game companies provide content subscription services. Amazon provides two similar services: Prime Gaming and Luna+. Prime Gaming is included with a member's subscription to Amazon Prime and provides a rotating selection of a few dozen games. PX0006 at 068, 079. Separately, gamers can subscribe to Luna+ which provides a library of games with monthly pricing ranging from $5.99 to $17.99 depending on the size of the library, with the base subscription providing access to over 100 games. PX3206 (Amazon) at 001. All games available on Luna+ are available via cloud gaming. PX3206 (Amazon) at 001.

Electronic Arts provides its own content subscription service, EA Play, that provides access to over 90 EA-published titles. PX0003 at 018-019, 068; PX0006 at 077-078. Through a commercial arrangement, subscribers to Microsoft's Game Pass Ultimate also gain access to EA Play. PX7011 (Spencer (Microsoft) IH Vol. I) at 260:3-15; PX0003 at 018-019.

Ubisoft sells its content subscription service, Ubisoft+, in two tiers. PX0006 at 080. The lower tier, PC Access, gives gamers access to Ubisoft-published titles on PC. PX0006 at 080. The upper tier, Multi Access, similarly gives gamers access to a library of Ubisoft-published

games but also includes the ability to play certain Ubisoft-published titles via Amazon's Luna and formerly Google's Stadia (now discontinued). PX5000 at ¶ 133; PX0006 at 080; PX7068 (Zimring (Google) Hr'g) at 470:13-16.

D. Cloud Gaming Subscription Services

Historically, video games have run locally on a player's gaming device – typically a Windows PC or a gaming console located in the player's home. PX8000 (Eisler (Nvidia) Decl.) ¶¶ 6, 50. Recently, technology has progressed to allow players to stream video games that run on remote hardware over the internet, obviating the need for a player to download the game locally to their own device. PX8000 (Eisler (Nvidia) Decl.) ¶ 7; PX0003 at 077. This is referred to as "cloud gaming." Cloud gaming enables gamers to play computationally demanding games on less powerful devices that otherwise lack the computing power or storage to support the games. PX7071 (Nadella (Microsoft) Hr'g) at 834:3-7; PX8000 (Eisler (Nvidia) Decl.) at ¶¶ 6, 9, 17; PX3103 (Nvidia) at 007-8. Cloud gaming "[shifts] gaming hardware to the cloud[,] [helping] AAA gaming reach users in lower socioeconomic groups who otherwise would not be able to purchase, or could not afford, their own video game system or gaming PC." PX8000 (Eisler (Nvidia) Decl.) ¶ 10. Today, cloud gaming subscription services can stream games to consoles, Windows PCs, Mac PCs, Chromebook PCs, tablets, mobile phones, and some smart TVs, with device compatibility varying by service. PX7050 (Choudhry (Microsoft) Depo.) at 22:11-23:16; PX0006 at 088.

Market participants view cloud gaming as "the future of gaming." PX8000 (Eisler (Nvidia) Decl.) ¶ 12; *see also* PX7062 (Fisher (Nvidia) Dep.) at 63:15-20 ("It's my strong belief that cloud gaming has a profitable future."). Microsoft CEO Satya Nadella and Xbox CEO Phil Spencer have discussed the "North Star" vision of [redacted] PX1751 (Microsoft) at 001; *see also*

PX9102 (Microsoft) at 009 (describing to investors how cloud is one of the big bets that is paying off for Microsoft's gaming business). While "[c]loud gaming services remain in their infancy[,] [] cloud gaming is evolving rapidly (both in terms of the number of services available and the size of the relevant catalogues), and is expected to grow in the short- to medium-term." PX0003 at 074.

Various cloud gaming services exist today. In September 2020, Microsoft added cloud gaming to its top-tier multi-game content library subscription service offering, Xbox Game Pass Ultimate. PX9091 at 001–06. Xbox Cloud Gaming (also referred to as xCloud) enables Game Pass Ultimate subscribers to stream certain games and then to play those games on the device most convenient to them, including consoles, Windows PCs, tablets, mobile phones, and smart TVs. PX0003 at 018. Sony also offers cloud gaming on its PlayStation Plus Premium subscription product. PX8001 (Ryan (Sony) Decl.) ¶ 9. Currently, gamers can stream PlayStation 3 and 4 games, [redacted]

PX3378-052 (Ryan (Sony) Hr'g Testimony, 97:14-25, 98:04-06).

Nvidia GeForce NOW allows gamers to access streaming versions of game titles that the gamers already own, with the streaming hosted on Nvidia Corporation datacenters. PX8000 (Eisler (Nvidia) Decl.) at ¶ ¶16, 18, 28.[2] Amazon's Luna+ provides streaming access to a library of over 100 third-party games.[3] Google Stadia Pro was priced at $9.99 per month with additional options for further purchases, allowing gamers to stream games from a library of hundreds of third-party games. PX8003 (Zimring (Google) Decl.) at ¶ 3. Google discontinued Stadia in

[2] Nvidia, GeForce NOW, https://www nvidia.com/en-us/geforce-now/.
[3] See Amazon Luna, https://www.amazon.com/luna.

January 2023 in part due to the cost and difficulty of securing content to offer to Stadia users. PX8003 (Zimring (Google) Decl.) ¶ 2.

E. A Gaming Platform Must Offer AAA Content to Succeed

The gaming industry recognizes certain games as particularly important. The industry uses terms like "AAA," "tentpole," or "blockbuster" to denote these titles. While the industry definition isn't precise, "AAA" means a title that has a high development budget and high expectation for sales, which "often feature cinematic storytelling, immersive environments, and detailed graphics." PX8001 (Ryan (Sony) Decl.) ¶ 20. "Tentpole" is similar, meaning that the content "lift[s] the entire tent" for sales of other games. PX1089 at 009. These terms can be used synonymously, as Jamie Leder, head of ZeniMax, described, "a AAA title . . . is a tentpole title, a marquee title, a big blockbuster title, something that would have a lot of . . . consumer demand." PX7046 (Leder Depo) at 97:1-8. Only a small portion of games are considered AAA. PX7068 (Spencer (Microsoft) Hr'g) at 304:7-14, 304:25-305:14; PX7011 (Spencer IH) at 38:22-39:7.

Industry participants agree that these "AAA" games are necessary to drive customers to their platforms. Xbox CEO Phil Spencer agreed that Microsoft needs [redacted] and [redacted] PX7068 (Spencer (Microsoft) Hr'g) at 301:24-302:15; 432:2-5. For past acquisitions, Microsoft has made clear that [redacted]

Other industry participants like Google and Nvidia agree. Former Stadia Product Director Dov Zimring testified that Google's consumer research indicated that new gaming platforms need AAA games to generate player interest. PX7068 (Zimring (Google) Hr'g) at 477:3-10. Google hoped to create exclusive games for Stadia that would draw players to their platform but was unable to succeed. PX7068 (Zimring (Google) Hr'g) at 478:3-479:5. Phil Eisler, Vice President and General Manager of Nvidia GeForce Now, stated "[a]ccess to AAA titles, which are the latest, most-popular gaming franchises, is critical to the success of any gaming platform." PX8000 (Eisler (Nvidia) Decl.) ¶ 30.

AAA games require large amounts of funding and years to create. PX8001 (Ryan (Sony) Decl.) ¶ 21 [redacted] For example, the latest version of Halo took [redacted] to develop. PX1419 (Microsoft) at 003. As Phil Spencer explained, [redacted] PX1063 at 003.[4] Similarly, an Nvidia explained that AAA content "requires tens of millions of dollars (in some cases over $100 million) and years to produce." PX8000 (Eisler (Nvidia) Decl.) at ¶ 31.

F. Exclusive Gaming Content is Important for Attracting Customers and Driving Sales

Exclusive gaming content is a key differentiator for gaming products and services, as it helps drive consumer decisions about what consoles or subscriptions to purchase. PX7072 (Stuart (Microsoft) Hr'g) at 939:4-11, 940:12-15. As an internal Microsoft document explains:

[redacted]

[4] *See* PX4671 at -001 (email correspondence, Feb. 2023) ("AAA games continue to grow in scope and size. The barrier to entry for a AAA shooter or RPG is very high.").

[redacted] Similarly, a Sony presentation regarding demand for PlayStation 5 consoles states, [redacted] Internal market share simulators and machine-learning models produced by Microsoft estimate that the launch of an exclusive AAA title on a console drives a shift in market share toward that console [redacted] PX5000 (Lee Report) at 155. Microsoft Gaming CFO Tim Stuart testified that exclusive content is important to attracting subscribers to Game Pass, saying, [redacted] PX7007 (Stuart (Microsoft) IH) at 167:5-168:9.

Sony typically makes its first-party games exclusive because exclusives are a "point of difference" between PlayStation and Xbox and "one of the factors that gamers take into account when deciding which console to buy." PX7053 (Ryan (Sony) Dep.) at 20:16-21:5. Likewise, historically almost all of Microsoft's first-party games are exclusive to Xbox, including major first-party console franchises such as *Halo* and *Gears of War*. PX7011 (Spencer (Microsoft) IH Vol. 1) at 332:17-20, 360:2-13, 362:14-20; PX5000 (Lee Report) at 195.

[redacted][5] *E.g.,* PX3354 (Sony) at 020; PX7007 (Stuart (Microsoft) IH) at 111:5-16; PX4775 (Microsoft) at 008-9 [redacted]

[5] For example, Microsoft currently has the co-marketing agreement with Activision that covers popular titles such as *Overwatch II* and *Diablo IV*. PX4743 (Microsoft).

[redacted] PX7053 (Ryan (Sony) Dep.) at 24:20-26:8.

G. Activision Content is Particularly Important

Among AAA games, Activision content is [redacted] in the words of Microsoft executives. PX1019 (Microsoft) at 025. Activision develops a portfolio of "iconic" and "beloved" gaming franchises across multiple devices that endure because of the "duration, the popularity, the joy, and the fun people experience" with Activision games. PX7006 (Kotick (Activision) IH) at 74:23-76:4; PX7071 (Kotick (Activision) Hr'g) at 736:1-9. Its "legendary franchises" include *Call of Duty*, *World of Warcraft*, *Diablo*, and *Overwatch*. PX4218 (Microsoft) at 001. *Call of Duty*, *Overwatch*, and *Diablo*—all playable on console—have each earned more than $1 billion in lifetime revenues. PX1741 (Microsoft) at 011; PX2113 (Activision) at 010. Activision refers to *Call of Duty* in particular as a "super franchise." PX2094 at 007; PX2107 (Activision) at 051.

Activision's largest franchise, *Call of Duty*, is a first-person shooter game that can be played with other players, called multi-player, or can be played alone, following a storyline. *Call of Duty* is one of the most successful entertainment franchises of all time. PX9005 at 004. With the first installment released nearly twenty years ago in 2003, *Call of Duty* is Activision's "key product franchise." PX9052 at 037. In an industry marked by long development cycles in between game sequels, Activision has organized its studios to make and release a new and unique *Call of Duty* sequel *every year*. PX7071 (Kotick (Activision) Hr'g) at 736:13-18 (Activision released a new *Call of Duty* in 19 of the past 20 years); PX8001 (Ryan (Sony) Decl.) at ¶ 25. This yearly release cadence is unheard of within the video game industry for non-sports games because AAA games of this caliber require immense resources and time to develop.

PX8001 (Ryan (Sony) Decl.) at ¶ 25.[6] And unlike sports games, each *Call of Duty* is a distinctive sequel with progressive storylines, new gameplay mechanics, and characters. PX7053 (Ryan (Sony) Dep. Vol. I) at 52:4-8 ("There's nothing like it in the industry."). The franchise is immensely popular with over 150 million monthly active users. PX2094 (Activision) at 007. [redacted] PX8001 (Ryan (Sony) Decl.) ¶ 28. Every year since 2014, the best-selling buy-to-play console game in the United States has been a *Call of Duty* game, except for 2018, in which *Call of Duty: Black Ops 4* was the second best-selling game. PX8001 (Ryan (Sony) Decl.) at ¶ 26; PX9053 at 003.

Recent years show that *Call of Duty* is poised to maintain its dominance in console gaming. In 2020, the first and second best-selling console games were *Call of Duty* games. PX8001 (Ryan (Sony) Decl.) at ¶ 26. In 2021, *Call of Duty: Vanguard*—considered to be a *commercial disappointment* by Activision executives—still topped the revenue charts as the best-selling game in the United States while Activision's previous *Call of Duty* game, *Black Ops Cold War*, was the second best-selling title for that year. PX2056 (Activision) at 001; PX7004 (Zerza (Activision) IH) at 207:4-12. In 2022, Activision released its most recent *Call of Duty* title, *Modern Warfare 2*, which earned $1 billion globally in the first ten days following its launch, becoming the highest grossing entertainment opening of 2022 and the best-selling *Call of Duty* game of all time. PX9132 at 001; PX7071 (Kotick (Activision) Hr'g) at 736:22-737:5. By comparison, *Top Gun: Maverick*, the highest grossing film in 2022, took one month to reach the $1 billion threshold globally.[7]

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[6] [redacted] PX9004 at 004; PX5000 at 040.

[7] https://www.economist.com/business/2022/11/29/microsoft-activision-blizzard-and-the-future-of-gaming

Although *Call of Duty* is Activision's most popular and well-known franchise, Activision has also other tremendously successful franchises in its portfolio. For example, Microsoft Gaming CEO Phil Spencer [redacted] PX7011 (Spencer (Microsoft) IH Vol. I) at 116:4-10; 117:20-118:13, PX4743 (Microsoft) at 001, 010; PX1742 (Microsoft) at 003.[8] Activision released *Diablo 4* in June 2023, and it earned $666 million in the first five days following its launch. PX7071 (Kotick (Activision) Hr'g) at 740:11-17; PX7006 (Kotick (Activision) IH) at 53:2-11; PX9441 at 001.

H. The Industry Has a History of Consolidation

Over the last decade, the gaming industry has seen acceleration of consolidation among video game developers and publishers. Microsoft alone bought eight studios between 2018 and 2020 and has more than doubled its first-party studios. PX1425 (Microsoft) at 005; PX7068 (Spencer (Microsoft) Hr'g) at 268:19-269:11. As Phil Spencer testified, the "the supply of attractive games is structurally limited." PX7068 (Spencer (Microsoft) Hr'g) at 308:10-20. Internal Microsoft documents highlight the reasons for limited content supply, including "[l]ong development cycles [and] progressive industry consolidation" PX1050 at 034. Activision similarly viewed the industry as consolidating, citing Microsoft's acquisition of ZeniMax as increasing the consolidation further. PX2094 at 006, 015. Google's Dov Zimring testified that

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[8] [redacted] PX1742 (Microsoft) at 003; PX7003 (Bond (Microsoft) IH) at 110:11-23, 218:24-219:4; PX7007 (Stuart (Microsoft) IH) at 67:8-11; PX7011 (Spencer (Microsoft) IH Vol. I) at 88:12-13; PX7008 (Schnakenberg (Activision) IH) at 59:16-22.

Stadia's development studio closed as a result of high costs brought on by industry consolidation. PX7068 (Zimring (Google) Hr'g) at 479:14-23.

Because of increasing consolidation, Phil Spencer [redacted] so he commissioned the team to work on a "Gaming Industry Outcomes" memo. PX1136 (Microsoft) at 001. The memo found that [redacted] PX1791 (Microsoft) at 049.[9]

I. Microsoft Has a History of Making Content from Acquired Studios Exclusive

Microsoft has a history of acquiring studios and making their future titles—including future titles in existing franchises—exclusive. Microsoft acquired a series of game studios in 2018 and 2019, including Ninja Theory, Double Fine, Obsidian Entertainment, and inXile Entertainment. PX1425 (Microsoft) at 005; PX0003 at 086–087. In internal documents, Microsoft explained that although existing commitments to other platforms would be honored, "going forward these new studios will focus on making games for our console and we have no plans to expand our exclusive first party IP to other consoles." PX1949 (Microsoft) at 002. For example, [redacted] PX7031 (Greenberg (Microsoft) Dep.) at 48:11-49:13, 54:6-21.

In September 2020, Microsoft announced the $7.5 billion acquisition of ZeniMax, the parent company of the large game publisher Bethesda Softworks LLC ("Bethesda") and eight development studios. PX1962 (Microsoft) at 002; PX7067 (Booty (Microsoft) Hr'g) at 57:7-16.

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[9] [redacted] (Hampton (Microsoft) Dep.) 253:11-254:11.

The Zenimax acquisition added four additional billion-dollar franchises to Microsoft's game portfolio (*The Elder Scrolls*, *Dishonored*, *Fallout*, and *Doom*), as well as major new releases *Starfield* and *Redfall*. PX1425 (Microsoft) at 015; PX4627 (Microsoft) at 001.

During the antitrust review of the ZeniMax transaction, Microsoft told European Commission that it had "strong incentives to continue making ZeniMax games available for rival consoles (and their related storefronts)" and that it would be "implausible" to earn enough new Xbox console users to offset the losses it would realize from lost sales on competing platforms due to an exclusive strategy. *See* PX9036 at 022; PX1651 at 125-29 (Microsoft Form CO submitted to the European Commission for Microsoft/ZeniMax, Jan. 29, 2021). [redacted] PX4309 (Microsoft) at 001; PX7068 (Lawver (Microsoft) Hr'g) at 242:20-244:03; PX7072 (Stuart (Microsoft) Hr'g) at 988:24-991:24; PX7042 (Lawver (Microsoft) Dep.) at 318:9-22, 320:4-24; 327:4-328:20; *see infra* Section III.C.

II. RELEVANT MARKETS

The relevant product market "identifies the product and services with which the defendants' products compete." *FTC v. Sysco Corp.*, 113 F. Supp. 3d 1, 24 (D.D.C. 2015) (quoting *FTC v. Arch Coal*, 329 F. Supp. 2d 109, 119 (D.D.C. 2004)). "The outer boundaries of a product market are determined by the reasonable interchangeability of use [by consumers] or the cross-elasticity of demand between the product itself and substitutes for it." *Brown Shoe v. United States*, 370 U.S. 294, 325 (1962). The Supreme Court has provided guidance that the "boundaries" of the relevant product market "may be determined by examining such practical indicia as industry or public recognition of the market as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers,

distinct prices, sensitivity to price changes and specialized vendors." *Brown Shoe*, 370 U.S. at 325 (1962). These practical indicia "are not necessarily criteria to be rigidly applied." *FTC v. Swedish Match*, 131 F. Supp. 2d 151, 159 (D.D.C. 2000). Thus, markets, or sub-markets, "can exist even if only some of these factors are present." *Swedish Match*, 131 F. Supp. 2d at 159.

To evaluate the appropriate scope of the relevant product market, Courts and the Commission may also turn to the hypothetical monopolist test, an economic tool that asks whether a hypothetical monopolist of a particular group of substitute products could profitably impose a "small but significant non-transitory increase in price" ("SSNIP") over those products, or whether customers switching to alternative products would make such a price increase unprofitable. *See, e.g.*, *FTC v. Wilh. Wilhelmsen Holding ASA*, 341 F. Supp. 3d 27, 47, 57–58 (D.D.C. 2018); *Sysco*, 113 F. Supp. 3d at 33–34.

Here, both the *Brown Shoe* "practical indicia" and the hypothetical monopolist test support High-Performance Consoles, Multi-Game Content Subscription Services, and Cloud Gaming Services as relevant product markets.

A. High-Performance Consoles Constitute a Relevant Product Market

The *Brown Shoe* factors listed below, as well as the hypothetical monopolist test, show that High-Performance Consoles constitute a relevant product market in which to evaluate the competitive effects of the proposed acquisition.

Industry or Public Recognition. Within the video game industry and among the public, Microsoft's Xbox consoles and Sony's PlayStation consoles are acknowledged to be extremely close competitors in the United States while Nintendo's consoles are known for their distinctive, unique approach. PX0006 at 064-065; PX1275 (Microsoft) at 001–002; PX8001 (Ryan (Sony) Decl.) at ¶¶ 12, 14. Gaming journalists frequently comment on the historied rivalry between Xbox consoles and PlayStation consoles in each generation of the "console wars." PX9037 at

006 ("Microsoft and Sony [have been] at the forefront of the console wars, releasing competing devices within months of each other: first with the Xbox 360 and PlayStation 3 in the 00s, then with the Xbox One and PlayStation 4 in 2013, and now with the Xbox Series X and PlayStation 5."). The former head of Microsoft Gaming explained in an interview: "We encouraged the console wars, not to create division, but to challenge each other. . . . And when I say each other I mean Microsoft and Sony." PX9061 at 001.

Internally, [redacted] PX7028 (Spencer (Microsoft) Dep.) at 151:20-152:17, 157:11-18; PX1635 (Microsoft) at 002; PX1636 (Microsoft) at 011, 012; PX1888 (Microsoft) at 036 [redacted] For example, Microsoft evaluates the sales performance of its Generation 9 console by measuring [redacted] PX7011 at 165:22-166:23; PX1240 (Microsoft) at 019; PX1274 (Microsoft). [redacted] PX3081 (Sony) at 028, 033. As PlayStation's CEO Jim Ryan described, [redacted] PX7053 (Ryan (Sony) Dep.) at 21:6-16.

Characteristics and Uses. Microsoft's Xbox Series consoles and Sony's PlayStation 5 have similar characteristics and uses. An internal Microsoft Gaming competitive analysis notes that "[h]istorically, Sony has been Microsoft's primary competitor in gaming, with similar

products, services, and business models vying for similar customers." PX1638 at 019. Both Generation 9 Xbox and PlayStation consoles possess extremely fast processing, high resolution graphics, and cutting-edge performance and are roughly comparable. PX1635 (Microsoft) at 001-002; PX1275 (Microsoft) at 002. The Nintendo Switch, [redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 21:11-22:3; PX7048 (Booty (Microsoft) Dep.) at 42:17-43:6.

Instead of a traditional stationary, powerful device designed for the living room, the Nintendo Switch uses a unique, innovative hybrid form factor in which it can either be connected to a television or played portably on a battery. *See supra* § I.B.i. Microsoft has acknowledged that [redacted] PX1638 (Microsoft) at 018 [redacted][10]

Distinct Customers. The Xbox Series X|S and PlayStation 5 target a distinct group of customers compared to the Nintendo Switch. [redacted] PX8002 (Prata (Nintendo) Decl.) at ¶¶ 3, 10; PX7053 (Ryan (Sony) Dep. Vol. I) at 22:11-22;

[10] Multi-homing patterns reinforce how the Nintendo Switch provides a differentiated experience which results in less substitution between the Nintendo Switch and either of the Generation 9 consoles offered by Microsoft and Sony. [redacted]

PX7048 (Booty (Microsoft) Dep.) at 124:13-125:2 [redacted]

Distinct Prices. The Xbox Series X|S and PlayStation 5 launched with similar pricing schemes. The more advanced Xbox Series X and PlayStation 5 launched with a price of $499 while the Xbox Series S and PlayStation 5 Digital Edition launched with a price of $299 and $399, respectively. PX4905 (Microsoft) at 001; PX8001 at ¶12. While the Xbox Series S and Nintendo Switch had the same retail price at launch., the Xbox Series S is much more closely aligned with the Xbox Series X and PlayStation 5 consoles. PX8002 (Prata (Nintendo) Decl.) at ¶ 3; PX5000 at ¶195 and Figure 13.

Hypothetical Monopolist Test. Prof. Robin Lee's analysis shows Microsoft and Sony impose the most significant competitive constraints on one another among console makers. His analysis showed that consumer substitution to products outside of High-Performance Consoles would not constrain a hypothetical monopolist of High-Performance Consoles from profitably implementing a SSNIP on products within this market. PX5000 (Lee Report) at ¶¶ 248–49. Thus, the High-Performance Consoles market satisfies the hypothetical monopolist test. PX5000 (Lee Report) at ¶ 249.

PC Gaming. PCs are not included in the relevant product market of High-Performance Consoles. First, they possess different characteristics and uses than High-Performance Consoles. Most PCs are general-purpose devices that cannot play the type of computationally demanding and graphically intensive games that High-Performance Consoles can. *Supra* § I.B.ii. Even gaming PCs, which are more advanced, provide a differentiated experience from High-

Performance Consoles. *See supra* § I.B.ii. The degree of customization for gaming PCs requires a higher level of technical sophistication than for consoles. PX7067 (Bond (Microsoft) Hr'g) at 130:24-131:3; PX8001 (Ryan (Sony) Decl.) ¶ 15; PX1324 (Microsoft) at 001; PX3053 (Sony) at 003. This results in a different audience for high-end PC gaming than console gaming. PX8001 (Ryan (Sony) Decl.) at ¶ 15. Second, high-end gaming PCs are generally more expensive than High-Performance Consoles with gaming PCs retailing anywhere from $800 to more than $2,500. PX8001 (Ryan (Sony) Decl.) at ¶ 15. [redacted] Third, industry participants treat PC gaming as a separate segment from console gaming. PX1476 (Microsoft) at 001-002; PX1639 (Microsoft) at 003 [redacted]; PX1563 (Microsoft) at 025-030 [redacted]

Mobile Gaming. Mobile gaming is not included in the relevant product market. Game development for mobile devices is significantly different from console gaming. *Supra* § I.B.ii. Moreover, neither Sony nor Microsoft view mobile gaming as competing with High-Performance Consoles. As Microsoft executive Lori Wright testified in the *Epic v. Apple* trial, "[Microsoft] certainly [doesn't] view iPhone as a competing device" to Xbox. PX6000 at 051 (Wright (Microsoft) Trial Tr. 537:22-25). [redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 112:13-16.

B. Video Game Consoles Also Constitute a Relevant Market

All of the products in the High-Performance Consoles market are also wholly contained within a broader Video Game Consoles market, which includes the Xbox Series X|S, PlayStation

5, and the Nintendo Switch. The SSNIP-based analysis that supports the appropriateness of the High-Performance Consoles market also implies that the Video Game Consoles market satisfies the hypothetical monopolist test. Importantly, the broadening of the relevant product market does not eliminate the anticompetitive harm of the proposed acquisition—the substantial lessening of competition. PX5000 (Lee Report) at ¶ 251.

C. Multi-Game Content Subscription Services Constitute a Relevant Product Market

The *Brown Shoe* factors listed below, as well as hypothetical monopolist test, show that Multi-Game Content Subscription Services ("content subscription services") constitute a relevant product market in which to evaluate the competitive effects of the proposed acquisition.

Industry or Public Recognition. Video game companies view content subscription services as a distinct product segment, separate from console gaming. Microsoft often [redacted] PX1995 (Microsoft) at 008.

Characteristics and Uses. By providing access to an extensive library, content subscription services have a distinct use in enabling gamers to discover games that they otherwise would not have played. PX7003 (Bond (Microsoft) IH) at 139:4-19; PX0006 at 013; PX7031 (Greenberg (Microsoft) Dep.) at 189:18-23. Unlike buy-to-play games, content subscription services grow "the overall market…by exposing more people to a broader set of [titles], genres, experiences [than] they would otherwise be able to afford." PX1767 (Microsoft) at 001; *see* PX7011 (Spencer (Microsoft) IH Vol. I) at 271:5-272:4 [redacted]

[redacted] Microsoft executive Aaron Greenberg analogizes the effect of content subscription services to "[s]ort of like a movie on Netflix will get watched by more people than would have gone to maybe a movie theater and watched it because it's available in the service." PX7031 (Greenberg (Microsoft) Dep.) at 200:14-23.

Distinct Customers. Evidence shows that content subscription service providers target customers who would not otherwise purchase the games on a buy-to-play basis. PX7068 (Spencer (Microsoft) Hr'g) at 423:2-23 ("When a game reaches a certain point in its evolution, in its sales, it's an opportunity for us to find customers who did not originally buy the game."). Because content subscription services like Game Pass target gamers distinct from those already purchasing buy-to-play games, [redacted] PX7011 (Spencer (Microsoft) Vol. I) at 272:5-17.

Distinct Prices. Subscribers to content subscription services pay periodic subscription fees (monthly, quarterly, or annually) for access to the library of games. These prices are distinct from prices for buy-to-play games. Xbox Game Pass's prices ranged from $9.99 to $14.99 per month, although Microsoft announced in June 2023 that Game Pass subscription for console will increase from $9.99 to $10.99. PX9446 at 002. Game Pass's prices are in line with Sony's PlayStation Plus Extra and PlayStation Plus Premium services, which have a monthly cost of $14.99 (or $99.99 annually) and $17.99 (or $119.99 annually), respectively. PX8001 (Ryan (Sony) Decl.) ¶¶ 9, 17. Internal Microsoft strategy documents show that the company benchmarks the prices and features of Game Pass to Sony's content subscription services. PX7072 (Stuart (Microsoft) Hr'g) at 942:13-943:21; PX1151 (Microsoft) at 001 ("[T]he table below [] detail[s] the high-level features within each [PlayStation Plus] tier and what it includes versus Xbox [Game Pass] today."). [redacted]

[redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 19:4-20; PX3090 (Sony) at 002. [redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 19:21-24.

Buy-to-Play Games. Buy-to-play games are not commercially reasonable alternatives to content subscription services. Each buy-to-play game carries a hefty upfront price, typically $70, and is largely a standalone experience which prevents the type of sampling that content subscription services facilitate. *See* PX7054 (Ryan (Sony) Dep. Vol. II) at 99:6-15. [redacted] PX1050 (Microsoft) at 038; PX4260 (Microsoft) at 005.

Online Multiplayer Subscriptions. Although Microsoft and Sony also each offer a basic service (Xbox Live Gold and PlayStation Plus Essential) that allows gamers to play online, multiplayer games for a recurring subscription fee, these are not content subscription services. *See supra* § I.C.

Hypothetical Monopolist Test. Consumer substitution to products outside of the content subscription services market would be unlikely to constrain a hypothetical monopolist of content subscription services from profitably implementing a SSNIP within this market. PX5000 (Lee Report) at 133-34. Thus, the content subscription services market satisfies the hypothetical monopolist test. PX5000 (Lee Report) at 133–34.

D. Cloud Gaming Subscription Services Constitute a Relevant Product Market

The *Brown Shoe* factors listed below, as well as the hypothetical monopolist test, show that Cloud Gaming Subscription Services constitute a relevant product market in which to evaluate the competitive effects of the Proposed Transaction. This market encompasses all cloud gaming services that offer access to games that are played primarily on non-mobile devices and includes "bring your own game" cloud gaming services such as Nvidia GeForce Now, and Multi-Game Content Subscription Services that include cloud gaming, such as Xbox Game Pass Ultimate, PlayStation Plus Premium, and Amazon Luna+.

Industry and Public Recognition. Microsoft documents analyze cloud streaming as a distinct segment. *See, e.g.*, PX1110 (Microsoft) at 024 [redacted] PX4640 (Microsoft) at 001 [redacted] PX4665 (Microsoft) at 034 [redacted] Similarly, Nvidia, Amazon, and Google all analyze cloud gaming services as a distinct market. PX3069 (Nvidia) at 008 [redacted] PX3206 (Amazon) at 002-003 [redacted] PX3058 (Google) at 001-004 [redacted]

Characteristics and Uses. Cloud Gaming Subscription Services provide a way to play games that is distinct from running them locally on the player's gaming device. Cloud streaming allows a consumer to untether their gaming experience from the computing power or storage of their gaming devices, enabling gaming on devices that do not meet the minimum specifications for large and technologically complex games, such as older and less expensive PCs, MacBooks,

Chromebooks, tablets, mobile devices, and smart TVs. PX0006 (Microsoft) at 088; PX8000 (Eisler (Nvidia) Decl.) ¶ 9 ("cloud gaming provides a high-end gaming experience . . . without requiring customers to upgrade the latest graphics card, PC, or console.").

Unique Production Facilities. Cloud gaming providers operate on cloud infrastructure, either by deploying their own dedicated infrastructure in data centers or by contracting with third parties. *See* PX1029 (Microsoft) at 021-024 [redacted] PX3272 (Sony) at 016-27. For instance, [redacted] PX0003 at 141-142.

Distinct Prices. Consumers can access cloud gaming services either by paying a periodic fee (either monthly or yearly) or by streaming free-to-play games (which is available for free on some services). PX0003 at 019.[11]

Distinct Customers. Cloud gaming expands the total addressable market for high-end video games by making the games available to gamers that do not own high-end Windows gaming PCs or consoles. PX7062 (Fisher (Nvidia) Dep.) at 46:2-47:14; 389; PX9091 at 002 (Microsoft executive Kareem Choudhry: "[C]loud gaming as part of Xbox Game Pass Ultimate now opens up the world of Xbox to those who may not own a console at all."). Microsoft has estimated that the total addressable market for cloud gaming is approximately [redacted] PX7011 (Spencer (Microsoft) IH Vol 1) at 273:3-10; PX9012 at 006. In addition, Microsoft internal documents show that gameplay by gamers who use cloud gaming differs from that of gamers who do not, noting that [redacted]

[11] *See, e.g.*, https://www.xbox.com/en-US/cloud-gaming; https://www.nvidia.com/en-us/geforce-now/memberships/; https://www.amazon.com/luna/landing-page; https://www.playstation.com/en-us/ps-plus/#premium.

[redacted] PX1025 (Microsoft) 007.

Hypothetical Monopolist Test. Consumer substitution to products outside of the Cloud Gaming Subscription Services market would be unlikely to constrain a hypothetical monopolist of cloud gaming services from profitably implementing a SSNIP on products within this market. PX5000 (Lee Report) at 137. Thus, the Cloud Gaming Subscription Services market satisfies the hypothetical monopolist test.

E. Multi-Game Content Subscription Services and Cloud Gaming Subscription Services Together Constitute a Relevant Product Market

A combined Multi-Game Content Subscription Services and Cloud Gaming Subscription Services market is also appropriate to analyze the likely effects of this Proposed Acquisition. *See FTC v. Peabody Energy Corp.*, 492 F. Supp. 3d 865, 885 (E.D. Mo. 2020) ("A broad product market . . . may contain smaller markets . . . which themselves 'constitute relevant product markets for antitrust purposes.' If [Respondents] compete in multiple product markets, the JV will be illegal under the Clayton Act if it causes substantial competitive harm in *any* of those markets.") (quoting *Brown Shoe*, 370 U.S. at 325). The Multi-Game Content Subscription Services and Cloud Gaming Services market is broader than either market alone and wholly contains all the products in both the Multi-Game Content Subscription market and the Cloud Gaming Services market. This market includes all video game subscription services that offer either content subscription services for games played primarily on non-mobile devices or cloud gaming services for games played primarily on non-mobile devices.

Because Microsoft Game Pass Ultimate offers both content subscription services and cloud gaming subscription services, each product in the Multi-Game Content Subscription Services and Cloud Gaming Subscription Services market competes with Xbox Game Pass

Ultimate in at least one of these services. PX5000 (Lee Report) at ¶ 273. A hypothetical monopolist of all products in the Multi-Game Content Subscription Services and Cloud Gaming Subscription Services market would likely be able to profitably impose a SSNIP that would not be defeated by products outside the market, including buy-to-play games. PX5000 (Lee Report) at ¶ 327.

F. The Relevant Geographic Market Is the United States

A relevant geographic market "defines the geographic area to which consumers 'could practicably turn for alternative sources of the product." *In re Polypore Int'l, Inc.*, Docket No. 9237, 2010 WL 9549988, at *16 (F.T.C. Nov. 5, 2010) (quoting *FTC v. Freeman Hosp.*, 69 F.3d 260, 268 (8th Cir. 1995)). Here, the United States is the relevant geographic market in which to analyze the effects of the Transaction.

i. Game Prices and Releases Vary Country-by-Country, Supporting the Ability of Market Participants to Price Discriminate

The pricing dynamics in the Video Game Consoles and Multi-Game Content Subscription Services markets support a relevant geographic market of the United States. Microsoft and other console manufacturers set prices on their consoles on a country-by-country basis. PX5000 (Lee Report) at ¶ 259 (listing introductory prices for Xbox Series X, PlayStation 5, and Nintendo Switch as differing by country). A recent example of this practice is Sony raising prices for PlayStation 5 consoles in certain countries, but not in the United States. PX5000 (Lee Report) at ¶ 259; PX1752 (Microsoft) at 001 [redacted] *see also* PX5000 at ¶ 259 [redacted] For multi-game content subscription services, the price that Microsoft sets for Game Pass in the United

States differs from the price of Game Pass in other countries. PX5000 (Lee Report) at ¶ 350-51; PX7005 (West (Microsoft) IH) at 221:18-222:11.

Console video games are released on a country-by-country basis, [redacted] PX5000 (Lee Report) at ¶ 262; PX2167 (Activision) at 023 (Sony-Activision contract); PX2170 (Activision) at 015–16 (Microsoft-Activision contract); PX7008 (Schnakenberg (Activision) IH) at 283:14-23 (noting that "a territory or a country or a region may have a version of the title that is slightly different"). The same is true of Multi-Game Content Subscription Services, with Microsoft gaming titles, number, features, and availability on Game Pass varying over time by region and platform. PX5000 (Lee Report) at ¶ 355.

The availability of Xbox Cloud Gaming in a limited number of countries, in addition to its piece-meal country-by-country pattern of release, supports a relevant geographic market of the United States for Cloud Gaming Subscription Services. [redacted] PX5000 (Lee Report) at ¶ 356. [redacted] PX5000 (Lee Report) at ¶ 356; PX7054 (Ryan (Sony) Dep. Vol. II) at 115:2-13 (explaining that latency issues vary based on country); PX7062 (Fisher (Nvidia) Dep.) at 53:14-54:5.

ii. Gamer Preferences and Behavior Vary Country-by-country and Inform Market Participants' Strategic Decisions

Market participants in the High-Performance Consoles, Multi-Game Content Subscription Services, and Cloud Gaming Subscription Services markets analyze gaming on a country-by-country basis and recognize that the United States is a distinct market. PX1274 (Microsoft) at 001. [redacted]

[redacted] PX1240 at 019. [redacted] PX5000 (Lee Report) at ¶ 260 & n.510; PX1721 (Microsoft) at 011; PX1889 (Microsoft) at 035.

Console manufacturers acknowledge unique consumer behavior and preferences in the United States versus the rest of the world. Microsoft recognizes that [redacted] PX7036 (Nadella (Microsoft) Dep.) at 161:6-162:17. [redacted] PX1274 (Microsoft) at 001. Similarly, [redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 232:24-233:4. Sony also evaluates [redacted] PX3087 at 046.

Consumer preferences are different in the United States than elsewhere. For example, certain types of games—such as shooter games—are more popular in the United States than in other countries. PX7053 (Ryan (Sony) Dep. Vol. I) at 15:17-16:2. Microsoft executive David Hampton testified that [redacted] PX7026 (Hampton (Microsoft) Dep.) at 177:11-178:3, 178:23-179:11.

III. THE PROPOSED ACQUISITION IS LIKELY TO RESULT IN A SUBSTANTIAL LESSENING OF COMPETITION

"The primary vice of a vertical merger . . . is that, by foreclosing the competitors of either party from a segment of the market otherwise open to them, the arrangement may act as a clog on competition, which deprives rivals of a fair opportunity to compete." *Brown Shoe v. United States*, 370 U.S. 294, 323–24 (1962) (cleaned up). "Such foreclosure may be achieved by increasing prices, withholding or degrading access, reducing service or support, or otherwise increasing the costs or reducing the efficiency or efficacy" of rival products. *In re Illumina, Inc.*, No. 9401, 2023 WL 2823393, at *32 (F.T.C. Mar. 31, 2023).

"Case law provides two different . . . standards for evaluating the likely effect of a vertical transaction." *Illumina,* 2023 WL 2823393, at *32. Harm can be proven through a *Brown Shoe* vertical multifactor analysis or through a showing that the combined firm would have the ability and incentive to foreclose competition. *Brown Shoe*, 370 U.S. 294 at 328–29; *see United States v. AT&T, Inc*., 916 F.3d 1029, 1032 (D.C. Cir. 2019) (examining the district court's analysis under an ability-and-incentive framework).

The Supreme Court in *Brown Shoe* set forth a multifactor analysis for assessing liability in the context of vertical mergers. *Brown Shoe*, 370 U.S. at 328–34. These factors include: "the size of the share of the market foreclosed," the "nature and purpose of the arrangement," any "trend toward concentration in the industry," and entry barriers, among others. *Brown Shoe*, 370 U.S. at 328–34; *Ford Motor Co. v. United States*, 405 U.S. 562, 566–70 (1972); *see also Illumina,* 2023 WL 2823393, at *33 (F.T.C. Mar. 31, 2023).

The ability and incentive analysis focuses "on whether a transaction is likely to increase the ability and/or incentive of the merged firm to foreclose rivals." *Illumina,* 2023 WL 2823393, at *33; *In re Union Carbide Corp.*, 59 F.T.C. 614, 1961 WL 65409, at *34–35 (1961)

(Lipscomb, A.L.J.) (finding anticompetitive harm where the merged firm has the power to exclude competing producers from a segment of the market).

"[I]t is the power [to harm competitors] that counts, not its exercise," *Union Carbide Corp.*, 1961 WL 65409, at *19, though courts may examine a merged firm's incentives to foreclose the relevant market when considering whether there is the potential for competitive harm. *See, e.g.*, *Ford Motor Co.*, 405 U.S. at 571 (finding that because Ford "made the acquisition in order to obtain a foothold" in the aftermarket spark plug market, "it would have every incentive to . . . maintain the virtually insurmountable barriers to entry" in that market through foreclosure).

A. Microsoft Would Have the Ability to Foreclose Rivals in the Relevant Markets

i. The Combined Firm Would Have the Ability to Control How and Where Content is Delivered

Today, Activision is an independent company that controls where and how its content is delivered. PX2049 (Activision) at 006. When developers are independent, they decide what features, like different maps or weapons, will be offered on which consoles, the timing of the game releases on the consoles, and how best to optimize the game for any console. PX7071 (Kotick (Activision) Hr'g) at 762:16-21; [redacted] Post-transaction, Microsoft would control this content, and therefore would have the ability to make decisions about when and where to release the content on rival consoles and services.

Due to the importance of Activision's content, *see infra* at III.A.ii, Microsoft would gain the ability to foreclose competitors. *See* PX7031 (Greenberg (Microsoft) Dep.) at 42:3-11. Foreclosure can be through either complete foreclosure, or partial foreclosure. In this industry, partial foreclosure includes (1) timed exclusivity, where certain content or features are delayed release on other consoles or services; (2) content exclusivity, where some content or features are

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unavailable; and (3) degrading the content on competitor's devices or services, through performance, gameplay or features, or other ways to distinguish the content on Xbox. PX5000 at 181; PX7067 (Booty (Microsoft) Hr'g) 54:16-21; PX7071 (Kotick (Activision) Hr'g) at 728:7-13, 18; *accord Illumina,* 2023 WL 2823393, at *32 ("Such foreclosure may be achieved by increasing prices, withholding or degrading access, reducing service or support, or otherwise increasing the costs or reducing the efficiency or efficacy" of rival products.). Foreclosure, whether full or partial, damages competitors and harm consumers. PX5006 (Lee (Expert) Hr'g) ¶ 88. *Yankees Entm't & Sports Network, LLC v. Cablevision Sys. Corp.*, 224 F. Supp. 2d 657, 673 (S.D.N.Y. 2002); *see also Sprint Nextel Corp. v. AT&T, Inc.*, 821 F. Supp. 2d 308, 330 (D.D.C. 2011).

The industry has come to assume first-party games will be exclusive to the platform that owns the studio. PX7031 (Greenberg (Microsoft) Dep.) at 76:7-15. Microsoft preferences its own ecosystem above rivals after purchasing content. When Microsoft bought Ninja Theory in 2018, [redacted] PX7031 (Greenberg (Microsoft) Dep.) at 48:2-49:13. Microsoft's strategy at the time was [redacted] PX7031 (Greenberg (Microsoft) Dep.) at 47:15-49:20. Microsoft also bought Obsidian in 2018, which makes a game *Outer Worlds*. [redacted] PX7031 (Greenberg (Microsoft) Dep.) at 53:19-56:24. The strategy was the same, [redacted]

[redacted] PX1949 at 002.

In November 2020, Microsoft Gaming CFO Tim Stuart spoke at an investor conference saying he wants ZeniMax content "in the long run to be either first or better or best or pick your differentiated experience on our platforms." PX7072 (Stuart (Microsoft) Hr'g) at 957:19-958:5; PX9192 at -014. Tim Stuart told investors at this conference that Microsoft was moving towards this "first or better or best approach on [Microsoft] platforms." PX7072 (Stuart (Microsoft) Hr'g) at 961:9-18. Mr. Stuart testified that some of the ways the platform ensured it was "best" were to degrade the resolution, safety, or security of content, or to time the releases of games or downloadable content within the game. PX7072 (Stuart (Microsoft) Hr'g) at 960:4-13, 959:8-22.

Microsoft has also specifically sought preferential access to Activision content. This has included [redacted] PX2465 at 005; *see also* PX7071 (Bailey (Respondents' Expert) Hr'g) at 812:15-814:7; PX2465-005 [redacted] To prevent its own partial foreclosure, Microsoft has also [redacted] PX1015 at 027.

ii. Activision Content Is an Important Input that Drives Acquisition, Engagement, and Retention

Activision's content is highly prized by gamers, and accordingly, an important input for platform holders to effectively compete against each other. Because Activision's content is an input, or related product, Complaint Counsel does not have to establish a relevant product market definition for Activision's content. *Illumina,* 2023 WL 2823393, at *28-29; *see Brown Shoe v.*

United States, 370 U.S. 294, 325-26, 344 (1962) (finding a violation of Clayton Section 7 when only a relevant product market was shown); *United States v. E.I. du Pont de Nemours & Co.*, 353 U.S. 586, 593-97, 607 (1957). Nor does Complaint Counsel need to show total foreclosure of Activision's content. *Illumina*, 2023 WL 2823393, at *32 ("Such foreclosure may be achieved by increasing prices, withholding or degrading access, reducing service or support, or otherwise increasing the costs or reducing the efficiency or efficacy" of rival products.).

Microsoft has pursued Activision content aggressively because Activision content is a far greater driver of user acquisition, engagement, and retention for its platforms than other AAA games. In their own financial modeling of the proposed acquisition of Activision, Microsoft [redacted] PX7007 (Stuart (Microsoft) IH) at 98:11-99:17. This led Microsoft to pursue co-marketing deals for these three franchises in 2020 and 2021, to ensure that Activision would not "skip" Xbox's Generation 9 console. *See supra* § I.G; PX7011 (Spencer (Microsoft) IH Vol. I) at 117:20-119:10. Microsoft was even willing to [redacted] PX7011 (Spencer (Microsoft) IH Vol. I) at 118:14-119:10. As Microsoft Gaming CEO Phil Spencer justified to Microsoft CEO Satya Nadella: [redacted] PX1245 (Microsoft) at 001. Similarly, in 2020, Matt Booty (head of Microsoft Studios) identified the top drivers of Xbox Game Pass subscription acquisition. PX1425 (Microsoft) at 012. [redacted]

[redacted] PX1425 (Microsoft) at 012; PX5000 (Lee Report) at 172, Figure 41.

On the other side of the negotiations, Activision understood how important its content was to Microsoft's success in launching Generation 9 consoles. Activision exercised its immense bargaining power by [redacted] PX2086 (Activision) at 002 [redacted] In a series of private text messages, Activision's CFO Armin Zerza recounted to Robert Kostich, President of Activision Publishing and head of *Call of Duty*, that [redacted] PX2086 (Activision) at 002. In essence, Activision could extract a higher price [redacted] for its content because it understood the importance of that content to Xbox's successful launch of its new console. *See supra* § I.G.

Microsoft's concerns over losing access to Activision's content were well-grounded in history. In Generation 8, Activision began its "Partnership Transition to PlayStation," a deliberate effort to "actively shift our player community to PlayStation" where Activision [redacted] PX2411 (Activision) at 005. In 2014, prior to the "Partnership Transition," Xbox's share of *Call of Duty* gamers was [redacted] PX2411 (Activision) at 005. After the "Partnership Transition" began, Xbox's share of *Call of Duty* gamers fell [redacted] PX2411 (Activision) at 005. Over the rest of Generation 8, Xbox's share of *Call of Duty* gamers were [redacted] than it was pre-"Partnership Transition." PX2411 (Activision) at 005. Given this context, it is hardly surprising that Microsoft and Sony vigorously sought to arrange their own

co-marketing deals with Activision for Generation 9. Consequently, [redacted] PX5000 (Lee Report) at 037, 038, Figures 2 & 3.

The influence of Activision's content on platforms is also reflected [redacted] play *Call of Duty* on PlayStation. PX8001 (Ryan (Sony) Decl.) at ¶ 28. Since 2019, [redacted] million PlayStation gamers in the United States, representing over [redacted] of PlayStation's U.S. user base, have played *Call of Duty*. PX8001 (Ryan (Sony) Decl.) at ¶ 28. Furthermore, [redacted] PlayStation gamers spending [redacted] their time playing *Call of Duty* and [redacted] spending [redacted] their time playing *Call of Duty*. PX8001 (Ryan (Sony) Decl.) at ¶ 28. In 2021, *Call of Duty* gamers spent an average [redacted] playing *Call of Duty*. PX8001 (Ryan (Sony) Decl.) at ¶ 28. [redacted] Total spending on PlayStation by *Call of Duty* gamers, including hardware, accessories, subscriptions, game purchases, and add-ons—accounts for [redacted] PX8001 (Ryan (Sony) Decl.) at ¶ 27. [redacted] PX7053 (Ryan (Sony) Dep. Vol. I) at 92:4-7.

Activision internally acknowledges the influence of its games on user acquisition, engagement, and retention. An Activision analysis of exclusivity estimated that PlayStation-exclusive Activision content could [redacted]

[redacted] PX2082 (Activision) at 004. With respect to subscription services, a 2019 Activision survey found that [redacted] PX2159 (Activision) at 007. For console purchasing decisions, that same Activision survey also found that [redacted] PX2159 (Activision) at 007.

B. Unlike an Independent Activision, the Combined Firm Would Have an Incentive to Foreclose in the Relevant Markets

i. The Combined Firm Will Have an Increased Incentive to Foreclose in High-Performance Consoles and Video Game Consoles

Microsoft has the incentive to foreclose Activision content from PlayStation consoles due to the benefits of such foreclosure across the entirety of the Microsoft Xbox ecosystem, which includes a host of complementary products, including Xbox consoles, Xbox cloud gaming services, hardware accessories for Xbox products and services, Xbox subscription services, and games for which Microsoft receives a portion of the revenue on each sale. PX5000 (Lee Report) at 019; PX7068 Spencer (Microsoft) Hr'g) at 269:12-22; PX0003 at 019–20, 047, 052–53. By comparison, an independent Activision has no such incentive. Activision CEO Bobby Kotick testified that the company "view has always been to create [its] content for as any platforms as possible," and that Activision is "platform-agnostic." PX7006 (Kotick (Activision) IH) at 135:13–138:25; PX7071 (Kotick (Activision) Hr'g) at 715:16-24; 742:05-16. Microsoft's incentives to foreclose are reflected in the testimony of industry participants, in Microsoft's ordinary course documents, and in the economic analysis of Dr. Lee.

First, ordinary course evidence shows that Microsoft recognizes the value of exclusive content. In an email regarding the transaction, Microsoft Gaming CEO Phil Spencer recognizes

the importance of securing AAA content, [redacted] PX1759 (Microsoft) at 001. [redacted] PX1759 (Microsoft) at 001. In sworn testimony, Microsoft executives acknowledge that [redacted] PX7003 (Bond (Microsoft)) IH) at 54:1-55:18 [redacted]; PX7014 (Booty (Microsoft)) IH) at 186:6-187:8 [redacted]

Second, evidence shows Microsoft evaluates the costs and benefits of taking content exclusive. A slide from a 2019 Microsoft presentation [redacted]" PX5006 (Lee Written Direct) at ¶ 92 fig. 4 (citing PX1828 (Microsoft) at 005). And in April 2021, shortly after Microsoft completed its acquisition of ZeniMax, Senior Xbox Games Business planner Diarmuid Murphy along with other members of the Xbox team, identified [redacted] PX1471 (Microsoft) at 009; PX4602 (Microsoft) at 27:8-28:5.

Third, Microsoft documents show that Microsoft understands how to use exclusivity to benefit itself and harm rivals, and that Microsoft acknowledges the long-term nature of such benefits. Particularly, Microsoft executives have acknowledged [redacted] PX4007 (Microsoft) at 006. Microsoft also acknowledges the long-term nature of benefits arising from exclusivity. In the April 2021 presentation [redacted] PX4602 (Microsoft) at 30:8-24. And an internal Microsoft email analyzing a potential acquisition of [redacted] PX1012 (Microsoft) at 002.

Fourth, Microsoft's past behavior, especially with regards to acquisitions, indicates Microsoft's willingness to forego short-term profit to obtain longer-term benefits arising from taking acquired content exclusive to the Xbox console. For example, Microsoft acquired a series of game studios in 2018 to 2019, and, [redacted]

[redacted] PX1949 at 002; PX1951 at 007.

Microsoft's actions following its acquisition of ZeniMax are also consistent with Microsoft recognizing the significant benefits from taking content, particularly AAA content, exclusive. As discussed below, *see infra* § III.C, Phil Spencer, Xbox's CEO, [redacted] PX7012 (Spencer (Microsoft) IH) at 412:7-13; 441:23-442:15.

Microsoft's economic incentives, should it acquire Activision, are also reflected in Dr. Lee's quantitative analysis. Dr. Lee's quantitative economic analysis shows that the combined firm likely would have an incentive to engage in the foreclosure of acquired Activision content from PlayStation consoles. PX5000 (Lee Report) at 215. Dr. Lee's model predicts that the combined firm would incur substantial costs by foreclosing PlayStation consoles, but these costs are more than offset by the benefit of bringing additional gamers to Xbox consoles and Xbox Game Pass—which provide Microsoft additional sales of complementary products. PX5000 (Lee Report) at 215. Dr. Lee's foreclosure model shows that Microsoft would recoup more than 100% of its lost profits from foreclosing Activision's content, and the substantial benefits that Microsoft would incur as a result of bringing additional players to Xbox consoles and adding Activision content to Game Pass make foreclosure more valuable to Microsoft. PX5000 (Lee Report) at 215. Dr. Lee testified that the new user who switches to Xbox to play *Call of Duty* spends more than the average Xbox user, which sharpens Microsoft's incentive to foreclose. PX5006 (Lee Written Direct) at ¶¶ 94, 103, 104, 111. In sum, Dr. Lee's model of the proposed transaction and analysis of qualitative and quantitative evidence indicates that the merged entity

likely would have an economic incentive to withhold new Activision content from Sony PlayStation consoles. PX5006 (Lee Written Direct) at ¶¶ 94-111.

Evidence also indicates that Microsoft similarly has the incentive to degrade, or partially foreclose, console rivals from Activision content. Microsoft understands the effect that such partial foreclosure has on consumers: [redacted] PX4505 (Microsoft) at 002. Activision also understands that partial foreclosure can cause consumers to move from one console to another. In an internal presentation titled [redacted] (Activision) at 006. Finally, Dr. Lee's analysis accounted for partial foreclosure. As Dr. Lee explained, economically the incentives for full and partial foreclosure are very similar: "to steer consumers away from rivals to one's own console or subscription service." PX7070 (Lee (Plaintiff's Expert) Hr'g) at 622:3-15.

Finally, because the high-performance video games market is wholly included within the broader video games market, *see supra* § I.B, the above analysis applies to both markets.

ii. The Combined Firm Will Have an Increased Incentive to Foreclose in Content Subscription Services and Cloud Gaming Services

The Merged Entity would have a greater economic incentive to withhold Activision content or degrade Activision content in the Gaming Services Markets than an independent Activision in the Gaming Services Markets. As Dr. Lee's analysis shows, the Merged Entity would likely have the economic incentive to engage in foreclosure by withholding Activision

content from, or degrading Activision content to, Microsoft's rivals in the Gaming Services Markets. *See* PX5000 (Lee Report) at 183-219; PX5001 (Lee Reply Report) at 063-094.

Content Subscription Services. Microsoft's incentive to foreclose content subscription services rivals is further evident from [redacted]

First, Microsoft is investing heavily in a strategy to rapidly scale Xbox Game Pass. Microsoft set an early goal of [redacted] Xbox Game Pass subscribers, which Microsoft Gaming CEO Phil Spencer described as [redacted] PX1024 (Microsoft) at 010. Microsoft's strategy documents explain that [redacted] PX1049 (Microsoft) at 003, and observe that [redacted] PX1050 (Microsoft) at 004. Documents further show that Microsoft believes content acquisitions are [redacted] PX1050 (Microsoft) at 004 [redacted]

Microsoft has identified [redacted] *See* PX1050 (Microsoft) at 004; *see also* PX7011 (Spencer (Microsoft) IH Vol. I) at 103:6-15; PX7007 (Stuart (Microsoft) IH) at 168:6-8.

According to Microsoft, [redacted] PX4267 (Microsoft) at 003. Microsoft recognizes that [redacted] PX7007 (Stuart (Microsoft) IH) at 167:20-168:5. Similarly, Microsoft believes investing in Game Pass now is a competitive advantage because [redacted] PX1049 (Microsoft) at 003.

Second, Microsoft's deal model predicts that the Proposed Transaction will [redacted] PX7042 (Lawver (Microsoft) Dep.) at 216:15-22; PX4344 (Microsoft) at 012. Notably, Microsoft did not model [redacted] PX7042 (Lawver (Microsoft) Dep.) at 213:13-22.

Third, Microsoft represented to the European Commission that [redacted] PX0082 (Microsoft) at 120 (emphasis added). Microsoft made similar representations to the FTC during its investigation into the Proposed Transaction. PX0001 (Microsoft) at 016 [redacted]

Fourth, Microsoft's past behavior confirms Microsoft's incentive to foreclose subscription rivals. Microsoft has a practice of [redacted]

[redacted] PX7040 (Stuart (Microsoft) Dep.) at 60:8-14. And as Matt Booty, head of Xbox Game Studios explained bluntly in an internal email, "we are NOT putting our first party IP on *competing* streaming or *subscription services*." PX4351 (Microsoft) at 001 (emphasis added). Further, Microsoft assumes that [redacted] *See*, *e.g.*, PX1651 (Microsoft) at 013, 014; PX1803 (Microsoft) at 013; 006; 011; 015; PX1065 (Microsoft) at 002; PX1065 (Microsoft) at 008; PX1529 (Microsoft) at 021; PX1313 (Microsoft) at 002.

Cloud Gaming Services. Microsoft's incentive to foreclose cloud gaming services is similarly evident from (1) the centrality of cloud gaming to Microsoft's future gaming strategy, (2) statements from Microsoft executives recognizing that the company has a great incentive to take content exclusive in a "streaming world" where it can reach more devices, (3) the advantages Microsoft has identified associated with being the first cloud gaming service to scale, and (4) Microsoft's past behavior, including *withholding* first-party content from cloud gaming services and *removing* content it acquires from cloud gaming services.

First, cloud gaming is central to Microsoft Gaming's future plans, further strengthening its incentive to foreclose cloud gaming rivals. Microsoft's [redacted] PX1023 at 001; *see also* PX1024 at 012 [redacted] PX1025 at 004 [redacted]

Microsoft has prioritized growing its cloud gaming business at the expense of console sales, [redacted] *See* PX1024 at 001. As Kareem Choudhry explained to Phil Spencer,

Tim Stuart, and others, Xbox Cloud Gaming drives more subscribers and increases Xbox's player base at a higher rate than consoles, which makes it [redacted] PX1024 at 001.

Cloud gaming is also central to Microsoft's plans for its next gaming generation, further strengthening its incentive to foreclose cloud gaming rivals. [redacted] *See* PX4181 (Microsoft) at 083. [redacted] PX7050 (Choudhry (Microsoft) Dep.) at 198:22-201:25.

Industry analysts also recognize Microsoft's commitment to cloud gaming. For example, a September 2022 industry report from Newzoo observed: "Xbox is clearly moving more and more of its resources towards cloud gaming and cloud-enabled games, even if the process has so far been incremental and additive to the core Xbox experience. Small changes add up in the long run, so—on its current trajectory—Xbox's future will skew more heavily towards the cloud." PX3235 (Nvidia) at 022.

Second, Microsoft's ordinary course business documents reflect Microsoft's view of a world where their content is "ubiquitous" on *its own* cloud gaming service. For example, in a November 2022 presentation to Microsoft's Senior Leadership Team, the Gaming Leadership Team identified Xbox Cloud Gaming as a "needle moving investment" that would enable "[u]biquitous distribution" of Microsoft's content through its own "ecosystem." PX1777 (Microsoft) at 036.

Microsoft executives recognize that the company has greater incentives to take content

exclusive in a "streaming world" than it does in a "console world." As Catherine Gluckstein explained to Phil Spencer: [redacted] PX1970 (Microsoft) at 001.

Third, Microsoft ordinary course business documents establish that Microsoft has identified a "first mover" advantage in cloud gaming, further compounding its incentive to withhold content from rival services. A February 2022 presentation on xCloud described Microsoft's strategy as [redacted] PX1024 at 009, 0011. Microsoft further reasoned that "scale" would lead to "network effects" and "virality," and that the first the first cloud gaming service to reach [redacted] users will be "critical." PX1024 at 009, 011; *see also* PX1024 at 10 (describing [redacted]).

Fourth, Microsoft's past behavior confirms its incentive to foreclose cloud gaming services. Prior to 2023, Microsoft had a clear policy not to allow its first-party content on rival cloud gaming services. As Matt Booty, head of Xbox Game Studios explained in an internal email, "we are NOT putting our first party IP on *competing streaming* or subscription services." PX4351 (Microsoft) at 001 (emphasis added). Addressing a request from a Microsoft employee to put Microsoft's first party content on rival Boosteroid, Mr. Booty put it bluntly: "Point him at me or have him talk to Sarah [Bond] about it if he needs a more firm 'no effing way'." PX4351 (Microsoft) at 001.

Microsoft also removed content it acquired from rival cloud streaming services. For example, immediately after Microsoft closed its acquisition of ZeniMax in 2021, Microsoft

demanded that all ZeniMax titles be removed from Nvidia's GeForce NOW service, depriving Nvidia of what was once an "important GeForce NOW partner." PX8000 at 012. Microsoft's Matt Booty explained the reason that Microsoft removed the content plainly in an internal email:

[redacted] PX4351 (Microsoft) at 002; *see also* PX7067 (Booty (Microsoft) Hr'g) at 65:13-14. The content that Microsoft pulled included popular games that Microsoft had previously acquired, including *Minecraft*. PX7060 (Eisler (Nvidia) Dep. at 99:16-100:3.

iii. Microsoft Modeling Predicted Recoupment of Lost PlayStation Revenues

Microsoft's own modeling shows lost money on sales of Activision content on PlayStation could be recouped with increased Game Pass subscribers and more revenue from Activision titles on Xbox consoles. In preparing to present the Activision deal model to Microsoft's Board in January 2022, Xbox CFO Tim Stuart at the direction of Microsoft's CFO Amy Hood and Microsoft's CEO Satya Nadella modeled the *loss* in revenues to the combined firm if revenues from Activision sales on Sony's PlayStation declined. PX7072 (Stuart (Microsoft) Hr'g) at 1006-13; PX1190; PX4319; PX1535 at 003. Specifically, he was asked whether the combined firm could recoup the potential loss of Activision revenue on PlayStation through either (1) increased Game Pass subscriber growth or (2) a shift of Activision sales from the PlayStation console to the Xbox console. PX1535 at 1, 3; PX7072 (Stuart (Microsoft) Hr'g) at 1016:19-1017:24; PX4358 at 1-2; *see also* PX7072 (Stuart (Microsoft) Hr'g) at 1010:15-1012:11; PX1190 at 1.

Upon receiving this directive, Microsoft Gaming's finance team modeled whether a decline in the Activision PlayStation revenue "can be offset with shift to Xbox in overall platform mix." PX7072 (Stuart (Microsoft) Hr'g) at 1014:2-18; PX4319 at 1. This analysis, which was shared with Microsoft's top executives and planned to be shown to the Board,

demonstrated that Microsoft could lose revenue from Activision sales on PlayStation (contrary to the official deal valuation model presented to Microsoft's Board), but could make up for those losses through a combination of increasing subscribers to Game Pass and shifting Activision revenues away from PlayStation to Xbox. Microsoft found it could make up the loss of Sony revenue with either a "mix shift to Xbox Game Pass subscribers of [redacted] to Game Pass and Xbox consoles." PX7072 (Stuart (Microsoft) Hr'g) at 1024: 25-1026:12; PX4367 at 1; PX7072 (Stuart (Microsoft) Hr'g) at 1019:8-15, 1020:5-21; PX4358 at 1-2. Mr. Stuart testified that the number of new Game Pass subscribers and the shift in Activision revenues to Xbox that would be required to make up for revenues lost on PlayStation were both *"reasonable"* and "*achievable*." PX7072 (Stuart (Microsoft) Hr'g) at 1028:9-1029:1 (emphasis added); PX4472 at 1. Moreover, when initially asked whether a loss in PlayStation revenue could be offset by a shift of gamers to Xbox, the finance deputy who ran the modeling responded, [redacted] PX4319 at 001 (emphasis added); PX7042 (Lawver (Microsoft) Dep.) at 229:8-230:10.

This modeling upends any claims that Microsoft cannot afford to lose revenue from Activision sales on PlayStation. To the contrary, this Microsoft modeling – performed contemporaneously with the official deal model – makes clear that Microsoft could recoup lost Sony revenues by growing Game Pass and shifting Activision gameplay from PlayStation consoles to Xbox. Moreover, Microsoft believed this avenue for recoupment was "reasonable" and "achievable" if not "part of [Microsoft's] goal" of the Activision transaction. Finally, given that shifting Activision revenues away from PlayStation to Xbox was "part of [Microsoft's] goal" for the transaction, this recoupment modeling casts substantial doubt on the official deal

model presented to the Board, which assumes the acquisition will have *no effect* of shifting Activision revenues away from PlayStation and to Xbox. PX7042 (Lawver (Microsoft) Dep.) at 203:24-207:18.

iv. The Combined Firm Will Have Decreased Incentive to Collaborate on Innovations in the Relevant Markets

Both cloud and console hardware providers work closely with video game developers. *See* PX7062 (Fisher (Nvidia) Dep.) at 20:13-18. As Jim Ryan, CEO of Sony Interactive Entertainment, put it, "from an early stage in the development of our future consoles we consult with the most valued and prestigious development partners to get their input into what features our next generation hardware should offer." PX7053 (Ryan (Sony) Dep.) at 31:11-15.

[redacted] PX8001 (Ryan (Sony) Decl.) ¶ 40; *see also* PX7062 (Fisher (Nvidia) Dep.) 37:2-37:8. [redacted] PX7053 (Ryan (Sony) Dep.) at 30:5-35:5. Similarly, Nvidia, which sells the cloud streaming service GeForce Now, has produced technology to reduce latency when streaming a game. PX7060 (Eisler (Nvidia) Dep.) at 47:12-23, 48:5-23. [redacted] PX7062 (Fisher (Nvidia) Dep.) at 22:23-23:21.

However, the development of these console features that are closely linked with specific titles requires close collaboration between the hardware manufacturer and Activision. [redacted]

[redacted] *See* PX8001 (Ryan (Sony) Decl.) ¶ 40; PX7062 (Fisher (Nvidia) Dep.) 34:13-35:18). [redacted] PX7053 (Ryan (Sony) Dep.) at 34:1-4.

Far from static, this relationship between developers and hardware manufacturers is typically ongoing, enabling titles to take advantage of additional features as hardware functionality is periodically improved. PX7062 (Fisher (Nvidia) Dep.) 20:20-21:21.

The acquisition would jeopardize this symbiotic relationship between Activision and non-Xbox hardware manufacturers. Consider a typical process prior to the release of a new console. In anticipation the console release, major game developers like Activision will typically get early access to a "dev kit," or the "inner workings of the hardware of the console." This enables the game developer to optimize the game for the console. When the party gaining access is a game developer, this early access is not competitively significant. However, that changes if the counterparty is a rival console manufacturer. In the latter situation, the exchange of development kits would allow the console rival to "analyze or pick apart their console prior to its public launch." PX7014 (Booty (Microsoft) IH) at 174:20-175:16. As Mr. Ryan put it, "We simply could not run the risk of a company that was owned by a direct competitor having access to that information." PX7053 (Ryan (Sony) Dep.) at 34:16-24; *see also* PX1486 (Microsoft) at 002; PX7014 (Booty (Microsoft) IH 176:22-176:25 ("So, the assumption here was that Sony would not want Xbox to have a window into the details of their new console before it had launched to the public."). Sony's reluctance would likely be matched by that of Activision, which would be similarly disincentivized to work with other platforms following Microsoft's takeover. PX7053 (Ryan (Sony) Dep.) at 35:18-36:13.

C. Microsoft's Past Statements and Actions Demonstrate Microsoft has the Ability and Incentive to Foreclose Rivals Post-Acquisition

Microsoft appreciates the benefits of making newly acquired content exclusive to Xbox. As Microsoft Gaming CFO Tim Stuart testified, "As with any subscription service or any content service writ large having content that is exclusive to that service is an optimal reason or optimal way to attract customers into that service." PX7007 (Stuart (Microsoft) IH) at 167:25-168:9; *see also* PX7068 (Spencer (Microsoft) Hr'g) at 318:17-20. In fact, past practice strongly indicates that is exactly what Microsoft will do in the instant matter.

i. Microsoft is Willing to Lose Money on First-Party Exclusive Titles

Microsoft is willing to sacrifice revenues on the sales of video games to obtain the benefits of making content exclusive. In making almost all of its first-party games exclusive, Microsoft chooses to forego revenues that would be generated by sales of these games on non-Microsoft platforms. PX4007 at 005 (Microsoft CEO Phil Spencer [redacted]"). Microsoft's first-party console franchises with significant online multi-player functionality including *Halo* and *Gears of War* are exclusive on Xbox consoles or PC only. *See* PX7011 (Spencer (Microsoft) IH Vol. I) at 332:17-20, 362:14-20; PX5000 (Lee Report) at 195. Microsoft would be expected to treat its new franchise similarly to its existing first-party multi-player franchises.

Microsoft is similarly willing to lose money on Game Pass before the service becomes profitable, as "the idea is to create a moat that nobody else can attack." PX7067 (Booty (Microsoft) Hr'g) at 67:19-68:5 (discussing PX1442 (Microsoft) at 001); *see also id.* at 69:1-12 (discussing PX4352 (Microsoft) at 001) ("Content is the one moat that we have, in terms of a

catalog that runs on current devices and capability to create new. Sony is really the only other player who could compete with Game Pass and we would have a 2 year and [10 million] subs lead.").

ii. Past Acquisitions

Microsoft's approach to past studio acquisitions has been to make future titles from those studios exclusive. *See supra* § I.I.; PX1949 (Microsoft) at 002 (stating that the studios Microsoft acquired in 2018-2019 [redacted] PX1950 (Microsoft) at 001[redacted] Of the 24 games that have been released from the eight studios that Microsoft has acquired since 2018, only six have been released on PlayStation. PX0027 at 002–04. Four of those six games were released on PlayStation due to preexisting agreements. PX0027 at 002–04; PX7053 (Ryan (Sony) Dep. Vol. 1) at 29:8-29:21; PX7031 (Greenberg (Microsoft) Dep.) at 52:2-53:13, 66:24-67:15, 84:23-85:2.[12]

iii. ZeniMax

Microsoft's acquisition of ZeniMax illustrates Microsoft's likely approach to Activision content post-acquisition. The $7.5 billion ZeniMax acquisition—then the biggest acquisition in Microsoft Gaming's history, PX7007 (Stuart (Microsoft) IH) at 231:13-15, —brought four separate billion-dollar franchises (*The Elder Scrolls*, *Doom*, *Dishonored*, and *Fallout*), as well as eagerly anticipated new releases *Starfield* and *Redfall*, under Microsoft's control. *See, e.g.*,

[12] The two other games, *The Elder Scrolls Online* and *Fallout 76*, both older open-world service games that by definition receive continuous content updates following an initial launch, were released before Microsoft's acquisition of ZeniMax. PX0027 at 004; *see also* PX7031 (Greenberg (Microsoft) Dep.) at 101:19-104:1 (describing open-world service games).

PX4336 (Microsoft) at 006; PX1425 (Microsoft) at 015; PX4627 (Microsoft) at 001. In the ten-year period before ZeniMax was acquired by Microsoft, ZeniMax had never released a game for just one console, instead typically releasing its games on both Xbox and PlayStation. PX7067 (Hines (Microsoft) Hr'g) at 91:2-13; PX7053 (Ryan (Sony) Dep.) at 28:2-15. For example, forthcoming ZeniMax games *Starfield* and *Redfall* were both set to be released on Xbox and PlayStation prior to Microsoft's acquisition. *See, e.g.,* PX7068 (Lawver (Microsoft) Hr'g) at 252:9-13; PX4303 (Microsoft) at 005; PX7053 (Ryan (Sony) Dep.) at 27:23-28:5, 28:23-29:1. Consistent with this, Microsoft's [redacted] PX7068 (Lawver (Microsoft) Hr'g) at 235:9-16.

During antitrust review of the ZeniMax transaction, Microsoft made strikingly similar arguments to those it makes here. For instance, Microsoft claimed to the European Commission that it had "strong incentives to continue making ZeniMax games available for rival consoles (and their related storefronts)" and that it would be "implausible" to earn enough new Xbox console users to offset the losses it would realize from lost sales on competing platforms due to an exclusive strategy. *See* PX9036 at 022; PX1651 at 125-29 (Microsoft Form CO submitted to the European Commission for Microsoft/ZeniMax, Jan. 29, 2021). Similarly, Microsoft represented to the FTC during the FTC's review of Microsoft's Zenimax acquisition that its "financial incentive will be to continue to make [ZeniMax] titles available on other platforms." PX0070 (Microsoft R&O to Plaintiff's RFA) at 007 (referencing Nov. 23, 2020 correspondence between Microsoft and the FTC).

But while making these representations to regulators, Microsoft was simultaneously evaluating whether to take future ZeniMax titles exclusive. PX7068 (Lawver (Microsoft) Hr'g) at 236:4-13; PX7048 (Booty (Microsoft) Dep.) at 8:11-18. This exclusivity analysis found [redacted]

[redacted] PX1471 (Microsoft) at 024, and cause the value of ZeniMax to [redacted] *See*, *e.g.*, PX7068 (Lawver (Microsoft) Hr'g) at 238:14-239:8; PX1116 (Microsoft) at 001. The analysis also concluded that exclusivity would [redacted] PX1471 (Microsoft) at 022, and would be focused on [redacted] PX1471 (Microsoft) at 019.

Despite the financial implications, and despite Microsoft's representations to regulators, [redacted] *See, e.g.*, PX1966 (Microsoft) at 002; PX4602 (Microsoft) at 9:21-10:5, 35:10-17. Spencer received assurances that Microsoft could [redacted] PX1851 (Microsoft) at 002; *see also* PX7072 (Stuart (Microsoft) Hr'g) at 965:15-967:22. Phil Spencer wrote to Xbox senior leaders, [redacted] PX1851 (Microsoft) at 002; PX7068 (Spencer (Microsoft) Hr'g at 344:5-345:5.

Shortly after closing on the ZeniMax transaction in March 2021, Microsoft announced that *Starfield* and *Redfall* would be released exclusively on Xbox and PC. PX7068 (Lawver (Microsoft) Hr'g) at 240:11-16; PX7068 (Spencer (Microsoft) Hr'g) at 354:22-355:3; PX4323 (Microsoft) at 003. In short order, Microsoft began announcing other exclusives. Microsoft announced publicly it intended to release *Elder Scrolls VI*, a major blockbuster, as an Xbox exclusive. PX7012, Phil Spencer (Microsoft) IH Vol. II) 426:7–20; PX4309 (Microsoft) at 001;

PX7068 (Lawver (Microsoft) Hr'g) at 243:12-18; PX0027 at 003; PX9095 at 016–17. After the ZeniMax deal closed, Microsoft renegotiated an existing ZeniMax agreement with Disney to ensure a ZeniMax-developed Indiana Jones game would be Xbox-exclusive, despite ZeniMax's initial agreement with Disney requiring the game to be multi-console. *See, e.g.*, PX4792 (Microsoft) at 001,003; PX7068 (Lawver (Microsoft) Hr'g) at 240:17-25; PX7067 (Hines (Microsoft) Hr'g) at 99:17-100:13.

[redacted] PX4334 (Microsoft) at 001; PX4309 (Microsoft) at 001; PX7068 (Lawver (Microsoft) Hr'g) at 242:20-244:3, 246:7-247:3; PX7072 (Stuart (Microsoft) Hr'g) at 988:24-990:24. Microsoft [redacted] PX7068 (Lawver (Microsoft) Hr'g) at 249:13-250:25, 251:10-252:8; PX4312 (Microsoft) at 005, 008; PX7042 (Lawver (Microsoft) Dep.) at 342:13-344:23. Consistent with this directive, as recently as 2023, [redacted] PX4818 (Microsoft) at 018, 020, 024.

Given the size of the acquisition and the popularity of the titles involved, as well as the substantively identical arguments made to regulators, Microsoft's approach to ZeniMax content indicates what is likely to occur here. As ZeniMax executive Pete Hines testified, he is unaware of any reason why, if Microsoft acquires Activision, games from Activision "would be treated differently" with respect to exclusivity than ZeniMax titles have been treated. PX7067 (Hines (Microsoft) Hr'g) at 101:10-102:3 (discussing PX4406 (Microsoft) at 001).

iv. Minecraft is Not Predictive of Microsoft's Behavior Here

Minecraft is not predictive of Microsoft's likely behavior in the instant matter. In 2014, Microsoft acquired Mojang, the developer of *Minecraft*. PX7014 (Booty (Microsoft) IH) at

106:3-5; PX7067 (Booty (Microsoft) Hr'g) at 56:17-21. Microsoft has not made *Minecraft* exclusive. Yet *Minecraft* is a categorically different game than any title Activision owns and therefore is not indicative of how Microsoft is likely to treat Activision.

Minecraft is played across many different devices, including mobile phones, tablets, and the Nintendo Switch. PX0003 at 132; PX7010 (Nadella (Microsoft) IH) at 17:24-18:4. Moreover, *Minecraft* is a "service-based game." PX7042 (Lawver (Microsoft) Dep.) at 356:10-357:15; PX7056 (Murphy (Microsoft) Dep.) at 183:2-6; 298:17-21. Service games like *Minecraft* have "a development team consistently adding new content to the game to keep it fresh and new." PX7031 (Greenberg (Microsoft) Dep.) at 102:17-103:6; PX7056 (Murphy (Microsoft) Dep.) at 300:16-301:3. *Minecraft* tends to build upon the original game, continuously updating the existing game as opposed to releasing new discrete titles on an annual basis. *Compare* PX7007 (Stuart (Microsoft) IH) at 307:22-308:2 [redacted], *with* PX7012 (Spencer (Microsoft) IH Vol. II) at 421:14-20 [redacted]. While games like *Call of Duty* or *Diablo* may possess a single-player game mode and a multiplayer game mode, they do not "keep developing the game as an online service and experience." PX7031 (Greenberg (Microsoft) Dep.) at 102:17-103:6. Each release of *Call of Duty,* for example, is a release of a true standalone game to preceding titles in the franchise. PX7053 (Ryan (Sony) Dep.) at 52:4-19. Microsoft executives recognized *Minecraft*'s unique status noting that the nature of service-based games like *Minecraft* affected their commercial strategy regarding exclusivity: [redacted]

[redacted]

PX1966 (Microsoft) at 005.

D. The Proposed Transaction is Likely to Harm Competition

The Proposed Transaction is likely to harm competition in each Relevant Market, leading to higher prices, reduced choice, and lower product quality for video game consumers in the United States. In the markets for Content Subscription Services and Cloud Gaming Services, foreclosure of Microsoft competitors from Activision content would likely allow Microsoft to build a competitive moat around its Game Pass and Cloud Gaming products, suppressing nascent competitors in those markets and depriving consumers of the benefits of competition.

i. The Proposed Acquisition is Likely to Result in Competitive Harm in the Market for High-Performance Consoles and Video Game Consoles

Absent the Proposed Transaction, Activision content would likely remain available on both Xbox and PlayStation. PX0060 at 014; PX5000 (Lee Report) at 224. Conversely, should the merged firm follow through on its incentives to pursue full or partial exclusivity of Activision titles it would leave gaming consumers with fewer or worse options than would prevail absent the merger. PX5000 (Lee Report) at 222-237.

Consumers who currently play Activision titles on PlayStation and lack an Xbox or suitable PC would be forced to choose between buying an Xbox console or forgoing playing Activision games entirely (or, in the case of partial exclusivity, playing those titles on terms inferior to those enjoyed by Xbox gamers). These consumers will experience harm, either in incurring the cost of a new, less-preferred Xbox or absorbing an increase in the quality-adjusted price of their preferred console. PX5000 (Lee Report) at 230-234. Complaint Counsel's economic expert, Dr. Lee, quantified these harms by showing that an 8.9% share shift from PlayStation to Xbox – the estimated result of withholding a single *Call of Duty* title from

PlayStation—amounts to a reduction in quality of the PlayStation 5 equivalent to [redacted] PX5000 (Lee Report) at 232-234. The merged firm would likely respond to weakened competition from the PlayStation by raising the price of the Xbox, thereby harming all Xbox consumers. PX5000 (Lee Report) at 232-234.

ii. The Proposed Acquisition Poses a Risk of Competitive Harm in Content Subscription Services and Cloud Gaming Services

Absent the Proposed Transaction, Activision would have incentives to make its content available on multiple Content Subscription Services and Cloud Gaming Services. PX7070 (Lee (Plaintiff's Expert) Hr'g) at 650:20-651:13; PX2419 at 004. Recent negotiations between Activision and firms offering Content Subscription Services and Cloud Gaming Services, including Microsoft, Sony, and Nvidia, show that firms already compete aggressively for access to Activision content. *See, e.g.*, PX2138 (Activision) at 001; PX2419 (Activision) at 004; PX8000 (Eisler (Nvidia) Decl.) ¶¶ 43, 44. By contrast, Microsoft's economic incentives show that it will likely make Activision content exclusive to Game Pass, depriving consumers of the benefits of this competition. *See supra* § III.B.ii.

Microsoft's side agreements with cloud gaming providers do not negate the harm to consumers that would result from the Proposed Transaction. Even if such agreements guaranteed that Activision titles would appear on rival Content Subscription Services and Cloud Gaming Services—which they do not, *see infra* § III.F—they still could not replace lost competition on price, features, and quality that occurs already and could be expected to continue absent the Proposed Transaction. PX5000 (Lee Report) at 229.

Indeed, given that Game Pass is already the market leader in both Content Subscription Services and Cloud Gaming Services, control of Activision's library of content would allow Microsoft to disadvantage its rivals when the competitive threat that they pose to Microsoft is

still nascent. [redacted] PX8000 (Eisler (Nvidia) Decl.) ¶ 63. As discussed in Part III.B.ii *supra*, Microsoft has previously recognized the power of exclusive content in fortifying its position in Content Subscription Services, noting that its strategy is "to create a moat that nobody else can attack." PX7067 (Booty (Microsoft) Hr'g) at 67:19-68:5 (discussing PX1442 at 001). Microsoft's foreclosure of rivals in the Content Subscription Services and Cloud Gaming Services markets would likely harm competition and consumers by leading to higher prices, lower quality, reduced product variety, and less innovation. *See* PX5000 (Lee Report) at 235-236.

iii. The Proposed Acquisition Threatens Innovation

Today, gaming platform providers collaborate with Activision on technical innovations to their gaming hardware, improving the quality of the gaming experience for consumers. [redacted] Examples of such collaboration include [redacted] and [redacted] from Nvidia that are optimized to work with *Call of Duty* titles. PX7053 (Ryan (Sony) Dep.) at 30:5-31:15; PX8000 (Eisler (Nvidia) Decl.) ¶¶ 66–68. Gaming platform providers have incentives to share sensitive information about their products with Activision to improve their competitiveness in the market and because Activision is independent and platform-agnostic. PX7053 (Ryan (Sony) Dep.) at 34:13-24; PX7006 (Kotick (Activision) IH) at 135:13-138:25. Gaming platform providers would be unlikely to share the same information with Microsoft, which could use its rivals' information to benefit its own products. PX7053 (Ryan (Sony) Dep.) at 34:13-24. The loss of such collaboration between publishers and platforms may lead to a substantial lessening of innovation.

E. Microsoft's Recently Executed or Proposed Agreements Fail to Replace the Competitive Intensity Likely to Be Lost from the Proposed Acquisition

Microsoft has entered into contracts with Nintendo, Nvidia, Boosteroid, Ubitus, Nware,

and EE. These contracts are remedies, rather than efficiencies, and should be considered only after the FTC's prima facia case. *See FTC v. Sysco*, 113 F. Supp. 3d 1, 72 (D.D.C. 2015); *E.I. du Pont*, 366 U.S. at 334; *Illumina,* 2023 WL 2823393, at *48. Respondents have the burden of proof to show that the proposed remedies restore competition. *FTC v. Staples, Inc.*, 190 F. Supp. 3d 100, 137 n.15 (D.D.C. 2016).

There is no serious dispute that all of these agreements are proposed remedies. Sarah Bond testified that the Nvidia agreement was in response to regulatory review. PX7067 (Bond (Microsoft) Hr'g) at 179:11-16. [redacted] PX1781 (Microsoft) at 001. [redacted]

Microsoft's proposed remedies fall woefully short of restoring the "competition lost through the unlawful acquisition." *In re Otto Bock HealthCare N. America, Inc.*, Docket No. 9378, 2019 WL 5957363, at *43 (F.T.C. Nov. 1, 2019); *see also FTC v. Sysco Corp.*, 113 F. Supp. 3d 1, 72 (D.D.C. 2015) ("[t]he relief in an antitrust case must be 'effective to redress the violations' and 'to restore competition.'"). The proposed remedies are behavioral, which the Commission strongly disfavors. *Illumina*, 2023 WL 2823393, at *53. Microsoft has not proposed divesting the *Call of Duty* assets associated with Activision. PX7026 (Hampton (Microsoft) Dep.) at 220:10-24; PX7044 (Bond (Microsoft) Dep.) at 323:3-11 [redacted]

[redacted]

The record is also devoid of any analysis that establishes the procompetitive benefits of these agreements. To the extent not privileged, Mr. Stuart, the CFO of Xbox, admitted that he was unaware of any analysis of the profit and loss impact of these agreements. PX7072 (Stuart (Microsoft) Hr'g) at 1046:7-1047:2; 934:1-15. Microsoft also did not perform any technical analysis of the latency of cloud streaming games on GeForce Now, Boosteroid, or Ubitus. PX7055 (Wright (Microsoft) Dep.) at 198:16-22, 200:3-8; PX7057 (Wright (Microsoft) Corp Dep.) at 45:25-46:4; PX7067 (Bond (Microsoft) Hr'g) at 207:2-14. Further, none of Microsoft's experts were able to quantify any benefits from the deal. Dr. Carlton did not quantity the magnitude of the benefits of these agreements in any way. PX7071 (Carlton (Respondents' Expert) Hr'g) at 893:16-894:03. Dr. Carlton admitted that he conducted no research on Ubitus, Boosteroid, or Nware's respective sizes in cloud gaming, their physical locations, or whether they would impact gamers in the United States. PX7071 (Carlton (Respondents' Expert) Hr'g) at 894:17-896:03. Dr. Carlton could not even recall if he read the Nvidia agreement and relied on a public article to determine the terms of the agreement. PX7071 (Carlton (Microsoft) Hr'g) at 887:05-888:02. Similarly, Dr. Bailey did not offer any opinions about the agreements and their efficiencies, but merely assumed their effectiveness. PX7071 (Bailey (Respondents' Expert) Hr'g) at 817:17-888:01.

These agreements also have significant loopholes that raise serious concerns about their ultimate effectiveness at ameliorating the competitive harm from the Proposed Transaction. For example, Paragraph 7.4 of the Nvidia agreement, "Unanticipated and Unforeseeable Future Events," allows Microsoft to [redacted]

PX1781 (Microsoft) at 010. Sarah Bond testified that this means they can renegotiate at any time. PX7067 (Bond (Microsoft) Hr'g) at 202:6-22. Nvidia executive Phil Eisler understood [redacted] PX7060 (Eisler (Nvidia) Dep. at 128:19-129:03. Both Nintendo and Microsoft's executives have admitted that key terms of the agreement are unclear. Mr. Singer called certain terms [redacted] PX7065 (Singer (Nintendo) Dep.) at 126:9-17, 177:22-178:08. In the letter agreement between Microsoft and Nintendo, Microsoft testified that [redacted] PX7057 (Wright (Microsoft) Corp. Dep.) at 20:15-21:02.

Microsoft's unsigned proposal to Sony does not even come close to meeting the high bar for remedies under Section 7. The Commission explained that remedies must be more than an "inchoate promises" in order to warrant review. *In re Illumina*, 2022 WL 4199859, at *132 (Chappell, ALJ Sept. 9 2022). Similarly, the vague promises that Microsoft's executives have made under oath about the proposed Sony agreement do not meet the standard. See PX7071 (Nadella (Microsoft) Hr'g) at 853:9-11; PX7068 (Spencer (Microsoft) Hr'g) at 367:18-24, 368:4-10, 429:21-22, 429:25-430:1, 449:14-449:20.

F. Respondents Cannot Rebut Complaint Counsel's Prima Facie Case Showing the Proposed Acquisition Would Result in Competitive Harm

i. Respondents Cannot Demonstrate that Entry or Expansion would be Timely, Likely, or Sufficient to Prevent Harm from the Proposed Acquisition

Microsoft cannot show that entry or expansion into any of the relevant markets is timely, likely, or sufficient to reverse the likely harm of the Transaction. Entry into the Console Market is uncommon, while entry into the High Performance Console market is extremely difficult.

"Following the launch of the first Xbox console in 2001, Microsoft has been one of the three main global console providers," which are Microsoft, Sony, and Nintendo. PX5006 (Lee Written Direct) at 046; PX0006 (Microsoft) at 012. Prior to the Xbox console's launch, formerly prominent video game console manufacturers Atari and Sega exited the industry. PX5006 (Lee Written Direct) at 046; PX9347 at 004; PX9346 at 001. Recent entrants, such as the Valve Steam Deck, have sold significantly fewer consoles than Microsoft, Sony, and Nintendo. PX5000 (Lee Report) at 093. In 2022, over [redacted] Steam Deck consoles were sold in the United States, with less than [redacted] million in revenue. PX5000 (Lee Report) at 093 (citing RX3113). Meanwhile, over [redacted] million Xbox Series X|S consoles and over [redacted] million PlayStation 5 consoles were sold in the United States in 2022, amounting to over [redacted] in revenue, respectively. PX5000 (Lee Report) at 093 (citing RX3114); PX3311 (Valve) at 001.

Entry into either of the Console Markets is also expensive. According to Microsoft: "[g]aming consoles are generally costly to develop. … [T]he cost to develop and produce a gaming console continues to increase. Because consoles can be costly to develop, economies of scale are relevant to the extent that average costs will decrease as more units are manufactured and sold." PX0003 (Microsoft) at 070.

Entry or expansion into the Content Library Services and Cloud Gaming Services markets are also unlikely to be timely, likely, or sufficient to reverse the harm of the Transaction. Most other gaming services available today significantly lag the scale of Xbox Game Pass. PX5000 (Lee Report) at 141 (Figure 33). The discontinuation of Google Stadia demonstrates that even well-financed cloud gaming service competitors face significant challenges securing content to succeed. PX7035 (Kotick (Activision) Dep.) at 154:18-155:5; PX8003 (Zimring (Google) Decl.) at ¶ 2; *see also* PX3206 (Amazon) at 001 [redacted]

[redacted] After having spent [redacted] PX8003 (Zimring (Google) Decl.) at ¶ 2.

Cloud Gaming Services also require substantial investment in cloud infrastructure in order to compete. For example, as of October 2022, Xbox Cloud Gaming had deployed approximately [redacted] and is discussing internally a plan to spend as much as [redacted] PX4154 (Microsoft) at 005; PX1039 (Microsoft) at 002.

In addition to these costs, potential entrants in any of Complaint Counsel's markets will need to contend with economies of scale and the rising costs of content. Microsoft has noted "[s]ubscriber scale is the imperative for a successful subscription service" and "is essential in building a subscription service" and that there is a "virtuous relationship" between content and subscriber scale. PX1065 (Microsoft) at 014.

ii. Respondents Cannot Show Efficiencies or Procompetitive Benefits that Negate Competitive Harm

Microsoft claims four principal efficiencies or procompetitive benefits that will result from the Transaction: (1) making *Call of Duty* titles available on Nintendo; (2) "plans to make Activision content available in Game Pass"; (3) bringing Activision titles to its own cloud gaming service as well as competing services; and (4) "allow[ing] Microsoft to expand into mobile gaming." Microsoft's Responses and Objections to Complaint Counsel's First Set of Interrogatories at 7–10. Respondents have the burden of proof for any efficiencies claimed and must show that they are: "(1) merger specific; and (2) reasonably verifiable by an independent party." *FTC v. Staples, Inc*., 190 F. Supp. 3d 100, 137 fn 15 (D.D.C. 2016) (citing *United States*

v. H&R Block, 833 F. Supp. 2d 36, 89 (D.D.C. 2011)). Further, any alleged efficiencies must be in the relevant market. "Put differently, the companies must 'demonstrate that their claimed efficiencies would benefit customers,' and, more particularly, the customers in the challenged markets," *United States v. Aetna Inc*., 240 F. Supp. 3d 1, 94 (D.D.C. 2017) (citing the *Merger Guidelines* and *United States v. Phila. Nat'l Bank*, 374 U.S. 321, 370, (1963)).

None of these claimed pro-competitive benefits constitutes a verifiable, merger-specific efficiency, and the Respondents "have not quantified these claimed efficiencies or provided evidence that these efficiencies are likely to eliminate or offset the likely harms arising from the Proposed Transaction in the Consoles Market." PX5006 (Lee Written Direct) at ¶¶ 124, 209. In addition, Microsoft's various side-deals with third parties are properly analyzed as remedies rather than efficiencies as noted above in Section III.E.

Microsoft's agreement to put a version of *Call of Duty* on the Nintendo Switch does not address harm to the High-Performance Consoles market, which excludes Nintendo. Bringing *Call of Duty* to the Switch is also not a merger-specific efficiency. Nintendo's current-generation console, the Switch, lacks the technical capabilities to run *Call of Duty*. PX2093 (Activision) at 005. Despite these limitations, Activision has negotiated with Nintendo about the possibility of bringing *Call of Duty* to the Switch but failed to reach agreement because [redacted] PX8002 (Prata (Nintendo) Decl.) at ¶ 17. Indeed, Nintendo's Steve Singer even admitted that "Activision Blizzard King could decide to bring [*Call of Duty*] on their own … independent of the transaction" and that the [redacted] PX7065 (Singer (Nintendo) Depo.) at 123:17-124:6, 204:4-9. Activision's CEO also testified that, absent the Proposed Transaction, Activision would consider making a *Call of Duty*

game for the Switch and, further, that Activision is likely to make a *Call of Duty* game for Nintendo's future console. PX7071 (Kotick (Activision) Hr'g) at 766:19-767:23.

The purported benefits of the Nintendo agreement are also not verifiable, [redacted] Mr. Spencer testified that he was not aware of the economic effect of the agreement or the effect on Microsoft's profit and loss. PX7068 (Spencer (Microsoft) Hr'g) at 336:16-25. Mr. Spencer also admitted that he was not aware of any work done by Microsoft to determine the effect of the agreement on Microsoft's deal model. PX7068 (Spencer (Microsoft) Hr'g) at 337:15-338:5. Further, Activision has admitted that "to the best of its knowledge, no Activision businessperson has provided any substantive business plans or strategies to any Microsoft businessperson regarding development of a console version of any *Call of Duty* Game for the Nintendo Switch." PX0079 at 8.

Microsoft's "plans" to make Activision content available on Game Pass are neither verifiable nor merger specific. As recently as February 2023, Microsoft executives have continued to debate whether *Call of Duty* would be included in Xbox Game Pass. https://blogs.microsoft.com/on-the-issues/2022/09/01/gaming-everyone-everywhere/; PX4894 (Microsoft) at 001-002. For example, in a February 14, 2023 email, Microsoft's Matt Booty asked [redacted]

[redacted] PX4894 (Microsoft) at 002. The following day, Mr. Booty responded that the [redacted] PX4894 (Microsoft) at 001. Even assuming that Microsoft will put Activision content on Game Pass, such an action is not a merger specific efficiency; Microsoft and Activision could achieve the same result through contract. Activision has previously offered its games on subscription services, and Microsoft could offer Activision attractive commercial terms to put its games on Game Pass in the future. Microsoft's First Interrogatory Responses at 9; PX7071 (Kotick (Activision) Hr'g) at 751:22-25; 12-19.; *id.* at 748:9-16 (testifying that Activision has previously offered its games on PlayStation Plus). Microsoft also bears burden of quantifying the value of this purported efficiency; it has failed to do so. Dr. Bailey testified that she did not analyze the value, or consumer welfare impact, of additional content being put onto Game Pass. PX7071 (Bailey (Respondents' Expert) Hr'g) at 817:6-11 ("Q. You're not offering any opinion about what the value is that results from additional content being put on Game Pass? A. That's not a term that I used in my report. Q. And you didn't determine specifically how the change in output would impact consumer welfare? A. No, I did not.")

Even if Microsoft's made-for-litigation agreements with a handful of cloud gaming services were analyzed as efficiencies, they are not merger specific. Activision had previously placed its content on Nvidia's GeForce Now service, before pulling its content. PX7071 (Kotick (Activision) Hr'g) at 754:1-5. Activision had internally identified the "principles of a potential commercial arrangement to put Activision's content back on GeForce Now." PX7071 (Kotick (Activision) Hr'g) at 755:18-25; PX2133 at 001. Microsoft could have offered its first-party content at any time to Nvidia, outside of this transaction. PX7067 (Bond (Microsoft) Hr'g) at

201:20-23. Moreover, the agreements Microsoft signed with Nvidia, Ubitus and Boosteroid, do not make it evident that these agreements would "eliminate or offset harm in the Gaming Services Markets" because an independent Activision would have "a greater economic incentive to support Microsoft's rivals than the Merged Entity." PX5006 (Lee Written Direct) at ¶ 213.

Microsoft's speculative plan to expand into mobile gaming is neither verifiable nor in the relevant market. David Hampton, the Microsoft executive who prepared strategic documents related to the Proposed Acquisition, admitted [redacted] PX7027 (Hampton (Microsoft) Corp. Dep.) at 8:18-10:2. This lack of review is telling, given that Activision did not build the mobile games *Call of Duty Mobile* or *Diablo Immortal*, instead relying on external developers. PX7071 (Kotick (Activision) Hr'g) at 761:19-762:18. Moreover, the mobile arm of Activision, King, is not focused on making any new IP, and instead focuses on making content updates to its existing franchises. PX7071 (Kotick (Activision) Hr'g) at 759:5-13. Microsoft's claimed mobile synergies also rely on the creation of a mobile store, which in turn depends on Microsoft obtaining the approval from Google and Apple, a fact which will not change after the Transaction. PX7068 (Spencer (Microsoft) Hr'g) at 410:13-15, 412:8-12. The synergies present in the Activision deal model simply assume that Microsoft will somehow be able to force Google and Apple to change their policies, but there is underlying analysis as to how this will occur. PX7072 (Stuart (Microsoft) Hr'g) at 1005:16-1006:03. Lastly, any purported mobile efficiencies are not in the relevant market and are therefore inapplicable.

Dated: October 2, 2023

Respectfully submitted,

/s/ James H. Weingarten

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EXHIBITS CITED TO IN COMPLAINT COUNSEL'S PRE-TRIAL BRIEF
(PUBLIC VERSION)

PX0001 – Redacted	PX1635 – Redacted	PX3058 – Redacted	PX4818 – Redacted	PX8001 – Redacted
PX0003 – Redacted	PX1636 – Redacted	PX3069 – Redacted	PX4894 – Redacted	PX8002 – Redacted
PX0006 – Redacted	PX1638 – Redacted	PX3077 – Redacted	PX4905 – Redacted	PX8003 – Redacted
PX0027 – Redacted	PX1639 – Redacted	PX3081 – Redacted	PX5000 – Redacted	PX9003
PX0060 – Redacted	PX1651 – Redacted	PX3087 – Redacted	PX5001 – Redacted	PX9004
PX0070 – Redacted	PX1721 – Redacted	PX3090 – Redacted	PX5006 – Redacted	PX9005
PX0079 – Redacted	PX1741 – Redacted	PX3103 – Redacted	PX6000 – Redacted	PX9012
PX0082 – Redacted	PX1742 – Redacted	PX3161 – Redacted	PX7003 – Redacted	PX9036
PX1012 – Redacted	PX1751 – Redacted	PX3206 – Redacted	PX7004 – Redacted	PX9037
PX1015 – Redacted	PX1752 – Redacted	PX3235 – Redacted	PX7005 – Redacted	PX9052
PX1019 – Redacted	PX1759 – Redacted	PX3272 – Redacted	PX7006 – Redacted	PX9053
PX1023 – Redacted	PX1767 – Redacted	PX3311 – Redacted	PX7007 – Redacted	PX9061
PX1024 – Redacted	PX1777 – Redacted	PX3354 – Redacted	PX7008 – Redacted	PX9091
PX1025 – Redacted	PX1781 – Redacted	PX3378 – Redacted	PX7010 – Redacted	PX9095
PX1029 – Redacted	PX1791 – Redacted	PX4007 – Redacted	PX7011 – Redacted	PX9102
PX1039 – Redacted	PX1803 – Redacted	PX4154 – Redacted	PX7012 – Redacted	PX9132
PX1049 – Redacted	PX1828 – Redacted	PX4181 – Redacted	PX7014 – Redacted	PX9192
PX1050 – Redacted	PX1851 – Redacted	PX4218 – Redacted	PX7026 – Redacted	PX9346
PX1063 – Redacted	PX1888 – Redacted	PX4260 – Redacted	PX7027 – Redacted	PX9347
PX1065 – Redacted	PX1889 – Redacted	PX4267 – Redacted	PX7028 – Redacted	PX9441
PX1070 – Redacted	PX1949 – Redacted	PX4303 – Redacted	PX7031 – Redacted	PX9446
PX1089 – Redacted	PX1950 – Redacted	PX4309 – Redacted	PX7035 – Redacted	RX1212 – Redacted
PX1110 – Redacted	PX1951 – Redacted	PX4312 – Redacted	PX7036 – Redacted	RX1221 – Redacted
PX1116 – Redacted	PX1962 – Redacted	PX4319 – Redacted	PX7040 – Redacted	RX1222 – Redacted

PX1136 – Redacted	PX1966 – Redacted	PX4323 – Redacted	PX7042 – Redacted	RX1245 – Redacted
PX1151 – Redacted	PX1970 – Redacted	PX4334 – Redacted	PX7044 – Redacted	RX3113 – Redacted
PX1190 – Redacted	PX1995 – Redacted	PX4336 – Redacted	PX7046 – Redacted	RX3114 – Redacted
PX1240 – Redacted	PX2049 – Redacted	PX4344 – Redacted	PX7048 – Redacted	
PX1245 – Redacted	PX2056 – Redacted	PX4351 – Redacted	PX7050 – Redacted	
PX1274 – Redacted	PX2082 – Redacted	PX4352 – Redacted	PX7053 – Redacted	
PX1275 – Redacted	PX2086 – Redacted	PX4358 – Redacted	PX7054 – Redacted	
PX1283 – Redacted	PX2093 – Redacted	PX4367 – Redacted	PX7055 – Redacted	
PX1313 – Redacted	PX2094 – Redacted	PX4406 – Redacted	PX7056 – Redacted	
PX1324 – Redacted	PX2107 – Redacted	PX4472 – Redacted	PX7057 – Redacted	
PX1419 – Redacted	PX2113 – Redacted	PX4505 – Redacted	PX7059 – Redacted	
PX1425 – Redacted	PX2133 – Redacted	PX4578 – Redacted	PX7060 – Redacted	
PX1442 – Redacted	PX2138 – Redacted	PX4602 – Redacted	PX7062 – Redacted	
PX1471 – Redacted	PX2159 – Redacted	PX4627 – Redacted	PX7065 – Redacted	
PX1476 – Redacted	PX2167 – Redacted	PX4640 – Redacted	PX7067 – Redacted	
PX1486 – Redacted	PX2170 – Redacted	PX4665 – Redacted	PX7068 – Redacted	
PX1516 – Redacted	PX2411 – Redacted	PX4671 – Redacted	PX7070 – Redacted	
PX1529 – Redacted	PX2419 – Redacted	PX4743 – Redacted	PX7071 – Redacted	
PX1535 – Redacted	PX2465 – Redacted	PX4775 – Redacted	PX7072 – Redacted	
PX1563 – Redacted	PX3053 – Redacted	PX4792 – Redacted	PX8000 – Redacted	

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Microsoft and Activision Blizzard Investor Call

Brett Iverson, Satya Nadella, Bobby Kotick, Phil Spencer, Amy Hood
Tuesday January 18, 2022

BRETT IVERSEN: Good morning. Thank you for joining us for the conference call regarding Microsoft's plan to acquire Activision Blizzard.

On the call with us today are Satya Nadella, Chairman and Chief Executive Officer at Microsoft; Bobby Kotick, Chief Executive Office of Activision Blizzard; Amy Hood, Chief Financial Officer at Microsoft; and Phil Spencer, Chief Executive Officer, Microsoft Gaming. You can replay today's webcast, as well as view the prepared remarks and supplementary slide deck on the Microsoft investor relations website following the call.

During this call, we will make forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in today's press release and presentation in comments made during this call and in the risk factors section of our Form 10-K, Forms 10-Q, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

And with that, I'll turn the call over to Satya.

SATYA NADELLA: Thank you, Brett, and thank you, everyone, for joining us to talk about this exciting milestone for Microsoft, Activision Blizzard and the entire gaming industry.

This morning, we announced that we will acquire Activision Blizzard in an all-cash transaction valued at $68.7 billion. This will be the largest acquisition in our history, and we're investing to create a thriving gaming ecosystem, one where world-class content can more easily reach every gamer across every platform.

For us, when we think about acquisitions, we always start with our mission, to empower every person and every organization on the planet to achieve more. Activision Blizzard is one of the premier game publishers worldwide, and their mission to connect and engage the world through epic entertainment is deeply aligned with our own. Together, our ambition is to bring the joy and community of gaming to everyone on the planet.

When I step back, it's hard to overstate how competitive, dynamic and exciting the gaming industry is today. Gaming is the largest and fastest-growing category in entertainment. The last two years in particular have shown how critical games are to helping people maintain a sense of community and belonging, even when they're apart.

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Today, three billion consumers around the world play games, and we expect this number will reach 4.5 billion by 2030 as new generations turn to gaming for entertainment, community and a sense of achievement. We are seeing more players, more streamers, more titles and more new game publishers than ever before.

But too much friction still exists today between content, consumption and commerce. We need to make it easier for people to connect and play great games, wherever, whenever and however they want. Today, we face strong global competition from companies that generate more revenue from game distribution than we do from our share of game sales and subscriptions. We need more innovation and investment in content creation and fewer constraints on distribution.

Our vision is for a river of entertainment where the content and commerce flow freely, driving a renaissance across the entire industry to make games more inclusive and accessible to all. And together with Activision Blizzard, that's what we will be able to deliver. Removing these barriers will only become more important as the digital and physical worlds come together and the metaverse platforms develops.

When we think about our vision for what a metaverse can be, we believe there won't be a single, centralized metaverse and there shouldn't be. We need to support many metaverse platforms, as well as a robust ecosystem of content, commerce and applications. In gaming, we see the metaverse as a collection of communities and individual identities anchored in strong content franchises, accessible on every device. And bringing fantastic entertainment together with new technologies, communities and business models is exactly what this transaction is about.

Together with Activision Blizzard, we have an incredible opportunity to invest and innovate to create the best content, community and cloud for gamers to build substantial new value for our shareholders. It starts with content across the console, PC and mobile. Activision Blizzard is home to some of the world's most legendary games, including billion dollar franchises like *Call of Duty*, *Candy Crush*, *World of Warcraft*. Activision Blizzard's portfolio adds to our own first-party lineup, from *Minecraft* to *Forza* to *Halo* and the iconic franchises we acquired as part of the acquisition of ZeniMax Media just last year, including *Fallout*, *Doom* and *Elder Scrolls*.

Critically, this transaction significantly expands our presence in mobile, the largest segment in gaming business. Activision Blizzard's King division is one of the global leaders in mobile gaming. And we will bring as many Activision Blizzard games as we can to our Game Pass subscription service across the PC, console and mobile, including both new games, as well as games from Activision Blizzard's incredible catalogue, offering even better value and more choice for our gamers.

Together, we have one of the most diverse and robust content pipelines in the industry across every endpoint.

The second key area is community. Activision Blizzard has nearly 400 million monthly active players across 190 countries today. That reach builds on the strength of our own gaming community, from *Minecraft* and Xbox network to Game Pass. Game Pass now have more than 25 million subscribers, and we're creating new opportunities for creators across our ecosystem with programs like ID at Xbox, which helped independent developers publish their creations across our platforms.

Together with Activision Blizzard, we will have one of the largest and most engaged communities in all of entertainment, and we're excited to create new opportunities for both leading publishers, as well as for individuals and small teams to build and monetize their creations across this community.

And finally, and not least, cloud gaming. As we've talked about, we deliver the joy and community of gaming by putting players at the center of their entertainment, enabling people everywhere to stream games in high fidelity. That's why we've invested over the past few years in Xbox cloud gaming, deploying specialized Xbox hardware in our datacenters around the world.

Through the cloud, we're extending the Xbox ecosystem and community to millions of new people, including in global markets where traditional PC and console gaming has long been a challenge. And when we look ahead and consider new possibilities, like offering *Overwatch* or *Diablo*, via streaming to anyone with a phone as part of Game Pass, you start to understand how exciting this acquisition will be.

I want to wrap by talking briefly about a vital factor that underlies all of the opportunities I've talked about, culture. As CEO of Microsoft, the culture of our organization is my number one priority. This means we must continuously improve the lived experience of our employees and create an environment that allows us to constantly drive every day improvement in our culture.

This is hard work. It requires consistency, commitment and leadership that not only talks the talk, but walks the walk. That's why we believe it's critical for the Activision Blizzard to drive forward on its renewed cultural commitments. We are supportive of the goal and the work Activision Blizzard is doing, and we also recognize that after close, we will have significant work to do in order to continue to build a culture where everyone can do their best work.

And this isn't just for about employees. Our journey of inclusion extends to creating a welcoming and safe community for all our customers, including the hundreds of millions of players who enjoy our games and interactive services. We are committed to protecting players and empowering our employees to do what they love while thriving in a safe and inclusive culture, one where everyone is invited to play. The success of this acquisition will depend on it.

To close, I'll share some additional details on the transaction. We expect the acquisition to close in fiscal year 2023. When it does, the Activision Blizzard business will report to

Phil Spencer, CEO of Microsoft Gaming, who has demonstrated leadership, driving both gaming business success, as well as culture change.

Over more than 30 years as CEO of Activision Blizzard, Bobby Kotick has built the company into one of the world's most successful and influential entertainment companies, and I'm grateful for his leadership and commitment to real culture change.

With that, let me hand it over to Bobby to share more about the opportunity ahead.

BOBBY KOTICK: Thank you, Satya, and thank you for welcoming us as a part of one of the world's most admired companies.

I remember our conversation on your first day as CEO. You shared your bold vision to lead Microsoft to help empower people everywhere in the world, and I left inspired.

Our mission, connecting and engaging the world through joy and fun, is also incredibly empowering for our players. Thirty-one years ago, Brian and I began a journey to build one of the world's great entertainment companies. Our 10,000 exceptionally talented employees in every creative, technical and commercial discipline have passionately built and nurtured some of the world's most loved and played games.

When we first discussed the chance to merge our incredible talent, extraordinary franchises, our shared commitment to the very best workplaces, and access to Microsoft's vast resources, it gave Brian, our board of directors and me confidence that we would have a far better chance to succeed in the increasingly competitive race for leadership as gaming through the metaverse evolves.

Our Activision Blizzard and King teams have transformed games into social experiences, enabled players to find purpose and meaning through games. And every day, we entertain communities of hundreds of millions of players connected through our franchises.

Connecting these communities together is the next step in the creation of the metaverse. The race to do this is accelerating, and the resources required for success are enormous. So many of the world's biggest companies have ambitions with their own gaming and metaverse initiatives. Established and emerging competitors see opportunity for virtual worlds filled with professionally produce content, user-generated content, and rich social connections.

Our talent and our franchises are critical components of the construction of a rich metaverse. We've always attracted the very best game makers and built the very best game franchises, seizing opportunity with passion, inspiration, focus and determination.

But competition for diverse talent and the creative and technical capabilities desire to meet the expectations of our players has never been greater. As investments in cloud computing, AI and machine learning, more sophisticated data analytics, user interface and user experience capabilities become more competitive and more necessary for the

exciting gaming future that lies ahead, we will benefit tremendously from having a partner like Microsoft to better enable our ambitions.

As we thought about possible partners, all roads ultimately led to Microsoft. Microsoft has all the important technologies we need to deliver the next generation of games. And like Activision, Microsoft has a cultural passion for gaming that goes back to the 1980s. Microsoft's culture of inspiring people through caring and empathy is a powerful motivator, and one we embrace as we renew our resolve in the work we're now doing to set a new standard for a welcoming and inclusive workplace culture.

After Microsoft reached out to me and our board deliberated about our future, it was obvious that this was the very best way to ensure Activision Blizzard's continuing success. Activision's board of directors unanimously agreed that this was a great transaction with the right partner at the right time. The price of $95 per share in cash delivers a 45 percent premium to our share price on January 14. And our employees, players, investors and partners will all greatly benefit from this transaction.

Microsoft's scale and resources will only add to the opportunities of our franchise teams to achieve their own visions for their communities. And we couldn't be more excited to be a part of the impressive team Phil Spencer has built, a team that has led platform innovation since Microsoft first launched Xbox in 2001.

Phil and I have known each other for a very long time. He has the rare combination of leadership talents that are the prerequisites for success in gaming. He is passionate, compassionate, and has deep technical knowledge and the ability to motivate and inspire all types of talent.

The game publisher and platform provider dynamic is a complex, and Phil has always been an exceptional partner. As you can probably tell, we couldn't be more excited for the incredibly exciting future we have ahead and together. Phil?

PHIL SPENCER: Hi, everyone. This is obviously an extremely exciting day.

At the broadest level, our mission at Microsoft Gaming is to extend the joy and community of gaming to everyone on the planet, billions of people, and this deal accelerates that strategy. When this transaction closes, Microsoft Gaming will be the world's number three gaming company by revenue, behind Tencent and Sony.

We believe that Microsoft and our team are uniquely positioned with the technical capability, financial capacity, creative vision and the gaming track record required to deliver a truly global, interactive entertainment ecosystem.

With this transaction, Activision Blizzard brings into Microsoft Gaming one of the most exciting collections of content franchises, creative teams and fan bases anywhere in global entertainment across any form of media.

Many Activision Blizzard properties, including at King, are truly beloved by people all over the world, and they will endure for many decades to come.

I'll reinforce that this is not about short-term results. We have seen Activision Blizzard's product roadmap and are incredibly enthusiastic about what the teams are creating and the company's pipeline over many years to come.

We have seen strong recent performance from our existing ZeniMax and Xbox Games Studios and are well-positioned as the stewards of Activision Blizzard's great franchises. I'm personally excited for the opportunity to work directly with the dedicated, passionate teams at Call of Duty, Blizzard, King, and each of the studios across the company as we reach new heights and even more players together.

We're all about putting players at the center of everything we do, and this transaction is going to be fantastic, not only for our existing players, but will also help us bring innovative experiences to vast, new audiences. That's because adding the Activision Blizzard portfolio to our existing operations will also propel our new forms of distribution and monetization, like Cloud Gaming and our Game Pass subscription service.

Each of these services are helping us reach new audiences, especially as we expand into new geographic markets in mobile-first economies. Upon close, we will offer as many Activision Blizzard games as we can within Game Pass, both new titles and games from Activision Blizzard's incredible catalogue.

As our platform becomes more attractive, the flywheel of content creators and players accelerates. As the creative range on our platform continues to expand, more players are attracted to the service, and the growing scale of the customer base makes the platform more attractive for additional publishers, and so on.

And then, as Satya pointed out, when you think about potential opportunities, like, say, offering *Diablo*, *Call of Duty* or *Overwatch* via cloud streaming to anyone on any device, you can see just how exciting this deal really is.

It doesn't stop there. Extending our horizon a bit, this transaction will make our approach to the consumer metaverse even stronger. That's because our vision of the metaverse is based on intersecting global communities rooted in strong franchises. A big part of that is the fact that mobile is the biggest category of gaming, and it's an area where we have not had a major presence before. This transaction adds one of the most successful mobile publishers to Microsoft Gaming, and I'm personally looking forward to learning from the innovative teams at King.

And perhaps most important, we're looking forward to working with the thousands of talented Activision Blizzard employees with the same approach of proactive inclusion and partnership that we extend to every member of the Microsoft family. We believe firmly that the great teams at Activision Blizzard have their best work in front of them,

and we're looking forward to making sure they feel supported, safe and engaged in every aspect of their work, going forward. That includes respecting the creative vision and identity of individual game studios. We have fundamental values that we refuse to compromise on, and we embrace the vibrant, creative diversity of our industry.

So, all in all, as we continue our mission to bring the joy and community of gaming to everyone, I couldn't be more excited about the opportunities presented by coming together with Activision Blizzard. And with that, I'll hand it over to Amy.

AMY HOOD: Thanks, Phil.

Our approach to mergers and acquisitions is to focus on TAM-expansive opportunities in high-growth markets where we can uniquely add value to the users or the community, and we execute those transactions at a price that supports long-term shareholder value creation. You have heard from Satya, Bobby and Phil that Activision Blizzard meets those criteria. And with all acquisitions, value is ultimately created through terrific execution by an aligned team of talented, creative individuals with a shared vision of the future.

With this acquisition, we continue to deepen our commitment to the three pillars of our gaming strategy: Content, community and cloud. Key measures of our success include accelerated revenue growth from Activision Blizzard's game portfolio as we extend content to more devices, resulting in increased engagement and monetization across the Xbox platform, as well as additional growth in Game Pass subscribers as we attract new players wherever they play and continue to build one of the most compelling and diverse lineups of triple-A content available.

Now, let's turn to the transaction details.

We've agreed to acquire Activision Blizzard for $95 per share in an all-cash transaction valued at $68.7 billion, inclusive of Activision Blizzard's net cash. The acquisition will not impact our previously announced share buy-back program. The transaction has been approved by the board of directors of both Microsoft and Activision Blizzard. The transaction is expected to close in fiscal year 2023 and is subject to approval by Activision Blizzard shareholders and the satisfaction of certain regulatory approvals and other customary closing conditions.

On a non-gap basis, we anticipate the transaction will be accretive to EPS upon close. In this context, non-gap excludes the expected impact of purchased accounting adjustments, as well as non-recurring integration and transaction-related expenses.

Following the close of the transaction, we expect to report results for Activision Blizzard in our gaming business, and the Activision Blizzard's business will report to Phil Spencer.

As you've heard from all of us this morning, we are excited by the opportunity ahead as we bring two companies with storied franchises together. Gaming is a category defined by innovation, technical ambition, creativity and a passionate pursuit to create joy and wonder for those who play. Bringing exciting new gaming experiences to everyone on the planet through this combination will drive long-term revenue growth and significant shareholder value.

With that, thank you all for joining us for this exciting announcement.

BRETT IVERSEN: Thank you for joining us today, and we look forward to speaking with you next week on Tuesday, January 25th, on our Q2 Fiscal Year 22 earnings call.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☒ Preliminary Proxy Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☐ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material under §240.14a-12

ACTIVISION BLIZZARD, INC.
(Name of Registrant as Specified In Its Charter)

N/A
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☐ No fee required.

☐ Fee paid previously with preliminary materials.

☒ Fee computed on table in exhibit required by Item 25(b) per Exchange Act Rules 14a-6(i)(1) and 0-11.

MERGER PROPOSAL — YOUR VOTE IS VERY IMPORTANT

[•], 2022

Dear Activision Blizzard Stockholders,

It is my pleasure to invite you to a special meeting of stockholders, which we refer to as the "special meeting," of Activision Blizzard, Inc., which we refer to as "Activision Blizzard," to be held on [•], 2022, at [•], Pacific time.

Due to the public health impact of the coronavirus (COVID-19) and to support the well-being of our employees and stockholders, Activision Blizzard will hold the special meeting virtually via the Internet at http://www.viewproxy.com/atvism/2022. After registering at http://www.viewproxy.com/atvism/2022, you will receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. You will not be able to attend the special meeting physically in person. For purposes of attendance at the special meeting, all references in this proxy statement to "present in person" or "in person" shall mean virtually present at the special meeting.

At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger (as it may be amended from time to time), dated as of January 18, 2022, which we refer to as the "merger agreement," by and among Activision Blizzard, Microsoft Corporation, which we refer to as "Microsoft," and Anchorage Merger Sub Inc., which we refer to as "Sub," a wholly owned subsidiary of Microsoft. Pursuant to the terms and conditions of the merger agreement, Sub will merge with and into Activision Blizzard, with Activision Blizzard surviving the merger as a wholly owned subsidiary of Microsoft, which we refer to as the "merger." You will be asked to consider and vote on a proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger. You also will be asked to consider and vote on a proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

If the merger is completed, you will be entitled to receive $95.00 in cash, without interest, for each share of our common stock, par value $0.000001 per share, which we refer to as "Activision Blizzard common stock," that you own (unless you have properly exercised your appraisal rights with respect to such shares), which represents (i) a premium of approximately 45.3% to Activision Blizzard's closing stock price on January 14, 2022, the last trading day prior to the announcement of the merger, and (ii) approximately 50.3% to the volume weighted average stock price of Activision Blizzard common stock during the 30 trading days ended January 14, 2022.

The receipt of cash in exchange for shares of Activision Blizzard common stock pursuant to the merger will generally be a taxable transaction to "U.S. Holders" (as defined in the accompanying proxy statement) for U.S. federal income tax purposes. For a more complete description, see the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — U.S. Federal Income Tax Consequences of the Merger" beginning on page 66 of the accompanying proxy statement.

The Activision Blizzard Board of Directors, after considering the reasons more fully described in this proxy statement, unanimously determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of Activision Blizzard and its stockholders and declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby, upon the terms and conditions set forth therein.

The Activision Blizzard Board of Directors recommends that you vote:

(i) "FOR" the proposal to adopt the merger agreement, thereby approving the merger and the other transactions contemplated by the merger agreement;

(ii) "FOR" the proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger; and

(iii) "FOR" the proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

The enclosed proxy statement provides detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to the proxy statement. Important qualifications with respect to the representations, warranties, covenants and agreements included in the merger agreement are set forth in the section of this proxy statement entitled "Terms of the Merger Agreement," beginning on page 71. The proxy statement also describes the actions and determinations of our Board of Directors in connection with its evaluation of the merger agreement and the merger. We encourage you to read the proxy statement and its annexes, including the merger agreement, carefully and in their entirety. You may also obtain more information about Activision Blizzard from documents we file with the U.S. Securities and Exchange Commission, which we refer to as the "SEC," from time to time.

Whether or not you plan to attend the special meeting virtually, please complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope or grant your proxy electronically over the Internet or by telephone. TO FACILITATE THE TIMELY RECEIPT OF YOUR PROXY DESPITE ANY POTENTIAL SYSTEMS DISRUPTION DUE TO COVID-19, WE ENCOURAGE YOU TO VOTE BY TELEPHONE OR INTERNET TODAY. If you attend the special meeting and vote in person by virtual ballot, your vote by virtual ballot will revoke any proxy previously submitted. If you hold your shares in "street name," you should instruct your broker, bank or other nominee how to vote your shares in accordance with the voting instruction form you will receive from your broker, bank or other nominee. Your broker, bank or other nominee cannot vote on any of the proposals, including the proposal to adopt the merger agreement, without your instructions.

Your vote is very important, regardless of the number of shares that you own. We cannot complete the merger unless the proposal to adopt the merger agreement is approved by the affirmative vote of the holders of a majority of the shares of Activision Blizzard common stock outstanding and entitled to vote thereon. The failure of any stockholder to vote by virtual ballot, to submit a validly executed proxy card or to grant a proxy electronically over the Internet or by telephone will have the same effect as a vote "AGAINST" the proposal to adopt the merger agreement. If you hold your shares in "street name," the failure to instruct your broker, bank or other nominee on how to vote your shares will have the same effect as a vote "AGAINST" the proposal to adopt the merger agreement.

If you have any questions or need assistance voting your shares of Activision Blizzard common stock, please call Activision Blizzard's proxy solicitor in connection with the special meeting:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, NY 10022
Stockholders may call toll-free from the U.S. or Canada: (877) 687-1871
From other locations please dial: +1 (412) 232-3651
Banks and Brokers may call collect: (212) 750-5833

On behalf of our Board of Directors, we thank you for your support and appreciate your consideration of this matter.

Sincerely,

Robert A. Kotick
Chief Executive Officer

Brian Kelly
Chairman of the Board

Neither the SEC nor any state securities regulatory agency has approved or disapproved of the transactions described in this document, including the merger, or determined if the information contained in this document is accurate or adequate. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated [•], 2022 and, together with the enclosed form of proxy card, is first being mailed to Activision Blizzard stockholders on or about [•], 2022.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON [•], 2022

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, which we refer to as the "special meeting," of Activision Blizzard, Inc., which we refer to as "Activision Blizzard," will be held:

TIME AND DATE:	[•], Pacific time, on [•], 2022
PLACE:	Due to the public health impact of the coronavirus (COVID-19) and to support the well-being of our employees and stockholders, Activision Blizzard will hold the special meeting virtually via the Internet at http://www.viewproxy.com/atvism/2022. After registering at http://www.viewproxy.com/atvism/2022, you will receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. You will not be able to attend the special meeting physically in person. For purposes of attendance at the special meeting, all references in this proxy statement to "present in person" or "in person" shall mean virtually present at the special meeting.
ITEMS OF BUSINESS:	1. To consider and vote on the proposal to adopt the Agreement and Plan of Merger (as it may be amended from time to time), dated as of January 18, 2022, which we refer to as the "merger agreement," by and among Activision Blizzard, Microsoft Corporation, which we refer to as "Microsoft," and Anchorage Merger Sub Inc., which we refer to as "Sub," a wholly owned subsidiary of Microsoft, a copy of which is attached as Annex A to the proxy statement accompanying this notice, which proposal we refer to as the "merger proposal"; 2. To consider and vote on the proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger pursuant to the merger agreement, which we refer to as the "merger," and which proposal we refer to as the "merger-related compensation proposal"; and 3. To consider and vote on the proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting, which proposal we refer to as the "adjournment proposal."
ADJOURNMENTS AND POSTPONEMENTS:	Any action on the items of business described above may be considered at the special meeting or at any time and date to which the special meeting may be properly adjourned or postponed.
RECORD DATE:	Stockholders of record at the close of business on [•], 2022, which we refer to as the "record date," are entitled to notice of, and to vote at, the special meeting and at any adjournments or postponements thereof.
INSPECTION OF LIST OF STOCKHOLDERS OF RECORD:	A list of stockholders of record will be available for inspection at the meeting website during the special meeting.

VOTING:	Whether or not you plan to attend the special meeting virtually, we urge you to vote your shares via the toll-free telephone number or over the Internet as described on your proxy card or voting instruction form. You may also complete, sign, date and mail the proxy card or voting instruction form in the prepaid envelope provided. **TO FACILITATE THE TIMELY RECEIPT OF YOUR PROXY DESPITE ANY POTENTIAL SYSTEMS DISRUPTION DUE TO COVID-19, WE ENCOURAGE YOU TO VOTE BY TELEPHONE OR INTERNET TODAY. Submitting a proxy now will not prevent you from being able to vote in person by virtual ballot at the special meeting.**
IMPORTANT INFORMATION:	Your vote is very important to us. The merger contemplated by the merger agreement is conditioned on the receipt of, and we cannot consummate the merger unless the merger proposal receives, the affirmative vote of the holders of a majority of the shares of Activision Blizzard's common stock, par value $0.000001, which we refer to as "Activision Blizzard common stock," outstanding and entitled to vote thereon. The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve the adjournment proposal. The failure of any stockholder of record to submit a signed proxy card or grant a proxy electronically over the Internet or by telephone or to vote in person by virtual ballot at the special meeting will have the same effect as a vote "**AGAINST**" the merger proposal, but will not have any effect on the merger-related compensation proposal or the adjournment proposal (assuming a quorum is present). If you hold your shares in "street name," the failure to instruct your broker, bank or other nominee on how to vote your shares will have the same effect as a vote "**AGAINST**" the merger proposal but will not have any effect on the merger-related compensation proposal or the adjournment proposal (assuming a quorum is present). Abstentions will have the same effect as a vote "**AGAINST**" the merger proposal, the merger-related compensation proposal and the adjournment proposal (assuming a quorum is present). Stockholders who do not vote in favor of the merger proposal will have the right to seek appraisal of the fair value of their shares of Activision Blizzard common stock, as determined in accordance with Delaware law, if they deliver a demand for appraisal before the vote is taken on the merger proposal and comply with all applicable requirements under Delaware law, which are summarized herein and reproduced in their entirety in Annex B to the accompanying proxy statement. **The Activision Blizzard Board of Directors recommends that you vote (i) "FOR" the merger proposal, (ii) "FOR" the merger-related compensation proposal and (iii) "FOR" the adjournment proposal.**

Santa Monica, California
[•], 2022

By Order of the Board of Directors,

Frances Townsend
Executive Vice President, Corporate Affairs,
Corporate Secretary and Chief Compliance Officer

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING VIRTUALLY, WE URGE YOU TO VOTE YOUR SHARES VIA THE TOLL-FREE TELEPHONE NUMBER OR OVER THE INTERNET AS DESCRIBED ON YOUR ENCLOSED PROXY CARD. YOU MAY ALSO COMPLETE, SIGN, DATE AND MAIL THE PROXY CARD IN THE PREPAID ENVELOPE PROVIDED. TO FACILITATE THE TIMELY RECEIPT OF YOUR PROXY DESPITE ANY POTENTIAL SYSTEMS DISRUPTION DUE TO COVID-19, WE ENCOURAGE YOU TO VOTE BY TELEPHONE OR INTERNET TODAY. You may revoke your proxy or change your vote at any time before the special meeting. If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction form furnished to you by such broker, bank or other nominee, which is considered the stockholder of record, in order to vote. As a beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote the shares in your account. Your broker, bank or other nominee cannot vote on any of the proposals, including the proposal to adopt the merger agreement, without your instructions.

If you fail to return your proxy card, to grant your proxy electronically over the Internet or by telephone, or to vote by virtual ballot in person at the special meeting, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting. If you are a stockholder of record, voting in person by virtual ballot at the special meeting will revoke any proxy that you previously submitted. If you hold your shares through a broker, bank or other nominee, you must obtain from the record holder a legal proxy issued in your name in order to vote in person at the special meeting.

We encourage you to read the accompanying proxy statement, including all documents incorporated by reference therein, and annexes to the accompanying proxy statement, carefully and in their entirety. If you have any questions concerning the merger, the special meeting or the accompanying proxy statement, would like additional copies of the accompanying proxy statement or need help voting your shares of common stock, please contact our proxy solicitor:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, NY 10022
Stockholders may call toll-free from the U.S. or Canada: (877) 687-1871
From other locations please dial: +1 (412) 232-3651
Banks and Brokers may call collect: (212) 750-5833

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PROXY SUMMARY

This summary highlights selected information from this proxy statement related to the merger (as defined below). This summary may not contain all of the information that is important to you. To understand the merger more fully and for a more complete description of the legal terms of the merger, you should read carefully this entire proxy statement, the annexes to this proxy statement, including the merger agreement (as defined below), and the documents incorporated by reference in this proxy statement. You may obtain the documents and information incorporated by reference in this proxy statement without charge by following the instructions under the section entitled "Where You Can Find More Information" beginning on page 106. The merger agreement is attached as Annex A to this proxy statement. Important qualifications with respect to the representations, warranties, covenants and agreements included in the merger agreement are set forth in the section of this proxy statement entitled "Terms of the Merger Agreement" beginning on page 71. We encourage you to read the merger agreement, which is the legal document that governs the merger, carefully and in its entirety.

Except as otherwise specifically noted in this proxy statement or as the context otherwise requires, "Activision Blizzard," the "Company," "we," "our," "us" and similar words in this proxy statement refer to Activision Blizzard, Inc. including, in certain cases, its subsidiaries. Throughout this proxy statement we refer to Microsoft Corporation, a Washington corporation, as "Microsoft" and to Anchorage Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Microsoft, as "Sub." In addition, throughout this proxy statement we refer to the Agreement and Plan of Merger (as it may be amended from time to time), dated as of January 18, 2022, by and among Activision Blizzard, Microsoft and Sub, as the "merger agreement." All references to the "merger" refer to the merger of Sub with and into Activision Blizzard with Activision Blizzard surviving as a wholly owned subsidiary of Microsoft. Activision Blizzard, following completion of the merger, is sometimes referred to in this proxy statement as the "surviving corporation."

Parties Involved in the Merger (page 29)

Activision Blizzard, Inc.

Activision Blizzard 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 and mobile devices. We also operate esports leagues and offer digital advertising within some of our content. Our objective is to connect and engage the world through epic entertainment by continuing to be a worldwide leader in the development, publishing and distribution of high-quality interactive entertainment content and services, as well as related media, that deliver engaging entertainment experiences to our network of connected players on a year-round basis.

Based upon our organizational structure, we conduct our business through three reportable segments, each of which is a leading global developer and publisher of interactive entertainment content and services based primarily on our internally developed intellectual properties: Activision Publishing, Inc. (which we refer to as "Activision"), Blizzard Entertainment, Inc. (which we refer to as "Blizzard") and King Digital Entertainment plc (which we refer to as "King"). Activision delivers content through both paid-for and free-to-play offerings and primarily generates revenue from full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. Activision's key product franchise is Call of Duty®, a first-person action franchise. Activision also includes the activities of the Call of Duty League™, a global professional esports league with city-based teams. Blizzard delivers content through both paid-for and free-to-play offerings and primarily generates revenue from full-game and in-game sales, subscriptions and by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Battle.net®, which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity and the creation of user-generated content. Blizzard's key product franchises include: Warcraft®, which includes World of Warcraft, a subscription-based massive multi-player online role-playing game, and Hearthstone®, an online collectible card game based in the Warcraft universe; Diablo®, an action role-playing franchise; and Overwatch®, a team-based first-person action franchise. Blizzard also includes the activities of the Overwatch League™, a global professional esports league with city-based teams. King delivers content through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on the mobile platform. King's key product franchise is Candy Crush™, a "match three" franchise.

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

Activision Blizzard's principal executive offices are located at 2701 Olympic Boulevard, Building B, Santa Monica, CA 90404.

Activision Blizzard 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., pursuant to which we acquired Blizzard Entertainment, Inc., we were renamed Activision Blizzard, Inc. On February 23, 2016, we acquired King Digital Entertainment plc, a leading interactive mobile entertainment company, by purchasing all of its outstanding shares. Activision Blizzard common stock, par value $0.000001 per share, which we refer to as "Activision Blizzard common stock," is currently listed on the Nasdaq Global Select Market, which we refer to as "Nasdaq," under the symbol "ATVI."

Additional information about Activision Blizzard and its subsidiaries is included in documents incorporated by reference in this proxy statement (see the section entitled "Where You Can Find More Information" beginning on page 106) and on its website: www.activisionblizzard.com. The information provided or accessible through Activision Blizzard's website is not part of, or incorporated by reference in, this proxy statement.

Microsoft Corporation

Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more, and is a leader in enabling digital transformation for the era of an intelligent cloud and intelligent edge. Founded in 1975, Microsoft operates worldwide and has offices in more than 100 countries. Microsoft develops and supports a wide range of software, services, devices, and solutions that deliver new opportunities, greater convenience and enhanced value to people's lives. Microsoft offers an array of services, including cloud-based solutions, that provide customers with software, services, platforms and content. Microsoft's products include operating systems, cross-device productivity applications, server applications, business solution applications, desktop and server management tools, software development tools, and games. Microsoft also designs and sells devices, including PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories.

Microsoft's principal executive offices are located at One Microsoft Way, Redmond, WA 98052. Microsoft's common stock is listed on Nasdaq under the symbol "MSFT."

Additional information about Microsoft and its subsidiaries is included in documents filed by Microsoft with the SEC and on its website: www.microsoft.com. The information provided or accessible through Microsoft's website or filed by Microsoft with the SEC are not part of, or incorporated by reference in, this proxy statement.

Anchorage Merger Sub Inc.

Sub is a Delaware corporation and a wholly owned subsidiary of Microsoft, formed on January 13, 2022 solely for the purpose of engaging in the merger and the other transactions as contemplated under the merger agreement. Upon completion of the merger, Sub will cease to exist.

Certain Effects of the Merger on Activision Blizzard (page 30)

Upon the terms and subject to the conditions of the merger agreement and in accordance with the applicable provisions of the Delaware General Corporation Law, which we refer to as the "DGCL," on the closing date and at the time at which the merger will become effective, which we refer to as the "effective time," Sub will merge with and into Activision Blizzard, with Activision Blizzard continuing as the surviving corporation and a wholly owned subsidiary of Microsoft. As a result of the merger, Activision Blizzard will cease to be a publicly traded company. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation following the effective time.

Effect on Activision Blizzard if the Merger is Not Completed (page 30)

If the merger agreement is not adopted by Activision Blizzard stockholders or if the merger is not completed for any other reason, Activision Blizzard stockholders will not receive any payment for their shares of Activision Blizzard common stock. Instead, Activision Blizzard will remain an independent public company, Activision Blizzard common stock will continue to be listed and traded on Nasdaq and registered under the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act," and Activision Blizzard will continue to file periodic reports with the U.S. Securities and Exchange Commission, which we refer to as the "SEC."

Under certain specified circumstances, Activision Blizzard will be required to pay Microsoft a termination fee upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Termination Fee" beginning on page 89.

Under certain specified circumstances, Microsoft will be required to pay Activision Blizzard a reverse termination fee upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Reverse Termination Fee" beginning on page 90.

Merger Consideration (page 72)

If the merger is completed, at the effective time, and without any action on the part of the holder, each share of Activision Blizzard common stock issued and outstanding immediately prior to the effective time (other than shares of Activision Blizzard common stock (i) held by Activision Blizzard as treasury stock (excluding certain shares held by a wholly owned subsidiary of Activision Blizzard, which shares will remain outstanding and unaffected by the merger), (ii) owned by Microsoft or Sub or any of their respective direct or indirect wholly owned subsidiaries and (iii) held by stockholders who have neither voted in favor of adoption of the merger agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such shares in accordance with Section 262 of the DGCL, in each case immediately prior to the effective time), and certain equity awards, the treatment of which is described under the sections entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger — Treatment of Equity Compensation" and "Terms of the Merger Agreement — Conversion of Shares — Treatment of Equity Compensation" beginning on pages 58 and 72, respectively, will be converted into the right to receive $95.00 per share in cash, without interest, which we refer to as the "merger consideration," less any applicable withholding taxes. All shares, when so converted at the effective time into the right to receive the merger consideration, will automatically be cancelled and will cease to exist.

As described under the section entitled "Terms of the Merger Agreement — Exchange and Payment Procedures" beginning on page 74, at or promptly following the effective time, Microsoft will deposit, or cause to be deposited, with a designated paying agent (as defined herein) a cash amount in immediately available funds sufficient in the aggregate for the payment of the merger consideration.

After the merger is completed, under the terms and conditions of the merger agreement, you will have the right to receive the per share merger consideration, but you no longer will have any rights as an Activision Blizzard stockholder as a result of the merger (except for the right to receive the per share merger consideration and except that stockholders who properly exercise and perfect, and do not validly withdraw or subsequently lose, their demand for appraisal will instead have such rights as granted by Section 262 of the DGCL, as described under the section entitled "Appraisal Rights" beginning on page 98).

The Special Meeting (page 24)

Date, Time and Place

The special meeting of our stockholders, which we refer to as the "special meeting," will be held on [•], 2022, at [•], Pacific time.

Due to the public health impact of the coronavirus (COVID-19) and to support the well-being of our employees and stockholders, Activision Blizzard will hold the special meeting virtually via the Internet at http://www.viewproxy.com/atvism/2022. After registering at http://www.viewproxy.com/atvism/2022, you will

receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. You will not be able to attend the special meeting physically in person. For purposes of attendance at the special meeting, all references in this proxy statement to "present in person" or "in person" shall mean virtually present at the special meeting.

Purpose

At the special meeting, we will ask our stockholders of record as of the close of business on [•], 2022, which we refer to as the "record date," to consider and vote on the following proposals:

- the adoption of the merger agreement, a copy of which is attached as Annex A to the proxy statement accompanying this proxy statement, which we refer to as the "merger proposal";
- the approval, by means of a non-binding, advisory vote, of compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger, which we refer to as the "merger-related compensation proposal"; and
- the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting, which we refer to as the "adjournment proposal."

Record Date; Shares Entitled to Vote

You are entitled to vote at the special meeting if you owned shares of Activision Blizzard common stock as of the close of business on the record date. You will have one vote at the special meeting for each share of Activision Blizzard common stock you owned as of the close of business on the record date.

Quorum

The presence, in person or by proxy, of the holders of a majority of the voting power of the outstanding shares of Activision Blizzard common stock entitled to vote at the special meeting constitutes a quorum at the special meeting. As of the close of business on the record date, there were [•] shares of Activision Blizzard common stock outstanding and entitled to vote. If you submit a validly executed proxy by mail, telephone or the Internet, you will be considered a part of the quorum. In addition, abstentions will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, [•] shares of Activision Blizzard common stock must be represented, in person or by proxy, to have a quorum. In the event that a quorum is present at the special meeting and there are not sufficient votes at the time of the special meeting to approve the merger proposal, it is expected that the special meeting would be adjourned to allow time to solicit additional proxies if the holders of a majority of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, approve an adjournment. If a quorum is not present, the special meeting may be (and it is expected that the special meeting would be) adjourned by the presiding person of the meeting pursuant to the authority granted in Activision Blizzard's bylaws until a quorum is obtained, subject to the terms of the merger agreement.

Required Vote

The affirmative vote of the holders of a majority of the shares of Activision Blizzard common stock outstanding and entitled to vote thereon is required to approve the merger proposal, which we refer to as "stockholder approval." This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of shares of our outstanding common stock as of the record date. Abstentions and broker non-votes will have the same effect as a vote "**AGAINST**" the merger proposal.

The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of shares of Activision Blizzard common stock entitled to vote which are present, in

person or by proxy, provided a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the merger-related compensation proposal, and broker non-votes will not have any effect on the merger-related compensation proposal (assuming a quorum is present).

The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve the adjournment proposal. This means that the adjournment proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present. Whether or not there is a quorum, the presiding person at the special meeting has the power to adjourn the special meeting from time to time until a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the adjournment proposal, and broker non-votes will not have any effect on the adjournment proposal (assuming a quorum is present).

Share Ownership of Activision Blizzard's Directors and Executive Officers

As of the close of business on the record date, Activision Blizzard's directors and executive officers beneficially owned and were entitled to vote, in the aggregate, [•] shares of Activision Blizzard common stock (excluding any shares of Activision Blizzard common stock that would be delivered upon exercise or conversion of stock options or other equity-based awards), which represented approximately [•]% of the outstanding shares of Activision Blizzard common stock on that date.

It is expected that Activision Blizzard's directors and executive officers will vote all of their shares "**FOR**" the merger proposal, "**FOR**" the merger-related compensation proposal and "**FOR**" the adjournment proposal, although none of them has entered into any agreement requiring them to do so.

Voting of Proxies

Any Activision Blizzard stockholder of record entitled to vote at the special meeting may submit a proxy by returning a signed and dated proxy card by mail, in the accompanying prepaid reply envelope, or voting electronically over the Internet or by telephone by following the instructions set forth on the enclosed proxy card or may vote in person by appearing virtually at the special meeting. If your shares are held in a brokerage account at a brokerage firm, bank, broker-dealer or similar organization, then you are the "beneficial owner" of shares held in "street name," and you should instruct your broker, bank or other nominee on how you wish to vote your shares of Activision Blizzard common stock using the instructions provided by your broker, bank or other nominee on the enclosed voting instruction form. Under applicable stock exchange rules, if you fail to instruct your broker, bank or other nominee on how to vote your shares, your broker, bank or other nominee only has discretion to vote your shares on discretionary matters. Each of the merger proposal, the merger-related compensation proposal and the adjournment proposal are non-discretionary matters, and brokers, banks and other nominees therefore cannot vote on these proposals without your instructions. Therefore, it is important that you cast your vote or instruct your broker, bank or other nominee on how you wish to vote your shares.

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is exercised at the special meeting by submitting a new proxy electronically over the Internet or by telephone after the date of the earlier submitted proxy, validly executing another proxy card with a later date and returning it to us so that we receive it prior to the special meeting or virtually attending the special meeting and voting in person. Proxies submitted electronically over the Internet or by telephone must be received by 11:59 p.m., Pacific Time, on [•], 2022. If you hold your shares of Activision Blizzard common stock in "street name," you should contact your broker, bank or other nominee for instructions regarding how to change your vote.

Recommendation of Our Board of Directors and Reasons for the Merger (page 42)

The Activision Blizzard Board of Directors, after considering various factors described under the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Recommendation of Our Board of Directors and Reasons for the Merger" beginning on page 42, unanimously (i) determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in

the best interests of Activision Blizzard and its stockholders; (ii) declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby, upon the terms and conditions set forth therein; (iii) directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of Activision Blizzard; and (iv) recommended that Activision Blizzard stockholders adopt the merger agreement.

The Activision Blizzard Board of Directors unanimously recommends that you vote (i) "FOR" the merger proposal, (ii) "FOR" the merger-related compensation proposal and (iii) "FOR" the adjournment proposal.

Opinion of Activision Blizzard's Financial Advisor (page 51)

Activision Blizzard has engaged Allen & Company as financial advisor to Activision Blizzard in connection with the merger. In connection with this engagement, Allen & Company delivered a written opinion, dated January 17, 2022, to the Activision Blizzard Board of Directors as to the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration to be received by holders of Activision Blizzard common stock (other than, to the extent applicable, Microsoft, Sub and their respective affiliates) pursuant to the merger agreement. The full text of Allen & Company's written opinion, dated January 17, 2022, which describes the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken, is attached to this proxy statement as Annex C and is incorporated by reference herein in its entirety. The description of Allen & Company's opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of Allen & Company's opinion. **Allen & Company's opinion and advisory services were intended for the benefit and use of the Activision Blizzard Board of Directors (in its capacity as such) in connection with its evaluation of the merger consideration from a financial point of view and did not address any other terms, aspects or implications of the merger. Allen & Company's opinion did not constitute a recommendation as to the course of action that Activision Blizzard (or the Activision Blizzard Board of Directors or any committee thereof) should pursue in connection with the merger or otherwise address the merits of the underlying decision by Activision Blizzard to engage in the merger, including in comparison to other strategies or transactions that might be available to Activision Blizzard or which Activision Blizzard might engage in or consider. Allen & Company's opinion does not constitute advice or a recommendation to any securityholder or other person as to how to vote or act on any matter relating to the merger or otherwise.**

For a more complete description, see the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Opinion of Activision Blizzard's Financial Advisor" beginning on page 51.

Financing of the Merger (page 66)

The merger is not conditioned on Microsoft's ability to obtain financing. Microsoft has represented to Activision Blizzard that it has available, and will have available at the effective time, the funds necessary to pay the aggregate merger consideration, including (i) payments to Activision Blizzard's stockholders of the amounts due under the merger agreement and (ii) payments in respect of certain of Activision Blizzard's outstanding equity awards pursuant to the merger agreement.

Treatment of Equity Compensation (page 56)

Pursuant to our equity incentive plans, we have granted equity awards with respect to Activision Blizzard common stock in the form of stock options and stock units (*i.e.*, restricted stock units, which we refer to as "RSUs" and performance stock units, which we refer to as "PSUs"). Our executive officers hold options, RSUs, which represent a right to receive shares of Activision Blizzard common stock based on service over a time-based vesting schedule, and PSUs, which represent a right to receive shares of Activision Blizzard common stock ranging from 0 to 125% (and, in some cases, up to 250%) of the target number of shares based on both service over a time-based vesting schedule and achievement of specified performance goals over a specified performance period. Our non-employee directors hold options and RSUs, which represent a right to receive shares of Activision Blizzard common stock, subject to vesting requirements of the underlying equity award, on a specified future date or event, such as a separation from service. The merger agreement provides for the treatment set forth below with respect to outstanding equity awards:

Stock Options

- Each outstanding option to purchase Activision Blizzard common stock granted pursuant to our equity incentive plans that (i) is vested as of immediately prior to the effective time, or (ii) will become vested by its terms at the effective time will be cancelled and converted into the right to receive the merger consideration for each share of Activision Blizzard common stock that would have been issuable upon exercise of such option immediately prior to the effective time, less the applicable option exercise price for each such share of Activision Blizzard common stock underlying such option and any applicable withholding taxes.
- Each option that is outstanding as of immediately prior to the effective time, and is not cancelled and converted as described above, and has an exercise price per share of Activision Blizzard common stock that is less than the merger consideration, will be, as of the effective time and as determined by Microsoft, (x) assumed by Microsoft and converted into a nonqualified stock option or (y) converted into a nonqualified stock option granted pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock subject to such assumed option as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by (ii) a fraction (A) the numerator of which is the merger consideration and (B) the denominator of which is Microsoft's stock price (*i.e.*, the volume weighted average price per share rounded to four decimal places (with amounts of 0.00005 and above rounded up) of common stock of Microsoft on Nasdaq for the five consecutive trading days ending with the last trading day ending immediately prior to the closing date) (which we refer to as the "exchange ratio"), at an exercise price per share of common stock of Microsoft equal to (i) the exercise price of such option divided by (ii) the exchange ratio (rounded up to the nearest whole cent) rounded down to the nearest whole number of shares. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting and exercisability will remain the same with respect to Activision Blizzard options subject to time-based vesting, and with respect to Activision Blizzard options subject to performance-based vesting, will be converted into time-based vesting options (determined based on target performance levels) that will vest at the conclusion of the original performance period.
- In the event that the exercise price per share under any option is equal to or greater than the merger consideration, such option will be cancelled as of the effective time without payment therefor and will have no further force or effect.

Stock Units

- Each outstanding award of RSUs or PSUs granted pursuant to Activision Blizzard's equity incentive plans that (i) is vested as of immediately prior to the effective time, (ii) will become vested by its terms at the effective time or (iii) is granted to a non-employee member of the Activision Blizzard Board of Directors, will, as of the effective time, be cancelled and converted into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to such award, less any applicable withholding taxes.
- Each outstanding award of RSUs or PSUs that is outstanding as of immediately prior to the effective time and is not cancelled and converted as described above, will, as of the effective time, be, as determined by Microsoft, (x) assumed by Microsoft and converted into a stock-based award or (y) converted into a stock-based award pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock subject to such award as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by the exchange ratio. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting will remain the same with respect to equity awards subject to time-based vesting, and, with respect to equity awards subject to performance-based vesting, will be converted into time-based vesting equity awards (determined based on target performance levels) that will vest at the conclusion of the original performance period.

Notwithstanding the treatment of outstanding unvested options, RSUs and PSUs described above, prior to the closing date, Microsoft may elect to treat some or all of the awards that would otherwise be converted as set forth herein as if they were vested (*i.e.*, by cancelling and converting an award into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to the award (less the applicable exercise price, in the case of options), less any applicable withholding taxes; provided that for options, such election may apply only to those options that are otherwise scheduled to vest within 120 days following the closing date).

If the treatment described above of an award of stock units or options held by a non-U.S. employee would be prohibited or subject to onerous regulatory requirements or adverse tax treatment under the laws of the applicable jurisdiction (in each case, as reasonably determined by Microsoft), Microsoft will provide compensation to the employee that is equivalent in value to the value that otherwise would have been provided to the employee under the treatment described above, to the extent practicable and as would not result in the imposition of additional taxes under Section 409A of the Internal Revenue Code (which we refer to as the "Code"). This compensation will be provided in the form of a cash payment (less applicable taxes) or a new equity award, as reasonably determined by Microsoft.

Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger (page 58)

When considering the recommendation of the Activision Blizzard Board of Directors that you vote to approve the proposal to adopt the merger agreement, you should be aware that our non-employee directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder. The Activision Blizzard Board of Directors was aware of and considered these interests to the extent such interests existed at the time, among other matters, in evaluating and overseeing the negotiation of the merger agreement, in approving the merger agreement and the merger and in recommending that the merger agreement be adopted by the stockholders of Activision Blizzard.

For a more complete description, see the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger" beginning on page 58.

Appraisal Rights (page 98)

Any shares of Activision Blizzard common stock that are issued and outstanding immediately prior to the effective time and as to which the holders thereof have not voted in favor of the merger proposal and are entitled to demand, and properly demand, appraisal of such shares of Activision Blizzard common stock pursuant to Section 262 of the DGCL and, as of the effective time, have neither failed to perfect, nor effectively withdrawn or lost rights to appraisal under the DGCL, such shares we collectively refer to as the "dissenting shares," will not be converted into the right to receive the merger consideration, unless and until such holder will have effectively withdrawn or lost such holder's right to appraisal under the DGCL, or if a court of competent jurisdiction determines that such holder is not entitled to the relief provided by Section 262 of the DGCL, at which time such shares of Activision Blizzard common stock will be treated as if they had been converted into the right to receive, as of the effective time, the merger consideration, less applicable tax withholdings upon surrender of such certificates or book-entry shares that formerly represented such shares of Activision Blizzard common stock, and such Activision Blizzard common stock will not be deemed dissenting shares, and such holder thereof will cease to have any other rights with respect to such Activision Blizzard common stock. Each holder of dissenting shares will only be entitled to such consideration as may be due with respect to such dissenting shares pursuant to Section 262 of the DGCL.

To exercise your appraisal rights, you must submit a written demand for appraisal to Activision Blizzard before the vote is taken on the merger proposal, you must not submit a blank proxy or otherwise vote in favor of the merger proposal and you must continue to hold the shares of Activision Blizzard common stock of record through the effective time. Your failure to follow the procedures specified under the DGCL may result in the loss of your appraisal rights. The DGCL requirements for exercising appraisal rights are described in further detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex B to this proxy statement. If you hold your shares of Activision Blizzard common stock through a broker, bank or other nominee and you wish to exercise appraisal rights, you should consult with your broker, bank or other nominee to determine the appropriate procedures

for the making of a demand for appraisal by such broker, bank or other nominee. Stockholders should refer to the discussion under the section entitled "Appraisal Rights" beginning on page 98 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex B to this proxy statement.

U.S. Federal Income Tax Consequences of the Merger (page 66)

For U.S. federal income tax purposes, the receipt of cash by a U.S. Holder (as defined in the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — U.S. Federal Income Tax Consequences of the Merger" beginning on page 66 of this proxy statement) in exchange for such U.S. Holder's shares of Activision Blizzard common stock pursuant to the merger will generally result in the recognition of gain or loss in an amount measured by the difference, if any, between the cash such U.S. Holder receives in the merger and such U.S. Holder's adjusted tax basis in the shares of Activision Blizzard common stock surrendered in the merger.

For a more complete description of the U.S. federal income tax consequences of the merger, see the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — U.S. Federal Income Tax Consequences of the Merger" beginning on page 66 of this proxy statement.

You should be aware that the tax consequences to you of the merger may depend upon your own situation. In addition, you may be subject to U.S. federal, state, local or non-U.S. tax laws that are not discussed in this proxy statement. You should therefore consult with your own tax advisor(s) for a full understanding of the tax consequences to you of the merger.

Regulatory Approvals (page 68)

Under the merger agreement, the merger cannot be completed until (1) the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the "HSR Act," has expired or been terminated; and (2) the approval or clearance of the merger has been granted under the antitrust and foreign investment laws of certain specified countries. For more information, see the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Regulatory Approvals" beginning on page 68 of this proxy statement.

No Solicitation of Other Offers (page 80)

Under the merger agreement, from the date of the merger agreement until the effective time of the merger (or the earlier termination of the merger agreement), Activision Blizzard has agreed to cease and cause to be terminated any discussions or negotiations with and terminate any data room or other diligence access of any person, its affiliates and its representatives (as defined below) relating to an acquisition transaction (as defined under the section of this proxy statement entitled "Terms of the Merger Agreement — No Solicitation of Other Offers") and to request any person who executed a confidentiality agreement in connection with its consideration of acquiring Activision Blizzard to promptly return or destroy any non-public information furnished by or on behalf of Activision Blizzard prior to the date of the merger agreement.

Under the merger agreement, from the date of the merger agreement until the effective time of the merger (or the earlier termination of the merger agreement), Activision Blizzard has agreed to not, and to not authorize or direct, as the case may be, its subsidiaries and its and their respective affiliates, directors, officers, employees, consultants, agents, representatives and advisors, whom we collectively refer to as "representatives," to, among other things: (1) solicit, initiate, propose or induce the making, submission or announcement of, or knowingly encourage, facilitate or assist, any proposal, offer or inquiry that constitutes, or is reasonably expected to lead to, an acquisition proposal (as defined under the section of this proxy statement entitled "The Merger Agreement — No Solicitation of Other Offers"); (2) furnish or otherwise provide access to any non-public information regarding, or to the business, properties, assets, books, records or personnel of, Activision Blizzard or its subsidiaries to any person in connection with, or with the intent to induce, the making, submission or announcement of, or knowingly encourage, facilitate or assist, an acquisition proposal or any inquiries or the making of any proposal that would reasonably be expected to lead to an acquisition proposal; (3) participate or engage in discussions or negotiations with any person with respect to an acquisition proposal or with respect to any inquiries from third parties relating to making a

potential acquisition proposal; (4) approve, endorse or recommend any proposal that constitutes, or is reasonably expected to lead to, an acquisition proposal; (5) enter into any letter of intent, memorandum of understanding, merger agreement, expense reimbursement agreement, acquisition agreement or other contract relating to an acquisition transaction (as defined under the section of this proxy statement entitled "Terms of the Merger Agreement — No Solicitation of Other Offers"); or (6) authorize or commit to do any of the foregoing.

Notwithstanding these restrictions, under certain circumstances prior to the adoption of the merger agreement by Activision Blizzard stockholders, Activision Blizzard may furnish information to, and enter into negotiations or discussions with, a person regarding a bona fide written acquisition proposal that did not result from a breach of Activision Blizzard's non-solicitation obligations under the merger agreement if the Activision Blizzard Board of Directors determines in good faith after consultation with Activision Blizzard's financial advisor and outside legal counsel that (1) such proposal constitutes or is reasonably likely to lead to a superior proposal (as defined in "Terms of the Merger Agreement — No Solicitation of Other Offers"); and (2) failure to do so would be inconsistent with its fiduciary duties pursuant to applicable law. For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — No Solicitation of Other Offers" beginning on page 80 of this proxy statement.

Activision Blizzard is not entitled to terminate the merger agreement to enter into an agreement for a superior proposal unless it complies with certain procedures in the merger agreement, including engaging in good faith negotiations with Microsoft during a specified period. If Activision Blizzard terminates the merger agreement in order to accept a superior proposal, it must pay a $2,270,100,000 termination fee to Microsoft. For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — The Recommendation of the Activision Blizzard Board of Directors; Company Board Recommendation Change" beginning on page 82 of this proxy statement.

Change in the Recommendation of the Activision Blizzard Board of Directors (page 82)

The Activision Blizzard Board of Directors may not withdraw its recommendation that Activision Blizzard stockholders adopt the merger agreement or take certain similar actions other than, under certain circumstances, if it determines in good faith, after consultation with Activision Blizzard's financial advisor and outside legal counsel, that failure to do so would be inconsistent with the fiduciary duties of the Activision Blizzard Board of Directors pursuant to applicable law and compliance with certain procedures in the merger agreement, including engaging in good faith negotiations with Microsoft during a specified period. If Microsoft terminates the merger agreement because the Activision Blizzard Board of Directors withdraws its recommendation that Activision Blizzard stockholders adopt the merger agreement or takes certain similar actions, then Activision Blizzard must pay a $2,270,100,000 termination fee to Microsoft. For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — The Recommendation of the Activision Blizzard Board of Directors; Company Board Recommendation Change" beginning on page 82 of this proxy statement.

Conditions to the Closing of the Merger (page 86)

The obligations of Activision Blizzard, Microsoft and Sub, as applicable, to consummate the merger are subject to the satisfaction or waiver of certain conditions, including (among other conditions), the following:

- the adoption of the merger agreement by the requisite affirmative vote of Activision Blizzard stockholders;
- the expiration or termination of the applicable waiting period under, or obtaining all requisite consents pursuant to, the HSR Act and the antitrust and foreign investment laws of certain specified countries, without the imposition of a burdensome condition, which we refer to as the "regulatory conditions";
- the absence of any temporary restraining order, preliminary or permanent injunction or other judgment or order issued by a court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the merger that is in effect, governmental action or statute, rule, regulation or order having been enacted, entered, enforced or deemed applicable to

the merger that, in each case, prohibits, makes illegal or enjoins (or seeks to prohibit, make illegal or enjoin) the consummation of the merger or which imposes or seeks to impose a burdensome condition, which we refer to as the "injunction condition";

- the absence of any Company Material Adverse Effect (as such term is defined in the section of this proxy statement entitled "Terms of the Merger Agreement — Representations and Warranties") having occurred after the date of merger agreement that is continuing as of the effective time of the merger;
- the accuracy of the representations and warranties of Microsoft and Sub in the merger agreement, subject to applicable materiality qualifiers, as of the date of the merger agreement and as of the effective time of the merger or the date in respect of which such representation or warranty was specifically made;
- the accuracy of the representations and warranties of Activision Blizzard in the merger agreement, subject to applicable materiality qualifiers, as of the date of the merger agreement and as of the effective time of the merger or the date in respect of which such representation or warranty was specifically made; and
- the performance and compliance in all material respects by Activision Blizzard, Microsoft and Sub of and with their respective covenants and obligations required to be performed and complied with by them under the merger agreement at or prior to the effective time of the merger.

For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — Conditions to the Closing of the Merger" beginning on page 86 of this proxy statement.

Termination of the Merger Agreement (page 88)

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after the adoption of the merger agreement by Activision Blizzard stockholders, in the following ways:

- by mutual written agreement of Activision Blizzard and Microsoft;
- by either Activision Blizzard or Microsoft if:
  - (1) a permanent injunction or similar judgment or order issued by a court or other legal restraint prohibiting consummation of the merger is in effect, or any action taken by a governmental authority prohibiting the merger has become final and non-appealable; or (2) any statute, regulation or order prohibiting the merger has been enacted (except that a party may not terminate the merger agreement pursuant to this provision if such party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date (as defined below));
  - the merger has not been consummated before 11:59 p.m., Pacific time, on January 18, 2023, which we refer to as the "termination date," except that (i) if all conditions have been satisfied (other than those conditions to be satisfied at the time of closing of the merger) or waived (to the extent permitted by applicable law) by that date, but on that date the regulatory conditions or the injunction condition (solely with respect to antitrust, competition or foreign investment laws) has not been satisfied, then the termination date will automatically be extended to 11:59 p.m., Pacific time, on April 18, 2023 and (ii) if all conditions have been satisfied (other than those conditions to be satisfied at the time of closing of the merger) or waived (to the extent permitted by applicable law) by April 18, 2023, but on that date the regulatory conditions or the injunction condition (solely with respect to antitrust, competition or foreign investment laws) has not been satisfied, then the termination date will automatically be extended to 11:59 p.m., Pacific time, on July 18, 2023 (except that a party may not terminate the merger agreement pursuant to this provision if such party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date); or
  - the Activision Blizzard stockholders do not adopt the merger agreement at the special meeting (except that a party may not terminate the merger agreement if such party's material breach of the

merger agreement is the primary cause of the failure to obtain the approval of the Activision Blizzard stockholders at the special meeting);

- by Activision Blizzard if:
  - after a cure period (if capable of being cured by the termination date), Microsoft or Sub has breached or failed to perform in any material respect any of its respective representations, warranties, covenants or other agreements in the merger agreement, such that the related closing condition would not be satisfied (but Activision Blizzard may not so terminate the merger agreement if the breach was cured prior to termination or if its own breach, failure to perform or comply with the merger agreement or inaccuracy of its representations and warranties causes the failure of the closing conditions in respect of Activision Blizzard's performance of its covenants or accuracy of its representations and warranties to have been satisfied);
  - prior to the adoption of the merger agreement by Activision Blizzard stockholders, (1) Activision Blizzard has received a superior proposal; (2) the Activision Blizzard Board of Directors has authorized Activision Blizzard to enter into an agreement to consummate the transaction contemplated by such superior proposal; (3) Activision Blizzard pays Microsoft a $2,270,100,000 termination fee; and (4) Activision Blizzard has complied with its non-solicitation obligations under the merger agreement; and
- by Microsoft if:
  - after a cure period (if capable of being cured by the termination date), Activision Blizzard has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements in the merger agreement, such that the related closing condition would not be satisfied (but Microsoft may not so terminate the merger agreement if the breach was cured prior to termination or if its own breach, failure to perform or comply with the merger agreement or inaccuracy of its representations and warranties causes the failure of the closing conditions in respect of Microsoft's performance of its covenants or accuracy of its representations and warranties to have been satisfied); or
  - the Activision Blizzard Board of Directors has effected a company board recommendation change.

Termination Fee (page 89)

Activision Blizzard will be required to pay to Microsoft a termination fee of $2,270,100,000 if the merger agreement is terminated in specified circumstances. For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — Termination Fee" beginning on page 89 of this proxy statement.

Reverse Termination Fee (page 90)

Microsoft will be required to pay Activision Blizzard a reverse termination fee in an amount ranging from $2,000,000,000 to $3,000,000,000 if the merger agreement is terminated in specified circumstances. For more information, see the section of this proxy statement entitled "Terms of the Merger Agreement — Reverse Termination Fee" beginning on page 90 of this proxy statement.

Neither the SEC nor any state securities regulatory agency has approved or disapproved of the transactions described in this document, including the merger, or determined if the information contained in this document is accurate or adequate. Any representation to the contrary is a criminal offense.

QUESTIONS AND ANSWERS

The following questions and answers are intended to address some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as an Activision Blizzard stockholder. We encourage you to read carefully the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement (including the merger agreement) and the documents we incorporate by reference in this proxy statement. You may obtain the documents and information incorporated by reference in this proxy statement without charge by following the instructions under the section entitled "Where You Can Find More Information" beginning on page 106. The merger agreement is attached as Annex A to this proxy statement and is incorporated by reference herein. Important qualifications with respect to the representations, warranties, covenants and agreements included in the merger agreement are set forth in the section of this proxy statement entitled "Terms of the Merger Agreement" beginning on page 71.

Q: **Why am I receiving these proxy materials?**

A: On January 18, 2022, Activision Blizzard entered into the merger agreement providing for the merger of Sub with and into Activision Blizzard, with Activision Blizzard surviving the merger as a wholly owned subsidiary of Microsoft. In order to complete the merger, Activision Blizzard stockholders must vote to adopt the merger agreement at the special meeting. The approval of this proposal by our stockholders is a condition to the consummation of the merger. For more information, see the section entitled "Terms of the Merger Agreement — Conditions to the Closing of the Merger" beginning on page 86. The Activision Blizzard Board of Directors is furnishing this proxy statement and form of proxy card to the holders of Activision Blizzard common stock in connection with the solicitation of proxies in favor of the proposal to adopt the merger agreement and to approve the other proposals to be voted on at the special meeting or any adjournments or postponements thereof. This proxy statement includes information that we are required to provide to you under the rules of the SEC and is designed to assist you in voting on the matters presented at the special meeting. Stockholders of record as of the close of business on [•], 2022, which we refer to as the "record date," may attend the special meeting and are entitled and requested to vote on the proposals described in this proxy statement.

Q: **What is included in the proxy materials?**

A: The proxy materials include the proxy statement and the annexes to the proxy statement, including the merger agreement, and a proxy card or voting instruction form.

Q: **When and where is the special meeting?**

A: The special meeting will take place on [•], 2022, at [•], Pacific time. Due to the public health impact of the coronavirus (COVID-19) and to support the well-being of our employees and stockholders, Activision Blizzard will hold the special meeting virtually via the Internet at the meeting website. The virtual meeting will provide stockholders with the same rights and opportunities to participate as they would have at a physical meeting. After registering at http://www.viewproxy.com/atvism/2022, you will receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. You will not be able to attend the special meeting physically in person.

Q: **What is the proposed merger and what effects will it have on Activision Blizzard?**

A: The proposed merger is the acquisition of Activision Blizzard by Microsoft through the merger of Sub with and into Activision Blizzard pursuant to the merger agreement. If the proposal to adopt the merger agreement is approved by the requisite number of shares of Activision Blizzard common stock and the other closing conditions under the merger agreement have been satisfied or waived, Sub will merge with and into Activision Blizzard, with Activision Blizzard continuing as the surviving corporation. As a result of the merger, Activision Blizzard will become a wholly owned subsidiary of Microsoft and you will no longer own shares of Activision Blizzard common stock. Activision Blizzard expects to delist its common stock from Nasdaq as promptly as practicable after the effective time and deregister its common stock under the Exchange Act as promptly as practicable after such delisting. Thereafter, Activision Blizzard will no longer be a publicly traded company.

Q: **What will I receive if the merger is completed?**

A: Upon completion of the merger, you will be entitled to receive the per share merger consideration of $95.00 in cash, without interest and less applicable tax withholdings, for each share of Activision Blizzard common stock that you own, unless you have properly exercised and perfected and not withdrawn your demand for, or otherwise lost your, appraisal rights under the DGCL with respect to such shares. For example, if you own 100 shares of Activision Blizzard common stock, you will receive $9,500.00 in cash, without interest and less any applicable withholding taxes, in exchange for your shares of Activision Blizzard common stock. In no case will you own shares in the surviving corporation.

Q: **Who is entitled to vote at the special meeting?**

A: If your shares of Activision Blizzard common stock are registered in your name in the records of our transfer agent, Broadridge Corporate Issuer Solutions, which we refer to as "Broadridge," as of the close of business on the record date, you are a "stockholder of record" for purposes of the special meeting and are eligible to attend and vote. If you hold shares of Activision Blizzard common stock indirectly through a broker, bank or similar institution, you are not a stockholder of record, but instead hold your shares in "street name" and the record owner of your shares is your broker, bank or similar institution. Instructions on how to vote shares held in street name are described under the question "How do I vote my shares?" below.

Q: **How many votes do I have?**

A: You will have one vote for each share of Activision Blizzard common stock owned by you, as a stockholder of record or in street name, as of the close of business on the record date.

Q: **May I attend the special meeting?**

A: Yes. Subject to the requirements described in this proxy statement, all Activision Blizzard stockholders as of the close of business on the record date may attend the special meeting virtually via the Internet at the meeting website and complete a virtual ballot, whether or not you sign and return a proxy card. After registering at http://www.viewproxy.com/atvism/2022, you will receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. If you are a stockholder of record, you will need your assigned virtual control number to vote shares electronically at the special meeting. The control number can be found on your enclosed proxy card.

To ensure that your shares will be represented at the special meeting, we encourage you to grant your proxy in advance electronically over the Internet or by telephone (using the instructions provided in the enclosed proxy card), or sign, date, complete and return the enclosed proxy card in the accompanying prepaid reply envelope. If you attend the special meeting and complete a virtual ballot, your vote will revoke any proxy previously submitted. If you hold your shares in "street name," because you are not the stockholder of record, you may not vote your shares at the special meeting unless you request and obtain a valid legal proxy from your broker, bank or other nominee.

Q: **What if during the check-in time or during the meeting I have technical difficulties or trouble accessing the virtual meeting website?**

A: Please be sure to check in by [•], Pacific time, on [•], 2022 (15 minutes prior to the start of the virtual meeting is recommended), the day of the special meeting, so that any technical difficulties may be addressed before the special meeting begins. If you encounter any difficulties accessing the virtual meeting during the check-in or meeting time, please email VirtualMeeting@viewproxy.com or call 866-612-8937 or the technical support number that will be posted on the special meeting log-in page. If there are any technical issues in convening or hosting the special meeting such that we are unable to convene or host the special meeting on the scheduled special meeting date, we will promptly post information to our website, including information on when the special meeting will be reconvened.

Q: **What am I being asked to vote on at the special meeting?**

A: You are being asked to consider and vote on the following proposals:

- the adoption of the merger agreement, a copy of which is attached as Annex A to the proxy statement accompanying this notice;
- the approval, by means of a non-binding, advisory vote, of compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger; and
- the approval of the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

Q: **How does Activision Blizzard's Board of Directors recommend that I vote?**

A: **The Activision Blizzard Board of Directors unanimously recommends that you vote**

- **"FOR" the merger proposal;**
- **"FOR" the merger-related compensation proposal; and**
- **"FOR" the adjournment proposal.**

The Activision Blizzard Board of Directors, after considering various factors described under the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Recommendation of Our Board of Directors and Reasons for the Merger" beginning on page 42, unanimously (i) determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of Activision Blizzard and its stockholders; (ii) declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby, upon the terms and conditions set forth therein; (iii) directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of Activision Blizzard and (iv) recommended that Activision Blizzard stockholders adopt the merger agreement.

Q: **How does the per share merger consideration compare to the market price of Activision Blizzard common stock prior to the date on which the transaction was announced?**

A: The per share merger consideration represents a premium of approximately 45.3% to Activision Blizzard's closing stock price on January 14, 2022, the last trading day prior to the announcement of the merger and approximately 50.3% to the volume weighted average stock price of Activision Blizzard common stock during the 30 trading days ended January 14, 2022.

Q: **Will Activision Blizzard pay a dividend before the completion of the merger?**

A: Under the terms of the merger agreement, from January 18, 2022 until the effective time, Activision Blizzard is permitted to declare and pay one regular cash dividend in an amount not to exceed $0.47 per share of Activision Blizzard common stock and consistent with the declaration, record and payment date of Activision Blizzard's dividend from Activision Blizzard's most recent fiscal year. Otherwise, during such time, Activision Blizzard may not declare, set aside, authorize, establish a record date for or pay any dividend or other distribution (whether in cash, shares or property or any combination thereof) in respect of any shares of capital stock or other equity or voting interest, or make any other actual, constructive or deemed distribution in respect of the shares of capital stock or other equity or voting interest, without Microsoft's prior written consent. See the section entitled "Terms of the Merger Agreement — Conduct of Business Pending the Merger" beginning on page 78.

On February 3, 2022, the Activision Blizzard Board of Directors declared the regular cash dividend of $0.47 per share of Activision Blizzard outstanding common stock permitted under the terms of the merger agreement, payable on May 6, 2022, to shareholders of record at the close of business on April 15, 2022.

Q: **Does Microsoft have the financial resources to complete the merger?**

A: Yes. Microsoft has represented to Activision Blizzard that it has available and will have available at the effective time the funds necessary to pay the aggregate merger consideration, including (i) payments to Activision Blizzard's stockholders of the amounts due under the merger agreement and (ii) payments in respect of certain of Activision Blizzard's outstanding equity awards pursuant to the merger agreement.

For a more complete description of sources of funding for the merger and related costs, see "Proposal 1: Adoption of the Merger Agreement — Financing of the Merger" beginning on page 66.

Q: **What do I need to do now?**

A: We encourage you to read this proxy statement, the annexes to this proxy statement (including the merger agreement) and the documents we refer to in this proxy statement carefully and consider how the merger affects you. Then, grant your proxy electronically over the Internet or by telephone or complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope, so that your shares can be voted at the special meeting. If you hold your shares in "street name," please refer to the voting instruction form provided by your broker, bank or other nominee to vote your shares.

Q: **How do I vote my shares?**

A: *For stockholders of record*: If you are eligible to vote at the special meeting and are a stockholder of record, you may submit your proxy or cast your vote in any of four ways:

- By Internet — If you have Internet access, you may submit your proxy by following the instructions provided with your proxy materials and on your proxy card. Proxies submitted via Internet must be received by 11:59 p.m., Pacific time, on [•], 2022.
- By Telephone — You can also submit your proxy by telephone by following the instructions provided with your proxy materials and on your proxy card. Proxies submitted via telephone must be received by 11:59 p.m., Pacific time, on [•], 2022.
- By Mail — You may submit your proxy by completing the proxy card enclosed with these materials, signing and dating it and returning it in the prepaid envelope we have provided.
- By Virtual Ballot — You may attend the special meeting virtually via the Internet at the meeting website and complete a virtual ballot.

For holders in street name: If you hold your shares in street name and, therefore, are not a stockholder of record, you will need to follow the specific voting instructions provided to you by your broker, bank or other nominee. If you wish to vote your shares by virtual ballot at our special meeting, you must obtain a valid legal proxy from your broker, bank or similar institution, granting you authorization to vote your shares.

If you submit your proxy by Internet, telephone or mail, and you do not subsequently revoke your proxy, your shares of Activision Blizzard common stock will be voted in accordance with your instructions.

Even if you plan to virtually attend the special meeting, you are strongly encouraged to vote your shares of Activision Blizzard common stock by proxy. If you are a stockholder of record or if you obtain a valid legal proxy to vote shares which you beneficially own, you may still vote your shares of Activision Blizzard common stock by virtual ballot at the special meeting even if you have previously authorized your vote by proxy. If you are present at the special meeting and vote by virtual ballot, your previous vote by proxy will not be counted.

Q: **Can I change or revoke my proxy?**

A: *For stockholders of record*: Yes. A proxy may be changed or revoked at any time prior to its exercise at the special meeting by submitting a later-dated proxy (including a proxy submitted via the Internet or by telephone) or by giving written notice to our Corporate Secretary at our principal executive offices at

Activision Blizzard, Inc., 2701 Olympic Boulevard, Building B, Santa Monica, CA 90404. You may not change your vote over the Internet or by telephone after 11:59 p.m., Pacific time, on [•], 2022. You may also attend the special meeting and vote your shares by virtual ballot.

For holders in street name: Yes. You must follow the specific voting instructions provided to you by your broker, bank or other nominee to change or revoke any instructions you have already provided to them.

Q: **How will my shares be voted if I do not provide specific instructions in the proxy card or voting instruction form that I submit?**

A: If you are a stockholder of record and if you sign, date and return your proxy card but do not provide specific voting instructions, your shares of Activision Blizzard common stock will be voted "**FOR**" the merger proposal, "**FOR**" the merger-related compensation proposal and "**FOR**" the adjournment proposal.

If your shares are held in street name at a broker, bank or similar institution, your broker, bank or similar institution may, under certain circumstances, vote your shares on "discretionary" matters if you do not timely provide voting instructions in accordance with the instructions provided by them. However, if you do not provide timely instructions, your broker, bank or similar institution does not have the authority to vote on any "non-discretionary" proposals at the special meeting and a "broker non-vote" would occur, as explained in the following question and explanation.

Q: **What is "broker discretionary voting"?**

A: If you hold your shares in street name, your broker, bank or other nominee may be able to vote your shares without your instructions depending on whether the matter being voted on is "discretionary" or "non-discretionary." Because brokers, banks and other nominee holders of record do not have discretionary voting authority with respect to any of the three proposals, if a beneficial owner of shares of Activision Blizzard common stock does not give voting instructions to the applicable broker, bank or other nominee with respect to any of the proposals, then those shares will not be present in person or represented by proxy at the special meeting. If there are any broker non-votes, then such broker non-votes will have the same effect as a vote "**AGAINST**" the merger proposal, but will not have any effect on the merger-related compensation proposal or the adjournment proposal (assuming there is a quorum). Therefore, it is important that you instruct your broker, bank or other nominee on how you wish to vote your shares.

Q: **I understand that a quorum is required in order to conduct business at the special meeting. What constitutes a quorum?**

A: The presence, in person or by proxy, of the holders of a majority of the voting power of the outstanding shares of Activision Blizzard common stock entitled to vote at the special meeting constitutes a quorum at the special meeting. As of the close of business on the record date, there were [•] shares of Activision Blizzard common stock outstanding and entitled to vote. If you submit a properly executed proxy by mail, telephone or the Internet, or attend the special meeting, you will be considered a part of the quorum. In addition, abstentions will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, [•] shares must be represented, in person or by proxy, to have a quorum. In the event that a quorum is present at the special meeting and there are not sufficient votes at the time of the special meeting to approve the merger proposal, it is expected that the special meeting would be adjourned to allow time to solicit additional proxies if the holders of a majority of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, approve an adjournment. If a quorum is not present, the special meeting may be (and it is expected that the special meeting would be) adjourned by the presiding person of the meeting pursuant to the authority granted in Activision Blizzard's bylaws until a quorum is obtained, subject to the terms of the merger agreement.

Q: **What is required to approve the proposals submitted to a vote at the annual meeting?**

A: The merger proposal: The affirmative vote of the holders of a majority of the shares of Activision Blizzard common stock outstanding and entitled to vote thereon is required to approve the merger proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of the votes that can be cast as of the record date in respect of outstanding shares of Activision Blizzard common stock. Abstentions and broker non-votes will have the same effect as a vote "**AGAINST**" the merger proposal.

The merger-related compensation proposal: The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the merger-related compensation proposal, and broker non-votes will not have any effect on the merger-related compensation proposal (assuming a quorum is present).

The adjournment proposal: The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve the proposal to adjourn the special meeting. Whether or not there is a quorum, the presiding person at the special meeting has the power to adjourn the special meeting from time to time until a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the adjournment proposal, and broker non-votes will not have any effect on the adjournment proposal (assuming a quorum is present).

Q: **How can I obtain a proxy card or voting instruction form?**

A: If you lose, misplace or otherwise need to obtain a proxy card or a voting instruction form, please follow the applicable procedure below.

For stockholders of record: Please contact our proxy solicitor, Innisfree M&A Incorporated at (877) 687-1871 from the U.S. or Canada or at +1 (412) 232-3651 from other locations.

For holders in street name: Please contact your account representative at your broker, bank or other nominee.

Q: **Why am I being asked to cast a non-binding, advisory vote to approve compensation that will or may become payable by Activision Blizzard to its named executive officers in connection with the merger?**

A: SEC rules require Activision Blizzard to seek a non-binding, advisory vote to approve compensation that will or may become payable by Activision Blizzard to its named executive officers in connection with the merger.

Q: **What is the compensation that will or may become payable by Activision Blizzard to its named executive officers in connection with the merger for purposes of this advisory vote?**

A: The compensation that will or may become payable by Activision Blizzard to its named executive officers in connection with the merger is certain compensation that is tied to or based on the merger and payable to certain of Activision Blizzard's named executive officers pursuant to underlying plans and arrangements that are contractual in nature, including amounts payable in accordance with the terms of the merger agreement. Compensation that will or may become payable by Microsoft to Activision Blizzard's named executive officers in connection with the merger is not subject to this advisory vote. For further detail, see the section of this proxy statement entitled "Proposal 2: Advisory Vote on Merger-Related Executive Compensation Arrangements" beginning on page 92.

Q: **Should I send in my stock certificates now?**

A: No. After the merger is completed, under the terms of the merger agreement, you will receive shortly thereafter the letter of transmittal instructing you to send your stock certificates or surrender your book-entry shares to the paying agent in order to receive the cash payment of the merger consideration for

each share of your Activision Blizzard common stock represented by the stock certificates or book-entry shares. You should use the letter of transmittal to exchange your stock certificates for the cash payment to which you are entitled upon completion of the merger. Please do not send in your stock certificates now.

Q: **I do not know where my stock certificates are. How will I get the merger consideration for my shares of Activision Blizzard common stock?**

A: If the merger is completed, the transmittal materials you will receive after the completion of the merger will include the procedures that you must follow if you cannot locate your stock certificates. This will include an affidavit that you will need to sign attesting to the loss of your stock certificates. You may also be required to post a bond as indemnity against any potential loss.

Q: **What happens if I sell or otherwise transfer my shares of Activision Blizzard common stock after the close of business on the record date but before the special meeting?**

A: The record date is earlier than the date of the special meeting and the date the merger is expected to be completed. If you sell or transfer your shares of Activision Blizzard common stock after the close of business on the record date but before the special meeting, unless special arrangements (such as the provision of a proxy) are made between you and the person to whom you sell or otherwise transfer your shares and each of you notifies Activision Blizzard by giving written notice to our Corporate Secretary at our principal executive offices at Activision Blizzard, Inc., 2701 Olympic Boulevard, Building B, Santa Monica, CA 90404 of such special arrangements, you will transfer the right to receive the per share merger consideration if the merger is completed to the person to whom you sell or transfer your shares of Activision Blizzard common stock, but you will retain your right to vote these shares at the special meeting. Even if you sell or otherwise transfer your shares of Activision Blizzard common stock after the close of business on the record date, we encourage you to complete, date, sign and return the enclosed proxy card or vote via the Internet or telephone.

Q: **When do you expect the merger to be completed?**

A: We are working toward completing the merger as quickly as possible and currently expect to complete the merger in Microsoft's fiscal year ending June 30, 2023. However, the exact timing of completion of the merger cannot be predicted because the completion of the merger is subject to conditions, including the adoption of the merger agreement by our stockholders and the receipt of regulatory approvals.

Q: **What happens if the merger is not completed?**

A: If the merger agreement is not adopted by Activision Blizzard stockholders or if the merger is not completed for any other reason, Activision Blizzard stockholders will not receive any payment for their shares of Activision Blizzard common stock. Instead, Activision Blizzard will remain an independent public company, Activision Blizzard common stock will continue to be listed and traded on Nasdaq and registered under the Exchange Act, and Activision Blizzard will continue to file periodic reports with the SEC.

Under certain specified circumstances, Activision Blizzard will be required to pay Microsoft a termination fee upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Termination Fee" beginning on page 89.

Under certain specified circumstances, Microsoft will be required to pay Activision Blizzard a reverse termination fee upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Reverse Termination Fee" beginning on page 90.

Q: **Are there any other risks to me from the merger that I should consider?**

A: Yes. There are risks associated with all business combinations, including the merger. See the section entitled "Forward-Looking Statements" beginning on page 23.

Q: **Do any of Activision Blizzard's directors or officers have interests in the merger that may differ from those of Activision Blizzard stockholders generally?**

A: Yes. In considering the recommendation of the Activision Blizzard Board of Directors with respect to the merger proposal, you should be aware that Activision Blizzard's directors and executive officers may have interests in the merger that are different from, or in addition to, the interests of Activision Blizzard stockholders generally. In (i) evaluating and negotiating the merger agreement, (ii) approving the merger agreement and the merger and (iii) unanimously recommending that the merger agreement be adopted by Activision Blizzard stockholders, the Activision Blizzard Board of Directors was aware of and considered these interests to the extent that they existed at the time, among other matters. For a description of the interests of Activision Blizzard's directors and executive officers in the merger, see "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger" beginning on page 58.

Q: **What happens if the merger-related compensation proposal is not approved?**

A: Approval of the merger-related compensation proposal is not a condition to completion of the merger. The vote is an advisory vote and is not binding. Accordingly, regardless of the outcome of the advisory vote, if the merger is completed, Activision Blizzard may still pay such compensation to its named executive officers in accordance with the terms and conditions applicable to such compensation.

Q: **What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction forms. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction form for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, date, sign and return (or vote via the Internet or telephone with respect to) each proxy card and voting instruction form that you receive.

Q: **Who counts the votes?**

A: Votes are counted by Broadridge and are then certified by a representative of Broadridge appointed by the Activision Blizzard Board of Directors to serve as the inspector of election at the special meeting.

Q: **Who may attend the special meeting?**

A: Activision Blizzard stockholders who held shares of Activision Blizzard common stock as of the close of business on [•], 2022.

Q: **Who pays for the expenses of this proxy solicitation?**

A: Activision Blizzard will bear the entire cost of this proxy solicitation, including the preparation, printing, mailing and distribution of these proxy materials. We may also reimburse brokerage firms and other persons representing stockholders who hold their shares in street name for reasonable expenses incurred by them in forwarding proxy materials to such stockholders. In addition, certain directors, officers and other employees, without additional remuneration, may solicit proxies in person or by telephone, facsimile, email and other methods of electronic communication.

Q: **Where can I find the vote results after the special meeting?**

A: We are required to publish final vote results in a Current Report on Form 8-K to be filed with the SEC within four business days after our special meeting. See the section entitled "Where You Can Find More Information" beginning on page 106.

Q: **Will I be subject to U.S. federal income tax upon the exchange of Activision Blizzard common stock for cash pursuant to the merger?**

A: The exchange of Activision Blizzard common stock for cash pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. Accordingly, a U.S. Holder (as defined in the section

entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — U.S. Federal Income Tax Consequences of the Merger" beginning on page 66 of this proxy statement) who exchanges shares of Activision Blizzard common stock for cash in the merger generally will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received with respect to such shares and the U.S. Holder's adjusted tax basis in such shares.

For a more complete description of the U.S. federal income tax consequences of the merger, see "Proposal 1: Adoption of the Merger Agreement — The Merger — U.S. Federal Income Tax Consequences of the Merger" beginning on page 66 of this proxy statement.

You should be aware that the tax consequences to you of the merger may depend upon your own situation. In addition, you may be subject to U.S. federal, state, local or non-U.S. tax laws that are not discussed in this proxy statement. You should therefore consult with your own tax advisor(s) for a full understanding of the tax consequences to you of the merger.

Q: **What will the holders of outstanding Activision Blizzard equity awards receive in the merger?**

A: For information regarding the treatment of Activision Blizzard's outstanding equity awards, see the section entitled "Terms of the Merger Agreement — Conversion of Shares — Treatment of Equity Compensation" beginning on page 71.

Q: **Am I entitled to appraisal rights under the DGCL?**

A: If the merger agreement is adopted by Activision Blizzard's stockholders, stockholders who do not vote (whether in person or by proxy) in favor of the adoption of the merger agreement and who properly exercise and perfect their demand for appraisal of their shares will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL. This means that holders of Activision Blizzard common stock are entitled to have their shares appraised by the Court of Chancery of the State of Delaware and to receive payment in cash of the "fair value" of their shares of Activision Blizzard common stock, exclusive of any elements of value arising from the accomplishment or expectation of the merger, together with interest to be paid upon the amount determined to be fair value, if any, as determined by the court, subject to the provisions of Section 262 of the DGCL. Stockholders who wish to seek appraisal of their shares are in any case encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights due to the complexity of the appraisal process. Stockholders should refer to the discussion under the section entitled "Appraisal Rights" beginning on page 98 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex B to this proxy statement.

Q: **What is "householding"?**

A: Some banks, brokers and similar institutions may be participating in the practice of "householding" proxy materials. This means that only one copy of our proxy materials may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of the proxy materials to you if you write to us at the following address or call us at the following phone number:

Activision Blizzard, Inc.
Attention: Investor Relations
2701 Olympic Boulevard
Building B
Santa Monica, CA 90404
Phone: Call (310) 255-2000 and ask to speak to Investor Relations.

To receive separate copies of the proxy materials in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee or you may contact us at the above address or telephone number.

Q: **How can I obtain more information about Activision Blizzard?**

A: You can find more information about us from various sources described in the section entitled "Where You Can Find More Information" beginning on page 106.

Q: **Who can help answer my questions?**

A: If you have any questions concerning the merger, the special meeting or this proxy statement, would like additional copies of this proxy statement or need help voting your shares of Activision Blizzard common stock, please contact our proxy solicitor:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, NY 10022
Stockholders may call toll-free from the U.S. or Canada: (877) 687-1871
From other locations please dial: +1 (412) 232-3651
Banks and Brokers may call collect: (212) 750-5833

If your broker, bank or other nominee holds your shares, you should also call your broker, bank or other nominee for additional information.

FORWARD-LOOKING STATEMENTS

This proxy statement, and the documents to which we refer you in this proxy statement, as well as information included in oral statements or other written statements made or to be made by us or on our behalf contain certain forward-looking statements within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 with respect to the proposed transaction and business combination between Microsoft and Activision Blizzard, including statements regarding financial projections, the benefits of the transaction, the anticipated timing of the transaction and the products and markets of each company. These forward-looking statements generally are identified by the words "believe," "project," "predicts," "budget," "forecast," "continue," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "could," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions (or the negative versions of such words or expressions). Forward-looking statements are predictions, projections and other statements about future events that are based on current expectations and assumptions and, as a result, are subject to risks and uncertainties. Many factors could cause actual future events to differ materially from the forward-looking statements in this proxy statement, including but not limited to: (i) the risk that the transaction may not be completed in a timely manner or at all, which may adversely affect Activision Blizzard's business and the price of the common stock of Activision Blizzard, (ii) the failure to satisfy the conditions to the consummation of the transaction, including the adoption of the merger agreement by the stockholders of Activision Blizzard and the receipt of certain regulatory approvals, (iii) the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement, (iv) the effect of the announcement or pendency of the transaction on Activision Blizzard's business relationships, operating results and business generally, (v) risks that the proposed transaction disrupts current plans and operations of Activision Blizzard and potential difficulties in Activision Blizzard employee retention as a result of the transaction, (vi) risks related to diverting management's attention from Activision Blizzard's ongoing business operations, (vii) the outcome of any legal proceedings that may be instituted against Activision Blizzard related to the merger agreement or the transaction, (viii) the impact of the COVID-19 pandemic on Activision Blizzard's business and general economic conditions and (ix) restrictions during the pendency of the proposed transaction that may impact Activision Blizzard's ability to pursue certain business opportunities or strategic transactions.

In addition, please refer to the documents that Activision Blizzard filed with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K listed in the section of this proxy statement entitled "Where You Can Find More Information" beginning on page 106. These filings identify and address other important risks and uncertainties that could cause events and results to differ materially from those contained in the forward-looking statements set forth in this proxy statement. Forward-looking statements speak only as of the date they are made. Readers are cautioned not to put undue reliance on forward-looking statements, and except as required by applicable law, Activision Blizzard assumes no obligation and does not intend to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Activision Blizzard stockholders are advised, however, to consult any future disclosures we make on related subjects as may be detailed in our other filings made from time to time with the SEC.

THE SPECIAL MEETING

The enclosed proxy is solicited on behalf of the Activision Blizzard Board of Directors for use at the special meeting of stockholders or at any adjournments or postponements thereof.

Date, Time and Place

We will hold the special meeting on [•], 2022, at [•], Pacific time. Due to the public health impact of the coronavirus (COVID-19) and to support the well-being of our employees and stockholders, Activision Blizzard will hold the special meeting virtually via the Internet at the meeting website. After registering at http://www.viewproxy.com/atvism/2022, you will receive a meeting invitation by email with your unique join link along with a password prior to the meeting date. All registrations to attend the special meeting must be received by [•], Pacific time, on [•], 2022. You will not be able to attend the special meeting physically in person.

Purpose of the Special Meeting

At the special meeting, we will ask our stockholders of record as of the close of business on the record date to consider and vote on the following proposals:

Proposal 1 — Adoption of the Merger Agreement. To consider and vote on the merger proposal;

Proposal 2 — Approval, by Means of a Non-Binding, Advisory Vote, of Certain Compensatory Arrangements with Named Executive Officers. To consider and vote on the merger-related compensation proposal; and

Proposal 3 — Adjournment of the Special Meeting. To adjourn the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

Record Date; Shares Entitled to Vote; Quorum

Only stockholders of record as of the close of business on [•], 2022 are entitled to notice of the special meeting and to vote at the special meeting or at any adjournments or postponements thereof. A list of stockholders entitled to vote at the special meeting will be available at the meeting website during the special meeting.

The presence, in person or by proxy, of the holders of a majority of the voting power of the outstanding shares of Activision Blizzard common stock entitled to vote at the special meeting constitutes a quorum at the special meeting. As of the close of business on the record date for the special meeting, there were [•] shares of Activision Blizzard common stock outstanding and entitled to vote. If you submit a properly executed proxy by mail, telephone or the Internet, you will be considered a part of the quorum. In addition, abstentions will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, [•] shares must be represented in person or by proxy to have a quorum. If a quorum is not present, the special meeting may be adjourned by the presiding person of the meeting pursuant to the authority granted in Activision Blizzard's bylaws until a quorum is obtained, subject to the terms of the merger agreement.

Vote Required; Abstentions and Broker Non-Votes

The affirmative vote of the holders of a majority of the shares of Activision Blizzard common stock outstanding and entitled to vote thereon is required to approve the merger proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of the votes that can be cast in respect of our outstanding shares of common stock as of the record date. Abstentions and broker non-votes will have the same effect as a vote "**AGAINST**" the merger proposal.

The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to

approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the merger-related compensation proposal, and broker non-votes will not have any effect on the merger-related compensation proposal (assuming a quorum is present).

The affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present, is required to approve the adjournment proposal. This means that the proposal will be approved if the number of shares voted "**FOR**" that proposal is greater than 50% of the total number of shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present. Abstentions will have the same effect as a vote "**AGAINST**" the adjournment proposal, and broker non-votes will not have any effect on the adjournment proposal (assuming a quorum is present).

Broker non-votes are shares held by a broker, bank or other nominee that are present in person or represented by proxy at the special meeting, but with respect to which the broker, bank or other nominee is not instructed by the beneficial owner of such shares on how to vote on a particular proposal and the broker does not have discretionary voting power on such proposal. Because brokers, banks and other nominee holders of record do not have discretionary voting authority with respect to any of the three proposals, if a beneficial owner of shares of Activision Blizzard common stock does not give voting instructions to the broker, bank or other nominee with respect to any of the proposals, then those shares will not be present in person or represented by proxy at the special meeting. If there are any broker non-votes, then such broker non-votes will have the same effect as a vote "**AGAINST**" the merger proposal, but will have no effect on the merger-related compensation proposal or the adjournment proposal (assuming a quorum is present).

Shares Held by Activision Blizzard's Directors and Executive Officers

As of the close of business on the record date, Activision Blizzard's directors and executive officers beneficially owned and were entitled to vote, in the aggregate, [•] shares of Activision Blizzard common stock (excluding any shares of Activision Blizzard common stock that would be delivered upon exercise or conversion of stock options or other equity-based awards), which represented approximately [•]% of the outstanding shares of Activision Blizzard common stock on that date. It is expected that Activision Blizzard's directors and executive officers will vote all of their shares "**FOR**" the merger proposal, "**FOR**" the merger-related compensation proposal and "**FOR**" the adjournment proposal, although none of them has entered into any agreement requiring them to do so.

Voting of Proxies

If your shares are registered in your name with our transfer agent, Broadridge, you may cause your shares to be voted by returning a completed, signed and dated proxy card in the accompanying prepaid reply envelope, or you may vote in person at the special meeting. Additionally, you may submit electronically over the Internet or by phone a proxy authorizing the voting of your shares by following the instructions on your proxy card. You must have the enclosed proxy card available, and follow the instructions on the proxy card, in order to submit a proxy electronically over the Internet or by telephone. Based on your properly completed and executed proxy cards or Internet and telephone proxies, the proxy holders will vote your shares according to your directions.

If you plan to attend the special meeting and wish to vote in person, you will be given a virtual ballot at the meeting. If your shares are registered in your name, you are encouraged to authorize your vote by proxy even if you plan to attend the special meeting in person. If you attend the special meeting and vote in person by virtual ballot, your vote by virtual ballot will revoke any proxy previously submitted.

Voting instructions are included on your proxy card. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in accordance with the instructions of the stockholder. Properly executed proxies that do not contain voting instructions will be voted (i) "**FOR**" the merger proposal, (ii) "**FOR**" the merger-related compensation proposal and (iii) "**FOR**" the adjournment proposal.

If your shares are held in "street name" through a broker, bank or other nominee, you may vote through your broker, bank or other nominee by completing and returning the voting instruction form provided by your broker, bank or other nominee or by the Internet or telephone through your broker, bank or other nominee if such a service is provided. To vote via the Internet or telephone through your broker, bank or other nominee, you should follow the instructions on the voting instruction form provided by your broker, bank or other nominee. Under applicable stock exchange rules, brokers, banks or other nominees have the discretion to vote your shares on discretionary matters if you fail to instruct your broker, bank or other nominee on how to vote your shares with respect to such matters. The merger proposal, the merger-related compensation proposal and the adjournment proposal are non-discretionary matters, and brokers, banks and other nominees therefore cannot vote on these proposals without your instructions. If you do not return your broker's, bank's or other nominee's voting instruction form, do not vote via the Internet or telephone through your broker, bank or other nominee, if applicable, or do not attend the special meeting and vote in person with a legal proxy from your broker, bank or other nominee, such actions will have the same effect as if you voted "**AGAINST**" the merger proposal but will not have any effect on the merger-related compensation proposal or the adjournment proposal (assuming a quorum is present).

Revocability of Proxies

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is exercised at the special meeting by:

- submitting a new proxy electronically over the Internet or by telephone after the date of the earlier submitted proxy;
- delivering a written notice of revocation to our Corporate Secretary;
- validly executing another proxy card with a later date and returning it to us prior to the special meeting; or
- attending the special meeting virtually via the Internet at the meeting website and completing a virtual ballot.

Please note that to be effective, your new proxy card, Internet or telephonic voting instructions or written notice of revocation must be received by our Corporate Secretary prior to the special meeting and, in the case of Internet or telephonic voting instructions, must be received before 11:59 p.m., Pacific time, on [•], 2022. If you have submitted a proxy, your appearance at the special meeting, in the absence of voting in person or submitting an additional proxy or revocation, will not have the effect of revoking your prior proxy.

If you hold your shares of Activision Blizzard common stock in "street name," you should contact your broker, bank or other nominee for instructions regarding how to change your vote. You may also vote in person at the special meeting if you obtain a valid legal proxy from your broker, bank or other nominee. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow Activision Blizzard stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting, as adjourned.

Board of Directors' Recommendation

The Activision Blizzard Board of Directors, after considering various factors described under the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Recommendation of Our Board of Directors and Reasons for the Merger" beginning on page 42, unanimously (i) determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of Activision Blizzard and its stockholders; (ii) declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby, upon the terms and conditions set forth therein; (iii) directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of Activision Blizzard; and (iv) recommended that Activision Blizzard stockholders adopt the merger agreement.

The Activision Blizzard Board of Directors unanimously recommends that you vote (i) "FOR" the merger proposal, (ii) "FOR" the merger-related compensation proposal and (iii) "FOR" the adjournment proposal.

Tabulation of Votes

All votes will be tabulated by a representative of Broadridge, who will act as the inspector of election appointed for the special meeting and will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Adjournment

In addition to the proposal to adopt the merger agreement and the proposal to approve, by non-binding advisory vote, compensation that will or may become payable by Activision Blizzard to its named executive officers in connection with the merger, Activision Blizzard stockholders are also being asked to approve the proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to allow time to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting. If a quorum is not present, the presiding person of the special meeting may (and is expected to) adjourn the special meeting. If the special meeting is adjourned or postponed, Activision Blizzard stockholders who have already submitted their proxies will be able to revoke them at any time prior to the final vote on the proposals.

Solicitation of Proxies

The expense of soliciting proxies in the enclosed form will be borne by Activision Blizzard. We have retained Innisfree M&A Incorporated, a proxy solicitation firm, to solicit proxies in connection with the special meeting for up to approximately $100,000, plus expenses. We have also agreed to indemnify Innisfree M&A Incorporated against losses arising out of its provision of these services as requested by Activision Blizzard. In addition, we may reimburse brokers, banks and other custodians, nominees and fiduciaries representing beneficial owners of shares for their expenses in forwarding soliciting materials to such beneficial owners. Proxies may also be solicited by certain of our directors, officers and employees, personally or by telephone, facsimile or other means of communication. No additional compensation will be paid for such services.

Anticipated Date of Completion of the Merger

Assuming timely satisfaction of necessary closing conditions, including the approval by our stockholders of the merger proposal, we currently expect to complete the merger in Microsoft's fiscal year ending June 30, 2023.

Assistance

If you need assistance in completing your proxy card or have questions regarding Activision Blizzard's special meeting, please contact Innisfree M&A Incorporated by mail at 501 Madison Avenue, 20th Floor New York, NY 10022 or by telephone. Stockholders may call toll-free from the U.S. or Canada at (877) 687-1871 or dial directly from other locations at +1 (412) 232-3651, and banks and brokers may call collect: (212) 750-5833.

Rights of Stockholders Who Seek Appraisal

If the merger proposal is approved by Activision Blizzard stockholders, stockholders who do not vote (whether in person or by proxy) in favor of the adoption of the merger agreement and who properly exercise and perfect their demand for appraisal of their shares will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL. This means that holders of Activision Blizzard common stock are entitled to have their shares appraised by the Court of Chancery of the State of Delaware and to receive payment in cash of the "fair value" of the shares of Activision Blizzard common stock, exclusive of any elements of value arising from the accomplishment or expectation of the merger, together with interest to be paid upon the amount determined to be fair value, if any, as determined by the court, subject to the provisions of Section 262 of the DGCL. Stockholders who wish to seek appraisal of their shares are in any

case encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights due to the complexity of the appraisal process.

Stockholders considering seeking appraisal should be aware that the fair value of their shares as determined pursuant to Section 262 of the DGCL could be more than, the same as or less than the $95.00 per share consideration payable pursuant to the merger agreement if they did not seek appraisal of their shares.

To exercise your appraisal rights, you must submit a written demand for appraisal to Activision Blizzard before the vote is taken on the merger proposal, you must not submit a blank proxy or otherwise vote in favor of the merger proposal and you must continue to hold the shares of Activision Blizzard common stock of record through the effective time. Your failure to follow the procedures specified under the DGCL may result in the loss of your appraisal rights. The DGCL requirements for exercising appraisal rights are described in further detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex B to this proxy statement. If you hold your shares of Activision Blizzard common stock through a broker, bank or other nominee and you wish to exercise appraisal rights, you should consult with your broker, bank or other nominee to determine the appropriate procedures for the making of a demand for appraisal by such broker, bank or other nominee. Stockholders should refer to the discussion under the section entitled “Appraisal Rights” beginning on page 98 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex B to this proxy statement.

Other Matters

At this time, we know of no other matters to be voted on at the special meeting, and Activision Blizzard agreed that, without the prior written consent of Microsoft (not to be unreasonably withheld, conditioned or delayed), no other matters would be considered at the special meeting other than the adoption of the merger agreement and other matters of procedure and matters required by law (such as the approval, by means of a non-binding, advisory vote, of compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger and the approval of the adjournment proposal). If any other matters properly come before the special meeting, your shares of Activision Blizzard common stock will be voted at the discretion of the appointed proxy holders.

PARTIES INVOLVED IN THE MERGER

Activision Blizzard, Inc.

Activision Blizzard connects and engages the world through epic entertainment. Our video game franchises enable hundreds of millions of people to experience joy, thrill and achievement. We enable social connections through the lens of fun, and we foster purpose and meaning through competitive gaming. Video games, unlike any other social or entertainment media, have the ability to break down barriers that can inhibit tolerance and understanding. Celebrating differences is at the core of our culture and ensures we can create games for players of diverse backgrounds in the 190 countries our games are played.

Activision Blizzard's principal executive offices are located at 2701 Olympic Boulevard, Building B, Santa Monica, CA 90404.

Activision Blizzard 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., pursuant to which we acquired Blizzard Entertainment, Inc., we were renamed Activision Blizzard, Inc. On February 23, 2016, we acquired King Digital Entertainment plc, a leading interactive mobile entertainment company, by purchasing all of its outstanding shares. Activision Blizzard common stock, par value $0.000001 per share, which we refer to as "Activision Blizzard common stock," is currently listed on the Nasdaq Global Select Market, which we refer to as "Nasdaq," under the symbol "ATVI."

Additional information about Activision Blizzard and its subsidiaries is included in documents incorporated by reference in this proxy statement (see the section entitled "Where You Can Find More Information" beginning on page 106) and on its website: www.activisionblizzard.com. The information provided or accessible through Activision Blizzard's website is not part of, or incorporated by reference in, this proxy statement.

Microsoft Corporation

Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more, and is a leader in enabling digital transformation for the era of an intelligent cloud and intelligent edge. Founded in 1975, Microsoft operates worldwide and has offices in more than 100 countries. Microsoft develops and supports a wide range of software, services, devices, and solutions that deliver new opportunities, greater convenience and enhanced value to people's lives. Microsoft offers an array of services, including cloud-based solutions, that provide customers with software, services, platforms and content. Microsoft's products include operating systems, cross-device productivity applications, server applications, business solution applications, desktop and server management tools, software development tools, and games. Microsoft also designs and sells devices, including PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories.

Microsoft's principal executive offices are located at One Microsoft Way, Redmond, WA 98052. Microsoft's common stock is listed on Nasdaq under the symbol "MSFT."

Additional information about Microsoft and its subsidiaries is included in documents filed by Microsoft with the SEC and on its website: www.microsoft.com. The information provided or accessible through Microsoft's website is not part of, or incorporated by reference in, this proxy statement.

Anchorage Merger Sub Inc.

Sub is a Delaware corporation and a wholly owned subsidiary of Microsoft, formed on January 13, 2022 solely for the purpose of engaging in the merger and the other transactions as contemplated under the merger agreement. Upon completion of the merger, Sub will cease to exist.

PROPOSAL 1: ADOPTION OF THE MERGER AGREEMENT

THE MERGER

This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A and incorporated into this proxy statement by reference. You should read the entire merger agreement carefully as it is the legal document that governs the merger.

Certain Effects of the Merger on Activision Blizzard

Upon the terms and subject to the conditions of the merger agreement and in accordance with the applicable provisions of the DGCL, on the closing date and at the effective time, Sub will merge with and into Activision Blizzard, with Activision Blizzard continuing as the surviving corporation and a wholly owned subsidiary of Microsoft. Activision Blizzard expects to delist its common stock from Nasdaq as promptly as practicable after the effective time and deregister its common stock under the Exchange Act as promptly as practicable after such delisting. Thereafter, Activision Blizzard will no longer be a publicly traded company. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation, and instead will only be entitled to receive the merger consideration, as described under the section entitled "Terms of the Merger Agreement — Conversion of Shares — Common Stock" beginning on page 72.

The effective time will occur upon the filing and acceptance of a certificate of merger with the Secretary of State of the State of Delaware (or at such later time as Activision Blizzard, Microsoft and Sub may agree in writing and specify in the certificate of merger).

Effect on Activision Blizzard if the Merger is Not Completed

If the merger agreement is not adopted by Activision Blizzard stockholders or if the merger is not completed for any other reason, Activision Blizzard stockholders will not receive any payment for their shares of Activision Blizzard common stock. Instead, Activision Blizzard will remain an independent public company, Activision Blizzard common stock will continue to be listed and traded on Nasdaq and registered under the Exchange Act and Activision Blizzard will continue to file periodic reports with the SEC.

Furthermore, if the merger is not consummated, and depending on the circumstances that caused the merger not to be consummated, it is likely that the price of Activision Blizzard common stock will decline significantly. If that were to occur, it is uncertain when, if ever, the price of Activision Blizzard common stock would return to the price at which it trades as of the date of this proxy statement.

Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your shares of Activision Blizzard common stock. If the merger is not consummated, the Activision Blizzard Board of Directors will continue to evaluate and review Activision Blizzard's business operations, assets and capitalization, among other things, make such changes as are deemed appropriate and continue to seek to enhance stockholder value. If the merger agreement is not adopted by Activision Blizzard stockholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Activision Blizzard or its stockholders will be offered or that Activision Blizzard's business, prospects or results of operations will not be adversely impacted.

Under certain specified circumstances, Activision Blizzard will be required to pay Microsoft a termination fee of $2,270,100,000 upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Termination Fee" beginning on page 89.

Under certain specified circumstances, Microsoft will be required to pay Activision Blizzard a reverse termination fee of an amount ranging from $2,000,000,000 to $3,000,000,000 upon the termination of the merger agreement, as described under the section entitled "Terms of the Merger Agreement — Reverse Termination Fee" beginning on page 90.

Background of the Merger

The Activision Blizzard Board of Directors and senior management team regularly review Activision Blizzard's performance, future growth prospects and overall strategic direction and consider potential opportunities to strengthen Activision Blizzard's business and enhance stockholder value. These reviews have included consideration of whether the continued execution of Activision Blizzard's strategy or possible strategic opportunities, including acquisitions, dispositions, commercial partnerships or combinations with third parties, offered the best avenue to maximize stockholder value. In addition, the Activision Blizzard Board of Directors and senior management from time to time have been approached by third parties expressing an interest in exploring a potential strategic combination with or acquisition of Activision Blizzard, but, since the reduction of Vivendi's ownership stake in Activision Blizzard in 2013, no such discussions have advanced beyond preliminary discussions gauging each party's respective interest in pursuing a transaction or resulted in any specific proposal on price, structure or other material terms.

For over 20 years, Activision Blizzard and Microsoft have maintained an ongoing commercial relationship. While the companies have certain commercial arrangements relating to the licensing of various products and services, their principal business relationship relates to the publishing of products and services for the Xbox gaming platform. This relationship began over 20 years ago, and Bobby Kotick, the chief executive officer of Activision Blizzard, and Phil Spencer, the chief executive officer of Microsoft Gaming, maintain a regular dialogue about the commercial relationship and the gaming industry generally. From time to time, Satya Nadella, the chief executive officer of Microsoft, and Mr. Kotick have also spoken about similar matters.

On November 19, 2021, in the course of a conversation on a different topic between Mr. Spencer and Mr. Kotick, Mr. Spencer raised that Microsoft was interested in discussing strategic opportunities between Activision Blizzard and Microsoft and asked whether it would be possible to have a call with Mr. Nadella the following day. Mr. Kotick agreed to participate in such discussion. Following this call, Mr. Kotick promptly reported the conversation to Robert Morgado, the lead independent director on the Activision Blizzard Board of Directors, and Brian Kelly, the chairman of the Activision Blizzard Board of Directors. Messrs. Kotick and Kelly subsequently spoke with Allen & Company LLC, which we refer to as "Allen & Company," which had provided strategic financial advice to Activision Blizzard on other occasions, regarding the call with Mr. Spencer.

In a call on November 20, 2021, between Messrs. Kotick and Nadella, Mr. Nadella indicated that Microsoft was interested in exploring a strategic combination with Activision Blizzard. Following this call, Mr. Kotick promptly discussed the call with Messrs. Morgado and Kelly and, thereafter, with a representative of Skadden, Arps, Slate, Meagher & Flom LLP, outside legal counsel to Activision Blizzard, which we refer to as "Skadden."

On November 22, 2021, a call was held with Messrs. Spencer, Kotick and Kelly, during which call Mr. Spencer noted that, while Microsoft already had a significant amount of information about Activision Blizzard and its business as a result of the commercial relationship between the companies, Microsoft would need additional information regarding Activision Blizzard's long-range financial plan and prospects in order to advance its analysis. Subsequently, Messrs. Kotick and Kelly indicated to Mr. Spencer that Activision Blizzard was not willing to provide such information without an indication of the proposal that Microsoft would be prepared to make that could then be shared with the Activision Blizzard Board of Directors to gauge the Board's level of interest in engaging in additional discussions. Following this call, Robert Corti, chair of the Audit Committee of the Activision Blizzard Board of Directors, was also informed of Microsoft's expressed interest in potentially pursuing a transaction.

On November 26, 2021, Mr. Spencer again spoke with Messrs. Kotick and Kelly, indicating that, based on the information available to Microsoft, Microsoft was preliminarily considering making an all-cash acquisition proposal for Activision Blizzard at $80.00 per share. Thereafter, Messrs. Kotick, Kelly, Corti and Morgado discussed potential ranges at which the full Activision Blizzard Board of Directors may be willing to consider an acquisition proposal taking into consideration, among other factors, Activision Blizzard's historical trading prices, selected research analysts' estimates for Activision Blizzard and relative trading multiples of Activision Blizzard and its peers.

On November 28, 2021, based on discussions with Messrs. Kelly, Corti and Morgado, Mr. Kotick communicated to Mr. Spencer that the Activision Blizzard Board of Directors might be willing to entertain a proposal, and potentially to engage in discussions relating to a potential strategic combination, if Microsoft was prepared to propose a transaction in a range of $90.00-$105.00 per Activision Blizzard share, rather than the $80.00 per share valuation that Mr. Spencer had indicated.

Following that discussion, on November 29, 2021, Mr. Spencer communicated to Messrs. Kotick and Kelly that Microsoft was willing to negotiate a potential transaction within the $90.00-$105.00 per share range, albeit noting that Microsoft would be more comfortable at the lower end of the range. Mr. Spencer also noted a desire to move quickly in advance of a previously scheduled near-term meeting of Microsoft's board of directors at which Mr. Spencer wished to discuss the potential transaction between Microsoft and Activision Blizzard. Following this discussion, Messrs. Kotick and Kelly reported the call to Mr. Morgado and Mr. Corti as well as to Hendrik Hartong III and Peter Nolan, the remaining members of the Audit Committee of the Activision Blizzard Board of Directors.

On December 1, 2021, Mr. Kotick spoke with Mr. Spencer regarding introductions between the parties' respective legal teams and potential financial advisors, as well as timing of Activision Blizzard's delivery of the Long-Range Plan (as defined below) following execution of a mutual non-disclosure agreement and scheduling of a meeting between Activision Blizzard and Microsoft executives to discuss the Long-Range Plan.

On December 3, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, Sard Verbinnen & Co., Activision Blizzard's strategic communications firm, Wilmer Cutler Pickering Hale and Dorr LLP, which we refer to as "WilmerHale," and Skadden, in attendance for portions of the meeting. At the meeting, following the departure of the representatives of Sard Verbinnen & Co., Mr. Morgado provided an update to the Activision Blizzard Board of Directors on the discussions with representatives of Microsoft regarding a potential acquisition of Activision Blizzard by Microsoft. Following the departure of the representatives of Allen & Company, the Activision Blizzard Board of Directors discussed the potential formal engagement of financial advisors to assist Activision Blizzard in connection with a potential transaction with Microsoft and other potential alternatives available to Activision Blizzard. After discussing the relevant experience and qualifications of various potential financial advisors, the Activision Blizzard Board of Directors decided to work with Allen & Company. The Activision Blizzard Board of Directors selected Allen & Company on the basis of, among other factors, Allen & Company's qualifications and reputation, extensive experience in advising software companies in connection with potential strategic transactions (including in which Microsoft was a counterparty), its knowledge and understanding of Activision Blizzard's business and industry from its previous work with Activision Blizzard, and the absence of any known material conflicts with respect to Microsoft.

At the same meeting, a representative of Skadden discussed the directors' fiduciary duties in the context of considering a potential acquisition of Activision Blizzard and various considerations that should be included in the Activision Blizzard Board of Directors' decision-making process. The Activision Blizzard Board of Directors, senior management and representatives of Skadden then discussed the potential process the Activision Blizzard Board of Directors might pursue in exploring a potential strategic transaction with Microsoft or other companies potentially interested in and capable of undertaking a strategic transaction with Activision Blizzard, and potential regulatory considerations in connection with any such strategic transaction.

Later on December 3, 2021, following the conclusion of the meeting of the Activision Blizzard Board of Directors earlier in the day, Messrs. Kotick and Kelly received an unsolicited email from the chief executive officer of another gaming company, which we refer to as "Company A," addressed to the Activision Blizzard Board of Directors, expressing interest in exploring a potential strategic transaction with Activision Blizzard, but without any details regarding the terms of such transaction. Subsequently, Mr. Kotick received an additional communication from the chief executive officer of Company A, expressing a desire to meet in person the following week.

On December 6, 2021, Activision Blizzard and Microsoft entered into a mutual non-disclosure agreement in order to facilitate Activision Blizzard sharing with Microsoft certain confidential information,

including at a meeting to be held the following day. Activision Blizzard is not a party or subject to any non-disclosure or other agreement with a party other than Microsoft, including with Companies A, C, D or E or Individual B (each as defined below), with respect to a potential acquisition of Activision Blizzard nor is any other party subject to any standstill or "don't-ask, don't-waive" provision that would inhibit such party from making a proposal.

Also on December 6, 2021, at the request of Activision Blizzard senior management, in advance of the meeting scheduled for the following day, Activision Blizzard's long-range plan (which we refer to as the "Long-Range Plan"), together with "stretch" goals and objectives of the management teams of Activision Blizzard's franchises and business units included as an appendix (as described below), was shared with representatives of Microsoft, and subsequently shared by Microsoft with representatives of Goldman Sachs & Co. LLC, Microsoft's financial advisor, which we refer to as "Goldman Sachs." The Long-Range Plan was approved by the Activision Blizzard Board of Directors on November 2, 2021 as the plan to be used for internal business planning purposes for Activision Blizzard's performance for its fiscal years 2021 through 2024.

Also on December 6, 2021, Mr. Kelly received an unsolicited email from an individual, who we refer to as "Individual B," indicating a desire to explore the potential acquisition of the Company's Blizzard business unit or potentially a full (or partial) take-private transaction with unidentified potential co-investors.

On December 7, 2021, a meeting was held between representatives of Activision Blizzard, including Messrs. Kelly and Kotick and Armin Zerza, chief financial officer of Activision Blizzard, together with representatives of Allen & Company and Skadden, and representatives of Microsoft, including Mr. Spencer as well as individuals in the corporate development, finance and legal functions within Microsoft, representatives of Goldman Sachs and representatives of Simpson Thacher & Bartlett LLP, outside legal counsel to Microsoft, which we refer to as "Simpson." During the meeting, the representatives of Activision Blizzard discussed with the representatives of Microsoft the Long-Range Plan and long-term opportunities for Activision Blizzard's business. The attendees also discussed various other aspects of Activision Blizzard's business.

On December 8, 2021, Mr. Spencer informed Mr. Kotick that a potential transaction with Activision Blizzard was considered at a meeting of Microsoft's Board of Directors on December 8, 2021, and that, as authorized by Microsoft's Board of Directors, Activision Blizzard should expect to receive a proposal from Microsoft for a potential acquisition of Activision Blizzard shortly.

On December 10, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. At the meeting, Mr. Kelly provided an update to the Activision Blizzard Board of Directors on the meeting between representatives of Activision Blizzard and Microsoft, the conversation between Messrs. Kotick and Spencer, and the communications with the chief executive officer of Company A and Individual B. The Activision Blizzard Board of Directors then discussed timing and structuring, regulatory, and process considerations should the Activision Blizzard Board of Directors decide to engage in further discussions with Microsoft following receipt of a proposal from Microsoft. The Activision Blizzard Board of Directors also discussed other technology and/or gaming companies that might have interest in pursuing a transaction with Activision Blizzard, including Company A, as well as Activision Blizzard continuing on a standalone basis. With respect to such other parties, the Activision Blizzard Board of Directors considered their potential strategic interest, ability to deliver greater value for Activision Blizzard stockholders than an all-cash proposal from Microsoft, and potential regulatory hurdles in a transaction with such parties. With respect to Company A, the Activision Blizzard Board of Directors discussed, among other things, that a transaction with Company A would necessarily include a very significant stock component, which would not be directly comparable to an all-cash transaction, would not likely yield significant cost synergies and would need to be premised on the belief that the long-term value of the combined company would achieve greater value than Activision Blizzard's stand-alone plan. The Activision Blizzard Board of Directors also discussed the relative size and trading multiples of Activision Blizzard and Company A and the implications for how a combined company might trade. Allen & Company and Skadden also provided their respective views to the Activision Blizzard Board of Directors on such considerations. While noting that it was unlikely that a transaction with Company A could be as attractive or competitive as an all-cash proposal from Microsoft, the Activision Blizzard Board of Directors determined that, particularly in light of the anticipated proposal from Microsoft, it would make

sense for Mr. Kotick to meet with the chief executive officer of Company A and learn the parameters of Company A's interest in a potential transaction. Accordingly, the Activision Blizzard Board of Directors directed Mr. Kotick to meet with the chief executive officer of Company A and to report back on the results of such meeting.

In addition, Mr. Kelly reported to the Activision Blizzard Board of Directors on the email he received from Individual B. The Activision Blizzard Board of Directors discussed the ability of Individual B to credibly pursue a transaction of the size and complexity that such a transaction would entail, as well as the disruption that might ensue were it to become known that Activision Blizzard was exploring strategic alternatives, which might occur if Activision Blizzard engaged in discussions with Individual B in light of prior dealings between Activision Blizzard and Individual B. After discussions, the Activision Blizzard Board of Directors concluded that Mr. Kelly should not engage with Individual B unless instructed to do so at a later date.

Later on December 10, 2021, Mr. Spencer requested an additional discussion with Mr. Kotick. Mr. Kotick consulted with Messrs. Kelly and Morgado and with a representative of Skadden about the potential transaction prior to the telephone call with Mr. Spencer.

Later that afternoon, on a telephone call among Mr. Kotick, Mr. Kelly and Mr. Spencer, Mr. Spencer informed Mr. Kotick and Mr. Kelly that Microsoft would be sending a written non-binding indication of interest to acquire Activision Blizzard later that evening at a purchase price of $90.00 per share in cash. Messrs. Kotick and Kelly expressed their disappointment in the proposed price but stated that they would report the proposal to the Activision Blizzard Board of Directors.

Later that evening on Friday, December 10, 2021, a representative of Simpson, on behalf of Microsoft, sent to a representative of Skadden a non-binding indication of interest to acquire Activision Blizzard for $90.00 per share in cash, together with a draft exclusivity agreement providing for exclusive discussions with Microsoft through January 15, 2022. The letter requested a response to the proposal by Monday, December 13, 2021.

On December 12, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. At the meeting, Mr. Morgado outlined the terms of the non-binding indication of interest received from Microsoft and described Messrs. Kotick's and Kelly's recent conversations with Mr. Spencer. The Activision Blizzard Board of Directors discussed that in addition to the $90.00 per share cash purchase price, the indication of interest (i) requested a response by December 13, 2021, (ii) proposed a period of exclusive negotiation through January 15, 2022 pursuant to the terms of an accompanying exclusivity agreement, (iii) stated that the transaction would be all-cash and not subject to any financing condition and (iv) noted that Activision Blizzard, post-acquisition, would be led by the Gaming leadership of Microsoft. Representatives of Allen & Company and Skadden also reported that, in conversations with their respective counterparty advisors to Microsoft, each had conveyed a desire on the part of Microsoft to move expeditiously.

At the meeting, the Activision Blizzard Board of Directors discussed that, in determining how to respond to Microsoft's non-binding indication of interest, it would be helpful for the Activision Blizzard Board of Directors to have a sense of other parties that might be interested in pursuing a transaction with Activision Blizzard. Allen & Company suggested a number of potential third parties for consideration, including which of those third parties, in Allen & Company's view, would likely be most able to acquire Activision Blizzard in a transaction that could potentially deliver greater value to stockholders of Activision Blizzard than the non-binding indication of interest received from Microsoft. The Activision Blizzard Board of Directors discussed the potential strategic rationale for a transaction with such third parties, including the potential ability of each such third party to successfully complete an acquisition of Activision Blizzard, the ability of each such third party to submit an offer to acquire Activision Blizzard for consideration consisting solely of cash, equity or a combination of cash and equity, the relative advantages and disadvantages of the form of consideration in a transaction and tactical considerations with respect to conducting an outreach to such third parties. Allen & Company indicated that, in its view, Companies C, D and E (each as defined below) were most likely to be able to acquire Activision Blizzard in a transaction that could potentially deliver greater value to Activision Blizzard's stockholders than Microsoft's proposal.

At the meeting, Mr. Kotick also provided an update on his communications with the chief executive officer of Company A, noting that an upcoming meeting had been scheduled for December 14, 2021, and that he would report back after such meeting.

Also at the meeting, a representative of Skadden provided an overview of the directors' fiduciary duties in connection with their evaluation of a potential sale of Activision Blizzard in general and Microsoft's non-binding indication of interest specifically. In addition, a representative of Skadden discussed with the Activision Blizzard Board of Directors other considerations relating to deal timing and certainty.

The Activision Blizzard Board of Directors also discussed various considerations involved in soliciting third-party indications of interest in a potential transaction with Activision Blizzard. The Activision Blizzard Board of Directors discussed the potential benefits of assessing third parties' interest, including the potential to obtain a higher value for stockholders from a third party and the potential that increased competition could result in an increased purchase price and better overall terms for Activision Blizzard from Microsoft in the event that one or more other parties expressed interest. The Activision Blizzard Board of Directors also discussed the significant downside and disruption that could occur from market rumors regarding exploratory outreaches, including a potential adverse reaction from Microsoft that could negatively impact its willingness to proceed with a transaction with Activision Blizzard. In addition, the Activision Blizzard Board of Directors discussed the most effective approach in the event of such outreach, including who specifically was best positioned to conduct such outreach and attract serious interest. After discussions, the Activision Blizzard Board of Directors authorized and directed Mr. Kotick, along with other members of Activision Blizzard's management and/or advisors as needed, to contact Companies C, D and E (each as defined below) initially, and, in the event of insufficient interest on the part of those three parties, to contact one other potential strategic counterparty, to gauge interest in a potential acquisition of Activision Blizzard. At this meeting and in other meetings throughout the Activision Blizzard Board of Directors' consideration of the potential transaction with Microsoft, the Activision Blizzard Board of Directors met in executive session with only non-employee directors, outside counsel and the Secretary of the meeting in attendance to allow the non-employee directors to confer about the matters discussed at the meeting.

That same day, as authorized by the Activision Blizzard Board of Directors at the earlier meeting, Mr. Kotick contacted the chief executive officer of a potential strategic acquiror, which we refer to as "Company C." The chief executive officer of Company C stated that Company C was potentially interested in acquiring Activision Blizzard. Mr. Kotick subsequently spoke with another senior executive of Company C. The following day, at Company C's request and in accordance with the Activision Blizzard Board of Directors' directives, representatives of Allen & Company sent to Company C a draft mutual non-disclosure agreement that had been prepared by Skadden and contained substantially similar terms to those in the non-disclosure agreement entered into between Activision Blizzard and Microsoft. As described below, Company C determined not to proceed with a potential transaction involving Activision Blizzard. Accordingly, the mutual non-disclosure agreement was never negotiated or executed between Activision Blizzard and Company C or their respective advisors.

Also on December 12, 2021, after the Activision Blizzard Board of Directors meeting authorizing the outreach, Mr. Kotick contacted the chairperson of the board of a potential strategic acquiror, which we refer to as "Company D." The chairperson of the board of Company D stated that Company D was potentially interested in acquiring Activision Blizzard and that Company D would initially evaluate the viability of a potential acquisition of Activision Blizzard internally and revert to Mr. Kotick.

The following day, December 13, 2021, Mr. Kotick spoke to the chief executive officer of another potential strategic acquiror, which we refer to as "Company E," as authorized by the Activision Blizzard Board of Directors the previous day, regarding Company E's potential interest in acquiring Activision Blizzard. The chief executive officer of Company E indicated an interest in a potential acquisition of Activision Blizzard, but expressed concerns regarding the ability to execute a transaction between the parties. The chief executive officer of Company E stated that Company E would need to further consider internally any potential business combination. Mr. Kotick also spoke with another senior executive from Company E later the same day, who indicated that Company E would discuss potential strategic opportunities internally and revert to Mr. Kotick. A few days later, Mr. Kotick spoke with that senior executive of Company E who

informed Mr. Kotick that Company E was not in a position to pursue a full acquisition of Activision Blizzard although Company E would be interested in considering other potential transactions between the parties.

Based on the Activision Blizzard Board of Directors' direction that Mr. Kotick not reach out to the fourth party if there appeared to be potential interest on the part of Company C, Company D and/or Company E, Mr. Kotick did not reach out to the fourth party pending further developments with Company C, Company D, and Company E.

Also on December 13, 2021, representatives of Allen & Company received an inquiry from a senior executive of Company C about a potential transaction with Activision Blizzard. In accordance with the Activision Blizzard Board of Directors' directives, representatives of Allen & Company followed up with Company C and communicated to a Company C representative that for an offer to be attractive to Activision Blizzard, it should be structured as an all-cash acquisition of the entire company and that Company C should be prepared to move expeditiously.

On December 14, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Activision Blizzard's senior management presented to the Activision Blizzard Board of Directors updated financial forecasts regarding Activision Blizzard's long-term financial performance for Activision Blizzard's fiscal years 2021 through 2024, which had been downwardly adjusted from the Long-Range Plan by Activision Blizzard management to account for, among other things, the passage of time since the Long-Range Plan was approved by the Activision Blizzard Board of Directors on November 2, 2021, execution risk in the Long-Range Plan, and further insight into Activision Blizzard's performance in the fourth quarter of 2021 — particularly the underperformance of the recently launched "Call of Duty: Vanguard" and the potential effects of that underperformance in 2022. Senior management noted that the updated financial forecasts were not intended to constitute a revised Long-Range Plan, and did not reflect any adjustments that Activision Blizzard might make in its strategy in response to Activision Blizzard's performance in the fourth quarter of 2021. Activision Blizzard's senior management further noted for the Activision Blizzard Board of Directors that, in the ordinary course, Activision Blizzard would assess its performance in the fourth quarter of 2021 to refresh Activision Blizzard's outlook for the entirety of 2022, and would not typically refresh the outlook for years beyond 2022 at this stage of Activision Blizzard's typical financial planning process, although it had done so at this time in order to provide the Activision Blizzard Board of Directors with an updated risk-adjusted view of Activision Blizzard's potential prospective financial performance as it considered the potential transaction with Microsoft. The Activision Blizzard Board of Directors then considered and further discussed these updated risk-adjusted financial forecasts. Following such discussion, the Activision Blizzard Board of Directors approved use of such updated risk-adjusted financial forecasts for purposes of considering the potential transaction with Microsoft.

At the meeting, Mr. Kotick provided an update to the Activision Blizzard Board of Directors on his communications with representatives of Company C, Company D and Company E and representatives of Allen & Company provided an update on their communications with Company C. The Activision Blizzard Board of Directors discussed the need to further ascertain the interest levels of Company C, Company D and Company E in a potential transaction and timing considerations in relation to responding to Microsoft's non-binding indication of interest in view of Microsoft's request for a response by December 13, 2021. Also at the meeting, the Activision Blizzard Board of Directors discussed certain information provided by Allen & Company regarding Allen & Company's material relationships with Activision Blizzard and Microsoft during the preceding two-year period as previously provided to the Activision Blizzard Board of Directors. After consulting with Activision Blizzard's legal advisors, the Activision Blizzard Board of Directors determined that, based on such information, there were no material conflicts that would preclude Allen & Company from continuing to serve as financial advisor to Activision Blizzard.

Later on December 14, 2021, Mr. Kotick met with the chief executive officer of Company A. During the meeting, the chief executive officer of Company A expressed that a strategic combination between the companies would be beneficial for both companies and their stockholders, but did not provide a proposal for a potential transaction. During the meeting, the chief executive officer of Company A did not communicate any requests to, or propose any specific actions from, Activision Blizzard.

Also on December 14, 2021, Mr. Spencer spoke with Mr. Kotick to request an update on Activision Blizzard's response to Microsoft's non-binding indication of interest. Following this conversation on December 14, 2021, in accordance with the Activision Blizzard Board of Directors' directives, representatives of Allen & Company updated representatives of Goldman Sachs that additional meetings of the Activision Blizzard Board of Directors were planned in advance of Activision Blizzard delivering a response to Microsoft's non-binding indication of interest.

On December 15, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. At this meeting, the Activision Blizzard Board of Directors was provided with additional financial information relating to Activision Blizzard, including financial forecasts of Activision Blizzard's long-term financial performance as extended through fiscal year 2026. Allen & Company provided a summary of the preliminary proposed terms of Microsoft's non-binding indication of interest and certain preliminary financial matters relating to Activision Blizzard based on the updated risk-adjusted financial forecasts approved by the Activision Blizzard Board of Directors on December 14, 2021, as extended through fiscal year 2026.

Mr. Kotick provided an update to the Activision Blizzard Board of Directors on the status of communications with representatives of Company C, Company D and Company E. Representatives of Allen & Company provided an update to the Activision Blizzard Board of Directors on their communications with representatives of Goldman Sachs and Microsoft's stated areas of focus in due diligence should the Activision Blizzard Board of Directors authorize continued engagement with Microsoft.

The Activision Blizzard Board of Directors discussed a range of potential alternative responses in connection with the non-binding indication of interest received from Microsoft and the relative advantages and disadvantages of a combination with Microsoft compared to other potential counterparties, as well as continuing on a standalone basis, and also considered additional factors, including, among other things, the economic and competitive landscape of the current gaming and technology sectors. After discussions, the Activision Blizzard Board of Directors directed Messrs. Kotick and Kelly and representatives of Allen & Company to convey to Microsoft a request to increase its proposed purchase price from $90.00 per share to $100.00 per share. At the same time, the Activision Blizzard Board of Directors authorized management to proceed with its negotiations with Microsoft, without the need for further Board authorization, in the event management was able to increase Microsoft's proposal to at least $95.00 per share.

Later that day on December 15, 2021, a senior executive of Company C communicated to representatives of Allen & Company that Company C would not be in a position to proceed with discussing a potential business combination with Activision Blizzard.

Later that evening on December 15, 2021, Messrs. Kotick and Kelly had a telephone call with Mr. Spencer. The parties discussed the potential business combination, and, as directed by the Activision Blizzard Board of Directors, Messrs. Kotick and Kelly requested that Microsoft increase its proposed purchase price to $100.00 per share. Mr. Spencer noted that further discussion would be required and that he would respond in the next day or two.

On the morning of December 16, 2021, the chairperson of Company D called Mr. Kotick and communicated that Company D was interested in potentially exploring an acquisition of Activision Blizzard and would facilitate a follow-up call with the chief executive officer and other senior executives of Company D to further discuss.

Also on the morning of December 16, 2021, Mr. Nadella requested a telephone call with Mr. Kotick. During the call later that morning with Mr. Kotick, Mr. Nadella inquired whether Activision Blizzard would consider a proposal below the $100.00 per share amount previously communicated to Microsoft. Mr. Kotick suggested to Mr. Nadella that Microsoft should provide its best and final offer and reiterated that Activision Blizzard was focused on taking actions that were in the best interests of its stockholders. Mr. Nadella reiterated Microsoft's desire to move expeditiously.

Messrs. Kotick and Nadella had a series of telephone calls over the course of December 16, 2021. Mr. Nadella initially communicated Microsoft's willingness to increase the price contemplated by Microsoft's non-binding indication of interest from $90.00 to $93.00 per share on the condition that Activision

Blizzard grant Microsoft a 30-day exclusivity period. Mr. Kotick informed Mr. Nadella that he was not authorized to proceed at a price below $95.00 per share, but he was authorized to consider a $95.00 per share price with a 30-day exclusivity commitment at that price level and also would need an agreement from Microsoft on certain other key terms, particularly related to a reverse termination fee. Mr. Nadella responded that he would have to discuss further internally. Subsequently, Mr. Nadella proposed to increase the price provided for in Microsoft's non-binding indication of interest to $95.00 per share and expressed willingness to engage in discussions on whether Microsoft would agree to a reverse termination fee and the quantum of such fee, as well as other transaction terms, at the appropriate time.

Later in the evening of December 16, 2021, representatives of Skadden sent a markup of the exclusivity agreement, which included a term sheet, to representatives of Simpson. Subsequently, representatives of Simpson contacted representatives of Skadden to discuss the exclusivity agreement and term sheet. On a telephone call, representatives of Skadden conveyed to representatives of Simpson that the term sheet reflected a number of key deal terms and were the basis upon which the Activision Blizzard Board of Directors would be willing to enter into exclusivity.

Early in the morning of December 17, 2021, representatives of Goldman Sachs called representatives of Allen & Company to discuss the exclusivity agreement and term sheet circulated by representatives of Skadden to representatives of Simpson the previous night.

Subsequently on the morning of December 17, 2021, in accordance with the Activision Blizzard Board of Directors' directives, representatives of Allen & Company called representatives of Goldman Sachs, and representatives of Skadden called representatives of Simpson, to provide Activision Blizzard's rationale for the positions taken in the exclusivity agreement and term sheet circulated by representatives of Skadden.

Also on the morning of December 17, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Mr. Kotick provided an update on his communications with Messrs. Spencer and Nadella and the provision of the revised exclusivity agreement and term sheet to representatives of Simpson. Representatives of Allen & Company and Skadden provided an update on their respective follow-up communications with Goldman Sachs and Simpson regarding the exclusivity agreement and term sheet. A representative of Skadden provided an overview of the terms of the revised exclusivity agreement and term sheet to the Activision Blizzard Board of Directors. The Activision Blizzard Board of Directors also received an update on the status of the discussions with Company C, Company D and Company E. Mr. Kotick noted that he had not received at that time any communication from the chief executive officer of Company D after his discussion with the chairperson of Company D on December 16, 2021, and that Company C and Company E each had indicated that it would not be proceeding with discussions to acquire Activision Blizzard at that time. After discussions, the Activision Blizzard Board of Directors authorized management to enter into exclusive discussions with Microsoft on the basis of the $95.00 per share price proposed by Microsoft and on such additional terms as management deemed appropriate for up to a 30-day period, and directed Activision Blizzard's management, led by Mr. Kotick, to continue negotiations with Microsoft.

Later on the morning of Friday, December 17, 2021, the chief executive officer of Company D emailed Mr. Kotick noting that Company D was keen to engage and explore a potential transaction and introducing other senior executives from Company D. Mr. Kotick responded to the chief executive officer of Company D sharing his direct telephone line in order to connect. A follow-up video conference was subsequently scheduled with such other senior executives for Monday, December 20, 2021.

Later on the morning of December 17, 2021, representatives of Simpson sent representatives of Skadden a revised exclusivity agreement and term sheet and noted Microsoft's expectation to sign the exclusivity agreement as quickly as possible that day.

In the early afternoon on December 17, 2021, Messrs. Kotick and Spencer discussed open points in the term sheet and overall timing, with Mr. Spencer noting Microsoft's desire to move expeditiously into exclusivity that day and the due diligence process.

From the afternoon of December 17, 2021, through the morning of December 20, 2021, representatives of Skadden and Simpson had multiple calls discussing open points with respect to the exclusivity agreement

and term sheet, focused on the parameters for a reverse termination fee and other regulatory related provisions to be included in any definitive agreement in connection with the proposed transaction.

On December 20, 2021, Messrs. Kotick and Kelly, together with a representative of Allen & Company, had a video conference with senior executives from Company D. Mr. Kotick discussed that Activision Blizzard could represent an attractive strategic combination for Company D, but explained that circumstances had changed since he first spoke with Company D's chairperson and that it now was likely that, very shortly, Activision Blizzard would not be in a position to engage in additional discussions for some period of time. Mr. Kotick also suggested that Company D could readily perform due diligence on Activision Blizzard in the meantime based on publicly available information. The representatives of Company D expressed that Company D was not prepared to proceed expeditiously on the basis of publicly available information and implied that Company D would only be interested in relaying an indication of interest if provided with an opportunity to review confidential information. Following this call, no further discussions were held with Company D.

Also on December 20, 2021, Messrs. Kotick and Kelly exchanged telephone calls with Mr. Spencer during which they discussed open issues on the term sheet, including, among other things, the quantum of the reverse termination fee.

In the evening of December 20, 2021, representatives of Skadden and Simpson exchanged further updated drafts of the term sheet. Subsequently, in the evening of December 20, 2021, the exclusivity agreement was executed. The exclusivity agreement included a term sheet specifying the quantum and payment conditions of the reverse termination fee and other regulatory related provisions to be included in the definitive merger agreement, if executed.

On December 21, 2021, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Mr. Morgado informed the Activision Blizzard Board of Directors that Activision Blizzard had entered into an exclusivity agreement with Microsoft on the prior evening. A representative of Skadden described to the Activision Blizzard Board of Directors the terms of the exclusivity agreement, including the non-solicitation and confidentiality restrictions contained therein, and the term sheet, including the quantum, timing and events triggering the payment of the reverse termination fee by Microsoft to Activision Blizzard. The Activision Blizzard Board of Directors discussed Microsoft's anticipated due diligence process and next steps with respect to negotiating a potential acquisition agreement with Microsoft.

On December 27, 2021, access was provided to representatives of Microsoft and its outside advisors to a virtual data room hosting Activision Blizzard materials. Microsoft and its advisors engaged in due diligence from the period of December 27, 2021 through the execution of the merger agreement on January 18, 2022, which process included a number of videoconference meetings and telephone calls attended by members of Activision Blizzard senior management, representatives of Activision Blizzard's outside legal, financial and accounting advisors, members of Microsoft senior management and representatives of Microsoft's outside legal, financial and accounting advisors, as applicable, on various business, financial, tax, accounting and legal matters.

On December 29, 2021, representatives of Simpson sent an initial draft of the merger agreement to representatives of Skadden. The draft included the following key terms, including regulatory provisions, most of which were previously provided in the non-binding term sheet: (i) a requirement that Microsoft use reasonable best efforts to obtain antitrust approvals, but no obligation for Microsoft to agree to any divestures or limitations on its post-closing business that would (x) have a material adverse impact on Activision Blizzard and its subsidiaries taken as a whole or (y) (1) have a material impact on the benefits expected to be derived from the proposed merger by Microsoft or (2) have a more than immaterial impact on any business or product line of Microsoft; (ii) a termination fee payable by Activision Blizzard to Microsoft equal to 3.75% of the transaction's equity value in the event of a termination of the merger agreement in certain circumstances, including following a change in recommendation by the Activision Blizzard Board of Directors or if Activision Blizzard enters into an alternative acquisition agreement with respect to a superior proposal; (iii) an outside termination date of 12 months from signing, subject to two automatic extensions for consecutive three-month periods if all conditions to closing are satisfied other than the

conditions regarding the receipt of regulatory approvals and the lack of any legal injunction (in connection with regulatory regimes); and (iv) a termination fee payable by Microsoft to Activision Blizzard in the event of a termination of the merger agreement as a result of a legal injunction (in connection with antitrust regimes) or the failure to obtain necessary antitrust approvals by the outside termination date (as extended) if certain conditions are met of (x) $2,000,000,000 if the termination notice is delivered during the first 12 months from signing, (y) $2,500,000,000 if the termination notice is delivered 13 to 15 months from signing and (z) $3,000,000,000 if the termination notice is delivered after 15 months from signing.

During the weeks of January 3, 2022, and January 10, 2022, Messrs. Kotick and Spencer and respective members of Activision Blizzard and Microsoft senior management, along with their respective outside legal advisors, discussed and negotiated certain key open points in the merger agreement, including the quantum of the termination fee payable by Activision Blizzard, the treatment of employee equity awards, and the scope of the interim operating covenants, as well as severance and retention matters and due diligence matters on a number of video and telephone calls.

On January 6, 2022, at the request of Activision Blizzard, representatives of Skadden sent a revised draft of the merger agreement to representatives of Simpson.

On January 7, 2022, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Mr. Kotick provided an update on the status of the potential transaction with Microsoft, including the state of Microsoft's due diligence, negotiation of the draft merger agreement, and contacts with representatives of Microsoft. A representative of Skadden provided an update on the status of the potential transaction from a legal perspective, including Activision Blizzard's responses to Microsoft's due diligence requests, Activision Blizzard's progress in preparing and providing via a virtual data room documents responsive to due diligence requests, and due diligence calls between representatives of Activision Blizzard and Microsoft and their respective advisors.

On January 10, 2022, representatives of Simpson sent a revised draft of the merger agreement to representatives of Skadden.

On January 11, 2022, in a videoconference with representatives of Microsoft, Goldman Sachs, Allen & Company and members of Activision Blizzard senior management in attendance, Mr. Zerza discussed Activision Blizzard's preliminary financial results for the fourth quarter and full year of 2021. These financial results were subsequently provided to Microsoft via Activision Blizzard's data room.

On January 13, 2022, at the request of Activision Blizzard, representatives of Skadden sent a revised draft of the merger agreement to representatives of Simpson.

On January 14, 2022, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Members of Activision Blizzard senior management presented to the Activision Blizzard Board of Directors Activision Blizzard's financial results for the fourth quarter of 2021. Members of senior management noted that, as previously discussed with the Activision Blizzard Board of Directors, Activision Blizzard had failed to meet its revenue projections for the fourth quarter of 2021 given the underperformance of the recently launched "Call of Duty: Vanguard." Mr. Morgado noted to the Activision Blizzard Board of Directors that Activision Blizzard's financial results for the fourth quarter and full year of 2021 would be incorporated to update the financial forecasts as approved by the Activision Blizzard Board of Directors on December 14, 2021, and shared with Allen & Company for purposes of its financial analysis and opinion, if and when requested, in connection with the proposed transaction with Microsoft. Certain of these updated financial forecasts also were shared with Microsoft and its advisors later that day.

Allen & Company then provided the Activision Blizzard Board of Directors with an update on, among other things, recent developments in the gaming industry, including a recent publicly announced transaction in such industry and its comparison to the potential transaction with Microsoft. Prior to the meeting, the Activision Blizzard Board of Directors also was provided with certain updated information from Allen & Company regarding its material relationships with Activision Blizzard and Microsoft during the preceding two-year period, which information was consistent with the information previously provided. Representatives

of Skadden then presented on the Activision Blizzard Board of Directors' fiduciary duties in the context of considering a change of control transaction and presented a detailed summary of the key terms of the draft merger agreement, including the structure of the proposed transaction, the consideration to be received by stockholders of Activision Blizzard of $95.00 per share in cash, the treatment of Activision Blizzard's equity awards, certain restrictions on Activision Blizzard's business and operations during the pendency of the transaction, proxy statement filing and stockholder meeting requirements, director and officer indemnification, Microsoft's regulatory undertakings, the provisions restricting the solicitation of, and relating to the consideration of unsolicited, alternative acquisition proposals that would apply to Activision Blizzard and its representatives during the pendency of a transaction, the ability of the Activision Blizzard Board of Directors to change its recommendation, anticipated closing timing, closing conditions and the termination rights and fees and remedies available to Activision Blizzard and Microsoft in the event the potential transaction was not consummated, and noted remaining open points. Representatives of Skadden also presented to the Activision Blizzard Board of Directors certain regulatory considerations with respect to the potential transaction with Microsoft.

On January 14, 2022, at the request of Activision Blizzard, representatives of Skadden delivered an initial complete draft of Activision Blizzard's confidential disclosure schedules to the merger agreement, certain sections of which had been previously provided, to representatives of Simpson.

Between January 14, 2022, and January 18, 2022, representatives of Activision Blizzard and Microsoft and their respective legal advisors had multiple conversations to resolve outstanding matters under the merger agreement and Activision Blizzard's confidential disclosure schedules to the merger agreement and exchanged multiple drafts of the merger agreement and Activision Blizzard's confidential disclosure schedules to the merger agreement.

On January 17, 2022, the Activision Blizzard Board of Directors held a meeting by videoconference, with members of Activision Blizzard senior management, and representatives of Allen & Company, WilmerHale and Skadden, in attendance. Representatives of Skadden reviewed the key terms of the merger agreement, including changes from the terms discussed at the meeting on January 14, 2022, noting that one remaining open issue was the amount of the 2022 dividend that could be paid by Activision Blizzard and whether Activision Blizzard would be permitted to pay a dividend in 2023 and, if so, the amount thereof. Also at this meeting, Allen & Company reviewed with the Activision Blizzard Board of Directors its financial analysis of the merger consideration, and rendered an oral opinion, confirmed by delivery of a written opinion dated January 17, 2022, to the Activision Blizzard Board of Directors to the effect that, as of such date and based on and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken as set forth in such opinion, the merger consideration to be received by holders of Activision Blizzard common stock (other than, to the extent applicable, Microsoft, Sub and their respective affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders. After discussions, including as to the matters described below under "— Recommendation of the Activision Blizzard Board of Directors; Activision Blizzard's Reasons for the Merger," the Activision Blizzard Board of Directors unanimously determined to delegate the final resolution of the dividend issue to an ad hoc committee of directors of the Activision Blizzard Board of Directors, consisting of Messrs. Morgado, Kelly and Corti, and (i) determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of Activision Blizzard and its stockholders; (ii) declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby upon the terms and conditions set forth therein; (iii) directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of Activision Blizzard; and (iv) recommended that Activision Blizzard stockholders adopt the merger agreement.

Following the approval of the merger agreement and the transactions contemplated thereby (including the merger) by the Activision Blizzard Board of Directors, Activision Blizzard and Microsoft finalized the merger agreement, including the resolution of the outstanding dividend issue, which Mr. Nadella and Mr. Kotick discussed during the evening of January 17, 2022, and the resolution of which was approved by the ad hoc committee of the Activision Blizzard Board of Directors. Early in the morning on January 18, 2022, Activision Blizzard and Microsoft executed the merger agreement, and, prior to the opening of trading on January 18, 2022, issued a joint press release announcing the execution of the merger agreement.

Recommendation of Our Board of Directors and Reasons for the Merger

Recommendation of the Activision Blizzard Board of Directors to Adopt the Merger Agreement, thereby Approving the Transactions Contemplated by the Merger Agreement.

On January 17, 2022, the Activision Blizzard Board of Directors, after considering various factors described below, unanimously (i) determined that the terms of the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of Activision Blizzard and its stockholders; (ii) declared advisable, approved and authorized in all respects the execution and delivery of the merger agreement by Activision Blizzard, the performance by Activision Blizzard of its obligations thereunder, and the consummation of the transactions contemplated thereby, upon the terms and conditions set forth therein; (iii) directed that the adoption of the merger agreement be submitted to a vote at a meeting of the stockholders of Activision Blizzard; and (iv) recommended that Activision Blizzard stockholders adopt the merger agreement.

The Activision Blizzard Board of Directors unanimously recommends that you vote "**FOR**" the proposal to adopt the merger agreement, thereby approving the transactions contemplated by the merger agreement, including the merger.

Reasons for the Merger

In evaluating the merger agreement and the transactions contemplated thereby, including the merger, the Activision Blizzard Board of Directors held a number of meetings and consulted with Activision Blizzard's senior management and legal and financial advisors. In reaching its decision to approve the merger agreement and to recommend that Activision Blizzard stockholders vote to adopt the merger agreement, the Activision Blizzard Board of Directors considered a number of factors, including, but not limited to the following (which are not necessarily presented in order of their relative importance to the Activision Blizzard Board of Directors):

- *Premium to Market Price*. The fact that the merger consideration of $95.00 per share in cash to be received by the holders of shares of Activision Blizzard common stock in the merger represents a significant premium over the market price at which shares of Activision Blizzard common stock traded prior to the announcement of the execution of the merger agreement, including the fact that the merger consideration represents a premium of:
  - approximately 19.8% over the volume-weighted average closing stock price of shares of Activision Blizzard common stock for the one-year period ended January 14, 2022;
  - approximately 45.3% over the closing stock price of Activision Blizzard common stock on January 14, 2022, the last trading day prior to the approval of the transaction; and
  - approximately 50.3% over the volume-weighted average stock price of shares of Activision Blizzard common stock during the 30 trading days ended January 14, 2022.
- *Form of Consideration*. The fact that the proposed merger consideration is all cash, which provides stockholders certainty of value and liquidity for their shares of Activision Blizzard common stock while eliminating long-term business and execution risks.
- *Fair Value*. The belief of the Activision Blizzard Board of Directors that the merger represents fair value for the shares of Activision Blizzard common stock, taking into account the Activision Blizzard Board of Directors' familiarity with Activision Blizzard's current and historical financial condition, results of operations, business, competitive position and prospects, as well as Activision Blizzard's future business plan and potential long-term value.
- *Growth Opportunities*. The belief of the Activision Blizzard Board of Directors, based on discussions between Activision Blizzard and Microsoft and Microsoft's transaction history, that Activision Blizzard's business will be an important focus of Microsoft's growth strategy, which would create professional growth opportunities for many of Activision Blizzard's employees.
- *Benefits to Customers*. The belief of the Activision Blizzard Board of Directors, based on discussions between Activision Blizzard and Microsoft and Microsoft's product portfolio and transaction

history, that Activision Blizzard's customers will benefit from Microsoft's complementary product offerings and its greater resources and capabilities to expand the business of Activision Blizzard as part of Microsoft.

- *Industry Dynamics*. The potential for the merger to enhance the combined company's ability to compete effectively in the highly competitive market environments in which Activision Blizzard and Microsoft operate by combining Activision Blizzard's creative DNA and library of premium franchises with Microsoft's technological and distribution capabilities, including the ability to capitalize on new growth opportunities and to compete for customers and key employee talent.
- *Loss of Opportunity*. The possibility that, if the Activision Blizzard Board of Directors declined to adopt the merger agreement, there may not be another opportunity for Activision Blizzard's stockholders to receive a comparably priced transaction with a comparable level of closing certainty.
- *Risks Inherent in Activision Blizzard's Business Plan*. Activision Blizzard's short-term and long-term financial projections and the perceived challenges and risks associated with Activision Blizzard's ability to meet such projections, including Activision Blizzard's past track record of meeting internal, long-term projections, the financial results for Activision Blizzard for the year ended December 31, 2021 and the implications of Activision Blizzard's fourth quarter ended December 31, 2021 for Activision Blizzard's outlook for 2022 and subsequent years and the competitive threats facing Activision Blizzard, as well as the risks and uncertainties described in the "risk factors" and "forward looking statements" sections of Activision Blizzard's disclosures filed with the SEC, including the fact that Activision Blizzard's actual financial results in future periods could differ materially and adversely from the projected results.
- *Company Knowledge*. The Activision Blizzard Board of Directors' knowledge of, and discussions with Activision Blizzard management regarding, Activision Blizzard's business, operations, financial condition, earnings, strategy and future prospects, including Activision Blizzard's opportunities to create stockholder value in the future on a standalone basis and potential risks in the execution of Activision Blizzard's strategic plan.
- *Arm's-Length Negotiations*. The fact that the Activision Blizzard Board of Directors and Activision Blizzard's senior management, in coordination with Activision Blizzard's legal and financial advisors, vigorously negotiated on an arm's-length basis with Microsoft with respect to price and other terms and conditions of the merger agreement, including obtaining a price increase by Microsoft from its initial indication of interest at $80.00 per share to a price of $95.00 per share as well as the stated position of Microsoft that the agreed price was the highest price per share to which Microsoft was willing to agree.
- *Derivative Litigation*. The Activision Blizzard Board of Directors' consideration of the potential value to Activision Blizzard (and derivatively to Activision Blizzard stockholders) of pending derivative litigation claims that have been brought against the Activision Blizzard's officers and directors, and, even assuming such litigation claims had material value, the Activision Blizzard Board of Directors' determination that the merger consideration of $95.00 per share provided more than adequate value for such litigation claims.
- *Other Potential Strategic Alternatives*. The Activision Blizzard Board of Directors' consideration, from time to time, with the assistance of Activision Blizzard's senior management and legal and financial advisors, of the various potential strategic alternatives available to Activision Blizzard, including remaining an independent public company and continuing to execute on Activision Blizzard's strategic plan and the Activision Blizzard Board of Directors' belief that the merger presents a more favorable opportunity for Activision Blizzard stockholders than the potential value that may result from remaining a standalone public company or pursuing other potential strategic alternatives.
- *Board Review of Transaction*. The fact that the Activision Blizzard Board of Directors met, along with Activision Blizzard's senior management and legal and financial advisors, to evaluate and discuss the structure of the merger and the financial and other terms and conditions of, and other matters related to, the merger, multiple times between November 26, 2021, which was the date on which Microsoft first indicated that it would be willing to discuss an acquisition of Activision Blizzard at $80.00 per share and January 18, 2022, which was the date the merger agreement was signed.

- *Other Strategic Parties*. The fact that the Activision Blizzard Board of Directors authorized and directed management to contact three other strategic parties to assess their interest in a potential acquisition of Activision Blizzard that were viewed, with input from Activision Blizzard's senior management and legal and financial advisors, as the most likely potential counterparties that could transact at a level that could potentially deliver greater value to Activision Blizzard stockholders than the Microsoft transaction and that could potentially obtain required regulatory approval and that none of the parties contacted by Activision Blizzard's management determined to proceed with substantive discussions regarding a potential acquisition of Activision Blizzard.
- *Opinion of Activision Blizzard's Financial Advisor*. The opinion, dated January 17, 2022, of Allen & Company to the Activision Blizzard Board of Directors as to the fairness, from a financial point of view and as of such date, of the merger consideration to be received by holders of Activision Blizzard common stock (other than, to the extent applicable, Microsoft, Sub and their respective affiliates) pursuant to the merger agreement, which opinion was based on and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken as set forth in such opinion and is more fully described below in the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Opinion of Activision Blizzard's Financial Advisor" beginning on page 51.
- *Terms of the Merger Agreement*. The belief of the Activision Blizzard Board of Directors that the provisions of the merger agreement, including the respective representations, warranties and covenants and termination rights of the parties and termination fees payable by Activision Blizzard, are reasonable and customary. The Activision Blizzard Board of Directors also believed that the terms of the merger agreement include the most favorable terms reasonably attainable from Microsoft.
- *Conditions to the Consummation of the Merger; Likelihood of Closing*. The fact that the Activision Blizzard Board of Directors considered the reasonable likelihood of the consummation of the transactions contemplated by the merger agreement in light of the conditions in the merger agreement to the obligations of Microsoft, including the exceptions to the events that would constitute a material adverse effect on Activision Blizzard for purposes of the merger agreement, as well as Activision Blizzard's ability to seek specific performance to prevent breaches of the merger agreement, including to cause the merger to be consummated if all of the conditions to Microsoft's obligations to effect the merger closing have been satisfied or waived.
- *Regulatory Approvals*. The fact that the merger agreement requires that Microsoft use its reasonable best efforts to take certain actions necessary to obtain regulatory clearance and satisfy the regulatory conditions, including the fact that Microsoft agreed to accept potential remedies in order to obtain regulatory approval, including Microsoft's commitment to divest or take other actions with respect to businesses or assets of Activision Blizzard, unless such additional remedies would reasonably be expected to result in a material adverse impact on Activision Blizzard and its subsidiaries, taken as a whole, have a material impact on the benefits expected to be derived from the merger by Microsoft or have more than an immaterial impact on any business or product line of Microsoft, and that, if the merger agreement is terminated in certain circumstances related to the failure to obtain antitrust approvals, Microsoft will be required to pay a reverse termination fee of $2,000,000,000 if the notice regarding the termination of the merger agreement is delivered during the first 12 months post-signing, $2,500,000,000 if the notice regarding the termination of the merger agreement is delivered during months 13 to 15 post-signing, or $3,000,000,000 if the notice regarding the termination of the merger agreement is delivered after month 15 post-signing. For a more complete description of Microsoft's obligations to obtain required regulatory approvals and the reverse termination fee, see the sections below entitled "Terms of the Merger Agreement — Efforts to Close the Merger" beginning on page 85 and "Terms of the Merger Agreement — Reverse Termination Fee" beginning on page 90. The merger agreement also provides an appropriate "termination date" by which time it is reasonable to expect that the regulatory conditions are likely to be satisfied, which is subject to automatic extension for certain periods if the regulatory conditions are the only conditions not satisfied or capable of being satisfied at such time. For a more complete description of the termination date, see the section below entitled "Terms of the Merger Agreement — Termination of the Merger Agreement" beginning on page 88.

- *No Financing Condition*. The fact that Microsoft's representations contained in the merger agreement include a representation that Microsoft has and will have available at the effective time the funds necessary for the payment of the aggregate merger consideration and the fact that the merger is not subject to a financing condition.
- *Ability to Respond to Certain Unsolicited Takeover Proposals*. The fact that, while the merger agreement prohibits Activision Blizzard from actively soliciting competing bids to acquire it, the Activision Blizzard Board of Directors has rights, under certain circumstances, to engage in discussions with, and provide information to, third parties submitting unsolicited written takeover proposals and to terminate the merger agreement in order to enter into an alternative acquisition agreement that the Activision Blizzard Board of Directors determines to be a superior proposal; provided that Activision Blizzard pays a $2,270,100,000 termination fee. The Activision Blizzard Board of Directors further considered that the timing of the merger would provide ample opportunity for such third parties to submit proposals.
- *Change of Recommendation*. The fact that the Activision Blizzard Board of Directors has the right to change its recommendation that Activision Blizzard stockholders vote to adopt the merger agreement in response to a superior proposal or certain intervening events, subject to certain conditions, and the Activision Blizzard Board of Directors' view that the termination fee of $2,270,100,000 payable to Microsoft under certain circumstances is customary and reasonable and would not preclude or deter a willing and financially capable third party from making an acquisition proposal for an alternative transaction.
- *Termination Fee*. The belief of the Activision Blizzard Board of Directors that the termination fee of $2,270,100,000 is reasonable in amount, including in comparison with the range of termination fees in proportion to equity value payables in comparable third-party transactions considered by the Activision Blizzard Board of Directors.
- *Retention of Key Employees*. The belief of the Activision Blizzard Board of Directors that a retention program and an executive severance plan for certain employees of Activision Blizzard that Activision Blizzard would be permitted to implement in connection with the merger would help assure the continuity of management and other key employees, and increase the likelihood of the successful operation of Activision Blizzard during the period prior to closing.
- *Appraisal Rights*. The availability of appraisal rights with respect to the merger for Activision Blizzard stockholders who properly exercise their rights under the DGCL, which would give these stockholders the ability to seek and be paid a judicially determined appraisal of the "fair value" of their shares at the completion of the merger.

In the course of its evaluation of the merger agreement and the merger, the Activision Blizzard Board of Directors also considered a variety of risks, uncertainties and other potentially negative factors, including the following (which are not necessarily presented in order of their relative importance to the Activision Blizzard Board of Directors):

- *No Stockholder Participation in Future Growth or Earnings*. The fact that Activision Blizzard's stockholders will lose the opportunity to realize additional potential long-term value through Activision Blizzard's successful execution as an independent public company.
- *Impact of Announcement on Activision Blizzard*. The fact that the announcement and pendency of the merger, or the failure to complete the merger, may result in significant costs to Activision Blizzard and cause substantial harm to Activision Blizzard's relationships with its employees (including making it more difficult to attract and retain key personnel and the possible loss of key management and other personnel) and its customers, partners, providers and suppliers, particularly in the event that the merger is not consummated.
- *Diversion of Management Attention*. The substantial time and effort of management required to consummate the merger, which could disrupt Activision Blizzard's business operations and may divert employees' attention away from Activision Blizzard's day-to-day operations, and the impact of such efforts on Activision Blizzard's business in the event that the merger is not consummated.

- *Tax Treatment*. The fact that the all-cash transaction would be taxable to holders of shares of Activision Blizzard common stock for U.S. federal income tax purposes.
- *Regulatory Risks*. The possibility that regulatory agencies may delay, object to or challenge the merger or may impose terms and conditions on their approvals that adversely affect the business or financial results of Activision Blizzard or Microsoft and the fact that Microsoft is not required to agree to remedies that would reasonably be expected to (x) result in a material adverse impact on Activision Blizzard and its subsidiaries, taken as a whole, (y) have a material impact on the benefits expected to be derived from the merger by Microsoft or (z) have more than an immaterial impact on any business or product line of Microsoft.
- *Stockholder Approval*. The risk that the holders of shares of Activision Blizzard common stock may not approve the adoption of the merger agreement at the Activision Blizzard special meeting.
- *Closing Certainty*. The fact that there can be no assurance that, even if approved by the holders of shares of Activision Blizzard common stock, the merger will be completed on the anticipated timeline or at all.
- *Pre-Closing Covenants*. The restrictions on Activision Blizzard's conduct of business prior to completion of the merger contained in the merger agreement, including that Activision Blizzard is required to conduct its business in the ordinary course of business, subject to specific limitations, which could delay or prevent Activision Blizzard from pursuing certain business opportunities that may arise or taking other actions with respect to its operations during the pendency of the merger without Microsoft's consent, and the impact of such delay or loss of business opportunities on Activision Blizzard's business in the event that the merger is not consummated, including on existing business and employee relationships.
- *No Solicitation and Termination Fee*. The provisions of the merger agreement that restrict the ability of Activision Blizzard to solicit or negotiate alternative transactions and that such provisions and the potential requirement to pay Microsoft a termination fee of $2,270,100,000 may deter a potential acquirer from proposing an alternative transaction for Activision Blizzard that would provide Activision Blizzard stockholders with greater value than the merger.
- *Potential Litigation*. The potential for litigation relating to the merger and the associated costs, burden and inconvenience involved in defending any such proceedings.
- *Loss of Key Personnel*. The risk that, despite retention efforts prior to consummation of the merger, Activision Blizzard may lose personnel and the impact of such losses during the period prior to the closing and also in the event that the merger is not consummated.
- *Transaction Costs*. The transaction costs and retention costs to be incurred in connection with the merger, regardless of whether the merger is completed.
- *Timing of Closing*. The amount of time it could take to complete the merger, including that completion of the merger depends on factors outside of the control of Activision Blizzard or Microsoft, and the risk that the pendency of the merger for an extended period of time following the announcement of the execution of the merger agreement could have an adverse impact on Activision Blizzard, including its customer, supplier and other business relationships and potentially impact the trading price of its common stock, and the fact that an extended period of time may exacerbate the impact of other risks considered by the Activision Blizzard Board of Directors described herein.

The Activision Blizzard Board of Directors considered the factors described above as a whole, including through engaging in discussions with Activision Blizzard's senior management and legal and financial advisors. Based on this review and consideration, the Activision Blizzard Board of Directors unanimously concluded that these factors, on balance, supported a determination that the terms of the merger agreement and the transactions contemplated thereby were advisable, fair to and in the best interests of Activision Blizzard and its stockholders, and to make its recommendation to Activision Blizzard stockholders that they vote to adopt the merger agreement.

In considering the recommendation of the Activision Blizzard Board of Directors that Activision Blizzard stockholders vote to adopt the merger agreement, Activision Blizzard stockholders should be

aware that Activision Blizzard's directors and executive officers may have certain interests in the merger that are different from, or in addition to, the interests of Activision Blizzard stockholders generally, including the treatment of equity awards held by such directors and executive officers in the merger. For a description of the interests of our directors and executive officers in the merger, see "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger" beginning on page 58. The Activision Blizzard Board of Directors was aware of and took these interests into account when approving the merger agreement and determining that the terms of the merger agreement and the transactions contemplated thereby were advisable, fair to and in the best interests of Activision Blizzard and its stockholders.

The foregoing discussion of the information and factors that the Activision Blizzard Board of Directors considered is not, and is not intended to be, exhaustive. The Activision Blizzard Board of Directors collectively reached the conclusion to approve the merger agreement and the consummation of the transactions contemplated thereby, including the merger, in light of the various factors described above and other factors that the Activision Blizzard Board of Directors believed were appropriate. In view of the complexity and wide variety of factors, both positive and negative, that the Activision Blizzard Board of Directors considered in connection with its evaluation of the merger, the Activision Blizzard Board of Directors did not find it useful to, and did not attempt, to quantify, rank or otherwise assign relative or specific weights or values to any of the factors it considered in reaching its decision and did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the Activision Blizzard Board of Directors. In considering the factors discussed above, individual directors may have given different weights to different factors. It should be noted that this explanation of the reasoning of the Activision Blizzard Board of Directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in "Forward-Looking Statements" beginning on page 23.

Financial Forecasts

Activision Blizzard does not, as a matter of course, normally publicly disclose long-term forecasts or internal projections as to its future performance, revenue, earnings or other results given, among other reasons, the uncertainty, unpredictability and subjectivity of the underlying assumptions and estimates, including the difficulty of predicting general economic and market conditions, other than, from time to time, estimated ranges of certain expected financial results and operational metrics for the current year and certain future years in its regular earnings press releases and other investor materials. However, in connection with the proposed merger, Activision Blizzard's management provided certain unaudited prospective financial information to the Activision Blizzard Board of Directors for purposes of considering and evaluating the merger and the merger agreement and to Activision Blizzard's financial advisor, Allen & Company. Certain of such prospective financial information also was shared with Microsoft and its financial advisor in connection with Microsoft's due diligence review and discussions regarding the merger. Set forth below is a summary of the material unaudited prospective financial information provided by the management of Activision Blizzard in connection with the merger. We refer in this proxy statement to such unaudited prospective financial information, collectively, as the "prospective financial information."

The prospective financial information was not prepared with a view to public disclosure and is included in this proxy statement only because such information was made available as described above. The prospective financial information was not prepared with a view to compliance with generally accepted accounting principles as applied in the United States, which we refer to as GAAP, the published guidelines of the SEC regarding projections and forward-looking statements or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The prospective financial information included in this document has been prepared by, and is the responsibility of, Activision Blizzard's management. PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference in this document relates to Activision Blizzard's previously issued financial statements. It does not extend to the prospective financial information and should not be read to do so.

Although a summary of the prospective financial information is presented with numerical specificity, the prospective financial information reflects numerous forecasts, variables, assumptions and estimates as to

future events made by management of Activision Blizzard, many of which are difficult to predict and subject to significant economic and competitive uncertainties beyond Activision Blizzard's control, that management of Activision Blizzard believed in good faith were reasonable and supportable at the time the prospective financial information was prepared, taking into account the relevant information available to, and reflecting the best currently available estimates and judgments of, the management of Activision Blizzard at the time. However, this information is not fact and should not be relied upon as necessarily indicative of actual future results nor construed as financial guidance, given the inherent risks and uncertainties associated with such forecasts. The prospective financial information is subjective in many respects and, thus, subject to interpretation. Important factors that may affect actual results and cause the prospective financial information not to be achieved include general economic, regulatory, market, financial, competitive, seasonal, cyclical and other conditions, trends and developments, industry performance, accuracy of certain accounting assumptions, changes in actual or projected cash flows, competitive pressures, the ability to attract and retain highly skilled employees, the ability to execute day-to-day operations and other strategic initiatives and other factors described or referenced under the section entitled "Forward-Looking Statements" beginning on page 23. Because the prospective financial information covers multiple years, such information by its nature becomes less predictive with each successive year. In addition, the prospective financial information does not take into account any circumstances or events occurring after the date that it was prepared and does not give effect to the merger. As a result, there can be no assurance that the prospective financial information will or would be realized, and actual results may be materially better or worse than those contained in the prospective financial information.

None of Activision Blizzard or its directors, officers, affiliates, advisors or other representatives makes any representation to readers of this proxy statement, and has not made any such representation to Microsoft, concerning the ultimate performance of Activision Blizzard or the combined company compared to the prospective financial information. The inclusion of the prospective financial information in this proxy statement does not constitute an admission or representation by Activision Blizzard or any of its directors, officers, affiliates, advisors or other representatives that the information is material nor has such information been included to influence your decision on how to vote on any proposal. The prospective financial information should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding Activision Blizzard contained in our public filings with the SEC. Financial measures provided to a board of directors or a financial advisor are excluded from the definition of non-GAAP financial measures and, therefore, are not subject to SEC rules regarding disclosures of non-GAAP financial measures, which would otherwise require, among other information, a reconciliation of a non-GAAP financial measure to a GAAP financial measure. Reconciliations of non-GAAP financial measures were not relied upon by the Activision Blizzard Board of Directors or Allen & Company in connection with the merger. Accordingly, a reconciliation of the financial measures included in the financial projections is not provided.

EXCEPT TO THE EXTENT REQUIRED BY APPLICABLE FEDERAL SECURITIES LAWS, ACTIVISION BLIZZARD DOES NOT INTEND, AND EXPRESSLY DISCLAIMS ANY RESPONSIBILITY, TO UPDATE OR OTHERWISE REVISE THE PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH FORECASTS ARE NOT REALIZED AND EVEN IN THE EVENT THAT ANY OF THE ASSUMPTIONS UNDERLYING THE PROSPECTIVE FINANCIAL INFORMATION ARE SHOWN TO BE INAPPROPRIATE.

Long-Range Plan

As part of Activision Blizzard's ordinary course annual financial planning process, and not in contemplation of the merger, the Long-Range Plan for Activision Blizzard's fiscal years 2021 through 2024 was presented by Activision Blizzard's management to the Activision Blizzard Board of Directors on October 28, 2021. The Long-Range Plan was not prepared or extrapolated for Activision Blizzard's fiscal years 2025 through 2026. In connection with the Long-Range Plan process (and as is typical in Activision Blizzard's annual financial planning process), the management teams of various Activision Blizzard franchises and business units provided preliminary inputs regarding estimated financial results of such franchises and business units based on the "stretch" goals and objectives of such franchises' and

business units' management teams which were aggregated by Activision Blizzard's management into a compilation of "bottom-up" franchise and business unit inputs. Activision Blizzard's management then applied certain risk assessments and judgments to the franchise and business unit inputs in arriving at the Long-Range Plan. The Long-Range Plan, as risk-adjusted by Activision Blizzard's management, was approved by the Activision Blizzard Board of Directors on November 2, 2021 as the plan to be used for internal business planning purposes for Activision Blizzard's performance for the fiscal years 2021 through 2024, as described in the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Background of the Merger" beginning on page 31. The Long-Range Plan, which included as an appendix the pre-risk-adjusted franchise and business unit inputs, was provided to Microsoft on December 6, 2021 and subsequently shared by Microsoft with Goldman Sachs.

The following table reflects selected metrics (in millions) included in the Long-Range Plan as approved by the Activision Blizzard Board of Directors on November 2, 2021:

	Fiscal Year Ending December 31,			
Long-Range Plan	**2021E**	**2022E**	**2023E**	**2024E**
Revenue[(1)]	$8,856	$9,174	$11,725	$12,405
Operating Income[(2)]	$3,718	$3,886	$ 4,849	$ 5,597

(1) Revenue excludes the impact of deferrals from Activision Blizzard's accounting treatment under GAAP on certain of Activision Blizzard's online-enabled products. Revenue (in millions) from the franchise and business unit inputs before applying Activision Blizzard management's risk assessments and judgments included as an appendix to the Long-Range Plan was: 2021E: $8,856; 2022E: $9,546; 2023E: $12,654; 2024E: $13,394.

(2) Operating Income was calculated in a manner consistent with EBIT (Pre-SBC) as described below in the management forecasts. Operating Income (in millions) from the franchise and business unit inputs before applying Activision Blizzard management's risk assessments and judgments included as an appendix to the Long-Range Plan was: 2021E: $3,718; 2022E: $4,082; 2023E: $5,596; 2024E: $6,391.

Management Forecasts

At meetings of the Activision Blizzard Board of Directors held on December 14, 2021, and December 15, 2021, Activision Blizzard's senior management presented to the Activision Blizzard Board of Directors updated financial forecasts for Activision Blizzard's long-term financial performance (which we refer to in this proxy statement as the "December 2021 management forecasts"), which had been extended for fiscal years 2025 and 2026 based on potential Activision Blizzard longer-term initiatives and downwardly adjusted from the Long-Range Plan for fiscal years 2021 through 2024 by Activision Blizzard's management to account for, among other things, the passage of time since the Long-Range Plan was presented to the Activision Blizzard Board of Directors on October 28, 2021 and approved by Activision Blizzard's Board of Directors on November 2, 2021, further insight into Activision Blizzard's performance in the fourth quarter of 2021 — particularly the underperformance of the recently launched version of Call of Duty and the potential effects of that underperformance in 2022, and execution risk in the Long-Range Plan. The updated management forecasts were intended to provide the Activision Blizzard Board of Directors with an updated and risk-adjusted view of Activision Blizzard's potential prospective financial performance in light of the foregoing as it considered the proposed transaction with Microsoft. The updated management forecasts were not intended to, and do not, constitute a revised Long-Range Plan, and do not reflect any adjustments that Activision Blizzard might make in its strategy in response to Activision Blizzard's performance in the fourth quarter of 2021. The December 2021 management forecasts were subsequently further updated in mid-January 2022, prior to the approval of the merger agreement by the Activision Blizzard Board of Directors, to reflect forecasted financial results of Activision Blizzard for the fourth quarter of 2021 and other immaterial adjustments (which we refer to in this proxy statement as the "January 2022 forecasts"). On January 14, 2022, the Activision Blizzard Board of Directors directed Allen & Company to use and rely upon the January 2022 forecasts in connection with its opinion and related financial analyses summarized under "Proposal 1: Adoption of the Merger Agreement — The Merger — Opinion of Activision Blizzard's Financial Advisor" beginning on page 51 (in which such January 2022 forecasts are referenced as the "Activision

Blizzard forecasts"). The updated preliminary financial results for the fourth quarter 2021 and full year 2021 performance were provided to Microsoft and its financial advisor on January 11, 2022. The revenue and EBIT (Pre-SBC) metrics reflected below and included in the January 2022 forecasts for fiscal years 2022 through 2024 were provided to Microsoft on January 14, 2022.

The following table reflects selected metrics (in millions) included in the January 2022 forecasts:

	Fiscal Year Ending December 31,					
Management Forecasts	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Revenue[1]	$8,354	$8,625	$10,605	$11,125	$12,237	$12,604
EBIT (Pre-SBC)[2]	$3,507	$3,450	$ 4,300	$ 4,870	$ 5,166	$ 5,446
Adj. EBITDA[3]	$3,615	$3,552	$ 4,403	$ 4,973	$ 5,266	$ 5,546
(-) SBC	$ (554)	$ (601)	$ (526)	$ (560)	$ (580)	$ (600)
(-) Depreciation & Amortization	$ (108)	$ (103)	$ (103)	$ (103)	$ (100)	$ (100)
Taxable EBIT	$2,954	$2,849	$ 3,774	$ 4,311	$ 4,586	$ 4,846
(-) Cash Taxes	$ (443)	$ (528)	$ (698)	$ (793)	$ (826)	$ (872)
Net Operating Profit After Taxes	$2,511	$2,321	$ 3,076	$ 3,518	$ 3,761	$ 3,974
(+) Depreciation & Amortization	$ 108	$ 103	$ 103	$ 103	$ 100	$ 100
(-) Change in Working Capital	—	$ (275)	$ (50)	$ (50)	$ (61)	$ (63)
(-) Capital Expenditures	$ (105)	$ (100)	$ (100)	$ (100)	$ (100)	$ (100)
(-) Capitalized Software Development	$ (426)	$ (541)	$ (434)	$ (439)	$ (489)	$ (504)
(+) Amortization of Software Development	$ 215	$ 286	$ 818	$ 389	$ 587	$ 504
(-) Restructuring	$ (67)	$ (25)	$ (25)	$ (25)	$ (25)	$ (25)
Unlevered Free Cash Flow[4]	$2,235	$1,768	$ 3,387	$ 3,396	$ 3,773	$ 3,886

(1) Revenue excludes the impact of deferrals from Activision Blizzard's accounting treatment under GAAP on certain of Activision Blizzard's online-enabled products. December 2021 management forecasts provided for the following approximate estimated revenues (in billions): 2021E: $8.5; 2022E: $8.7; 2023E: $10.6; 2024E: $11.1; 2025E: $12.2; 2026E: $12.6.

(2) "EBIT (Pre-SBC)" refers to earnings before interest and taxes (but includes depreciation and amortization), and excludes stock-based compensation, restructuring and other costs, net, acquisition-related costs, net and certain other expenses that result from unplanned events outside the ordinary course of continuing operations. EBIT (Pre-SBC) is a non-GAAP measure, and our calculation of EBIT (Pre-SBC) may differ from other companies. December 2021 management forecasts provided for the following approximate estimated EBIT (Pre-SBC) (in billions): 2021E: $3.6; 2022E: $3.6; 2023E: $4.3; 2024E: $4.9; 2025E: $5.2; 2026E: $5.4.

(3) "Adjusted EBITDA" refers to earnings before interest, taxes, depreciation and amortization, and excludes stock-based compensation, restructuring and other costs, net, acquisition-related costs, net and certain other expenses that result from unplanned events outside the ordinary course of continuing operations. Adjusted EBITDA is a non-GAAP measure, and our calculation of Adjusted EBITDA may differ from other companies. December 2021 management forecasts provided for the following approximate estimated Adjusted EBITDA (in billions): 2021E: $3.7; 2022E: $3.7; 2023E: $4.4; 2024E: $5.0; 2025E: $5.3; 2026E: $5.5.

(4) "Unlevered Free Cash Flow" was calculated as Adjusted EBITDA less stock-based compensation, depreciation and amortization and cash taxes to derive net operating profit after taxes, which was then adjusted by adding back depreciation and amortization and amortization of software development and deducting changes in working capital, capital expenditures, capitalized software development and restructuring costs. December 2021 management forecasts provided for the following approximate estimated Unlevered Free Cash Flow (in billions): 2021E: $2.5; 2022E: $1.8; 2023E: $3.4; 2024E: $3.4; 2025E: $3.8; 2026E: $3.9.

Opinion of Activision Blizzard's Financial Advisor

Activision Blizzard has engaged Allen & Company as financial advisor to Activision Blizzard in connection with the merger. In connection with this engagement, Activision Blizzard requested that Allen & Company render an opinion to the Activision Blizzard Board of Directors regarding the fairness, from a financial point of view, of the merger consideration to be received by holders of Activision Blizzard common stock pursuant to the merger agreement. On January 17, 2022, at a meeting of the Activision Blizzard Board of Directors held to evaluate the merger, Allen & Company rendered an oral opinion, which was confirmed by delivery of a written opinion dated January 17, 2022, to the Activision Blizzard Board of Directors to the effect that, as of that date and based on and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken described in its opinion, the merger consideration to be received by holders of Activision Blizzard common stock (other than, to the extent applicable, Microsoft, Sub and their respective affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Allen & Company's written opinion, dated January 17, 2022, which describes the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken, is attached to this proxy statement as Annex C and is incorporated by reference herein in its entirety. The description of Allen & Company's opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of Allen & Company's opinion. **Allen & Company's opinion and advisory services were intended for the benefit and use of the Activision Blizzard Board of Directors (in its capacity as such) in connection with its evaluation of the merger consideration from a financial point of view and did not address any other terms, aspects or implications of the merger. Allen & Company's opinion did not constitute a recommendation as to the course of action that Activision Blizzard (or the Activision Blizzard Board of Directors or any committee thereof) should pursue in connection with the merger or otherwise address the merits of the underlying decision by Activision Blizzard to engage in the merger, including in comparison to other strategies or transactions that might be available to Activision Blizzard or which Activision Blizzard might engage in or consider. Allen & Company's opinion does not constitute advice or a recommendation to any securityholder or other person as to how to vote or act on any matter relating to the merger or otherwise.**

Allen & Company's opinion reflected and gave effect to Allen & Company's general familiarity with Activision Blizzard and the industry in which Activision Blizzard operates as well as information that Allen & Company received during the course of its assignment, including information provided by the management of Activision Blizzard in the course of discussions relating to the merger as more fully described below. In arriving at its opinion, Allen & Company neither conducted a physical inspection of the properties or facilities of Activision Blizzard or any other entity nor made or obtained any evaluations or appraisals of the assets or liabilities (contingent, accrued, derivative, off-balance sheet or otherwise) of Activision Blizzard or any other entity, or conducted any analysis concerning the solvency or fair value of Activision Blizzard or any other entity. Allen & Company did not investigate, and expressed no opinion or view regarding, any actual or potential litigation, proceedings or claims involving or impacting Activision Blizzard or any other entity and Allen & Company assumed, with Activision Blizzard's consent, that there would be no developments with respect to any such matters that would be meaningful in any respect to its analyses or opinion.

In arriving at its opinion, Allen & Company, among other things:

- reviewed the financial terms of a draft, dated January 17, 2022, of the merger agreement;
- reviewed certain publicly available historical business and financial information relating to Activision Blizzard, including public filings of Activision Blizzard, and historical market prices for Activision Blizzard common stock;
- reviewed certain financial information relating to Activision Blizzard, including certain internal financial forecasts, estimates and other financial and operating data relating to Activision Blizzard, provided to or discussed with Allen & Company by the management of Activision Blizzard;
- held discussions with the management of Activision Blizzard relating to the operations, financial condition and prospects of Activision Blizzard;

- reviewed and analyzed certain publicly available information, including certain stock market data and financial information, relating to selected companies with businesses that Allen & Company deemed generally relevant in evaluating Activision Blizzard;
- reviewed and analyzed certain publicly available financial information relating to selected transactions that Allen & Company deemed generally relevant in evaluating the merger; and
- conducted such other financial analyses and investigations as Allen & Company deemed necessary or appropriate for purposes of its opinion.

In rendering its opinion, Allen & Company relied upon and assumed, with Activision Blizzard's consent and without independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information available to Allen & Company from public sources, provided to or discussed with Allen & Company by the management and other representatives of Activision Blizzard or otherwise reviewed by Allen & Company. With respect to the financial forecasts, estimates and other financial and operating data relating to Activision Blizzard that Allen & Company was directed to utilize for purposes of its analyses and opinion, Allen & Company was advised by the management of Activision Blizzard and Allen & Company assumed, at Activision Blizzard's direction, that such financial forecasts, estimates and other financial and operating data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such management as to, and were a reasonable basis upon which to evaluate, the future financial and operating performance of Activision Blizzard and the other matters covered thereby. Allen & Company expressed no opinion or view as to any financial forecasts, estimates or other financial or operating data or the assumptions on which they were based.

Allen & Company relied, at Activision Blizzard's direction, upon the assessments of the management of Activision Blizzard as to, among other things, (i) the potential impact on Activision Blizzard of certain market, competitive, macroeconomic, seasonal, cyclical and other conditions, trends and developments in and prospects for, and governmental, regulatory and legislative policies and matters relating to or otherwise affecting, the interactive entertainment industry, (ii) existing and new products, franchises and related intellectual property and other technology of Activision Blizzard (including associated risks), (iii) workforce matters and related litigation, investigations, consent decrees and other proceedings, including the potential impact thereof on Activision Blizzard, (iv) implications for Activision Blizzard and its operations of the global COVID-19 pandemic, and (v) existing and future agreements and arrangements involving, and the ability to attract, retain and/or replace, key employees and contractors, customers, third-party developers, manufacturers, distributors and other commercial relationships of Activision Blizzard. With Activision Blizzard's consent, Allen & Company assumed that there would be no developments with respect to any such matters that would have an adverse effect on Activision Blizzard or the merger or that otherwise would be meaningful in any respect to its analyses or opinion.

Further, Allen & Company's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Allen & Company as of, the date of its opinion. It should be understood that subsequent developments may affect the conclusion expressed in Allen & Company's opinion and that Allen & Company assumed no responsibility for advising any person of any change in any matter affecting Allen & Company's opinion or for updating or revising its opinion based on circumstances or events occurring after the date of such opinion. As the Activision Blizzard Board of Directors was aware, the credit, financial and stock markets, the industry in which Activision Blizzard operates and the securities of Activision Blizzard have experienced and may continue to experience volatility and Allen & Company expressed no opinion or view as to any potential effects of such volatility on Activision Blizzard or the merger.

Allen & Company assumed, with Activision Blizzard's consent, that the merger would be consummated in accordance with its terms and in compliance with all applicable laws, documents and other requirements, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary governmental, regulatory or third party approvals, consents, releases, waivers, decrees and agreements for the merger, no delay, limitation, restriction or condition, including any divestiture or other requirements or remedies, amendments or modifications, would be imposed or occur that would have an adverse effect on Activision Blizzard or the merger or that otherwise would be meaningful in any respect to Allen & Company's analyses or opinion. In addition, Allen & Company assumed, with

Activision Blizzard's consent, that the final executed merger agreement would not differ from the draft reviewed by Allen & Company in any respect meaningful to its analyses or opinion.

Allen & Company's opinion was limited to the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration (to the extent expressly specified in such opinion), without regard to individual circumstances of specific holders of Activision Blizzard common stock (whether by virtue of control, voting, liquidity, contractual arrangements or otherwise) that may distinguish such holders or the securities of Activision Blizzard held by such holders, and Allen & Company's opinion did not in any way address proportionate allocation or relative fairness. Allen & Company's opinion also did not address any other terms, aspects or implications of the merger, including, without limitation, the form or structure of the merger, any repurchase, payoff or similar transaction, cloud-related agreements or arrangements or any other agreements, arrangements or understandings entered into in connection with, related to or contemplated by the merger or otherwise. Allen & Company expressed no opinion or view as to the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation or other consideration payable to any officers, directors or employees of any party to the merger or any related entities, or any class of such persons or any other party, relative to the merger consideration or otherwise. Allen & Company did not express any opinion or view as to the prices at which Activision Blizzard common stock or any other securities of Activision Blizzard may trade or otherwise be transferable at any time, including following announcement or consummation of the merger. In addition, Allen & Company expressed no opinion or view with respect to accounting, tax, regulatory, legal or similar matters, including, without limitation, as to tax or other consequences of the merger or otherwise or changes in, or the impact of, accounting standards, tax and other laws, regulations and governmental and legislative policies affecting Activision Blizzard or the merger, and Allen & Company relied, at Activision Blizzard's direction, upon the assessments of representatives of Activision Blizzard as to such matters. Allen & Company's opinion did not constitute a recommendation as to the course of action that Activision Blizzard (or the Activision Blizzard Board of Directors or any committee thereof) should pursue in connection with the merger or otherwise address the merits of the underlying decision by Activision Blizzard to engage in the merger, including in comparison to other strategies or transactions that might be available to Activision Blizzard or which Activision Blizzard might engage in or consider.

In connection with its opinion, Allen & Company performed a variety of financial and comparative analyses, including those described below. The summary of the analyses below and certain factors considered is not a comprehensive description of all analyses undertaken or factors considered by Allen & Company. The preparation of a financial opinion or analysis is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion and analyses are not readily susceptible to summary description. Allen & Company arrived at its opinion based on the results of all analyses undertaken and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Allen & Company believes that the analyses and factors summarized below must be considered as a whole and in context. Allen & Company further believes that selecting portions of the analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses and factors, could create a misleading or incomplete view of the processes underlying Allen & Company's analyses and opinion.

In performing its financial analyses, Allen & Company considered industry performance, general business and economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of Activision Blizzard. No company, business or transaction reviewed is identical or directly comparable to Activision Blizzard, its businesses or the merger and an evaluation of these analyses is not entirely mathematical; rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading, acquisition or other values of the companies, businesses or transactions reviewed. The assumptions and estimates of the future performance of Activision Blizzard in or underlying Allen & Company's analyses and the implied reference ranges derived from any particular analysis are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those estimates or those suggested by such analyses. These analyses were prepared solely as part of Allen & Company's analysis of the fairness, from a financial point of view, of the merger consideration and were provided to the Activision Blizzard Board of Directors in connection with the delivery of Allen &

Company's opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future. Accordingly, the assumptions and estimates used in, and the reference ranges resulting from, any particular analysis described below are inherently subject to substantial uncertainty and should not be taken as the views of Allen & Company regarding the actual value of Activision Blizzard.

Allen & Company did not recommend that any specific consideration constituted the only appropriate consideration in the merger. The type and amount of consideration payable in the merger was determined through negotiations between Activision Blizzard and Microsoft, rather than by any financial advisor, and was approved by the Activision Blizzard Board of Directors. The decision to enter into the merger agreement was solely that of the Activision Blizzard Board of Directors. Allen & Company's opinion and analyses were only one of many factors considered by the Activision Blizzard Board of Directors in its evaluation of the merger and the merger consideration and should not be viewed as determinative of the views of the Activision Blizzard Board of Directors or management with respect to the merger or the consideration payable in the merger.

Financial Analyses

The summary of the financial analyses described in this section entitled "— *Financial Analyses*" is a summary of the material financial analyses provided by Allen & Company in connection with its opinion, dated January 17, 2022, to the Activision Blizzard Board of Directors. **The summary set forth below is not a comprehensive description of all analyses undertaken by Allen & Company in connection with its opinion, nor does the order of the analyses in the summary below indicate that any analysis was given greater weight than any other analysis. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by Allen & Company, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by Allen & Company. Considering the data set forth in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Allen & Company. Future results may differ from those described and such differences may be material.** For purposes of the financial analyses described below, (i) the term "Activision Blizzard forecasts" refers in this section to the internal financial forecasts, estimates and other financial and operating data relating to Activision Blizzard prepared by the management of Activision Blizzard as reflected in the January 2022 forecasts, and (ii) the term "EBITDA" means earnings before interest, taxes, depreciation and amortization, stock-based compensation expense and certain one-time non-recurring items, as applicable (referenced in the January 2022 forecasts as "Adjusted EBITDA").

Selected Public Companies Analysis. Allen & Company reviewed certain publicly available financial and stock market information relating to Activision Blizzard and the following three selected publicly traded companies with operations in the interactive entertainment industry that Allen & Company considered generally relevant for purposes of analysis, collectively referred to as the "selected companies:"

- Take-Two Interactive Software, Inc.
- Electronic Arts Inc.
- Ubisoft Entertainment SA

Allen & Company reviewed, among other information, enterprise values, calculated as implied equity values based on closing stock prices on January 14, 2022, which is the last unaffected trading day prior to public announcement of the merger (except in the case of Take-Two Interactive Software, Inc., which was based on its unaffected closing stock price on January 7, 2022, prior to the announcement of its pending acquisition of Zynga Inc.) plus total debt and non-controlling interests (as applicable) and less cash and cash equivalents and unconsolidated assets, as applicable, as a multiple of calendar years 2022 and 2023 estimated EBITDA. Financial data of the selected companies were based on publicly available Wall Street research analysts' estimates, public filings and other publicly available information. Financial data of Activision Blizzard was based on the Activision Blizzard forecasts and other information provided by the management of Activision Blizzard.

The overall low to high calendar year 2022 and calendar year 2023 estimated EBITDA multiples observed for the selected companies were 8.4x to 19.1x and 7.3x to 15.6x, respectively. Allen & Company then applied selected ranges of calendar year 2022 and calendar year 2023 estimated EBITDA multiples derived from the selected companies of 13.5x to 18.0x and 12.5x to 15.0x, respectively, to corresponding data of Activision Blizzard based on the Activision Blizzard forecasts. This analysis indicated the following approximate implied equity value per share reference range for Activision Blizzard, as compared to the merger consideration:

Implied Equity Value Per Share Reference Range Based On:		Merger Consideration
CY2022E EBITDA	CY2023E EBITDA	
$69.08 – $89.05	$77.93 – $91.67	$95.00

Selected Precedent Transactions Analysis. Using publicly available information, Allen & Company reviewed financial data relating to the following 11 selected transactions involving target companies with operations in the interactive entertainment industry that Allen & Company considered generally relevant for purposes of analysis, collectively referred to as the "selected transactions:"

Announcement Date	Acquiror	Target
January 2022	Take-Two Interactive Software, Inc.	Zynga Inc.
February 2021	Electronic Arts Inc.	Glu Mobile, Inc.
December 2020	Electronic Arts Inc.	Codemasters Group Holdings plc
September 2020	Microsoft Corporation	ZeniMax Media, Inc.
August 2020	Tencent Music Entertainment Group	Leyou Technologies Holdings Ltd.
November 2017	Aristocrat Leisure Limited	Big Fish Games, Inc.
April 2017	DoubleU Games Co., Ltd.	DoubleDown Interactive Co., Inc.
July 2016	Shanghai Giant Network Technology Co., Ltd.	Playtika Holdings, LLC
June 2016	Tencent Holdings Ltd.	Supercell Oy
November 2015	Activision Blizzard Inc.	King Digital Entertainment Public Limited Company
October 2013	SoftBank Group Corp.	Supercell Oy

Allen & Company reviewed, among other information and to the extent publicly available, transaction values of the selected transactions, calculated as the enterprise values implied for the target companies involved in the selected transactions based on the consideration paid or payable in the selected transactions, as a multiple of the latest 12 months EBITDA of the target company as of the applicable announcement date of such transaction. Financial data for the selected transactions were based on publicly available Wall Street research analysts' estimates, public filings and other publicly available information. Financial data of Activision Blizzard was based on the Activision Blizzard forecasts, public filings and other publicly available information.

The overall low to high latest 12 months EBITDA multiples observed for the selected transactions were 5.6x to 29.9x. Allen & Company then applied a selected range of latest 12 months EBITDA multiples derived from the selected transactions of 14.0x to 20.0x to the latest 12 months (as of December 31, 2021) EBITDA of Activision Blizzard based on the Activision Blizzard forecasts. This analysis indicated the following approximate implied equity value per share reference range for Activision Blizzard, as compared to the merger consideration:

Implied Equity Value Per Share Reference Range Based On:	Merger Consideration
LTM EBITDA	
$72.40 – $99.49	$95.00

Discounted Cash Flow Analysis. Allen & Company performed a discounted cash flow analysis of Activision Blizzard by calculating, based on the Activision Blizzard forecasts, the estimated present value (as of December 31, 2021) of the standalone unlevered, after-tax free cash flows that Activision Blizzard was

forecasted to generate during the fiscal years ending December 31, 2021 through December 31, 2026. For purposes of this analysis, stock-based compensation was treated as a cash expense. Allen & Company calculated implied terminal values for Activision Blizzard by applying to Activision Blizzard's unlevered, after-tax free cash flows for the fiscal year ending December 31, 2026 a selected range of perpetuity growth rates of 2.25% to 2.75% and a selected range of discount rates of 6.50% to 8.00%. This analysis indicated the following approximate implied equity value per share reference range for Activision Blizzard, as compared to the merger consideration:

Implied Equity Value Per Share Reference Range:	Merger Consideration
$84.73 – $123.87	$95.00

Certain Additional Information. Allen & Company observed certain additional information that was not considered as part of its financial analyses for its opinion but was noted for informational reference only, including the following:

- historical trading prices of Activision Blizzard common stock during the 52-week period ended January 14, 2022, which indicated low to high intraday prices for Activision Blizzard common stock during such period of approximately $56.40 to $104.53 per share; and
- publicly available Wall Street research analysts' forward stock price targets for Activision Blizzard common stock, which indicated an overall low to high target price range for Activision Blizzard common stock of $54.00 to $125.00 per share (with a mean of $90.52 per share and a median of $90.00 per share).

Miscellaneous

Activision Blizzard selected Allen & Company as its financial advisor in connection with the merger based on, among other things, Allen & Company's reputation, experience and familiarity with Activision Blizzard and the industry in which Activision Blizzard operates. Allen & Company, as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and related financings, negotiated underwritings, secondary distributions of listed and unlisted securities, and valuations for corporate and other purposes. As the Activision Blizzard Board of Directors was aware, although during the two-year period prior to the date of its opinion Allen & Company did not provide investment banking services to Activision Blizzard unrelated to the merger or to Microsoft for which Allen & Company received compensation, Allen & Company in the future may provide such services to Activision Blizzard, Microsoft and/or their respective affiliates, for which Allen & Company would expect to receive compensation. In the ordinary course, Allen & Company as a broker-dealer and certain of its affiliates, directors and officers have invested or may invest, hold long or short positions and may trade, either on a discretionary or non-discretionary basis, for their own or beneficiaries' accounts or for those of Allen & Company's clients, in the debt and equity securities (or related derivative securities) of Activision Blizzard, Microsoft and/or their respective affiliates. The issuance of Allen & Company's opinion was approved by Allen & Company's opinion committee.

For Allen & Company's financial advisory services, Activision Blizzard has agreed to pay Allen & Company an aggregate cash fee of $65 million, of which $10 million was payable upon delivery of Allen & Company's opinion and $55 million is payable contingent upon consummation of the merger. Activision Blizzard also has agreed to reimburse Allen & Company's reasonable expenses and to indemnify Allen & Company and related parties against certain liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Treatment of Equity Compensation

Pursuant to our equity incentive plans, we have granted equity awards with respect to Activision Blizzard common stock in the form of stock options and stock units (*i.e.*, RSUs and PSUs). Our executive officers hold options, RSUs, which represent a right to receive shares of Activision Blizzard common stock based on service over a time-based vesting schedule, and PSUs, which represent a right to receive shares of Activision Blizzard common stock ranging from 0 to 125% (and, in some cases, up to 250%) of the target

number of shares based on both service over a time-based vesting schedule and achievement of specified performance goals over a specified performance period. Our non-employee directors hold options and RSUs, which represent a right to receive shares of Activision Blizzard common stock, subject to vesting requirements of the underlying equity award, on a specified future date or event, such as a separation from service. The merger agreement provides for the treatment set forth below with respect to outstanding equity awards:

Stock Options

- Each outstanding option to purchase Activision Blizzard common stock granted pursuant to our equity incentive plans that (i) is vested as of immediately prior to the effective time, or (ii) will become vested by its terms at the effective time will be cancelled and converted into the right to receive the merger consideration for each share of Activision Blizzard common stock that would have been issuable upon exercise of such option immediately prior to the effective time, less the applicable option exercise price for each such share of Activision Blizzard common stock underlying such option and any applicable withholding taxes.
- Each option that is outstanding as of immediately prior to the effective time, and is not cancelled and converted as described above, and has an exercise price per share of Activision Blizzard common stock that is less than the merger consideration, will be, as of the effective time and as determined by Microsoft, (x) assumed by Microsoft and converted into a nonqualified stock option or (y) converted into a nonqualified stock option granted pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock subject to such assumed option as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by (ii) a fraction (A) the numerator of which is the merger consideration and (B) the denominator of which is Microsoft's stock price (*i.e.*, the volume weighted average price per share rounded to four decimal places (with amounts of 0.00005 and above rounded up) of common stock of Microsoft on Nasdaq for the five consecutive trading days ending with the last trading day ending immediately prior to the closing date) (which we refer to as the "exchange ratio"), at an exercise price per share of common stock of Microsoft equal to (i) the exercise price of such option divided by (ii) the exchange ratio (rounded up to the nearest whole cent) rounded down to the nearest whole number of shares. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting and exercisability will remain the same with respect to Activision Blizzard options subject to time-based vesting, and with respect to Activision Blizzard options subject to performance-based vesting will be converted into time-based vesting options (determined based on target performance levels) that will vest at the conclusion of the original performance period.
- In the event that the exercise price per share under any option is equal to or greater than the merger consideration, such option will be cancelled as of the effective time without payment therefor and will have no further force or effect.

Stock Units

- Each outstanding award of RSUs or PSUs granted pursuant to Activision Blizzard's equity incentive plans that (i) is vested as of immediately prior to the effective time, (ii) will become vested by its terms at the effective time or (iii) is granted to a non-employee member of the Activision Blizzard Board of Directors, will, as of the effective time, be cancelled and converted into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to such award, less any applicable withholding taxes.
- Each outstanding award of RSUs or PSUs that is outstanding as of immediately prior to the effective time and is not cancelled and converted as described above, will, as of the effective time, be, as determined by Microsoft (x) assumed by Microsoft and converted into a stock-based award or (y) converted into a stock-based award pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock

subject to such award as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by the exchange ratio. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting will remain the same with respect to equity awards subject to time-based vesting, and with respect to equity awards subject to performance-based vesting will be converted into time-based vesting equity awards (determined based on target performance levels) that will vest at the conclusion of the original performance period.

Notwithstanding the treatment of outstanding unvested options, RSUs and PSUs described above, prior to the closing date, Microsoft may elect to treat some or all of the awards that would otherwise be converted as set forth herein as if they were vested (*i.e.*, by cancelling and converting an award into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to the award (less the applicable exercise price, in the case of options), less any applicable withholding taxes; provided that for options, such election may apply only to those options that are otherwise scheduled to vest within 120 days following the closing date).

If the treatment described above of an award of stock units or options held by a non-U.S. employee would be prohibited or subject to onerous regulatory requirements or adverse tax treatment under the laws of the applicable jurisdiction (in each case, as reasonably determined by Microsoft), Microsoft will provide compensation to the employee that is equivalent in value to the value that otherwise would have been provided to the employee under the treatment described above, to the extent practicable and as would not result in the imposition of additional taxes under Section 409A of the Code. This compensation will be provided in the form of a cash payment (less applicable taxes) or a new equity award, as reasonably determined by Microsoft.

Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger

When considering the recommendation of the Activision Blizzard Board of Directors that you vote to approve the proposal to adopt the merger agreement, you should be aware that our non-employee directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder. The Activision Blizzard Board of Directors was aware of and considered these interests to the extent such interests existed at the time, among other matters, in evaluating and overseeing the negotiation of the merger agreement, in approving the merger agreement and the merger and in recommending that the merger agreement be adopted by the stockholders of Activision Blizzard.

Accelerated Vesting of Equity Compensation Upon Certain Terminations

None of the Activision Blizzard outstanding equity awards provide for "single trigger" vesting immediately at the effective time (*i.e.*, as a result of the merger without a termination of employment). However, under the terms of the merger agreement, outstanding RSUs held by non-employee directors at the time of the closing of the merger will vest in full and the holder will receive the consideration described above under the section entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Treatment of Equity Compensation" beginning on page 56.

Microsoft has agreed that Activision Blizzard may approve, and the Compensation Committee of the Activision Blizzard Board of Directors (which we refer to as the "Compensation Committee") has approved, that options, RSUs and PSUs that were granted prior to the date of the merger agreement and certain awards granted after the date of the merger agreement that will be outstanding as of closing, as further detailed below, that are converted at the effective time of the merger to Microsoft unvested options and unvested RSUs pursuant to the terms of the merger agreement (such conversion is described above under "Treatment of Equity Compensation"), will vest in full on a "double trigger" basis (*i.e.*, upon a qualifying termination of employment after a specified period following the effective time of the merger), as follows:

- Any such award that was granted prior to the date of the merger agreement, including to our executive officers, and certain awards granted after the date of the merger agreement that will be outstanding as of closing, will vest in full if, during the 18-month period immediately following the effective time, the employee's employment is terminated by Microsoft, Activision Blizzard or their respective subsidiaries without "cause" or by the employee for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined

below) and provided that such acceleration will not modify any more favorable acceleration terms in an arrangement already entered into with such employee.

- Additionally, pursuant to the merger agreement (as modified by the confidential disclosure letter to the merger agreement), Activision Blizzard and Microsoft agreed that certain of our employees, including executive officers Grant Dixton, Brian Bulatao and Armin Zerza, will be entitled to terminate their employment within 60 days following the six-month anniversary of the effective time, which will be deemed a termination by the executive for "good reason," entitling the executive officer to the equity acceleration benefits described directly above and the severance benefits under their individual arrangements or, if greater, the executive severance plan, each as described below.

Management RSUs

Microsoft has agreed that Activision Blizzard may grant, and the Compensation Committee has approved the grant of up to $50 million in the aggregate of, RSUs to certain members of senior management, including our executive officers (but excluding the Chief Executive Officer), which we refer to as "management RSUs." No management RSUs have yet been granted as of the date of this proxy statement. To the extent granted, management RSUs would vest in full if, during the 18-month period immediately following the effective time, the employee's employment is terminated by Microsoft, Activision Blizzard or their respective subsidiaries without "cause" or by the employee for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined below) and provided that such acceleration would not modify any more favorable acceleration terms in an arrangement already entered into with such employee.

Retention RSUs

Microsoft has agreed that Activision Blizzard may grant RSUs up to a certain aggregate grant date value, and the Compensation Committee has approved that grants of RSUs may be made, to certain employees (but excluding any individual who receives a grant of management RSUs) for retention purposes and to incentivize employees to consummate the transactions contemplated by the merger agreement (which we refer to as "retention RSUs"). No retention RSUs have yet been granted as of the date of this proxy statement. To the extent granted, retention RSUs would vest in full if, during the 18-month period immediately following the effective time, the employee's employment is terminated by Microsoft, Activision Blizzard or their respective subsidiaries without "cause" or by the employee for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined below) and provided that such acceleration would not modify any more favorable acceleration terms in an arrangement already entered into with such employee.

Employee RSUs

Prior to the effective time, Activision Blizzard may grant RSUs, up to a certain aggregate grant date value, to employees other than the Chief Executive Officer in the ordinary course of business consistent with past practice of the applicable business unit or functional business unit (which we refer to as "employee RSUs"). No employee RSUs have yet been granted as of the date of this proxy statement. To the extent employee RSUs are granted, certain of the employee RSUs that are granted to certain new employees hired before September 1, 2022, would vest in full if, during the 18-month period immediately following the effective time, the employee's employment is terminated by Microsoft, Activision Blizzard or their respective subsidiaries without "cause" or by the employee for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined below) and provided that such acceleration would not modify any more favorable acceleration terms in an arrangement already entered into with such employee.

"Good Reason" means, subject to certain notice and cure periods, in each case without the prior written consent of the holder: (A) solely for those holders who are eligible for the executive severance plan, a material diminution in authorities, duties and responsibilities, as measured in the aggregate, as compared to those prior to the effective time (provided, that the following will not constitute "good reason": (1) the holder's continued employment with substantially the same responsibility with respect to Activision Blizzard's business and operations (*e.g.*, the holder's title is revised to reflect the holder's placement within the overall

corporate hierarchy or the holder provides services to a subsidiary, business unit or otherwise) or (2) changes resulting solely from Activision Blizzard ceasing to be a stand-alone public corporation); (B) a material diminution in base salary as in effect immediately prior to the effective time; or (C) a relocation of primary office location by more than 50 miles (provided, that requiring the holder to return to work in the holder's primary office location after working remotely during the COVID-19 pandemic or continuing to work remotely rather than a primary office location shall not constitute a relocation).

Arrangements with Mr. Kotick

Activision Blizzard previously announced on October 28, 2021 Mr. Kotick's intent that his base salary would be reduced to California's minimum annual salary (approximately $62,500 for 2021) and that he would waive any bonuses and equity grants until the Workplace Responsibility Committee of the Activision Blizzard Board of Directors has determined that Activision Blizzard has made appropriate progress toward achievement of the transformational gender-related goals and other commitments described in such announcement.

- In connection with the merger, Activision Blizzard and Microsoft agreed that if the Workplace Responsibility Committee of the Activision Blizzard Board of Directors concludes and reports publicly that Activision Blizzard has made appropriate progress toward the achievement of the transformational gender-related goals and other commitments described in Activision Blizzard's press release on October 28, 2021 (*e.g.*, launching new zero-tolerance harassment policy, increasing the percentage of women and non-binary people in Activision Blizzard's workforce by 50%, investing $250,000,000 to accelerate opportunities for diverse talent, waiving arbitration of individual sexual harassment claims and increasing visibility on pay equity), then the Activision Blizzard Board of Directors may, no earlier than six months after the date of the merger agreement, in its discretion:
  - grant an annual equity award to Mr. Kotick as set forth in his employment agreement (as may be extended); provided, that any such award may be granted solely in the form of time-based restricted stock units and will have a grant value on the date of grant equal to no greater than the lesser of (x) the 50th percentile of Activision Blizzard's then applicable group of peer companies' chief executive officer long-term incentive grants and (y) $22,000,000; and/or
  - provide cash compensation to Mr. Kotick under the existing terms of his employment agreement (as may be extended) and without regard to any waiver of compensation by Mr. Kotick; provided, that (x) his annualized base salary will not exceed $875,000 and (y) his target annual cash bonus would not exceed 200% of his base salary (pro-rated). Any salary increase would be prospective following the Workplace Responsibility Committee's conclusion and will not be retroactively applied and any bonus in respect of the calendar year in which the compensation is reinstated will be based on 200% of such increased base salary and prorated in respect of the period following the Workplace Responsibility Committee's conclusion.

Value of Shares and Equity Awards Held by Directors and Executive Officers

The estimated aggregate amount of the merger consideration payable with respect to shares of Activision Blizzard common stock, including vested stock options, held by our non-employee directors and executive officers, as a group (inclusive of such persons who have served at any time since the beginning of 2021), assuming the merger closed on February 4, 2022, is approximately $709 million.

The estimated aggregate value of unvested equity awards held by our non-employee directors and executive officers, including our named executive officers and including such persons who have served at any time since the beginning of 2021, that would accelerate in connection with the merger, assuming the merger closed on February 4, 2022, and, immediately thereafter, the executive officer's employment was terminated by Microsoft, Activision Blizzard or their respective subsidiaries without "cause" or by the executive officer for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined above) is approximately $1 million for our non-employee directors, and approximately $66 million for our executive officers. These values do not include any new Activision Blizzard equity awards that may be granted after the date of this proxy statement. These values are calculated by multiplying the number of shares underlying awards by the per share merger consideration (assuming

target performance for PSUs and performance options), less the exercise price for options. For estimates of the value of such unvested equity awards for each of our named executive officers individually, see the section below entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger — "Golden Parachute Compensation" beginning on page 64. Certain individuals who were executive officers at any time since the beginning of 2021 — Chris Walther, Dennis Durkin and Claudine Naughton — are no longer employed by Activision Blizzard and, other than Ms. Naughton, who continues to hold PSUs, as further described below, these executive officers no longer hold any Activision Blizzard equity awards, whether options, RSUs or PSUs.

Potential Contractual Payments to Executive Officers upon Termination of Employment, Including in Connection with the Merger

We have entered into agreements with our executive officers, including our named executive officers, which would entitle the executives to severance payments and benefits in the event of certain qualifying terminations of employment. In the case of each of our executive officers other than Mr. Kotick, the severance benefits under the executive severance plan described below will be greater than the benefits that they would receive under their respective employment agreements.

- Mr. Kotick's executive employment agreement provides that if his employment is terminated by Activision Blizzard without "cause" or if he resigns for "good reason" (as each such terms are defined in his agreement), in either case within 12 months after a change of control (which will occur at the effective time), he will be entitled to receive:
  - an amount equal to three times the sum of his annual base salary as in effect immediately prior to the date of the termination of his employment and the target value of his 2016 annual bonus, payable in equal installments over 12 months following the date of the termination of his employment;
  - any earned but unpaid bonuses for prior years;
  - a pro-rated payment of his annual bonus for the year of termination based on the percentage of the fiscal year completed as of the date of the termination of his employment and the attainment of the applicable performance metrics at the end of the performance period;
  - full vesting of his stock options and continued vesting of any unvested stock units based on the actual attainment of underlying performance goals, as if his employment had not been terminated, as applicable (noting that Mr. Kotick does not now hold, and will not be granted prior to the closing of the merger, any performance-based awards); and
  - continued Activision Blizzard-paid health insurance coverage for two years for him and his eligible dependents and reimbursement by Activision Blizzard of the annual premiums for supplemental life insurance benefits, with an annual cap of $80,000 through October 2026.

In connection with the merger agreement, Activision Blizzard and Microsoft agreed that, on or after July 18, 2022 (the date six months following the execution of the merger agreement), the Activision Blizzard Board of Directors may extend Mr. Kotick's employment agreement by 12 months.

- Mr. Zerza's executive employment agreement provides that if his employment is terminated by Activision Blizzard without "cause" (as defined in his agreement) or if he resigns following the relocation of his principal place of business by more than 50 miles in a manner that materially and adversely affects his commute, he will be entitled to receive:
  - continued payment of base salary through the end of the term of his agreement;
  - any earned but unpaid bonuses for prior years;
  - a pro-rated payment of his annual bonus for the year of termination based on the percentage of the year completed as of the date of the termination of his employment and the attainment of the applicable performance metrics at the end of the performance period;

- if such termination occurs (i) after December 31, 2021 but before March 31, 2022, (ii) after December 31, 2022 but before March 31, 2023 or (iii) after December 31, 2023 but before March 31, 2024, and Activision Blizzard's operating income for the year that ended immediately prior to such termination (*i.e.*, 2021, 2022, or 2023) is 90% or more of the applicable operating income objective for such year, as determined by the Compensation Committee, Mr. Zerza would receive a lump sum payment of $950,000; and
- to the extent termination occurs following the completion of an applicable performance period of the PSU award granted to him on May 6, 2021 that relates to operating income performance, but before the end of the time-vesting period of such PSU award, and provided that the performance objective(s) relating to such PSU award were met, a lump sum cash amount equal to the product of (x) the number of shares he would have received upon vesting of that tranche of the award had it not been canceled upon his termination and (y) the closing price per share of Activision Blizzard common stock on May 6, 2021 (*i.e.*, $93.03), in consideration of the termination of the PSU award prior to its vesting.

- Mr. Alegre's executive employment agreement provides that if his employment is terminated by Activision Blizzard without "cause" (as defined in his agreement) or if he resigns following the relocation of his principal place of business by more than 50 miles in a manner that materially and adversely affects his commute, he will be entitled to receive:
  - continued payment of base salary through the end of the term of his agreement;
  - any earned but unpaid bonuses for prior years;
  - a pro-rated payment of his annual bonus for the year of termination based on the percentage of the year completed as of the date of the termination of his employment and the attainment of the applicable performance metrics at the end of the performance period;
  - if such termination of employment occurs (i) after December 31, 2020 but before March 30, 2022, (ii) after December 31, 2021 but before March 30, 2022, and (iii) after December 31, 2022 but before March 30, 2023, and Activision Blizzard's operating income for the applicable year (*i.e.*, 2020, 2021 or 2022) is 90% or more of the operating income objective for such year, as determined by the Compensation Committee, in each case, a lump sums payment of $1,666,667 (which amounts are cumulative to the extent underlying conditions are met); and
  - to the extent termination occurs following the completion of an applicable performance period of the PSU award granted to him on May 7, 2020, that relates to operating income performance, but before the end of the time-vesting period, and provided that the performance objective(s) relating to such PSU award were met, a lump sum cash amount, equal to the product of (x) the number of shares he would have received upon vesting of that tranche of the PSU award had it not been canceled upon his termination and (y) the closing price per share of Activision Blizzard common stock on May 7, 2020 (*i.e.*, $73.10), in consideration of the termination of the PSU award prior to its vesting.
- Mr. Dixton's employment agreement provides that if his employment is terminated by Activision Blizzard without "cause" (as defined in his agreement) or if he resigns following the relocation of his principal place of business by more than 50 miles in a manner that materially and adversely affects his commute, he will be entitled to receive:
  - continued payment of base salary through the end of the term of his agreement;
  - any earned but unpaid bonuses for prior years;
  - a pro-rated payment of his annual bonus for the year of termination based on the percentage of the year completed as of the date of the termination of his employment and the attainment of the applicable performance metrics at the end of the performance period;
  - if such termination occurs (i) after December 31, 2021 but before June 29, 2022 or (ii) after December 31, 2022 but before June 29, 2023, and Activision Blizzard's operating income for the year that ended immediately prior to such termination (*i.e.*, 2021 or 2022) is 90% or more of the operating income objective for such year, as determined by the Compensation Committee, a lump sum payment equal to $750,000; and

- to the extent termination occurs following the completion of an applicable performance period of the PSU award granted to him on August 5, 2021 that relates to operating income performance, but before the end of the time-vesting period, and provided that the performance objective(s) relating to such PSU award were met, a lump sum cash amount equal to the product of (x) the number of shares he would have received upon vesting of that tranche of the award had it not been canceled upon his termination and (y) the closing price per share of Activision Blizzard common stock on August 5, 2021 (*i.e.*, $80.32), in consideration of the termination of the PSU award prior to its vesting.

- Mr. Bulatao's employment agreement provides that if his employment is terminated by Activision Blizzard without "cause" (as defined in his agreement) or if he resigns following the relocation of his principal place of business by more than 50 miles in a manner that materially and adversely affects his commute, he will be entitled to receive:
  - continued payment of base salary through the end of the term of his agreement;
  - any earned but unpaid bonuses for prior years;
  - a pro-rated payment of his annual bonus for the year of termination based on the percentage of the year completed as of the date of the termination of his employment and the attainment of the applicable performance metrics at the end of the performance period;
  - if termination occurs (i) after December 31, 2021 but before March 31, 2022, (ii) after December 31, 2022 but before March 30, 2023, or (iii) after December 31, 2023 but before March 30, 2024, and Activision Blizzard's operating income for the year that ended immediately prior to such termination (*i.e.*, 2021, 2022 or 2023) is 90% or more of the operating income objective for such year, as determined by the Compensation Committee, a lump sum payment equal to $950,000; and
  - to the extent termination occurs following the completion of an applicable performance period of the PSU award granted to him on March 9, 2021 that relates to operating income performance, but before the end of the time-vesting period, and provided that the performance objective(s) relating to such PSU award were met, a lump sum cash amount equal to the product of (x) the number of shares he would have received upon vesting of that tranche of the award had it not been canceled upon his termination and (y) the closing price per share of Activision Blizzard common stock on March 9, 2021 (*i.e.*, $92.50), in consideration of the termination of the PSU award prior to its vesting.

As a condition to receipt of the severance payments and benefits described above, each executive officer is required to execute a separation and release of claims agreement in favor of Activision Blizzard and its affiliates and to continue to comply with certain post-termination covenants in favor of Activision Blizzard and its affiliates.

280G Mitigation Actions

The employment agreements of Messrs. Kotick, Zerza, Alegre, Dixton and Bulatao provide for a "best net" approach such that if the payment of any amounts to the executive would subject the executive to the excise tax provisions of Section 280G of the Code, the payments would be reduced to an amount below the threshold at which such penalty tax provisions apply if such a reduction (and the avoidance of such penalty taxes) would be more favorable to the executive on an after-tax basis. While Activision Blizzard may be permitted to take certain actions to reduce the amount of any potential "excess parachute payments" for "disqualified individuals" (each as defined in Section 280G of the Code), the Compensation Committee has not yet approved any specific actions to mitigate the anticipated impact of Section 280G of the Code on Activision Blizzard and any disqualified individuals. Executives are not entitled to receive gross-ups or tax reimbursements from Activision Blizzard with respect to any potential excise taxes.

Executive Severance Plan

Microsoft has agreed that Activision Blizzard may approve, and the Compensation Committee has approved the key terms of, an executive severance plan, which provides that a limited number of covered

employees, including our executive officers, would be entitled to the following benefits in the event their employment is terminated by Microsoft, Activision Blizzard or their respective subsidiaries and affiliates without "cause" or by the executive for "good reason" (where "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined above), in either case, within 18 months following the effective time (subject to the executive's execution of Activision Blizzard's customary release of claims): (i) the greater of (A) either one or two times (depending on level) the sum of the executive's base salary and target annual cash incentive bonus (excluding any milestone or special bonus payments) and (B) the severance payable under the executive's employment agreement; (ii) a pro-rated target annual cash incentive bonus payment based on the percentage of the year completed as of the termination date; and (iii) reimbursement of COBRA premiums for a certain period. In the case of each of our executive officers (other than Mr. Kotick), the severance benefits under the executive severance plan will be greater than the benefits that they would receive under their respective employment agreements.

The estimated aggregate amount of the cash severance benefits our executive officers, including our named executive officers, would have received upon a qualifying termination of employment under the Executive Severance Plan, assuming the merger closed on February 4, 2022, and a qualifying termination of employment occurred immediately thereafter, is approximately $31 million. For estimates of the amounts of such cash severance that each of our named executive officers would have received under the executive severance plan individually, see the section below entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger — "Golden Parachute Compensation" beginning on page 64.

Omnibus Severance Plan

Microsoft has agreed that Activision Blizzard may approve, and the Compensation Committee has approved the key terms of, an omnibus severance plan, which include that employees of Activision Blizzard as of the effective time (other than those covered under the executive severance plan) would be entitled to the following benefits in the event their employment is terminated by Activision Blizzard or its affiliates (including Microsoft) other than for cause within 12 months following the effective time (subject to the applicable employee's execution of Activision Blizzard's customary release of claims): (i) the greater of (A) up to 52 weeks' salary, plus 60 days' pay, for covered individuals in positions of vice president and above (or, for individuals in positions of senior director and below up to 26 weeks' salary, plus 60 days' pay), and (B) the severance payable under any other agreement with the employee, if any; (ii) a pro-rated target annual cash incentive bonus based on the percentage of the year completed as of the termination date; and (iii) reimbursement of one year of COBRA premiums.

Other Arrangements with Microsoft

Except as otherwise set forth herein, as of the date of this proxy statement, none of our executive officers has entered into any agreement with Microsoft regarding employment with, or compensation to be received from, the surviving corporation or Microsoft on a going-forward basis following the closing of the merger and there have been no discussions of any such arrangements between Microsoft and any of our executive officers.

Golden Parachute Compensation

In accordance with Item 402(t) of Regulation S-K, the table below sets forth the estimated amounts of the payments and benefits that each named executive officer of Activision Blizzard would have received in connection with the merger, assuming the merger closed on February 4, 2022 and, immediately thereafter, the employment of the named executive officer was terminated by Activision Blizzard or its affiliates (including Microsoft) without "cause" or the named executive officer resigned for "good reason" (where, for Mr. Kotick, each such term has the meaning set forth in his employment agreement with Activision Blizzard and, for the other executives, "cause" is defined in the confidential disclosure letter to the merger agreement and "good reason" is defined above). This compensation is subject to an advisory vote of Activision Blizzard's stockholders, as described below under the section entitled "Proposal 2: Advisory Vote on Merger-Related Executive Compensation Arrangements" beginning on page 92.

The calculations in the tables below do not include any new Activision Blizzard equity awards or other compensation increases that may be granted to the named executive officers before the effective time, including management RSUs. In addition to the assumptions regarding the closing date of the merger and termination of the employment of the named executive officers, these estimates are based on certain other assumptions that are described in the footnotes accompanying the tables below. In addition to the named executive officers set forth in the table below, Chris Walther, Dennis Durkin and Claudine Naughton also each served as a named executive officer during fiscal year 2021; however, these individuals would not become entitled to any accelerated payment, vesting or benefits or other compensation as a result of the closing of the merger other than Ms. Naughton, who currently holds PSUs pursuant to her separation agreement with Activision Blizzard, the treatment of which is described in further detail below. Accordingly, the ultimate values to be received by a named executive officer in connection with the merger may differ from the amounts set forth below.

Officer[1]	Cash ($)[2]	Equity ($)[3]	Perquisites/ Benefits ($)[4]	Total ($)
Robert A. Kotick	$14,369,130	$ 0	$223,172	$14,592,302
Armin Zerza	$ 4,115,068	$21,142,348	$ 49,832	$25,307,249
Daniel Alegre	$ 5,529,452	$23,497,869	$ 49,832	$29,077,153
Brian Bulatao	$ 4,095,890	$ 7,159,120	$ 49,832	$11,304,842
Grant Dixton	$ 2,678,938	$12,037,260	$ 41,238	$14,757,436
Claudine Naughton[5]	$ 0	$ 2,080,120	$ 0	$ 2,080,120

(1) Messrs. Walther and Durkin and Ms. Naughton also each served as named executive officers during Activision Blizzard's last fiscal year, but other than Ms. Naughton, who holds PSUs that by their terms continue to vest until July 2022, as described in footnote (5) below, these former executive officers are not entitled to any amounts in connection with any compensation arrangement as a result of or in connection with the merger.

(2) *Cash*. The amounts in this column reflect the value of the cash severance payments payable to each named executive officer, including a prorated annual bonus for the year of termination. For Mr. Kotick, the amount in this column represents severance and, pursuant to his employment agreement with Activision Blizzard, is equal to three times the sum of his current annual base salary and his 2016 target bonus. For Messrs. Zerza, Alegre, Bulatao and Dixton, the amounts in this column represent severance and a prorated annual bonus payable under the executive severance plan. The breakdown of the amounts in this column for Mr. Alegre are $5,400,000 for severance and $129,452 for prorated annual bonus. The breakdown of the amounts in this column for Mr. Zerza are $4,000,000 for severance and $115,068 for prorated annual bonus. The breakdown of the amounts in this column for Mr. Bulatao are $4,000,000 for severance and $95,890 for prorated annual bonus. The breakdown of the amounts in this column for Mr. Dixton are $2,625,000 for severance and $53,938 for prorated annual bonus. The severance and prorated bonus payments are all "double trigger" in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or following the closing of the merger. Messrs. Zerza, Bulatao and Dixton are each entitled to terminate their employment within 60 days following the six-month anniversary of the effective time, which will be deemed a qualifying termination. Under their employment agreements, each of Messrs. Kotick, Zerza, Alegre, Bulatao and Dixton are subject to post-termination covenants, including non-solicitation covenants, in favor of Activision Blizzard and its affiliates.

(3) *Equity*. The amounts in this column reflect the aggregate values of the accelerated vesting of the RSUs which would be assumed by Microsoft for Messrs. Zerza, Alegre, Bulatao and Dixton (and for PSUs, assumes target performance). These amounts are "double trigger" in nature, which means that the accelerated vesting is conditioned upon a qualifying termination of employment on or after the closing of the merger. Messrs. Zerza, Bulatao and Dixton are each entitled to terminate their employment within 60 days following the six-month anniversary of the effective time, which will be deemed a qualifying termination. Mr. Kotick does not currently hold any equity awards for which vesting

would accelerate upon the closing of the merger or upon a termination of employment following the closing of the merger.

(4) *Perquisites/Benefits*. The amounts in this column reflect the value of continued Activision Blizzard-paid health insurance coverage for Mr. Kotick for two years and supplemental life insurance benefits through October 2026 pursuant to his employment agreement with Activision Blizzard, and for Messrs. Zerza, Alegre, Bulatao and Dixton reimbursement of COBRA premiums for two years under the executive severance plan. The amounts in this column are "double trigger" in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on following the closing of the merger. Messrs. Zerza, Bulatao and Dixton are each entitled to terminate their employment within 60 days following the six-month anniversary of the effective time, which will be deemed a qualifying termination.

(5) Claudine Naughton is party to a separation agreement with Activision Blizzard, and pursuant to the terms of the merger agreement, Ms. Naughton's PSUs would convert to RSUs which would be assumed by Microsoft upon a merger closing that occurred on February 4, 2022 and would continue to vest under the separation agreement through July 31, 2022. Ms. Naughton is not eligible for additional severance or other payments in connection with the merger.

Financing of the Merger

The merger is not conditioned on Microsoft's ability to obtain financing. Microsoft has represented to Activision Blizzard that it has available, and will have available at the effective time, the funds necessary to pay the aggregate merger consideration, including (i) payments to Activision Blizzard's stockholders of the amounts due under the merger agreement and (ii) payments in respect of certain of Activision Blizzard's outstanding equity awards pursuant to the merger agreement.

U.S. Federal Income Tax Consequences of the Merger

The following is a discussion of the U.S. federal income tax consequences of the merger to U.S. Holders (as defined below) that exchange their shares of Activision Blizzard common stock for the merger consideration. This discussion is limited to U.S. Holders and does not address any tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax, U.S. federal non-income tax laws or the laws of any state or local or non-U.S. jurisdiction. This discussion is based upon the Code, the regulations of the U.S. Treasury Department and judicial authorities and published positions of the Internal Revenue Service, which we refer to as the "IRS," all as currently in effect on the date of this proxy statement. These laws may change or be subject to differing interpretations, possibly retroactively, and any change or differing interpretation could affect the continuing validity of this discussion. We have not sought and do not intend to seek a ruling from the IRS regarding the matters discussed below. This discussion assumes that the merger will be consummated in accordance with the merger agreement and as described in this proxy statement.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds shares of Activision Blizzard common stock, the tax treatment of a person treated as a partner in such partnership for U.S. federal income tax purposes generally will depend upon the status of the partner and the activities of the partnership. Such partnerships and partners in such partnerships should consult their tax advisors about the tax consequences of the merger to them.

Holders are urged to consult with their tax advisors as to the specific tax consequences of the merger to them in light of their particular situations, including the applicability and effect of any U.S. federal, state, local or non-U.S. tax laws.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of Activision Blizzard common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States, any state thereof or the District of Columbia;

- a trust if it (i) is subject to the primary supervision of a U.S. court and one or more United States persons (as defined in Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person; or
- an estate that is subject to U.S. federal income tax on its income regardless of its source.

This discussion assumes that U.S. Holders of Activision Blizzard common stock hold their shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to U.S. Holders in light of their particular circumstances or that may be applicable to U.S. Holders if such holders are subject to special treatment under U.S. federal income tax laws, including any holder that is:

- a bank or other financial institution;
- a tax-exempt or governmental organization;
- a partnership, subchapter S corporation or other pass-through entity or an investor in the foregoing;
- an insurance company;
- a regulated investment company or real estate investment trust;
- a mutual fund;
- a broker or dealer in securities, stocks, commodities or currencies;
- a trader in securities who elects the mark-to-market method of accounting for securities;
- a U.S. expatriate, former citizen or long-term resident of the United States;
- a person who actually or constructively owned more than five percent (5%) (by vote or value) of the outstanding shares of Activision Blizzard common stock at any time during the five-year period ending on the date of the merger;
- an Activision Blizzard stockholder who received Activision Blizzard common stock through the exercise of employee stock options or through a tax-qualified retirement plan or otherwise as compensation;
- a person that has a functional currency other than the U.S. dollar;
- a person subject to special tax accounting rules as a result of any item of gross income with respect to Activision Blizzard common stock being taken into account in an “applicable financial statement” as defined in Section 451(b) of the Code;
- a holder of options granted under any Activision Blizzard benefit plan; or
- an Activision Blizzard stockholder who holds Activision Blizzard common stock as part of a hedge, straddle or a constructive sale or conversion transaction.

Activision Blizzard stockholders that are not U.S. Holders may have different U.S. federal income tax consequences than those described below and are urged to consult with their own tax advisors regarding the tax treatment of the merger to them under U.S. and non-U.S. laws.

The following discussion does not address the tax consequences of any transactions effectuated before, after or at the same time as the merger, whether or not in connection with the merger, including, without limitation, the tax consequences to holders of options, warrants or similar rights to purchase shares of Activision Blizzard common stock.

Tax Consequences of the Merger

The receipt of the merger consideration by U.S. Holders in exchange for shares of Activision Blizzard common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. Therefore, a U.S. Holder who receives the merger consideration in exchange for shares of Activision Blizzard common stock pursuant to the merger generally will recognize capital gain or loss equal to the difference,

if any, between (i) the amount of cash received in the merger and (ii) the U.S. Holder's adjusted tax basis in its Activision Blizzard common stock exchanged therefor.

A U.S. Holder's adjusted tax basis in its shares of Activision Blizzard common stock will generally equal the price the U.S. Holder paid for such shares. Capital gains of a non-corporate U.S. Holder will generally be eligible for preferential U.S. federal income tax rates that are applicable to long-term capital gains if the U.S. Holder has held its Activision Blizzard common stock for more than one year as of the effective date of the merger. Capital gains of a non-corporate U.S. Holder will generally be subject to short-term capital gains (and taxed at ordinary income tax rates) if the U.S. Holder has held its Activision Blizzard common stock for one year or less as of the date of the merger. The deductibility of capital losses is subject to limitations. If a U.S. Holder acquired different blocks of Activision Blizzard common stock at different times or different prices, the U.S. Holder must determine its tax basis and holding period separately for each block of Activision Blizzard common stock.

Information Reporting and Backup Withholding

Payments of cash to a U.S. Holder of Activision Blizzard common stock pursuant to the merger may, under certain circumstances, be subject to information reporting and backup withholding. To avoid backup withholding, a U.S. Holder should timely complete and return an IRS Form W-9, certifying that such U.S. Holder is a "United States person" as defined under the Code, the taxpayer identification number provided is correct and such U.S. Holder is not subject to backup withholding. Certain types of U.S. Holders (including, with respect to certain types of payments, corporations) generally are not subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a Holder's U.S. federal income tax liability if the required information is furnished by such Holder on a timely basis to the IRS.

U.S. Holders are urged to consult their own tax advisors as to the particular tax consequences of the merger, including the effect of U.S. federal, state and local tax laws or non-U.S. tax laws.

The foregoing summary of U.S. federal income tax consequences is for general informational purposes only and does not constitute tax advice. All holders are urged to consult their own tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal non-income tax rules, or under the laws of any state, local, non-U.S. or other taxing jurisdiction.

Regulatory Approvals

General

Activision Blizzard and Microsoft have agreed to use their reasonable best efforts to comply with all regulatory filing and notification requirements and obtain all regulatory approvals required or recommended to consummate the merger and the other transactions contemplated by the merger agreement. These approvals include approval under, or notifications pursuant to, the HSR Act and the competition laws of the European Union, the United Kingdom, China and certain other jurisdictions.

In addition, each of Activision Blizzard and Microsoft have agreed to (1) cooperate and coordinate with each other to make such filings; (2) use its reasonable best efforts to supply the other with any information that may be required in order to make such filings; (3) use its reasonable best efforts to supply any additional information that reasonably may be requested to obtain regulatory approvals; (4) use its reasonable best efforts to take all action necessary to obtain regulatory approvals as soon as practicable; and (5) provide notice to the other party if it plans to participate in any meeting or substantive conversation with any governmental authority with respect to the merger. Microsoft will, after good faith consultation with Activision Blizzard and after considering, in good faith, Activision Blizzard's views and comments, control and lead all communications, negotiations, timing decisions and strategy on behalf of the parties relating to regulatory approvals.

If and to the extent necessary to obtain regulatory approval of the merger, Microsoft, Sub and, solely to the extent requested by Microsoft, Activision Blizzard will (1) offer, negotiate, commit to and effect, by

consent decree, hold separate order or otherwise, (A) the sale, divestiture, license or other disposition of assets (whether tangible or intangible), rights, products or businesses of Activision Blizzard; and (B) any other restrictions on the activities of Activision Blizzard; and (2) contest, defend and appeal any legal proceedings, whether judicial or administrative, challenging the merger agreement or the consummation of the merger. Notwithstanding the foregoing, Microsoft is not required to offer, negotiate, commit to, effect or otherwise take any action that would reasonably be expected to (x) have a material adverse impact on Activision Blizzard and its subsidiaries, taken as a whole, (y) have a material impact on the benefits expected to be derived from the merger by Microsoft or (z) have a more than immaterial impact on any business or product line of Microsoft.

HSR Act and Other Antitrust Matters

Under the HSR Act and the rules promulgated thereunder, the merger cannot be completed until Activision Blizzard and Microsoft file a notification and report form with the Federal Trade Commission, which we refer to as the "FTC," and the Antitrust Division of the Department of Justice, which we refer to as the "DOJ," under the HSR Act and the applicable waiting period has expired or been terminated. A transaction notifiable under the HSR Act may not be completed until the expiration of a 30-calendar day waiting period following the parties' filing of their respective HSR Act notification forms or the early termination of that waiting period. The DOJ or the FTC may extend the 30-day waiting period by issuing a Request for Additional Information and documentary materials (also known as a "Second Request"). If either agency issues a Second Request, the waiting period is extended until 30 days after the parties substantially comply with the request.

At any time before or after consummation of the merger, notwithstanding the termination of the waiting period under the HSR Act, the FTC or the Antitrust Division of the DOJ could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger, seeking divestiture of substantial assets of the parties or requiring the parties to license, or hold separate, assets or terminate existing relationships and contractual rights. At any time before or after the completion of the merger, and notwithstanding the termination of the waiting period under the HSR Act, any state could take such action under the antitrust laws as it deems necessary or desirable in the public interest. Such action could include seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of the parties. Private parties may also seek to take legal action under the antitrust laws under certain circumstances.

Foreign Competition Laws

European Union. Both Microsoft and Activision Blizzard conduct business across the European Union in multiple Member States. Under Council Regulation (EC) No. 139/2004 of January 2004, as amended, and the rules and regulations promulgated thereunder, which we refer to as the "EU Merger Regulation," mergers and acquisitions involving parties with worldwide sales and individual European Union sales exceeding specified thresholds must be notified to, and approved by, the European Commission before they are implemented. Microsoft and Activision Blizzard meet the thresholds set out in the EU Merger Regulation and are therefore obligated to (i) notify the European Commission of Microsoft's acquisition of Activision Blizzard and (ii) wait to implement the merger until after the European Commission has issued a decision declaring the merger compatible with the common market (and/or if the European Commission has referred any aspect of the merger to one or more competent authorities of a European Union member state under Article 9 of the EU Merger Regulation or an EFTA state under Article 6 of Protocol 24 to the EEA Agreement, until each competent authority has issued a clearance or a confirmation that the merger may proceed). As is customary, Microsoft and Activision Blizzard intend to file a formal notification as soon as is reasonably practicable.

United Kingdom. With respect to the United Kingdom, the parties intend to notify the merger to the Competition and Markets Authority, which we refer to as the "CMA," under the Enterprise Act 2002. The CMA may issue an order that, among other things, prevents the completion of the merger or prevents the integration of the parties' businesses. The practical effect of this is typically that the merger may not be completed until the merger has been notified to the CMA and the merging parties have obtained clearance. Microsoft and Activision Blizzard intend to file a formal notification as soon as is reasonably practicable.

China. In addition, under the Antimonopoly Law of the People's Republic of China, transactions involving parties with sales above certain revenue levels cannot be completed until they are reviewed and approved by the State Administration for Market Regulation, which we refer to as "SAMR." Microsoft and Activision Blizzard have sufficient revenues to exceed SAMR's statutory thresholds for review, and completion of the merger is therefore conditioned upon SAMR approval. Microsoft and Activision Blizzard intend to submit a draft notification to SAMR as soon as is reasonably practicable.

The merger is also subject to clearance or approval by competition authorities in certain other jurisdictions. The merger cannot be completed until Microsoft and Activision Blizzard obtain clearance to consummate the merger or applicable waiting periods (or any extension thereof) have expired or been terminated in each applicable jurisdiction. Microsoft and Activision Blizzard, in consultation and cooperation with each other, will file notifications, as required by competition authorities in certain other jurisdictions, as promptly as practicable after the date of the merger agreement. The relevant competition authorities could take such actions under applicable competition laws as they deem necessary or desirable, including seeking divestiture of substantial assets of the parties or requiring the parties to license, or hold separate, assets or to terminate existing relationships and contractual rights. Any one of these requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the completion, or reduce the anticipated benefits, of the merger. There is no assurance that Microsoft and Activision Blizzard will obtain all required regulatory clearances or approvals on a timely basis or at all. Failure to obtain the necessary clearances in any of these jurisdictions could substantially delay or prevent the consummation of the merger, which could negatively impact both Microsoft and Activision Blizzard.

Foreign Direct Investment Laws

Completion of the merger is further subject to receipt of certain other foreign direct investment review approvals, including notification, clearance and/or expiration or termination of any applicable waiting period in certain specified countries.

Other Regulatory Approvals

One or more governmental bodies may impose a condition, restriction, qualification, requirement or limitation when it grants the necessary approvals and consents to the merger. Third parties may also seek to intervene in the regulatory process or litigate to enjoin or overturn regulatory approvals, which actions could significantly impede or even preclude obtaining required regulatory approvals. There is currently no way to predict how long it will take to obtain all of the required regulatory approvals or whether such approvals will ultimately be obtained, and there may be a substantial period of time between the approval by Activision Blizzard stockholders and the completion of the merger.

Although we expect that all required regulatory clearances and approvals will be obtained, we cannot assure you that these regulatory clearances and approvals will be timely obtained, obtained at all or that the granting of these regulatory clearances and approvals will not involve the imposition of additional conditions on the completion of the merger or require changes to the terms of the merger agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

TERMS OF THE MERGER AGREEMENT

The following summary describes certain material provisions of the merger agreement. The descriptions of the merger agreement in this summary and elsewhere in this proxy statement are not complete and are qualified in their entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex A and incorporated into this proxy statement by reference. We encourage you to read the merger agreement carefully and in its entirety because this summary may not contain all the information about the merger agreement that is important to you. ***The rights and obligations of the parties are governed by the express terms of the merger agreement (as qualified by the confidential disclosure letter to the merger agreement) and not by this summary or any other information contained in this proxy statement.***

The representations, warranties, covenants and agreements described below and included in the merger agreement (1) were made only for purposes of the merger agreement and as of specific dates; (2) were made solely for the benefit of the parties to the merger agreement; (3) are subject to important qualifications, limitations and supplemental information agreed to by Activision Blizzard, Microsoft and Sub in connection with negotiating the terms of the merger agreement (including disclosures of both publicly available information and confidential information regarding Activision Blizzard included in the confidential disclosure letter to the merger agreement); and (4) may also be subject to a contractual standard of materiality different from those generally applicable to reports and documents filed with the SEC and in some cases were qualified by confidential matters disclosed to Microsoft and Sub by Activision Blizzard in connection with the merger agreement (including in the confidential disclosure letter to the merger agreement). In addition, the representations and warranties may have been included in the merger agreement for the purpose of allocating contractual risk between Activision Blizzard, Microsoft and Sub rather than to establish matters as facts, and may be subject to standards of materiality applicable to such parties that differ from those applicable to investors. Further, the representations and warranties were negotiated with the principal purpose of establishing the circumstances in which a party to the merger agreement may have the right not to consummate the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise. Activision Blizzard stockholders are not third-party beneficiaries under the merger agreement and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of Activision Blizzard, Microsoft or Sub or any of their respective affiliates or businesses. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement. In addition, you should not rely on the covenants in the merger agreement as actual limitations on the respective businesses of Activision Blizzard, Microsoft and Sub, because the parties may take certain actions that are either expressly permitted in the confidential disclosure letter to the merger agreement or as otherwise consented to by the appropriate party, which consent may be given without prior notice to the public. The merger agreement is described below, and included as Annex A, only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding Activision Blizzard, Microsoft, Sub or their respective businesses. Accordingly, the representations, warranties, covenants and other agreements in the merger agreement should not be read alone and you should read the information provided elsewhere in this document and in our filings with the SEC regarding Activision Blizzard and our business.

Closing and Effective Time of the Merger

The closing of the merger will take place no later than the third business day following the satisfaction or waiver of all conditions to closing of the merger (described in the section of this proxy statement entitled "Terms of the Merger Agreement — Conditions to the Closing of the Merger" beginning on page 86), other than conditions that by their terms are to be satisfied at the closing of the merger, but subject to the satisfaction or waiver of each of such conditions, or such other time agreed to in writing by Microsoft, Activision Blizzard and Sub. Concurrently with the closing of the merger, the parties will file a certificate of merger with the Secretary of State of the State of Delaware as provided under the DGCL. The merger will become effective upon the filing and acceptance of the certificate of merger, or at such later time agreed to in writing by the parties and specified in such certificate of merger.

Effects of the Merger; Certificate of Incorporation; Bylaws; Directors and Officers

The merger agreement provides that, subject to the terms and conditions of the merger agreement, and in accordance with the DGCL, at the effective time of the merger, (1) Sub will be merged with and into

Activision Blizzard and Activision Blizzard will become a wholly owned subsidiary of Microsoft and (2) the separate corporate existence of Sub will cease. From and after the effective time of the merger, all of the property, rights, privileges, powers and franchises of Activision Blizzard and Sub will vest in the surviving corporation, and all of the debts, liabilities and duties of Activision Blizzard and Sub will become the debts, liabilities and duties of the surviving corporation.

At the effective time of the merger, the certificate of incorporation of Activision Blizzard as the surviving corporation will be amended and restated in its entirety in the form attached to the merger agreement. The parties will take all necessary action to ensure that, at the effective time of the merger, the bylaws of Sub, as in effect immediately prior to the effective time of the merger, will become the bylaws of the surviving corporation, until thereafter amended.

The parties will take all necessary action to ensure that, effective as of, and immediately following, the effective time of the merger, the board of directors of the surviving corporation will consist of the directors of Sub as of immediately prior to the effective time of the merger, to hold office in accordance with the certificate of incorporation and bylaws of the surviving corporation until their successors are duly elected or appointed and qualified. The parties will take all necessary action to ensure that at the effective time of the merger, the officers of Activision Blizzard as of immediately prior to the effective time of the merger will be the officers of the surviving corporation, until their successors are duly appointed.

Conversion of Shares

Common Stock

At the effective time of the merger, each outstanding share of Activision Blizzard common stock (other than shares held by (1) Activision Blizzard as treasury stock (excluding certain shares held by a wholly owned subsidiary of Activision Blizzard, which shares will remain outstanding and unaffected by the merger); (2) Microsoft, Sub or their respective subsidiaries (other than a certain wholly owned subsidiary of Activision Blizzard); and (3) Activision Blizzard stockholders who have properly and validly exercised and perfected their appraisal rights under Delaware law with respect to such shares) will be cancelled and automatically converted into the right to receive the per share merger consideration (which is $95.00 per share, without interest thereon and subject to applicable withholding taxes).

Treatment of Equity Compensation

Pursuant to our equity incentive plans, we have granted equity awards with respect to Activision Blizzard common stock in the form of stock options and stock units (*i.e.*, RSUs and PSUs). Our executive officers hold options, RSUs, which represent a right to receive shares of Activision Blizzard common stock based on service over a time-based vesting schedule, and PSUs, which represent a right to receive shares of Activision Blizzard common stock ranging from 0 to 125% (and, in some cases, up to 250%) of the target number of shares based on both service over a time-based vesting schedule and achievement of specified performance goals over a specified performance period. Our non-employee directors hold options and RSUs, which represent a right to receive shares of Activision Blizzard common stock, subject to vesting requirements of the underlying equity award, on a specified future date or event, such as a separation from service. The merger agreement provides for the treatment set forth below with respect to outstanding equity awards:

Stock Options

- Each outstanding option to purchase Activision Blizzard common stock granted pursuant to our equity incentive plans that (i) is vested as of immediately prior to the effective time, or (ii) will become vested by its terms at the effective time will be cancelled and converted into the right to receive the merger consideration for each share of Activision Blizzard common stock that would have been issuable upon exercise of such option immediately prior to the effective time, less the applicable option exercise price for each such share of Activision Blizzard common stock underlying such option and any applicable withholding taxes.
- Each option that is outstanding as of immediately prior to the effective time, and is not cancelled and converted as described above, and has an exercise price per share of Activision Blizzard common

stock that is less than the merger consideration, will be, as of the effective time and as determined by Microsoft, (x) assumed by Microsoft and converted into a nonqualified stock option or (y) converted into a nonqualified stock option granted pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock subject to such assumed option as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by (ii) a fraction (A) the numerator of which is the merger consideration and (B) the denominator of which is Microsoft's stock price (*i.e.*, the volume weighted average price per share rounded to four decimal places (with amounts of 0.00005 and above rounded up) of common stock of Microsoft on Nasdaq for the five consecutive trading days ending with the last trading day ending immediately prior to the closing date) (which we refer to as the "exchange ratio"), at an exercise price per share of common stock of Microsoft equal to (i) the exercise price of such option divided by (ii) the exchange ratio (rounded up to the nearest whole cent) rounded down to the nearest whole number of shares. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting and exercisability will remain the same with respect to Activision Blizzard options subject to time-based vesting, and with respect to Activision Blizzard options subject to performance-based vesting will be converted into time-based vesting options (determined based on target performance levels) that shall vest at the conclusion of the original performance period.

- In the event that the exercise price per share under any option is equal to or greater than the merger consideration, such option will be cancelled as of the effective time without payment therefor and will have no further force or effect.

Stock Units

- Each outstanding award of RSUs or PSUs granted pursuant to Activision Blizzard's equity incentive plans that (i) is vested as of immediately prior to the effective time, (ii) will become vested by its terms at the effective time or (iii) is granted to a non-employee member of the Activision Blizzard Board of Directors, will, as of the effective time, be cancelled and converted into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to such award, less any applicable withholding taxes.
- Each outstanding award of RSUs or PSUs that is outstanding as of immediately prior to the effective time and is not cancelled and converted as described above, will, as of the effective time, be, as determined by Microsoft (x) assumed by Microsoft and converted into a stock-based award or (y) converted into a stock-based award pursuant to Microsoft's equity incentive plans, in either case, in respect of a number of shares of common stock of Microsoft equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Activision Blizzard common stock subject to such award as of immediately prior to the effective time (determined based on target performance levels, as applicable) multiplied by the exchange ratio. In each case of clauses (x) and (y) of this paragraph, the terms and conditions relating to vesting will remain the same with respect to equity awards subject to time-based vesting, and with respect to equity awards subject to performance-based vesting will be converted into time-based vesting equity awards (determined based on target performance levels) that will vest at the conclusion of the original performance period.

Notwithstanding the treatment of outstanding unvested options, RSUs and PSUs described above, prior to the closing date, Microsoft may elect to treat some or all of the awards that would otherwise be converted as set forth herein as if they were vested, (*i.e.*, by cancelling and converting an award into the right to receive the merger consideration with respect to each share of Activision Blizzard common stock subject to the award (less the applicable exercise price, in the case of options), less any applicable withholding taxes; provided that for options, such election may apply only to those options that are otherwise scheduled to vest within 120 days following the closing date).

If the treatment described above of an award of stock units or options held by a non-U.S. employee would be prohibited or subject to onerous regulatory requirements or adverse tax treatment under the laws of the applicable jurisdiction (in each case, as reasonably determined by Microsoft), Microsoft will provide compensation to the employee that is equivalent in value to the value that otherwise would have been

provided to the employee under the treatment described above, to the extent practicable and as would not result in the imposition of additional taxes under Section 409A of the Code. This compensation will be provided in the form of a cash payment (less applicable taxes) or a new equity award, as reasonably determined by Microsoft.

Exchange and Payment Procedures

Prior to the closing of the merger, Microsoft will designate a bank or trust company, which we refer to as the "paying agent," to make payments of the merger consideration to Activision Blizzard stockholders. At or promptly following the effective time of the merger, Microsoft will deposit or cause to be deposited with the paying agent cash sufficient to pay the aggregate per share merger consideration to Activision Blizzard stockholders in accordance with the merger agreement.

As soon as reasonably practicable following the effective time of the merger, the paying agent will send to each holder of record of shares of common stock a letter of transmittal and instructions advising stockholders how to surrender stock certificates and book-entry shares in exchange for the per share merger consideration. Upon receipt of (1) surrendered certificates (or an appropriate affidavit for lost, stolen or destroyed certificates, together with any required bond) with respect to shares of common stock represented by stock certificates or a customary "agent's message" with respect to book-entry shares representing the shares of common stock and (2) a signed letter of transmittal (in the case of common stock represented by stock certificates) and such other documents as may be required pursuant to such instructions, the holder of such shares will be entitled to receive the per share merger consideration in exchange therefor, without interest. The amount of any per share merger consideration paid to Activision Blizzard stockholders may be reduced by any applicable withholding taxes or other amounts required by applicable law to be withheld.

If any cash deposited with the paying agent is not claimed within one year following the effective time of the merger, such cash will be returned to Microsoft, upon demand, and any stockholders who have not complied with the exchange procedures in the merger agreement will thereafter look only to Microsoft for satisfaction of their claims for payment. None of Microsoft, Sub, Activision Blizzard, the surviving corporation or the paying agent will be liable to any Activision Blizzard stockholder with respect to any cash amounts properly delivered to any public official pursuant to any applicable abandoned property law, escheat law or similar law.

The letter of transmittal will include instructions if a stockholder has lost a share certificate or if such certificate has been stolen or destroyed. In the event that any certificates have been lost, stolen or destroyed, then before such stockholder will be entitled to receive the per share merger consideration, Microsoft or the paying agent may, in its discretion and as a condition precedent to the payment of the merger consideration, require such stockholder to make an affidavit of the loss, theft or destruction and to deliver a bond in such amount as Microsoft or the paying agent may direct as indemnity against any claim that may be made against Microsoft, the surviving corporation or the paying agent with respect to such certificate.

Representations and Warranties

The merger agreement contains representations and warranties of Activision Blizzard, Microsoft and Sub.

Some of the representations and warranties in the merger agreement made by Activision Blizzard are qualified as to "materiality" or "Company Material Adverse Effect." For purposes of the merger agreement, "Company Material Adverse Effect" means, with respect to Activision Blizzard, any change, event, violation, inaccuracy, effect or circumstance (each, an "Effect") that, individually or taken together with all other changes, events, violations, inaccuracies, effects or circumstances that have occurred prior to the date of determination of the occurrence of the Company Material Adverse Effect, (a) has had or would reasonably be expected to have a material adverse effect on the business, assets, liabilities, financial condition or results of operations of Activision Blizzard and its subsidiaries, taken as a whole or (b) would, or would reasonably be expected to, prevent or delay past the Termination Date (as defined below) the ability of Activision Blizzard to consummate the transactions contemplated by the merger agreement, except that, in the case of the foregoing clause (a) only, none of the following (by itself or when aggregated), to the extent occurring after the date of the merger agreement, will be deemed to be or constitute a Company Material

Adverse Effect or will be taken into account when determining whether a Company Material Adverse Effect has occurred or may, would or could occur:

- changes in general economic conditions in the United States or any other country or region in the world, or changes in conditions in the global economy generally (except to the extent that such conditions disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such conditions may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- changes in conditions in the financial markets, credit markets or capital markets in the United States or any other country or region in the world, including (1) changes in interest rates or credit ratings in the United States or any other country; (2) changes in exchange rates for the currencies of any country; or (3) any suspension of trading in securities (whether equity, debt, derivative or hybrid securities) generally on any securities exchange or over-the-counter market operating in the United States or any other country or region in the world (except, in each case, to the extent that such changes or conditions disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such changes or conditions may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- any Effect generally affecting the industries in which Activision Blizzard and its subsidiaries conduct business (except to the extent that such changes disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such changes may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- changes in regulatory, legislative or political conditions in the United States or any other country or region in the world (except to the extent that such changes disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such changes may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- any geopolitical conditions, outbreak of hostilities, acts of war, sabotage, terrorism or military actions (including any escalation or general worsening of any such hostilities, acts of war, sabotage, terrorism or military actions) in the United States or any other country or region in the world (except to the extent that such conditions or events disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such conditions or events may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wild fires or other natural disasters, weather conditions and other similar force majeure events in the United States or any other country or region in the world(except to the extent that such conditions or events disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such conditions or events may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- any epidemics, pandemics or contagious disease outbreaks (including COVID-19) and any political or social conditions, including civil unrest, protests and public demonstrations or any other COVID-19 measures that relate to, or arise out of, an epidemic, pandemic or disease outbreak (including COVID-19) or any change in such COVID-19 measures, directive, pronouncement or guideline or interpretation thereof, or any material worsening of such conditions threatened or existing as of the date of the merger agreement, in the United States or any other country or region in the world (except to the extent that such conditions or events disproportionately adversely affect Activision Blizzard

relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such conditions or events may be taken into account in determining whether there has occurred a Company Material Adverse Effect);

- the public announcement or pendency of the merger agreement or the merger (other than for purposes of certain representations and warranties, and certain related terms and conditions, concerning conflicts due to the performance of the merger agreement);
- any action taken or refrained from being taken, in each case, which Microsoft has expressly approved, consented to or requested in writing following the date of the merger agreement or which is required by the terms of the merger agreement;
- changes or proposed changes in GAAP or other accounting standards or law, or the enforcement or interpretation of any of the foregoing (except to the extent that such changes disproportionately adversely affect Activision Blizzard relative to other companies operating in the industries in which Activision Blizzard and its subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such changes may be taken into account in determining whether there has occurred a Company Material Adverse Effect);
- changes in the price or trading volume of Activision Blizzard common stock or our indebtedness, in and of itself (it being understood that any cause of such change may be deemed to constitute a Company Material Adverse Effect and may be taken into consideration when determining whether a Company Material Adverse Effect has occurred);
- any failure, in and of itself, by Activision Blizzard and its subsidiaries to meet (1) any public estimates or expectations of Activision Blizzard's revenue, earnings or other financial performance or results of operations for any period; or (2) any internal budgets, plans, projections or forecasts of its revenues, earnings or other financial performance or results of operations (it being understood that any cause of any such failure may be deemed to constitute a Company Material Adverse Effect and may be taken into consideration when determining whether a Company Material Adverse Effect has occurred);
- any litigation related to the merger; and
- certain additional exceptions included in the confidential disclosure letter to the merger agreement.

In the merger agreement, Activision Blizzard has made customary representations and warranties to Microsoft and Sub that are subject, in some cases, to specified exceptions and qualifications contained in the merger agreement, as well as certain additional exceptions included in the confidential disclosure letter to the merger agreement. These representations and warranties relate to, among other things:

- due organization, valid existence, good standing and authority and qualification to conduct business with respect to Activision Blizzard and its subsidiaries;
- Activision Blizzard's corporate power and authority to enter into and perform the merger agreement and the due execution and enforceability of the merger agreement;
- the organizational documents of Activision Blizzard and its subsidiaries;
- the approval and recommendation of the Activision Blizzard Board of Directors with respect to the merger agreement;
- receipt of an opinion of Activision Blizzard's financial advisor to the Activision Blizzard Board of Directors;
- the inapplicability of anti-takeover statutes to the merger;
- the requisite vote of Activision Blizzard stockholders in connection with the merger agreement;
- the absence of any conflict with, violation of or default under any organizational documents, existing material contracts or privacy policies, applicable laws to Activision Blizzard or its subsidiaries or the resulting creation of any lien upon Activision Blizzard's assets due to the performance of the merger agreement;

- required consents, approvals and regulatory filings in connection with the merger agreement and performance thereof;
- the capital structure of Activision Blizzard and its subsidiaries;
- the absence of any undisclosed exchangeable security, option, warrant or other right convertible into common stock of Activision Blizzard or any of Activision Blizzard's subsidiaries;
- the absence of any contract relating to the voting of, requiring registration of, or granting any preemptive rights, anti-dilutive rights or rights of first refusal or other similar rights with respect to any of Activision Blizzard's securities;
- the accuracy and required filings of Activision Blizzard's SEC filings and financial statements contained therein;
- Activision Blizzard's disclosure controls and procedures;
- Activision Blizzard's internal accounting controls and procedures;
- the absence of specified undisclosed liabilities;
- the conduct of the business of Activision Blizzard and its subsidiaries in all material respects in the ordinary course and the absence of certain other events since September 30, 2021, and the absence of any Company Material Adverse Effect since December 31, 2020;
- the existence and enforceability of specified categories of Activision Blizzard's material contracts, and the lack of any breaches or defaults thereunder and of any notices with respect to termination or intent not to renew those material contracts therefrom;
- real property owned, leased or subleased by Activision Blizzard and its subsidiaries;
- environmental matters;
- trademarks, patents, copyrights, confidential information, trade secrets and other intellectual property matters;
- data privacy and security;
- IT assets;
- tax matters;
- employee benefit plans;
- labor and employment matters;
- compliance with laws, including the Foreign Corrupt Practices Act and other anti-corruption and anti-bribery laws, sanctions and export controls laws and anti-money laundering laws, and possession of necessary permits;
- the absence of legal proceedings and orders;
- insurance matters;
- the absence of any transactions, arrangements, relations or understandings between Activision Blizzard or any of its subsidiaries and any affiliate or related person;
- payment of fees to brokers in connection with the merger agreement; and
- the exclusivity and terms of the representations and warranties made by Microsoft and Sub.

In the merger agreement, Microsoft and Sub have made customary representations and warranties to Activision Blizzard that are subject, in some cases, to specified exceptions and qualifications contained in the merger agreement, as well as certain additional exceptions included in the confidential disclosure letter to the merger agreement. These representations and warranties relate to, among other things:

- due organization, good standing and authority and qualification to conduct business with respect to Microsoft and Sub, except where the failure to be in such good standing, or to have such power or authority, would not prevent or materially delay their ability to consummate the merger;

- Microsoft's and Sub's corporate authority to enter into and perform the merger agreement, the due execution and enforceability of the merger agreement and the availability of organizational documents;
- the absence of any conflict with, violation of or default under any organizational documents, existing contracts, applicable laws or the resulting creation of any lien upon Microsoft's or Sub's assets due to the performance of the merger agreement;
- required consents and regulatory filings in connection with the merger agreement;
- the absence of legal proceedings and orders;
- absence of status as an "interested stockholder" of Activision Blizzard;
- payment of fees to brokers in connection with the merger agreement;
- the absence of a required vote by Microsoft's stockholders in connection with the merger;
- matters with respect to Microsoft's sufficiency of funds; and
- the exclusivity and terms of the representations and warranties made by Activision Blizzard.

The representations and warranties contained in the merger agreement will not survive the consummation of the merger.

Conduct of Business Pending the Merger

The merger agreement provides that, except as (1) expressly contemplated by the merger agreement; (2) approved by Microsoft (which approval will not be unreasonably withheld, conditioned or delayed); (3) required by applicable law or regulations of applicable stock exchanges or regulatory organizations; or (4) disclosed in the confidential disclosure letter to the merger agreement, during the period of time between the date of the merger agreement and the effective time of the merger (or earlier termination of the merger agreement), Activision Blizzard will, and will cause each of its subsidiaries to:

- use its respective reasonable best efforts to maintain its existence in good standing pursuant to applicable law;
- subject to the restrictions and exceptions in the merger agreement, conduct its business and operations in the ordinary course of business, except with respect to certain actions or omissions that may be taken in response to COVID-19; and
- use its reasonable best efforts to, consistent with its operations in the ordinary course of business, (1) preserve intact its material assets, properties, contracts, licenses and business organizations; (2) keep available the services of its current officers and key employees and (3) preserve its current relationships and goodwill with customers, suppliers, partners, platform providers, manufacturers and other persons with which it or its subsidiaries has business relations.

In addition, Activision Blizzard has also agreed that, except (1) as expressly contemplated by the merger agreement; (2) as approved by Microsoft (which approval will not be unreasonably withheld, conditioned or delayed); (3) for certain actions or omissions that may be taken in response to COVID-19 (following reasonable prior consultation with Microsoft); (4) as required by applicable law or regulations of applicable stock exchanges or regulatory organizations; or (5) as disclosed in the confidential disclosure letter to the merger agreement, during the period of time between the date of the merger agreement and the effective time of the merger (or earlier termination of the merger agreement), Activision Blizzard will not, and will cause each of its subsidiaries (with exceptions for certain specified joint venture entities and the extent of Activision Blizzard's obligations with respect thereto) not to, among other things:

- amend or otherwise change the organizational documents of Activision Blizzard or any of its subsidiaries, other than, with respect to its wholly owned subsidiaries, immaterial or ministerial amendments;
- liquidate, dissolve or reorganize;
- issue, sell, deliver or grant any shares of capital stock or any options, warrants, commitments, subscriptions or rights to purchase any similar capital stock or securities of Activision Blizzard or

any of its subsidiaries, subject to certain exceptions, including for the issuance and sale of shares of Activision Blizzard common stock pursuant to Activision Blizzard options or Activision Blizzard stock-based awards in accordance with their terms;

- directly or indirectly acquire, repurchase or redeem any securities of Activision Blizzard or its subsidiaries except for certain exceptions;
- adjust, split, subdivide, combine, pledge, encumber or modify the terms of capital stock of Activision Blizzard or any of its subsidiaries;
- declare, set aside, authorize, establish a record date for or pay any dividend or other distribution, except for one regular cash dividend on Activision Blizzard common stock not in excess of $0.47, to be declared and paid in a manner consistent with the declaration and payment of the dividend paid in fiscal year 2021;
- incur, assume, suffer or modify the terms of any indebtedness or issue any debt securities (other than for trade payables incurred in the ordinary course of business, loans or advances to wholly owned subsidiaries of Activision Blizzard, borrowings and letter of credit issuances under Activision Blizzard's credit facility in the ordinary course of business consistent with past practice), assume or guarantee the obligations of any person other than its subsidiaries, or pledge, encumber or suffer any lien on any assets;
- except in consultation with Microsoft, terminate any employee at the level of senior vice president or above (other than for cause) or hire any new employee at the level of senior vice president or above;
- enter into, adopt, amend (including accelerating vesting), modify or terminate any employee benefit plan;
- for any current or former employee, director, officer or independent contractor of Activision Blizzard or its subsidiaries, increase compensation or benefits, pay any special bonus, remuneration or any benefit not required by any employee plan, grant any severance or termination pay, or grant any right to reimbursement, indemnification or payment of any taxes, including any taxes that may be incurred under Section 409A or 4999 of the Code, except as required by applicable law or the terms of any employee plan;
- settle, release, waive or compromise certain legal proceedings;
- except as required by law or GAAP, change accounting practices or revalue any of Activision Blizzard's material properties or assets;
- except as required by law, (1) amend any previously filed income or other material tax return, (2) incur material liabilities for taxes other than in the ordinary course of business (except in arm's-length transactions with third parties), (3) change any material tax elections or any accounting method with respect to taxes, (4) settle any material tax claims or (5) take certain other specified actions with respect to taxes;
- incur or authorize capital expenditures, other than to the extent that such capital expenditures are otherwise consistent in all material respects with Activision Blizzard's capital expenditure budget or are pursuant to agreements in effect prior to the date of the merger agreement, in each case as set forth in the confidential disclosure letter to the merger agreement;
- enter into, modify or terminate certain contracts other than in the ordinary course of business;
- fail to use reasonable best efforts to maintain insurance at or more than current levels;
- engage in any transaction with any affiliate or person that would be required to be disclosed pursuant to Item 404 of Regulation S-K;
- grant refunds that would be material to Activision Blizzard and its subsidiaries, taken as a whole, or materially alter payment and collection practices;
- waive, grant or transfer any material right of Activision Blizzard or its subsidiaries;
- effect certain layoffs affecting any site of employment or employee located in the United States;

- voluntarily recognize any labor union, works council or similar employee organization or enter into a collective bargaining agreement;
- acquire (by merger, consolidation or acquisition of stock or assets or otherwise), or make any investments in, any interest in any assets or any other person, except for acquisitions or investments under certain thresholds;
- make any loans, advances or capital contributions to, or investments for treasury management purposes in, any person, except for certain exceptions;
- (1) sell or otherwise dispose of (by merger, consolidation or disposition of stock or assets or otherwise) any assets constituting a material line of business or (2) subject to a lien, sell, transfer, license or otherwise dispose of any other material assets of Activision Blizzard or any of its subsidiaries or any material items of Activision Blizzard's intellectual property, other than licenses granted by Activision Blizzard or its subsidiaries in the ordinary course of business consistent with past practice;
- except as required by applicable law (as determined by Activision Blizzard in its reasonable judgment), modify certain of its privacy policies or the integrity, security or operation of the IT assets used in the business of Activision Blizzard or its subsidiaries in any materially adverse manner;
- enter into any new business segment that is not reasonably related to Activision Blizzard's and its subsidiaries' existing business segments on the date of the merger agreement;
- enter into agreements of the types listed in the confidential disclosure letter to the merger agreement; or
- enter into, authorize or commit to enter into, an agreement to take any of the foregoing actions.

No Solicitation of Other Offers

Under the merger agreement, from the date of the merger agreement until the effective time of the merger (or the earlier termination of the merger agreement), Activision Blizzard has agreed to cease and cause to be terminated any discussions or negotiations with and terminate any data room or other diligence access of any person, its affiliates and its representatives relating to an acquisition transaction (as defined below) and to request any person who executed a confidentiality agreement in connection with its consideration of acquiring Activision Blizzard to promptly return or destroy any non-public information furnished by or on behalf of Activision Blizzard prior to the date of the merger agreement.

Under the merger agreement, from the date of the merger agreement until the earlier to occur of the termination of the merger agreement and the effective time of the merger, Activision Blizzard has agreed to not, and to not authorize or direct, as the case may be, its subsidiaries and its and their respective representatives to:

- solicit, initiate, propose or induce the making, submission or announcement of, or knowingly encourage, facilitate or assist, any proposal, offer or inquiry that constitutes, or is reasonably expected to lead to, an acquisition proposal (as defined below);
- furnish or otherwise provide access to any non-public information regarding, or to the business, properties, assets, books, records or personnel of, Activision Blizzard or its subsidiaries to any person in connection with, or with the intent to induce the making of, or to knowingly encourage, facilitate or assist an acquisition proposal, offer or inquiry that would reasonably be expected to lead to an acquisition proposal;
- participate or engage in discussions or negotiations with any person with respect to an acquisition proposal or with respect to any inquiries from third parties relating to making a potential acquisition proposal;
- approve, endorse, or recommend any proposal that constitutes, or is reasonably expected to lead to, an acquisition proposal;
- enter into any letter of intent, memorandum of understanding, merger agreement, expense reimbursement agreement, acquisition agreement or other contract relating to an acquisition transaction (as defined below); or

- authorize or commit to do any of the above.

Notwithstanding these restrictions, prior to the adoption of the merger agreement by Activision Blizzard stockholders and after entering into an acceptable confidentiality agreement, Activision Blizzard and the Activision Blizzard Board of Directors (or a committee thereof) may, directly or indirectly through one or more of their representatives (including Activision Blizzard's legal and financial advisors), furnish information to, and enter into negotiations or discussions with, a person regarding a bona fide written acquisition proposal if: (1) Activision Blizzard, its subsidiaries and its and their respective representatives have not breached any of the conditions above with respect to the acquisition proposal or such person; (2) the Activision Blizzard Board of Directors determines in good faith, after consultation with Activision Blizzard's financial advisor and outside legal counsel, that such acquisition proposal constitutes or is reasonably likely to lead to a superior proposal (as defined below); (3) the Activision Blizzard Board of Directors determines in good faith, after consultation with Activision Blizzard's financial advisor and outside legal counsel, that the failure to do so would be inconsistent with its fiduciary duties pursuant to applicable law; and (4) Activision Blizzard prior to or contemporaneously makes available to Microsoft any non-public information concerning Activision Blizzard that is provided to such person that was not previously made available to Microsoft.

If (i) Activision Blizzard, its subsidiaries or its or their representatives receives (1) any acquisition proposal or (2) any inquiry from any third person that would reasonably be expected to result in an acquisition proposal, in each case, to the knowledge of Activision Blizzard or any member of the Activision Blizzard Board of Directors; or (ii) any non-public information is requested by any third person that would be reasonably expected to result in an acquisition proposal from or any discussions or negotiations that would be reasonably expected to result in an acquisition proposal are sought by any third person to be initiated or continued with Activision Blizzard or its representatives at any time prior to the earlier to occur of the termination of the merger agreement and the effective time of the merger, Activision Blizzard must promptly (and in all events by the later of (x) 24 hours from the receipt thereof and (y) 5:00 p.m., Pacific time, on the next business day) notify Microsoft of such acquisition proposal or request, including the identity of the person making or submitting the acquisition proposal or request, the material terms and conditions thereof and copies of any written documentation setting forth such terms. Thereafter, Activision Blizzard must keep Microsoft reasonably informed, on a prompt basis, of the status and terms of any such offers or proposals (including any amendments thereto) and the status of any such discussions or negotiations.

For purposes of this proxy statement and the merger agreement:

- an "acquisition proposal" is any offer or proposal (other than an offer or proposal by Microsoft or Sub) relating to an acquisition transaction;
- an "acquisition transaction" is any transaction or series of transactions (other than the merger) involving any:
  - direct or indirect purchase or other acquisition by any person or "group" (as defined in the Exchange Act) of persons of securities representing more than 15% of the total outstanding voting power of Activision Blizzard, including pursuant to a tender offer or exchange offer;
  - direct or indirect purchase (including by way of a merger, consolidation, business combination, recapitalization, reorganization, liquidation, dissolution or other transaction), license or other acquisition by any person or "group" of persons of assets (including equity securities of any subsidiary of Activision Blizzard) constituting or accounting for more than 15% of the revenue, net income or consolidated assets of Activision Blizzard and its subsidiaries, taken as a whole; or
  - merger, consolidation, business combination, recapitalization, reorganization, liquidation, dissolution or other transaction involving Activision Blizzard (or any of its subsidiaries whose business accounts for more than 15% of the revenue, net income or consolidated assets of Activision Blizzard and its subsidiaries, taken as a whole) in which the stockholders of Activision Blizzard (or such subsidiary) prior to such transaction will not own at least 85%, directly or indirectly, of the surviving company; and

- a "superior proposal" is a bona fide written acquisition proposal (substituting 50% for 15% in the definition of "acquisition proposal" above) for an acquisition transaction that the Activision Blizzard Board of Directors has determined in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) is on terms that would be more favorable from a financial point of view than the merger and taking into account any revisions to the merger agreement made or proposed by Microsoft prior to the time of such determination and after taking into account the other factors and matters deemed relevant in good faith by the Activision Blizzard Board of Directors, including the identity of the person making the proposal, the conditionality of such proposal, the likelihood of consummation and the legal, financial (including financing terms), regulatory, timing and other aspects of the proposal.

The Recommendation of the Activision Blizzard Board of Directors; Company Board Recommendation Change

Except as described below, and subject to the provisions described below, the Activision Blizzard Board of Directors has made the recommendation that the holders of shares of common stock vote "**FOR**" the proposal to adopt the merger agreement. The merger agreement provides that the Activision Blizzard Board of Directors will not effect a company board recommendation change except as described below.

Prior to the adoption of the merger agreement by stockholders, the Activision Blizzard Board of Directors may not (with any action described in the following being referred to as a "company board recommendation change"):

- withhold, withdraw, amend, qualify or modify, or publicly propose to withhold, withdraw, amend, qualify or modify, the recommendation of the Activision Blizzard Board of Directors in a manner adverse to Microsoft;
- adopt, approve or recommend an acquisition proposal;
- fail to publicly reaffirm the recommendation of the Activision Blizzard Board of Directors within 10 business days following Microsoft's written request made promptly following the occurrence of a material event or development relating to or reasonably likely to have a material effect on the merger or the vote by Activision Blizzard's stockholders at the special meeting (or if the special meeting is scheduled to be held within 10 business days, then within one business day after Microsoft so requests);
- take any formal action or make any recommendation in connection with a tender or exchange offer, other than a recommendation against such offer or a "stop, look and listen" communication by the Activision Blizzard Board of Directors (or a committee thereof) to Activision Blizzard's stockholders pursuant to Rule 14d-9(f) promulgated under the Exchange Act (or any substantially similar communication) (it being understood that the Activision Blizzard Board of Directors (or a committee thereof) may refrain from taking a position with respect to an acquisition proposal until the close of business on the 10th business day after the commencement of a tender or exchange offer in connection with such acquisition proposal without such action being considered a violation of the merger agreement); or
- fail to include the recommendation of the Activision Blizzard Board of Directors in this proxy statement.

Notwithstanding the restrictions described above, prior to the adoption of the merger agreement by stockholders, the Activision Blizzard Board of Directors may, upon compliance with the procedures described below, effect a company board recommendation change if (1) other than in connection with a bona fide acquisition proposal that constitutes a superior proposal, there has been an intervening event (as defined below); or (2) Activision Blizzard has received a bona fide written acquisition proposal that the Activision Blizzard Board of Directors has concluded in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) is a superior proposal, in each case, if the Activision Blizzard Board of Directors determines in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) that a failure to effect a company board recommendation change would be inconsistent with the Activision Blizzard Board of Directors' fiduciary duties pursuant to applicable law.

The Activision Blizzard Board of Directors may effect a company board recommendation change but may not terminate the merger agreement in response to an intervening event if and only if:

- Activision Blizzard has provided prior written notice to Microsoft at least three business days in advance to the effect that the Activision Blizzard Board of Directors has (1) made the determination described above; and (2) resolved to effect a company board recommendation change pursuant to the merger agreement, which notice must describe the applicable intervening event in reasonable detail; and
- prior to effecting such company board recommendation change, Activision Blizzard and its representatives, during such three-business day period, must have (1) negotiated with Microsoft and its representatives in good faith (to the extent that Microsoft requests in writing to so negotiate) to make such adjustments to the terms and conditions of the merger agreement so that the Activision Blizzard Board of Directors no longer determines in good faith that the failure to make a company board recommendation change in response to such intervening event would be inconsistent with its fiduciary duties pursuant to applicable law and (2) provided Microsoft and its representatives with an opportunity to make a presentation to the Activision Blizzard Board of Directors regarding the merger agreement and any adjustments with respect thereto (to the extent that Microsoft requests to make such a presentation).

In addition, the Activision Blizzard Board of Directors may effect a company board recommendation change or terminate the merger agreement in response to a bona fide written acquisition proposal that the Activision Blizzard Board of Directors has concluded in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) is a superior proposal if and only if:

- the Activision Blizzard Board of Directors has determined in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) that the failure to do so would be inconsistent with its fiduciary duties pursuant to applicable law;
- such acquisition proposal did not result from a breach of Activision Blizzard's non-solicitation obligations under the merger agreement;
- Activision Blizzard has provided prior written notice to Microsoft at least three business days in advance to the effect that the Activision Blizzard Board of Directors has (1) received a bona fide written acquisition proposal that has not been withdrawn; (2) concluded in good faith that such acquisition proposal constitutes a superior proposal and (3) resolved to effect a company board recommendation change or to terminate the merger agreement, which notice will describe the basis for such company board recommendation change or termination, including the identity of the person or "group" of persons making such acquisition proposal, the material terms and conditions of such acquisition proposal and copies of all relevant documents relating to such acquisition proposal; and
- prior to effecting such company board recommendation change or termination, Activision Blizzard and its representatives, during the three business day notice period described above, have (1) negotiated with Microsoft and its representatives in good faith (to the extent that Microsoft requests in writing to so negotiate) to make such adjustments to the terms and conditions of the merger agreement so that such acquisition proposal would cease to constitute a superior proposal; and (2) provided Microsoft and its representatives with an opportunity to make a presentation to the Activision Blizzard Board of Directors regarding the merger agreement and any adjustments with respect thereto (to the extent that Microsoft requests to make such a presentation).

In the event of any material revision to any such bona fide written acquisition proposal described above, Activision Blizzard has also agreed to deliver a new notice to Microsoft and comply with the above procedures with respect to such new written notice (with the notice period being two business days, except that such notice period will not shorten the aforementioned original three-day notice period) and prior to effecting a company board recommendation change or terminating the merger agreement, at the end of the relevant notice period, the Activision Blizzard Board of Directors must have in good faith (after consultation with Activision Blizzard's financial advisor and outside legal counsel) reaffirmed its determination that such bona fide written acquisition proposal is a superior proposal.

For purposes of this proxy statement and the merger agreement, an "intervening event" means any positive change, effect, development, circumstance, condition, event or occurrence that (1) materially improves the business, assets or operations of Activision Blizzard, (2) as of the date of the merger agreement was not known to the Activision Blizzard Board of Directors, or the consequences of which (based on facts known to the members of the Activision Blizzard Board of Directors as of the date of the merger agreement) were not reasonably foreseeable as of the date of the merger agreement and (3) does not relate to any acquisition proposal.

Stockholder Meeting

Activision Blizzard has agreed to take all necessary action to establish a record date for, duly call, give notice of, convene and hold the special meeting as promptly as reasonably practicable and on or around the 20th business day following the commencement of the mailing of this proxy statement (or on such other date elected by Activision Blizzard with Microsoft's consent, which consent will not be unreasonably withheld, conditioned or delayed) for the sole purpose of voting upon the adoption of the merger agreement, obtaining advisory approval of the compensation that Activision Blizzard's named executive officers may receive in connection with the merger, and, if applicable, for Activision Blizzard's stockholders to act on such other matters of procedure required in connection with the adoption of the merger agreement and matters required by applicable law to be voted on by Activision Blizzard's stockholders in connection with the adoption of the merger agreement. Activision Blizzard is permitted to postpone or adjourn the special meeting in certain circumstances related to soliciting additional proxies or requirements of applicable law.

Employee Matters

Following the merger, the surviving corporation will honor all employee plans and compensation and severance arrangements as in effect immediately prior to the effective time, which we refer to as the "Activision Blizzard Plans." However, the surviving corporation may amend or terminate any such arrangements in accordance with their terms or if required by law, and neither Microsoft nor the surviving corporation will be obligated to continue any such employee plans.

Subject to any collective bargaining agreement, during the twelve-month period following the merger, the surviving corporation will (and Microsoft will cause the surviving corporation to) either:

- maintain for the benefit of each employee of Activision Blizzard who remains employed after the closing, whom we refer to as "continuing employees," the Activision Blizzard Plans (other than those providing for equity awards) at benefit levels that are, in the aggregate, no less than those in effect at Activision Blizzard on the date of the merger agreement, and provide target cash compensation and benefits (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment) to each continuing employee pursuant to the Activision Blizzard Plans;
- provide target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments to each continuing employee that, taken as a whole, are no less favorable in the aggregate than the target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments provided to such continuing employee immediately prior to the effective time; or
- provide some combination of the two options described above such that each continuing employee receives target cash compensation, benefits and severance payments that, taken as a whole, are no less favorable in the aggregate than the target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments and benefits provided to such continuing employee immediately prior to the effective time.

Notwithstanding the obligations provided for above, Microsoft's standard compensation, benefits and/or severance that are provided to any continuing employee and that would be provided to a similarly situated Microsoft employee will satisfy Microsoft's and the surviving corporation's obligations to any continuing employees.

Microsoft has agreed to give credit to continuing employees who, after the merger, participate in employee benefit plans maintained by Microsoft for all service with Activision Blizzard and its subsidiaries before the merger for purposes of eligibility to participate, vesting and entitlement to benefits (other than for purposes of benefit accruals under any defined benefit pension plan or post-employment welfare plan, except that such service need not be credited to the extent that it would result in duplication of benefits). Microsoft will credit each continuing employee with accrued but unused vacation or paid time off in accordance with Activision Blizzard's vacation or paid time off policies in effect immediately prior to the merger.

With respect to any employee benefit plans maintained by Microsoft in which continuing employees are eligible to participate after the closing, Microsoft has agreed that it will:

- provide that each continuing employee will be immediately eligible to participate in each Microsoft plan, without any waiting period, to the extent that coverage under the Microsoft plan replaces coverage under a comparable Activision Blizzard plan;
- cause all waiting periods, pre-existing condition exclusions, evidence of insurability requirements and actively-at-work or similar requirements under any Microsoft plan providing medical, dental, pharmaceutical, vision or disability benefits to any continuing employee to be waived for the continuing employee and his or her covered dependents to the extent waived under the corresponding Activision Blizzard plan;
- cause any eligible expenses incurred by a continuing employee and his or her covered dependents during the portion of the plan year of the Activision Blizzard plan ending on the date that the continuing employee's participation in the corresponding Microsoft plan begins to be given full credit under the Microsoft plan for purposes of satisfying all deductible, co-insurance and maximum out-of-pocket requirements applicable to the continuing employee and his or her covered dependents for the plan year as if the amounts had been paid under the Microsoft plan, to the extent credited under the corresponding Activision Blizzard plan; and
- credit any continuing employee's accounts under any Microsoft flexible spending plan with any unused balance in the continuing employee's account.

Efforts to Close the Merger

Under the merger agreement, Microsoft, Sub and Activision Blizzard agreed to use reasonable best efforts to take, or cause to be taken, all actions and assist and cooperate with the other parties, in each case as are necessary, proper or advisable to consummate the merger and effect the other contemplated transactions thereunder, including using their reasonable best efforts to cause the conditions to closing the merger described below to be satisfied, comply with all regulatory notification requirements and obtain all regulatory approvals required to consummate the merger and effect the other contemplated transactions thereunder and use reasonable best efforts to seek to obtain any required consents under Activision Blizzard's material contracts.

Additionally, under the merger agreement, if and to the extent necessary to obtain regulatory approval of the merger, Microsoft, Sub and, solely to the extent requested by Microsoft, Activision Blizzard agreed to (1) offer and effect the divestiture or other disposition of any capital stock or assets of Activision Blizzard or its subsidiaries and (2) contest, defend and appeal any legal proceeding challenging the merger agreement or the consummation of the merger. Notwithstanding the foregoing, Microsoft is not obligated to take any action that would reasonably be expected to (i) have a material adverse impact on Activision Blizzard and its subsidiaries, taken as a whole, (ii) have a material impact on the benefits expected to be derived from the merger by Microsoft or (iii) have a more than immaterial impact on any business or product line of Microsoft.

Indemnification and Insurance

The merger agreement provides that the surviving corporation will (and Microsoft will cause the surviving corporation to) honor and fulfill the obligations of Activision Blizzard pursuant to any indemnification agreements that are set forth in the confidential disclosure letter to the merger agreement,

which were in effect on the date of the merger agreement between Activision Blizzard, on the one hand, and the current or former directors and officers of Activision Blizzard, on the other hand, and the indemnification, exculpation and advancement of expenses set forth in Activision Blizzard's certificate of incorporation and bylaws in effect on the date of the merger agreement with respect to any of Activision Blizzard's current or former directors and officers.

In addition, the merger agreement provides that, during the six-year period commencing at the effective time of the merger, the surviving corporation will (and Microsoft will cause the surviving corporation to) indemnify and hold harmless each current or former director or officer of Activision Blizzard or its subsidiaries, to the fullest extent permitted by law, from and against all costs, fees and expenses (including attorneys' fees and investigation expenses), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement or compromise in connection with any legal proceeding arising, directly or indirectly, out of or pertaining, directly or indirectly, to (1) any action or omission, or alleged action or omission, in such indemnified person's capacity as a director, officer, employee or agent of Activision Blizzard or its subsidiaries or other affiliates (regardless of whether such action or omission, or alleged action or omission, occurred prior to, at or after the effective time of the merger); and (2) the merger, as well as any actions taken by Activision Blizzard, Microsoft or Sub with respect thereto. The merger agreement also provides that the surviving corporation will advance all fees and expenses (including fees and expenses of any counsel) as incurred by any such indemnified person in the defense of such legal proceeding.

In addition, without limiting the foregoing, unless Activision Blizzard has purchased a "tail" policy prior to the effective time of the merger (which Activision Blizzard may purchase; provided that the premium for such insurance does not exceed 350% of the aggregate annual premiums paid by Activision Blizzard in its last full fiscal year), the merger agreement requires Microsoft to cause the surviving corporation to maintain, on terms no less advantageous to the indemnified parties, Activision Blizzard's directors' and officers' insurance policies for a period of at least six years commencing at the effective time of the merger. Neither Microsoft nor the surviving corporation will be required to pay premiums for such policy to the extent such premiums exceed, on an annual basis, 350% of the aggregate annual premiums paid by Activision Blizzard in its last full fiscal year, and if the premium for such insurance coverage would exceed such amount Microsoft will be obligated to cause the surviving corporation to obtain the greatest coverage available for a cost equal to such amount. The merger agreement also provides that the indemnified parties are third-party beneficiaries of the indemnification and insurance provisions in the merger agreement and are entitled to enforce such provisions.

For more information, refer to the section of this proxy statement entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger" beginning on page 58.

Specified and Transaction Litigation

Activision Blizzard will (1) provide Microsoft with prompt notice of any material updates to certain litigation matters set forth in the confidential disclosure letter to the merger agreement, (2) keep Microsoft reasonably informed with respect to the status thereof and (3) consult with Microsoft with regard to the defense and settlement of any such litigation and consider in good faith Microsoft's advice with respect to such litigation.

Activision Blizzard will (1) provide Microsoft with prompt notice of all transaction litigation relating to the merger agreement; (2) keep Microsoft reasonably informed with respect to the status thereof; (3) give Microsoft the opportunity to participate in the defense, settlement or prosecution of any such litigation; and (4) consult with Microsoft with respect to the defense, settlement or prosecution of any such litigation and consider in good faith Microsoft's advice with respect to such litigation. Activision Blizzard may not compromise, settle or come to an arrangement, or agree to do any of the foregoing, regarding any such litigation without Microsoft's prior written consent.

Conditions to the Closing of the Merger

The obligations of Microsoft and Sub, on the one hand, and Activision Blizzard, on the other hand, to consummate the merger are subject to the satisfaction or waiver (where permitted by applicable law) of each of the following conditions:

- the adoption of the merger agreement by the requisite affirmative vote of Activision Blizzard stockholders;
- the expiration or termination of the applicable waiting period under, or obtaining all requisite clearances, consents and approvals pursuant to the HSR Act and the antitrust and foreign investment laws of certain specified countries, which we refer to as the "regulatory conditions"; and
- the absence of any temporary restraining order, preliminary or permanent injunction or other judgment or order issued by a court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the merger and that is in effect, governmental action or statute, rule, regulation or order having been enacted, entered, enforced or deemed applicable to the merger that, in each case, prohibits, makes illegal or enjoins (or seeks to prohibit, make illegal or enjoin) the consummation of the merger or which imposes or seeks to impose a burdensome condition, which we refer to as the "injunction condition."

In addition, the obligations of Microsoft and Sub to consummate the merger are subject to the satisfaction or waiver (where permitted by applicable law) of each of the following additional conditions:

- the representations and warranties of Activision Blizzard relating to organization, good standing, corporate power, enforceability, approval of the Activision Blizzard Board of Directors, opinion of Activision Blizzard's financial advisor, anti-takeover laws, requisite stockholder approval, the absence of any Company Material Adverse Effect and brokers' fees being true and correct in all material respects as of the date of the merger agreement and as of the date on which the closing occurs as if made at and as of such date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will have been true and correct as of such earlier date), unless any such representations or warranties are qualified by "material," "materiality" or Company Material Adverse Effect, in which case, such representations and warranties will have been true and correct (without disregarding such "material," "materiality" or Company Material Adverse Effect qualifications) as of the date on which the closing occurs as if made at and as of such date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will have been so true and correct as of such earlier date);
- the representations and warranties of Activision Blizzard relating to certain aspects of the capitalization of Activision Blizzard's subsidiaries being true and correct in all material respects as of the date of the merger agreement and as of the date on which the closing occurs as if made at and as of such date;
- the representations and warranties of Activision Blizzard relating to certain aspects of Activision Blizzard's capitalization being true and correct as of the date of the merger agreement and as of the date on which the closing occurs as if made at and as of such date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for such inaccuracies that are *de minimis* in the aggregate (viewed in the context of Activision Blizzard's total capitalization);
- the other representations and warranties of Activision Blizzard set forth elsewhere in the merger agreement being true and correct (without giving effect to any materiality or Company Material Adverse Effect qualifications set forth therein) as of the date of the merger agreement and as of the date on which the closing occurs as if made at and as of such date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for such failures to be true and correct that would not have or reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect;
- Activision Blizzard having performed and complied in all material respects with all covenants and obligations of the merger agreement required to be performed and complied with by it at or prior to the effective time of the merger;
- the receipt by Microsoft and Sub of a customary closing certificate of Activision Blizzard; and

- the absence of any Company Material Adverse Effect having occurred after the date of the merger agreement that is continuing as of the effective time of the merger.

In addition, the obligation of Activision Blizzard to consummate the merger is subject to the satisfaction or waiver (where permitted by applicable law) of each of the following additional conditions:

- the representations and warranties of Microsoft and Sub set forth in the merger agreement being true and correct as of the date of the merger agreement and as of the date on which the closing occurs as if made at and as of such date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for any such failure to be true and correct that would not have or reasonably be expected to have, individually or in the aggregate, an effect that would, or would reasonably be expected to, prevent or materially impede or materially delay, or prevents or materially impedes or materially delays, the consummation by Microsoft or Sub of the merger;
- Microsoft and Sub having performed and complied in all material respects with all covenants and obligations of the merger agreement required to be performed and complied with by Microsoft or Sub at or prior to the effective time of the merger; and
- the receipt by Activision Blizzard of a customary closing certificate of Microsoft and Sub.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after the adoption of the merger agreement by Activision Blizzard stockholders, in the following ways:

- by mutual written agreement of Activision Blizzard and Microsoft;
- by either Activision Blizzard or Microsoft if:
  - (1) a permanent injunction or similar judgment or order issued by a court or other legal restraint prohibiting consummation of the merger is in effect, or any action taken by a governmental authority prohibiting the merger has become final and non-appealable or (2) any statute, regulation or order prohibiting the merger has been enacted (except that a party may not terminate the merger agreement pursuant to this provision if such party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date (as defined below));
  - the merger has not been consummated before 11:59 p.m., Pacific time, on January 18, 2023, which we refer to as the "termination date," except that (i) if all conditions have been satisfied (other than those conditions to be satisfied at the time of closing of the merger) or waived (to the extent permitted by applicable law) by that date, but on that date the regulatory conditions or the injunction condition (solely with respect to antitrust, competition or foreign investment laws) has not been satisfied, then the termination date will automatically be extended to 11:59 p.m., Pacific time, on April 18, 2023 and (ii) if all conditions have been satisfied (other than those conditions to be satisfied at the time of closing of the merger) or waived (to the extent permitted by applicable law) by April 18, 2023, but on that date the regulatory conditions or the injunction condition (solely with respect to antitrust, competition or foreign investment laws) has not been satisfied, then the termination date will automatically be extended to 11:59 p.m., Pacific time, on July 18, 2023, except that a party may not terminate the merger agreement pursuant to this provision if such party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date; or
  - the Activision Blizzard stockholders do not adopt the merger agreement at the special meeting (except that a party may not terminate the merger agreement pursuant to this provision if such party's material breach of the merger agreement is the primary cause of the failure to obtain the approval of the Activision Blizzard stockholders at the special meeting); and

- by Activision Blizzard if:
  - after a cure period (if capable of being cured by the termination date), Microsoft or Sub has breached or failed to perform in any material respect any of its respective representations, warranties, covenants or other agreements in the merger agreement, such that the related closing condition would not be satisfied (but Activision Blizzard may not so terminate the merger agreement if the breach was cured prior to termination or if its own breach, failure to perform or comply with the merger agreement or inaccuracy of its representations and warranties causes the failure of the closing conditions in respect of Activision Blizzard's performance of its covenants or accuracy of its representations and warranties to have been satisfied); or
  - prior to the adoption of the merger agreement by Activision Blizzard stockholders, (1) Activision Blizzard has received a superior proposal; (2) the Activision Blizzard Board of Directors has authorized Activision Blizzard to enter into an agreement to consummate the transaction contemplated by such superior proposal; (3) Activision Blizzard pays Microsoft a $2,270,100,000 termination fee; and (4) Activision Blizzard has complied with its non-solicitation obligations under the merger agreement; and
- by Microsoft if:
  - after a cure period (if capable of being cured by the termination date), Activision Blizzard has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements in the merger agreement, such that the related closing condition would not be satisfied (but Microsoft may not so terminate the merger agreement if the breach was cured prior to termination or if its own breach, failure to perform or comply with the merger agreement or inaccuracy of its representations and warranties causes the failure of the closing conditions in respect of Microsoft's performance of its covenants or accuracy of its representations and warranties to have been satisfied); or
  - the Activision Blizzard Board of Directors has effected a company board recommendation change.

In the event that the merger agreement is terminated pursuant to the termination rights above, the merger agreement will be of no further force or effect without liability of any party to the other parties (or their representatives), as applicable, except certain sections of the merger agreement will survive the termination of the merger agreement in accordance with their respective terms, including terms relating to termination fees. Notwithstanding the foregoing, nothing in the merger agreement will relieve any party from any liability for any willful breach of any representation, warranty, covenant or agreement contained in the merger agreement. In addition, no termination of the merger agreement will affect the rights or obligations of any party pursuant to the confidentiality agreement between Microsoft and Activision Blizzard, which rights, obligations and agreements will survive the termination of the merger agreement in accordance with their respective terms.

Termination Fee

If the merger agreement is terminated in specified circumstances, Activision Blizzard has agreed to pay Microsoft a termination fee of $2,270,100,000.

Microsoft will be entitled to receive the termination fee from Activision Blizzard if the merger agreement is terminated:

- (A) by Microsoft because (1) the merger has not closed as of the termination date and at the time of such termination, either (x) the special meeting has not yet been held or (y) each of the regulatory conditions or the injunction condition has not been satisfied, and the primary cause of the failure of any such condition to have been satisfied was a breach of the merger agreement by Activision Blizzard, (2) Activision Blizzard has materially breached its representations, warranties, covenants or agreements in the merger agreement or (3) Activision Blizzard stockholders fail to adopt the merger agreement at the special meeting; (B) following the date of the merger agreement and prior to its termination, an acquisition proposal has been publicly announced by Activision Blizzard; and (C) Activision Blizzard enters into an agreement relating to, or consummates, an acquisition

transaction within one year of the termination of the merger agreement (provided that, for purposes of the termination fee, all references to "15%" in the definition of "acquisition transaction" are deemed to be references to "50%");

- by Microsoft, because the Activision Blizzard Board of Directors has effected a company board recommendation change; or
- by Activision Blizzard, to enter into an alternative acquisition agreement with respect to a superior proposal.

Reverse Termination Fee

If the merger agreement is terminated in specified circumstances, Microsoft has agreed to pay Activision Blizzard a reverse termination fee of (i) $2,000,000,000, if the termination notice is provided prior to January 18, 2023, (ii) $2,500,000,000, if the termination notice is provided after January 18, 2023 and prior to April 18, 2023 or (iii) $3,000,000,000, if the termination notice is provided after April 18, 2023.

Activision Blizzard will be entitled to receive the reverse termination fee from Microsoft if the merger agreement is terminated:

- by either Microsoft or Activision Blizzard due to (1) a permanent injunction or other judgment or order arising from antitrust laws having been issued by a court or other legal or regulatory restraint or prohibition arising from antitrust laws preventing the consummation of the merger being in effect, or any action having been taken by a governmental authority arising from antitrust laws that, in each case, prohibits, makes illegal or enjoins the consummation of the merger and that has become final and non-appealable; or (2) any statute, rule, regulation or order arising from antitrust laws having been enacted, entered, enforced or deemed applicable to the merger that prohibits, makes illegal or enjoins the consummation of the merger, except that this termination right will not be available if the terminating party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date; or
- by either Microsoft or Activision Blizzard if (1) the merger has not been consummated by the termination date, as may be extended pursuant to the merger agreement, except that this termination right is not available if the terminating party's material breach of any provision of the merger agreement is the primary cause of the failure of the merger to be consummated by the termination date, and (2) all conditions to the merger agreement are satisfied (other than those conditions to be satisfied at the time of the closing of the merger, each of which is capable of being satisfied at closing) or waived (where permissible pursuant to applicable law), other than the regulatory conditions or injunction condition solely with respect to antitrust laws, except that in either case, Activision Blizzard is not then in material breach of any provision of the merger agreement (provided that any breach by Activision Blizzard that is the primary cause of the failure of any condition to the merger agreement to be satisfied is a material breach).

As used herein, "antitrust laws" are collectively (i) the Sherman Antitrust Act of 1890, (ii) the Clayton Antitrust Act of 1914, (iii) the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iv) the Federal Trade Commission Act of 1914 and (v) all other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or significant impediments or lessening of competition or the creation or strengthening of a dominant position through merger or acquisition, in any case that are applicable to the merger.

Specific Performance

Microsoft, Sub and Activision Blizzard are entitled to an injunction, specific performance and other equitable relief to prevent breaches (or threatened breaches) of the merger agreement and to enforce the terms of the merger agreement, in addition to any other remedy to which they are entitled at law or in equity.

Fees and Expenses

Except in specified circumstances, whether or not the merger is completed, Activision Blizzard, on the one hand, and Microsoft and Sub, on the other hand, are each responsible for all of their respective costs and expenses incurred in connection with the merger and the other transactions contemplated by the merger agreement.

Amendment

Subject to applicable law, the merger agreement may be amended in writing by the parties at any time prior to closing of the merger, whether before or after adoption of the merger agreement by stockholders. However, after adoption of the merger agreement by stockholders, no amendment that requires further approval by such stockholders pursuant to the DGCL may be made without such approval.

Governing Law; Venue

The merger agreement is governed by Delaware law. The exclusive venue for disputes is the Court of Chancery of the State of Delaware or, to the extent that the Court of Chancery of the State of Delaware does not have subject matter jurisdiction, any state or federal court in the State of Delaware.

PROPOSAL 2: ADVISORY VOTE ON MERGER-RELATED EXECUTIVE COMPENSATION ARRANGEMENTS

The Merger-Related Compensation Proposal

Section 14A of the Exchange Act, which was enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requires that we provide our stockholders with the opportunity to vote to approve, on an advisory non-binding basis, the payment of certain compensation that will or may become payable to the named executive officers of Activision Blizzard in connection with the merger, as disclosed in the section of this proxy statement entitled "Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger — Golden Parachute Compensation" beginning on page 64.

We are asking our stockholders to approve, on an advisory basis, a resolution relating to the compensation that will or may become payable by Activision Blizzard to the named executive officers of Activision Blizzard in connection with the merger. Any compensation that may be provided to Activision Blizzard's named executive officers by Microsoft after the closing is not subject to this advisory, non-binding vote.

The Activision Blizzard Board of Directors encourages you to review carefully the named executive officer merger-related compensation information disclosed in this proxy statement. The Activision Blizzard Board of Directors unanimously recommends that you vote "**FOR**" the following resolution:

"RESOLVED, that the stockholders of Activision Blizzard, Inc. approve, on a non-binding, advisory basis, the compensation that will or may become payable to Activision Blizzard's named executive officers that is based on or otherwise relates to the merger as disclosed pursuant to Item 402(t) of Regulation S-K in the section entitled 'Proposal 1: Adoption of the Merger Agreement — The Merger — Interests of the Non-Employee Directors and Executive Officers of Activision Blizzard in the Merger — Golden Parachute Compensation' in Activision Blizzard's proxy statement for the special meeting."

Stockholders should note that this proposal is not a condition to completion of the merger, and, as an advisory vote, the result will not be binding on Activision Blizzard, the Activision Blizzard Board of Directors or Microsoft. Further, the underlying plans and arrangements are contractual in nature and not, by their terms, subject to stockholder approval. Accordingly, regardless of the outcome of the advisory vote, if the merger is consummated, our named executive officers will be entitled to receive the compensation that is based on or otherwise relates to the merger in accordance with the terms and conditions applicable to those payments.

Vote Required and Board of Directors Recommendation

Approval of the merger-related compensation proposal requires the affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present.

If you are present at the special meeting in person or by proxy and abstain from voting or otherwise do not vote, it will have the same effect as a vote "**AGAINST**" the merger-related compensation proposal. If you are not present at the special meeting in person or by proxy, your shares of Activision Blizzard common stock will not be counted as voting power present for purposes of voting on the merger-related compensation proposal, and therefore will have no effect on the merger-related compensation proposal. Broker non-votes will have the same effect as not being present at the special meeting, and therefore will have no effect on the merger-related compensation proposal (assuming a quorum is present).

The Activision Blizzard Board of Directors unanimously recommends that you vote "**FOR**" the merger-related compensation proposal.

PROPOSAL 3: ADJOURNMENT OF THE SPECIAL MEETING

The Adjournment Proposal

We are asking you to approve a proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, for the purpose of soliciting additional proxies to vote in favor of the proposal to adopt the merger agreement. If our stockholders approve the adjournment proposal, we could adjourn the special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from stockholders that previously returned properly executed proxies voting against the proposal to adopt the merger agreement. Among other things, the adjournment proposal could mean that, even if we had received proxies representing a sufficient number of votes against the proposal to adopt the merger agreement such that the proposal to adopt the merger agreement would be defeated, we could adjourn the special meeting without a vote on the proposal to adopt the merger agreement and seek to convince the holders of those shares to change their votes to votes in favor of the proposal to adopt the merger agreement. Additionally, whether or not there is a quorum, the presiding person of the special meeting has the power to adjourn the special meeting from time to time until a quorum is present.

Vote Required and Board of Directors Recommendation

The approval of the adjournment proposal requires the affirmative vote of a majority of the voting power of the shares of Activision Blizzard common stock entitled to vote which are present, in person or by proxy, provided a quorum is present.

If you are present at the special meeting, in person or by proxy, and abstain from voting or otherwise do not vote, it will have the same effect as a vote "**AGAINST**" the adjournment proposal. If you are not present at the special meeting, in person or by proxy, your shares of Activision Blizzard common stock will not be counted as voting power present for purposes of voting on the adjournment proposal, and therefore will have no effect on the adjournment proposal. Broker non-votes will have the same effect as not being present at the special meeting, and therefore will have no effect on the adjournment proposal (assuming a quorum is present).

The Activision Blizzard Board of Directors unanimously recommends that you vote "**FOR**" the adjournment proposal.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The tables below set forth, as of February 1, 2022 (unless otherwise indicated), certain information regarding beneficial ownership of Activision Blizzard common stock. Beneficial ownership is determined in accordance with SEC rules and includes voting or investment power with respect to securities. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of Activision Blizzard common stock that they beneficially own, subject to applicable community property laws. All shares of Activision Blizzard common stock subject to stock awards exercisable or scheduled to be issued within 60 days of February 1, 2022 are deemed to be outstanding and beneficially owned by the persons holding those stock awards for the purpose of computing the number of shares beneficially owned and the percentage ownership of that person. They are not, however, deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of any other person.

Subject to the paragraph above, percentage ownership of outstanding shares is based on 779,152,676 shares of Activision Blizzard common stock outstanding as of February 1, 2022.

Ownership by Our Directors and Executive Officers

The following table sets forth information, as of February 1, 2022, with respect to the beneficial ownership of Activision Blizzard common stock by (1) Activision Blizzard's named executive officers, (2) each director and each nominee for election as director and (3) all current executive officers and directors as a group. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by such shareholder.

	Shares of Activision Blizzard Common Stock Beneficially Owned			
Name	Shares Owned (#)	Right to Acquire[1] (#)	Total Shares Owned plus Right to Acquire (#)	Percent of Outstanding Shares[2] (%)
Daniel Alegre	14,563	137,879[3]	152,442	*
Reveta Bowers	15,284[4]	671[5]	15,955	*
Brian Bulatao	—	15,747[6]	15,747	*
Robert Corti	121,016[7]	671[5]	121,687	*
Grant Dixton	—	—	—	*
Dennis Durkin	157,559	—	157,559	*
Hendrik Hartong III	38,172[8]	671[5]	38,843	*
Brian Kelly	1,134,685[9]	81,347[10]	1,216,032	*
Robert Kotick	4,317,285[11]	2,201,878[12]	6,519,163	*
Barry Meyer	51,052[13]	671[14]	51,723	*
Robert Morgado	119,419[15]	44,671[16]	164,090	*
Claudine Naughton	—	—	—	*
Peter Nolan	220,778[17]	671[5]	221,449	*
Dawn Ostroff	4,767	671[5]	5,438	*
Chris Walther	39,684[18]	—	39,684	*
Casey Wasserman	23,059[19]	671[5]	23,730	*
Armin Zerza	—	59,067[20]	59,067	*
All current directors and executive officers as a group (14 persons)	6,060,080[21]	2,545,286[22]	8,605,365	1.10%

* Less than 1%.

(1) Consists of shares of Activision Blizzard common stock that may be acquired upon (a) the exercise of stock options to purchase shares of Activision Blizzard common stock that are exercisable on or within

60 days of February 1, 2022 (*i.e.*, by April 2, 2022) and (b) the vesting of restricted share units reflecting the right to receive shares of Activision Blizzard common stock that vest or the settlement of vested restricted share units that settle, within 60 days of February 1, 2022 (*i.e.*, by April 2, 2022).

(2) The percent of outstanding shares was calculated by dividing the number of shares of Activision Blizzard common stock beneficially owned by each beneficial owner or group of beneficial owners as of February 1, 2022 (including the number of shares that each beneficial owner or group of beneficial owners had the right to acquire within 60 days of that date) by the sum of (a) the total number of shares of Activision Blizzard common stock outstanding on that date (*i.e.*, 779,152,676) and (b) the number of shares that may be acquired by such beneficial owner or group of beneficial owners within 60 days of that date.

(3) Consists of options to purchase shares of Activision Blizzard common stock. Does not include 63,840 shares, assuming target performance, underlying PSUs that are subject to vesting on March 30, 2022 to the extent that performance objectives are achieved.

(4) Consists of shares of Activision Blizzard common stock held by the Bowers Family Trust of 2004. Ms. Bowers and her husband, Bobbie S. Bowers, are co-trustees and share voting and investment power with respect to those securities.

(5) Consists of RSUs.

(6) Consists of options to purchase shares of Activision Blizzard common stock. Does not include 14,415 shares PSUs, assuming target performance, that are subject to vesting on March 30, 2022 to the extent that performance objectives are achieved.

(7) Consists of (a) 59,409 shares held by the Jo Ann Corti Revocable Trust and (b) 61,607 shares held by the Robert J. Corti Revocable Trust.

(8) Consists of (a) 37,172 shares directly held by Mr. Hartong and (b) 1,000 shares held in a trust for Mr. Hartong's son.

(9) Consists of (a) 21,555 shares directly held by Mr. Kelly, (b) 574,721 shares held by ASAC TJKS LLC, a limited liability company managed by Mr. Kelly, (c) one share held by ASAC II LLC, a limited liability company of which Messrs. Kelly and Kotick are the managers, as to which Mr. Kelly disclaims beneficial ownership except to the extent of his pecuniary interest therein, (d) 505,949 shares held by the 31427N Trust, of which Mr. Kelly is the trustee, as to which Mr. Kelly disclaims beneficial ownership, (e) 32,457 shares held by the Brian & Joelle Kelly Family Foundation, a charitable foundation of which Mr. Kelly is a trustee, as to which Mr. Kelly disclaims beneficial ownership and (f) two shares held indirectly by Delmonte Investments, LLC, of which Mr. Kelly is a member and manager.

(10) Consists of (a) options to purchase 80,676 shares of Activision Blizzard common stock and (b) 671 RSUs.

(11) Consists of (a) 3,908,698 shares of Activision Blizzard common stock held in the 10122B Trust, of which Mr. Kotick is the trustee and the sole beneficiary, (b) one share held by ASAC II LLC, a limited liability company of which Messrs. Kelly and Kotick are the managers, as to which Mr. Kotick disclaims beneficial ownership except to the extent of his pecuniary interest therein, (c) 36,918 shares held in a grantor retained annuity trust for the benefit of Mr. Kotick's immediate family, as to which Mr. Kotick disclaims beneficial ownership, (d) 371,666 shares held in the 1011 Foundation, Inc., a charitable foundation of which Mr. Kotick is the president, as to which Mr. Kotick disclaims beneficial ownership and (e) two shares held indirectly by Delmonte Investments, LLC, of which Mr. Kotick is a member and manager.

(12) Consists of options to purchase shares of Activision Blizzard common stock.

(13) Consists of (a) 25,525 shares held by The Barry Meyer Separate Property Trust, a trust for the benefit of Mr. Meyer's wife and children of which Mr. Meyer is the trustee and (b) 25,527 shares held by The Barry and Wendy Meyer Trust, of which Mr. Meyer and his wife, Wendy Meyer, are co-trustees and share voting and investment power with respect thereto.

(14) Consists of (a) 335 RSUs held by The Barry Meyer Separate Property Trust, a trust for the benefit of Mr. Meyer's wife and children of which Mr. Meyer is the trustee and (b) 336 RSUs held by The Barry and Wendy Meyer Trust, of which Mr. Meyer and his wife, Wendy Meyer, are co-trustees and share voting and investment power with respect thereto.

(15) Consists of (a) 79,928.32 shares of Activision Blizzard common stock held by Mr. Morgado and (b) 39,490.68 shares held by the Robert J. and Mary Lou Morgado Charitable Trust, a charitable foundation of which Mr. Morgado is a trustee, as to which Mr. Morgado disclaims beneficial ownership.

(16) Consists of (a) options to purchase 44,000 shares of Activision Blizzard common stock and (b) 671 RSUs.

(17) Consists of (a) 85,721 shares of Activision Blizzard common stock held by Mr. Nolan, (b) 101,507 shares held by the Nolan Family Trust and (c) 33,550 shares held by MIROEL Investments, LLC, of which Mr. Nolan owns one percent and the remainder is split among three trusts for the benefit of Mr. Nolan's children and the Nolan Family Trust.

(18) Consists of shares held in the Walther-Stockton 2013 Family Trust. Mr. Walther and his wife, Susan Stockton, are co-trustees of the trust and share voting and investment power with respect to those securities.

(19) Consists of (a) 23,054 shares of Activision Blizzard common stock held by the Casey Wasserman Living Trust and (b) 5.46 shares held by Mr. Wasserman's wife.

(20) Consists of (a) options to purchase 53,355 shares of Activision Blizzard common stock and (b) 5,712 RSUs. Does not include 19,483 shares underlying PSUs, assuming target performance, that are subject to vesting on March 30, 2022 to the extent that performance objectives are achieved.

(21) Includes shares of Activision Blizzard common stock held indirectly by the individuals named in the table as described above, except for Messrs. Durkin and Walther, and Ms. Naughton, who served as executive officers during 2021, but are no longer employed by the Company.

(22) Consists of (a) options to purchase 2,533,535 shares of Activision Blizzard common stock and (b) 11,751 RSUs.

Ownership of More than 5% of Activision Blizzard Common Stock

The following table sets forth information as to any person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act) known by us to be the beneficial owner of more than 5% of Activision Blizzard common stock. The information in the table is based on a review of filings made with the SEC on Schedules 13D and 13G and the assumption that each of the persons named in the table continued to own the number of shares reflected in the table on February 1, 2022. As of February 1, 2022, there were 779,152,676 shares of Activision Blizzard common stock outstanding.

Name and Address of Beneficial Owner	Shares of Activision Blizzard Beneficially Owned	Percent of Outstanding Shares
The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355	64,883,729[(1)]	8.33%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	61,381,263[(2)]	7.88%
Capital International Investors 333 South Hope Street, 55th Fl. Los Angeles, CA 90071	41,106,446[(3)]	5.28%

(1) This information is based solely on a Schedule 13G/A filed with the SEC by The Vanguard Group, together with various of its direct and indirect subsidiaries, in their various fiduciary and other capacities, on February 9, 2022. The Vanguard Group reported that as of December 31, 2021, it had shared voting power over 1,242,933 shares of Activision Blizzard common stock, sole dispositive power over 61,739,820 shares of Activision Blizzard common stock, and shared dispositive power over 3,143,909 shares of Activision Blizzard common stock.

(2) This information is based solely on a Schedule 13G/A filed with the SEC by BlackRock, Inc., together with various of its direct and indirect subsidiaries, in their various fiduciary and other capacities, on February 1, 2022. BlackRock, Inc. reported that as of December 31, 2021, it had sole voting power over 53,762,695 shares of Activision Blizzard common stock and sole dispositive power over 61,381,263 shares of Activision Blizzard common stock.

(3) This information is based solely on a Schedule 13G/A filed with the SEC by Capital International Investors, together with various of its direct and indirect subsidiaries, in their various fiduciary and other capacities, on February 11, 2022. Capital International Investors reported that as of December 31, 2021, it had sole voting power over 40,617,875 shares of Activision Blizzard common stock and sole dispositive power over 41,106,446 shares of Activision Blizzard common stock.

APPRAISAL RIGHTS

If the merger is completed, stockholders who do not vote (whether in person or by proxy) in favor of the adoption of the merger proposal and who properly exercise and perfect their demand for appraisal of their shares and who do not withdraw such demand or lose their right to appraisal will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL, which we refer to as "Section 262."

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL and is qualified in its entirety by the full text of Section 262, which is attached to this proxy statement as Annex B and incorporated herein by reference. The following summary does not constitute any legal or other advice and does not constitute a recommendation that stockholders exercise their appraisal rights under Section 262. Only a holder of record of shares of Activision Blizzard common stock is entitled to demand appraisal rights for the shares registered in that holder's name. All references in Section 262 and in this summary to a "stockholder" or a "holder of shares" are to the record holder of shares unless otherwise noted. A person having a beneficial interest in shares of Activision Blizzard common stock held of record in the name of another person, such as a bank, broker or other nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights. If you hold your shares of Activision Blizzard common stock through a bank, broker or other nominee and you wish to exercise appraisal rights, you should consult with your bank, broker or the other nominee.

Under Section 262, holders of shares of Activision Blizzard common stock who (i) do not vote in favor of the merger proposal; (ii) continuously are the record holders of such shares through the effective time; and (iii) otherwise follow the procedures set forth in, and do not otherwise withdraw or lose their rights under, Section 262 will be entitled to have their shares appraised by the Court of Chancery of the State of Delaware and to receive, in lieu of the merger, consideration payment in cash of the amount determined by the Court of Chancery of the State of Delaware to be the "fair value" of the shares of Activision Blizzard common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest to be paid on the amount determined to be fair value as determined by the court (subject, in the case of interest payments, to any voluntary cash payments made by the surviving corporation pursuant to subsection (h) of Section 262 of the DGCL). Unless the Court of Chancery of the State of Delaware, in its discretion, determines otherwise for good cause shown, interest on an appraisal award will accrue and compound quarterly from the effective date of the merger through the date the judgment is paid at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during such period; provided that, if at any time before the Court of Chancery of the State of Delaware enters judgment in the appraisal proceeding, the surviving corporation pays to each stockholder entitled to appraisal an amount in cash, interest will accrue after the time of such payment only on the amount that equals the sum of (i) the difference, if any, between the amount so paid and the "fair value" of the shares as determined by the Court of Chancery of the State of Delaware and (ii) any interest accrued prior to the time of such voluntary payment, unless paid at such time. The surviving corporation is under no obligation to make such voluntary cash payment prior to such entry of judgment. Stockholders considering seeking appraisal should be aware that the fair value of their shares as determined pursuant to Section 262 of the DGCL could be more than, the same as or less than the $95.00 per share consideration payable pursuant to the merger agreement if they did not seek appraisal of their shares.

Under Section 262, where a merger agreement is to be submitted for adoption at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders entitled to appraisal rights that appraisal rights are available and include in the notice a copy of Section 262. **This proxy statement constitutes Activision Blizzard's notice to stockholders that appraisal rights are available in connection with the merger, and the full text of Section 262 is attached to this proxy statement as Annex B.** In connection with the merger, any holder of shares of Activision Blizzard's common stock who wishes to exercise appraisal rights or who wishes to preserve such holder's right to do so should review Annex B carefully. Failure to comply with the requirements of Section 262 in a timely and proper manner may result in the loss of appraisal rights under the DGCL. In addition, assuming our shares remain listed on a national securities exchange immediately prior to the effective time (which we expect to be the case), the Delaware Court of Chancery will dismiss appraisal proceedings as to all Activision Blizzard stockholders who assert appraisal rights unless (i) the total number of shares of Activision Blizzard common stock for

which appraisal rights have been pursued and perfected exceeds 1% of the outstanding shares of Activision Blizzard common stock measured in accordance with subsection (g) of Section 262 of the DGCL or (ii) the value of the aggregate merger consideration in respect of the shares of Activision Blizzard common stock for which appraisal rights have been pursued and perfected exceeds $1 million. We refer to these requirements as the ownership conditions. Because of the complexity of the procedures for exercising the right to seek appraisal of shares of Activision Blizzard common stock, Activision Blizzard believes that if a stockholder is considering exercising appraisal rights, that stockholder should seek the advice of legal counsel. A stockholder who loses his, her or its appraisal rights will be entitled to receive the merger consideration as described in the merger agreement upon surrender of the certificates that formerly represented such shares of Activision Blizzard common stock.

Stockholders wishing to exercise the right to seek an appraisal of their shares of Activision Blizzard common stock must fully comply with Section 262, which means doing, among other things, ALL of the following:

- the stockholder must not vote in favor of the merger proposal;
- the stockholder must deliver to Activision Blizzard a written demand for appraisal before the vote on the merger proposal at the special meeting;
- the stockholder must continuously hold the shares from the date of making the demand through the effective time (a stockholder will lose appraisal rights if the stockholder transfers the shares before the effective time); and
- the stockholder (or a beneficial owner of shares on whose behalf the stockholder demanded appraisal) or the surviving corporation must file a petition in the Court of Chancery of the State of Delaware requesting a determination of the fair value of the shares within 120 days after the effective date of the merger. The surviving corporation is under no obligation to file any petition and has no intention of doing so.

Filing Written Demand

Any holder of shares of Activision Blizzard common stock wishing to exercise appraisal rights must deliver to Activision Blizzard, before the vote on the merger proposal at the special meeting, a written demand for the appraisal of the stockholder's shares, and that stockholder must not vote in favor of the merger proposal either in person or by proxy. A holder of shares of Activision Blizzard common stock exercising appraisal rights must hold of record the shares on the date the written demand for appraisal is made and must continue to hold the shares of record through the effective time. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the merger proposal, and it will cause a stockholder to lose the stockholder's right to appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who submits a proxy and who wishes to exercise appraisal rights must submit a proxy containing instructions to vote against the merger proposal or abstain from voting on the merger proposal. However, neither voting against the merger proposal nor abstaining from voting or failing to vote on the merger proposal will, in and of itself, constitute a written demand for appraisal satisfying the requirements of Section 262. The written demand for appraisal must be in addition to and separate from any proxy or vote on the merger proposal. A proxy or vote against the merger proposal will not constitute a demand. A stockholder's failure to make the written demand prior to the taking of the vote on the merger proposal at the special meeting will cause the stockholder to lose its appraisal rights in connection with the merger.

Only a holder of record of shares of Activision Blizzard common stock is entitled to demand appraisal rights for the shares registered in that holder's name. A demand for appraisal in respect of shares of Activision Blizzard common stock should be executed by or on behalf of the holder of record and must reasonably inform Activision Blizzard of the identity of the holder and state that the person intends thereby to demand appraisal of the holder's shares in connection with the merger. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, such demand must be executed by or on behalf of the record owner, and if the shares are owned of record by more than one person, such as in a joint tenancy or a tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute a demand for

appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose that, in executing the demand, the agent is acting as agent for the record owner or owners. A holder of record, such as a brokerage, bank or other nominee, who holds shares of Activision Blizzard common stock as nominee or intermediary for others may exercise appraisal rights with respect to shares of Activision Blizzard common stock held for one or more beneficial owners while not exercising appraisal rights for other beneficial owners. In that case, the written demand should state the number of shares of Activision Blizzard common stock as to which appraisal is sought. Where no number of shares of Activision Blizzard common stock is expressly mentioned, the demand will be presumed to cover all shares of Activision Blizzard common stock held in the name of the holder of record.

STOCKHOLDERS WHO HOLD THEIR SHARES IN BROKERAGE OR BANK ACCOUNTS OR OTHER NOMINEE FORMS, AND WHO WISH TO EXERCISE APPRAISAL RIGHTS, SHOULD CONSULT WITH THEIR BROKERS, BANKS AND OTHER NOMINEES, AS APPLICABLE, TO DETERMINE THE APPROPRIATE PROCEDURES FOR THE BROKER, BANK OR OTHER NOMINEE HOLDER TO MAKE A DEMAND FOR APPRAISAL OF THOSE SHARES. A PERSON HAVING A BENEFICIAL INTEREST IN SHARES HELD OF RECORD IN THE NAME OF ANOTHER PERSON, SUCH AS A BROKER, BANK OR OTHER NOMINEE, MUST ACT PROMPTLY TO CAUSE THE RECORD HOLDER TO FOLLOW PROPERLY AND IN A TIMELY MANNER THE STEPS NECESSARY TO PERFECT APPRAISAL RIGHTS.

All written demands for appraisal pursuant to Section 262 should be mailed or delivered to:

Activision Blizzard, Inc.
Attn: Corporate Secretary
2701 Olympic Boulevard
Building B
Santa Monica, CA 90404

Any holder of shares of Activision Blizzard common stock who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the merger consideration by delivering to Activision Blizzard a written withdrawal of the demand for appraisal within 60 days after the effective date of the merger. However, any such attempt to withdraw the demand made more than 60 days after the effective date of the merger will require written approval of the surviving corporation. No appraisal proceeding in the Court of Chancery of the State of Delaware will be dismissed without the approval of such court and such approval may be conditioned upon such terms as the court deems just; provided that this provision will not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger within 60 days after the effective date of the merger.

Notice by the Surviving Corporation

If the merger is completed, within 10 days after the effective date of the merger, the surviving corporation will notify each holder of shares of Activision Blizzard common stock who has made a written demand for appraisal pursuant to Section 262 and who has not voted in favor of the merger proposal of the date that the merger has become effective.

Filing a Petition for Appraisal

Within 120 days after the effective date of the merger, but not thereafter, the surviving corporation or any holder of shares of Activision Blizzard common stock who has complied with Section 262 and is entitled to appraisal rights under Section 262 may commence an appraisal proceeding by filing a petition in the Court of Chancery of the State of Delaware, with a copy served on the surviving corporation in the case of a petition filed by a stockholder, demanding a determination of the fair value of the shares held by all stockholders entitled to appraisal. A beneficial owner of shares held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition for appraisal. If a petition for appraisal is not timely filed, then the right to an appraisal will cease. The surviving corporation is under no obligation, and has no present intention, to file such a petition, and holders should not assume that the

surviving corporation will file a petition or initiate any negotiations with respect to the fair values of shares of Activision Blizzard common stock. Accordingly, any holders of shares of Activision Blizzard common stock who desire to have their shares appraised by the Court of Chancery of the State of Delaware should assume that they will be responsible for filing a petition for appraisal with the Court of Chancery of the State of Delaware in the manner prescribed in Section 262.

Within 120 days after the effective date of the merger, any holder of shares of Activision Blizzard common stock who has complied with the requirements for the exercise of appraisal rights, or a beneficial owner of shares held either in a voting trust or by a nominee on behalf of such person, will be entitled, upon written request, to receive from the surviving corporation a statement setting forth the aggregate number of shares not voted in favor of the merger proposal and with respect to which Activision Blizzard received demands for appraisal, and the aggregate number of holders of such shares. The surviving corporation must mail this statement to the requesting stockholder within 10 days after receipt of the written request for such a statement or within 10 days after the expiration of the period for delivery of demands for appraisal, whichever is later.

If a petition for an appraisal is duly filed by a holder of shares of Activision Blizzard common stock and a copy thereof is served upon the surviving corporation, the surviving corporation will then be obligated within 20 days after such service to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached. We refer to this below as the verified list. After notice to the stockholders as required by the court, the Court of Chancery of the State of Delaware is empowered to conduct a hearing on the petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights thereunder. The Court of Chancery of the State of Delaware may require the stockholders who demanded appraisal of their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with the direction, the Court of Chancery of the State of Delaware may dismiss that stockholder from the proceedings. In addition, assuming Activision Blizzard common stock remains listed on a national securities exchange immediately prior to the effective time (which we expect to be the case), the Court of Chancery of the State of Delaware is required to dismiss the appraisal proceedings as to all holders of dissenting shares unless one of the ownership conditions is satisfied.

Determination of Fair Value

After determining the holders of Activision Blizzard common stock entitled to appraisal, the Court of Chancery of the State of Delaware will appraise the “fair value” of the shares of Activision Blizzard common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. The appraisal proceeding will be conducted in accordance with the rules of the Court of Chancery of the State of Delaware, including any rules specifically governing appraisal proceedings. In determining fair value, the Court of Chancery of the State of Delaware will take into account all relevant factors. In Weinberger v. UOP, Inc., the Supreme Court of Delaware discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that “proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court” should be considered, and that “[f]air price obviously requires consideration of all relevant factors involving the value of a company.” Section 262 provides that fair value is to be “exclusive of any element of value arising from the accomplishment or expectation of the merger.” In Cede & Co. v. Technicolor, Inc., the Supreme Court of Delaware stated that such exclusion is a “narrow exclusion [that] does not encompass known elements of value,” but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In Weinberger, the Supreme Court of Delaware also stated that “elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.”

Stockholders considering seeking appraisal should be aware that the fair value of their shares as so determined by the Court of Chancery of the State of Delaware could be more than, the same as or less than the consideration they would receive pursuant to the merger if they did not seek appraisal of their shares

and that an opinion of an investment banking firm as to the fairness from a financial point of view of the consideration payable in a merger is not an opinion as to, and does not in any manner address, fair value under Section 262 of the DGCL. Although Activision Blizzard believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the Court of Chancery of the State of Delaware, and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Neither Activision Blizzard nor Microsoft anticipates offering more than the $95.00 per share consideration to any stockholder of Activision Blizzard exercising appraisal rights. Each of Activision Blizzard and Microsoft reserves the right to assert, in any appraisal proceeding, that for purposes of Section 262, the "fair value" of a share of Activision Blizzard common stock is less than the $95.00 per share consideration.

Upon application by the surviving corporation or by any holder of shares of Activision Blizzard common stock entitled to participate in the appraisal proceeding, the Court of Chancery of the State of Delaware may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any holder of shares of Activision Blizzard common stock whose name appears on the verified list and, if such shares are represented by certificates and if so required, who has submitted such stockholder's certificates of Activision Blizzard common stock to the Delaware Register in Chancery, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights. The Delaware Court of Chancery will direct the payment of the fair value of the shares, together with interest, if any, by the surviving corporation to the stockholders entitled thereto. Payment will be made to each such stockholder, in the case of holders of uncertificated stock, forthwith, and in the case of holders of shares represented by certificates, upon the surrender to the surviving corporation of the certificate(s) representing such stock. The Delaware Court of Chancery's decree may be enforced as other decrees in such court may be enforced.

Unless the Court of Chancery of the State of Delaware in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment will be compounded quarterly and will accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment; provided that, if at any time before the Court of Chancery of the State of Delaware enters judgment in the appraisal proceeding, the surviving corporation pays to each stockholder entitled to appraisal an amount in cash, interest will accrue after the time of such payment only on the amount that equals the sum of (i) the difference, if any, between the amount so paid and the "fair value" of the shares as determined by the Court of Chancery of the State of Delaware and (ii) any interest accrued prior to the time of such voluntary payment, unless paid at such time. The surviving corporation is under no obligation to make such voluntary cash payment prior to such entry of judgment. The costs of the appraisal proceedings (which do not include attorneys' fees or the fees and expenses of experts) may be determined by the Court of Chancery of the State of Delaware and taxed upon the parties as the Court of Chancery of the State of Delaware deems equitable under the circumstances. Upon application of a stockholder, the Court of Chancery of the State of Delaware may also order that all or a portion of the expenses incurred by a stockholder in connection with an appraisal, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all the shares entitled to be appraised.

If any stockholder who demands appraisal of his, her or its shares of Activision Blizzard common stock under Section 262 fails to perfect, or loses or successfully withdraws, such holder's right to appraisal, the stockholder's shares of Activision Blizzard common stock will be deemed to have been converted at the effective time into the right to receive the merger consideration less applicable withholding taxes. A stockholder will fail to perfect, or effectively lose or withdraw, the holder's right to appraisal if no petition for appraisal is filed within 120 days after the effective date of the merger, if neither of the ownership conditions is satisfied or if the stockholder delivers to the surviving corporation a written withdrawal of the holder's demand for appraisal and an acceptance of the merger consideration in accordance with Section 262.

From and after the effective time, no stockholder who has demanded appraisal rights will be entitled to vote Activision Blizzard common stock for any purpose, or to receive payment of dividends or other distributions on the stock, except dividends or other distributions on the holder's shares of Activision Blizzard common stock, if any, payable to stockholders of Activision Blizzard of record as of a time prior to

the effective time; provided, however, that if no petition for an appraisal is filed, or if the stockholder delivers to the surviving corporation a written withdrawal of the demand for an appraisal and an acceptance of the merger, either within 60 days after the effective date of the merger or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal will cease. Once a petition for appraisal is filed with the Court of Chancery of the State of Delaware, however, the appraisal proceeding may not be dismissed as to any stockholder of Activision Blizzard without the approval of the court; provided that this provision will not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger within 60 days after the effective date of the merger.

Failure to comply with all of the procedures set forth in Section 262 may result in the loss of a stockholder's statutory appraisal rights. Consequently, any stockholder of Activision Blizzard wishing to exercise appraisal rights is encouraged to consult legal counsel before attempting to exercise those rights.

FUTURE STOCKHOLDER PROPOSALS

Activision Blizzard will hold an annual meeting of stockholders in 2022, which we refer to as the "Activision Blizzard 2022 annual meeting," only if the merger has not already been completed.

Pursuant to Rule 14a-8 under the Exchange Act and the Activision Blizzard bylaws, any stockholder proposals intended to be presented at the Activision Blizzard 2022 annual meeting and considered for inclusion in Activision Blizzard's proxy materials must have been received by Activision Blizzard no later than December 31, 2021 (unless the date of our Activision Blizzard 2022 annual meeting is advanced by more than 30 days or delayed by more than 30 days from the anniversary date of the previous annual meeting in which case the proposal must be received a reasonable time before we begin to print and mail our proxy materials for our Activision Blizzard 2022 annual meeting). Such proposals must also have met the other requirements and procedures prescribed by Rule 14a-8 under the Exchange Act relating to stockholder proposals.

Under the Activision Blizzard bylaws, stockholder proposals made outside of Rule 14a-8 under the Exchange Act and nominees for director submitted by stockholders must be received by Activision Blizzard between February 14, 2022 and March 16, 2022 (unless the date of our Activision Blizzard 2022 annual meeting is advanced by more than 30 days or delayed by more than 30 days from the anniversary date of the previous annual meeting, in which case the notice must be submitted no earlier than 120 days prior to the Activision Blizzard 2022 annual meeting and no later than the later of the 90th day before the Activision Blizzard 2022 annual meeting and the 10th day following the day on which notice of the date of the Activision Blizzard 2022 annual meeting is first mailed to the shareholders or public disclosure of the date of the Activision Blizzard 2022 annual meeting is first made, whichever first occurs). Such proposals must be in writing and meet the requirements set forth in the Activision Blizzard bylaws and must pertain to business that is a proper matter for stockholder action under the DCGL.

HOUSEHOLDING INFORMATION

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement or annual report, as applicable, addressed to those stockholders. As permitted by the Exchange Act, only one copy of this proxy statement is being delivered to stockholders residing at the same address, unless stockholders have notified the company whose shares they hold of their desire to receive multiple copies of this proxy statement. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for companies. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of this proxy statement and wish to receive only one copy, please contact Activision Blizzard at the address identified below. Activision Blizzard will promptly deliver, upon oral or written request, a separate copy of this proxy statement to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies should be directed to Activision Blizzard at its address below.

Activision Blizzard, Inc.
Attn: Investor Relations
2701 Olympic Boulevard
Building B
Santa Monica, CA 90404
(310) 255-2000

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. Our SEC filings are available to the public over the Internet at the SEC's website at www.sec.gov. In addition, stockholders may obtain free copies of the documents filed with the SEC by Activision Blizzard through the Investors section of our website, www.activisionblizzard.com. The information on our website is not, and will not be deemed to be, a part hereof or incorporated into this or any other filings with the SEC.

The SEC allows us to "incorporate by reference" information into this proxy statement, which means that we can disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is deemed to be part of this proxy statement, except for any information superseded by information in this proxy statement or incorporated by reference subsequent to the date of this proxy statement. This proxy statement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us and our financial condition and are incorporated by reference into this proxy statement.

The following Activision Blizzard filings with the SEC are incorporated by reference:

- Activision Blizzard's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 23, 2021, including portions of Activision Blizzard's Definitive Proxy Statement on Schedule 14A, as supplemented, filed with the SEC on May 3, 2021 to the extent specifically incorporated by reference therein;
- Activision Blizzard's Quarterly Reports on Form 10-Q for the fiscal quarter ended March 31, 2021, filed with the SEC on May 4, 2021, the fiscal quarter ended June 30, 2021, filed with the SEC on August 3, 2021 and the fiscal quarter ended September 30, 2021, filed with the SEC on November 2, 2021; and
- Activision Blizzard's Current Reports on Form 8-K filed with the SEC on February 4, 2021, April 2, 2021, April 29, 2021, June 3, 2021, June 21, 2021 September 14, 2021, January 18, 2022, January 19, 2022 and February 3, 2022 (other than the portions of such documents not deemed to be filed).

We also incorporate by reference into this proxy statement each additional document we may file under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this proxy statement and the earlier of the date of the special meeting, including any adjournments or postponements, or the termination of the merger agreement. These documents include periodic reports, such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, as well as Current Reports on Form 8-K (other than current reports on Form 8-K furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K, including any exhibits included with such information, unless otherwise indicated therein) and proxy solicitation materials. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference herein or into any other filing with the SEC.

You may obtain any of the documents we file with the SEC by requesting them in writing or by telephone from us at the following address:

Activision Blizzard, Inc.
Attn: Corporate Secretary
2701 Olympic Boulevard
Building B
Santa Monica, CA 90404
(310) 255-2000

If you would like to request documents from us, please do so by [•], 2022 to receive them before the special meeting. If you request any documents from us, we will mail them to you by first class mail, or another equally prompt method, within one business day after we receive your request.

If you have any questions about this proxy statement, the special meeting or the merger or need assistance with voting procedures, you should contact:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, NY 10022
Stockholders may call toll-free from the U.S. or Canada: (877) 687-1871
From other locations please dial: +1 (412) 232-3651
Banks and Brokers may call collect: (212) 750-5833

MISCELLANEOUS

Microsoft has supplied, and Activision Blizzard has not independently verified, all of the information relating to Microsoft and Sub in this proxy statement exclusively concerning Microsoft and Sub.

You should rely only on the information contained in this proxy statement, the annexes to this proxy statement and the documents we refer to or incorporate by reference in this proxy statement to vote on the merger. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated [•], 2022. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date (or as of an earlier date if so indicated in this proxy statement) and the mailing of this proxy statement to stockholders does not create any implication to the contrary. This proxy statement does not constitute a solicitation of a proxy in any jurisdiction where, or to or from any person to whom, it is unlawful to make a proxy solicitation.

ANNEX A

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

by and among

MICROSOFT CORPORATION,

ANCHORAGE MERGER SUB INC.

and

ACTIVISION BLIZZARD, INC.

Dated as of January 18, 2022

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "**Agreement**") is made and entered into as of January 18, 2022, by and among Microsoft Corporation, a Washington corporation ("**Parent**"), Anchorage Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("**Merger Sub**"), and Activision Blizzard, Inc., a Delaware corporation (the "**Company**"). Each of Parent, Merger Sub and the Company are sometimes referred to as a "**Party**." All capitalized terms that are used in this Agreement have the meanings given to them in Article I.

RECITALS

A. The Company Board has (i) determined that it is in the best interests of the Company and its stockholders to enter into this Agreement providing for the merger of Merger Sub with and into the Company (collectively with the other transactions contemplated by this Agreement, the "**Merger**") in accordance with the General Corporation Law of the State of Delaware (the "**DGCL**") upon the terms and subject to the conditions set forth herein and declared this Agreement advisable; (ii) approved the execution and delivery of this Agreement by the Company, the performance by the Company of its covenants and other obligations hereunder, and the consummation of the Merger upon the terms and subject to the conditions set forth herein; (iii) directed that the adoption of this Agreement be submitted to a vote at a meeting of the stockholders of the Company; and (iv) resolved to recommend that the stockholders of the Company vote in favor of the adoption of this Agreement in accordance with the DGCL.

B. The boards of directors of each of Parent and Merger Sub have approved the execution and delivery of this Agreement, the performance of their respective covenants and other obligations hereunder, and the consummation of the Merger upon the terms and subject to the conditions set forth herein and the board of directors of Merger Sub has declared this Agreement advisable, directed that the adoption of this Agreement be submitted to a vote of Parent in its capacity as Merger Sub's sole stockholder and resolved to recommend that Parent vote in favor of the adoption of this Agreement in accordance with the DGCL.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements set forth herein, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, and intending to be legally bound hereby, Parent, Merger Sub and the Company agree as follows:

ARTICLE I
DEFINITIONS & INTERPRETATIONS

1.1 *Certain Definitions*. For all purposes of and pursuant to this Agreement, the following capitalized terms have the following respective meanings:

(a) "**Acceptable Confidentiality Agreement**" means a customary confidentiality agreement containing provisions that require any counterparty thereto (and any of its Affiliates and representatives named therein) that receives non-public information of or with respect to the Company to keep such information confidential (it being understood that such agreement need not contain provisions that would prohibit the making of any Acquisition Proposal) and with other terms that are no less restrictive in the aggregate to such counterparty (and any of its Affiliates and representatives named therein) than the terms of the Confidentiality Agreement.

(b) "**Acquisition Proposal**" means any offer or proposal (other than an offer or proposal by Parent or Merger Sub) relating to an Acquisition Transaction.

(c) "**Acquisition Transaction**" means any transaction or series of related transactions (other than the Merger) involving:

(i) any direct or indirect purchase or other acquisition by any Person or "group" (as defined pursuant to Section 13(d) of the Exchange Act) of Persons, whether from the Company or any other Person(s), of securities representing more than 15% of the total outstanding voting power of

the Company after giving effect to the consummation of such purchase or other acquisition, including pursuant to a tender offer or exchange offer by any Person or "group" of Persons that, if consummated in accordance with its terms, would result in such Person or "group" of Persons beneficially owning more than 15% of the total outstanding voting power of the Company after giving effect to the consummation of such tender or exchange offer;

(ii) any direct or indirect purchase (including by way of a merger, consolidation, business combination, recapitalization, reorganization, liquidation, dissolution or other transaction), license or other acquisition by any Person or "group" (as defined pursuant to Section 13(d) of the Exchange Act) of Persons of assets (including equity securities of any Subsidiary of the Company) constituting or accounting for more than 15% of the revenue, net income or consolidated assets of the Company and its Subsidiaries, taken as a whole; or

(iii) any merger, consolidation, business combination, recapitalization, reorganization, liquidation, dissolution or other transaction involving the Company (or any of its Subsidiaries whose business accounts for more than 15% of the revenue, net income or consolidated assets of the Company and its Subsidiaries, taken as a whole) in which the stockholders of the Company (or such Subsidiary) prior to such transaction will not own at least 85%, directly or indirectly, of the surviving company.

(d) "**Affiliate**" means, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person. For purposes of this definition, the term "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract or otherwise.

(e) "**Anti-Money Laundering Laws**" means all applicable statutes, laws, rules, regulations or other requirements concerning anti-money laundering, proceeds of crime, combatting terrorism financing, and related financial recordkeeping and reporting, money transmission, money service businesses, casinos, and other regulated financial institutions of all jurisdictions where the Company or any of its Subsidiaries conduct business.

(f) "**Antitrust Law**" means collectively the Sherman Antitrust Act of 1890, the Clayton Antitrust Act of 1914, the HSR Act, the Federal Trade Commission Act of 1914, and all other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or significant impediments or lessening of competition or the creation or strengthening of a dominant position through merger or acquisition, in any case that are applicable to the Merger.

(g) "**Audited Company Balance Sheet**" means the consolidated balance sheet (and the notes thereto) of the Company and its consolidated Subsidiaries as of December 31, 2020, set forth in the Company's Annual Report on Form 10-K filed by the Company with the SEC for the fiscal year ended December 31, 2020.

(h) "**Business Day**" means each day that is not a Saturday, Sunday or other day on which banks in the City of New York, New York are authorized or required by applicable Law to be closed.

(i) "**Chosen Courts**" means the Court of Chancery of the State of Delaware or, to the extent that the Court of Chancery of the State of Delaware does not have subject matter jurisdiction, any state or federal court in the State of Delaware.

(j) "**Code**" means the Internal Revenue Code of 1986, as amended.

(k) "**Company Board**" means the Board of Directors of the Company.

(l) "**Company Capital Stock**" means the Company Common Stock and the Company Preferred Stock.

(m) "**Company Common Stock**" means the common stock, par value $0.000001 per share, of the Company.

(n) "**Company Intellectual Property**" means any Intellectual Property that is owned or purported to be owned by the Company or any of its Subsidiaries.

(o) "**Company Material Adverse Effect**" means any change, event, violation, inaccuracy, effect or circumstance (each, an "**Effect**") that, individually or taken together with all other Effects that exist or have occurred prior to the date of determination of the occurrence of the Company Material Adverse Effect, (a) has had or would reasonably be expected to have a material adverse effect on the business, assets, liabilities, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole, or (b) would, or would reasonably be expected to, prevent or delay past the Termination Date the ability of the Company to consummate the transactions contemplated by this Agreement; provided that, in the case of clause (a) only, none of the following (by itself or when aggregated), to the extent occurring after the date of this Agreement, will be deemed to be or constitute a Company Material Adverse Effect or will be taken into account when determining whether a Company Material Adverse Effect has occurred or may, would or could occur:

(i) changes in general economic conditions in the United States or any other country or region in the world, or changes in conditions in the global economy generally;

(ii) changes in conditions in the financial markets, credit markets or capital markets in the United States or any other country or region in the world, including (A) changes in interest rates or credit ratings in the United States or any other country; (B) changes in exchange rates for the currencies of any country; or (C) any suspension of trading in securities (whether equity, debt, derivative or hybrid securities) generally on any securities exchange or over-the-counter market operating in the United States or any other country or region in the world;

(iii) any Effect generally affecting the industries in which the Company and its Subsidiaries conduct business;

(iv) changes in regulatory, legislative or political conditions in the United States or any other country or region in the world;

(v) any geopolitical conditions, outbreak of hostilities, acts of war, sabotage, terrorism or military actions (including any escalation or general worsening of any such hostilities, acts of war, sabotage, terrorism or military actions) in the United States or any other country or region in the world;

(vi) earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wild fires or other natural disasters, weather conditions and other similar force majeure events in the United States or any other country or region in the world;

(vii) any epidemics, pandemics or contagious disease outbreaks (including COVID-19) and any political or social conditions, including civil unrest, protests and public demonstrations or any other COVID-19 Measures that relate to, or arise out of, an epidemic, pandemic or disease outbreak (including COVID-19) or any change in such COVID-19 Measures, directive, pronouncement or guideline or interpretation thereof, or any material worsening of such conditions threatened or existing as of the date of this Agreement, in the United States or any other country or region in the world;

(viii) the public announcement or pendency of this Agreement or the Merger, it being understood that the exceptions in this clause (viii) will not apply with respect to references to Company Material Adverse Effect of the representations and warranties contained in Section 3.5 (and in Section 7.2(a) and Section 8.1(e) to the extent related to such portions of such representations and warranties);

(ix) any action taken or refrained from being taken, in each case, which Parent has expressly approved, consented to or requested in writing following the date of this Agreement or which is required by the terms of this Agreement;

(x) changes or proposed changes in GAAP or other accounting standards or Law (or the enforcement or interpretation of any of the foregoing);

(xi) changes in the price or trading volume of the Company Common Stock or Indebtedness of the Company and its Subsidiaries, in and of itself (it being understood that any cause of such change may, subject to the other provisions of this definition, be deemed to constitute a Company Material Adverse Effect and may be taken into consideration when determining whether a Company Material Adverse Effect has occurred);

(xii) any failure, in and of itself, by the Company and its Subsidiaries to meet (A) any public estimates or expectations of the Company's revenue, earnings or other financial performance or results of operations for any period; or (B) any internal budgets, plans, projections or forecasts of its revenues, earnings or other financial performance or results of operations (it being understood that any cause of any such failure may, subject to the other provisions of this definition, be deemed to constitute a Company Material Adverse Effect and may be taken into consideration when determining whether a Company Material Adverse Effect has occurred);

(xiii) any Transaction Litigation; and

(xiv) any of the matters set forth in Section 1.1(o)(xiv) of the Company Disclosure Letter;

provided further, that with respect to clauses (i) through (vii) and (x) of this definition, such Effects shall be taken into account in determining whether a "Company Material Adverse Effect" has occurred or would reasonably be expected to occur, in each case, to the extent that such Effect has had a disproportionate adverse effect on the Company and its Subsidiaries relative to other companies operating in the industries in which the Company and its Subsidiaries conduct business, in which case only the incremental disproportionate adverse impact of such Effect may be taken into account in determining whether there has occurred a Company Material Adverse Effect.

(p) "**Company Options**" means any outstanding options to purchase shares of Company Common Stock granted pursuant to any of the Company Stock Plans.

(q) "**Company Preferred Stock**" means the preferred stock, par value $0.000001 per share, of the Company.

(r) "**Company Products**" means any products, content and services of the Company or its Subsidiaries.

(s) "**Company Stock-Based Award**" means each outstanding right of any kind, contingent or accrued, to receive or retain shares of Company Common Stock or receive a cash payment equal to or based on, in whole or in part, the value of Company Common Stock, in each case, granted pursuant to any of the Company Stock Plans (including performance shares, performance-based units, market stock units, restricted stock, restricted stock units, phantom units, deferred stock units and dividend equivalents), other than Company Options.

(t) "**Company Stock Plans**" means (i) the compensatory equity plans set forth in Section 1.1(t) of the Company Disclosure Letter and (ii) any other compensatory equity plans or Contracts of the Company, including option plans or Contracts assumed by the Company pursuant to a merger, acquisition or other similar transaction.

(u) "**Company Stockholders**" means the holders of shares of Company Common Stock.

(v) "**Continuing Employees**" means each individual who is an employee of the Company or any of its Subsidiaries immediately prior to the Effective Time and continues to be an employee of Parent or one of its Subsidiaries (including the Surviving Corporation) immediately following the Effective Time, but only for so long as such individual is so employed.

(w) "**Contract**" means any written contract, subcontract, note, bond, mortgage, indenture, lease, license, sublicense or other binding agreement.

(x) "**COVID-19**" means SARS-Co V-2, SARS-Co V-2 variants or COVID-19.

(y) "**COVID-19 Measures**" means quarantine, "shelter in place," "stay at home," workforce reduction, social distancing, shut down, closure, sequester, safety or similar laws, directives, restrictions, guidelines, responses or recommendations of or promulgated by any Governmental Authority, including the Centers for Disease Control and Prevention and the World Health Organization, or other reasonable actions taken, in each case, in connection with or in response to COVID-19 and any evolutions, variants or mutations thereof or related or associated epidemics, pandemics or disease outbreaks.

(z) "**Credit Facility**" means the revolving credit facility commitments extended to the Company pursuant to the terms and conditions of the Credit Facility Agreement.

(aa) "**Credit Facility Agreement**" means the Credit Agreement, dated as of October 11, 2013, among the Company, the guarantors party thereto, Bank of America, N.A., as administrative agent, and the other parties thereto, as amended by the First Amendment, dated as of November 2, 2015, the Second Amendment, dated as of November 13, 2015, the Third Amendment, dated as of December 14, 2015, the Fourth Amendment, dated as of March 31, 2016, the Fifth Amendment, dated as of August 23, 2016, the Sixth Amendment, dated as of February 3, 2017, and the Seventh Amendment, dated as of August 24, 2018.

(bb) "**DOJ**" means the United States Department of Justice or any successor thereto.

(cc) "**Environmental Law**" means any Law relating to pollution, the protection of the environment (including ambient air, surface water, groundwater or land) or exposure of any Person with respect to Hazardous Substances or otherwise relating to the production, use, storage, treatment, transportation, recycling, disposal, discharge, release or other handling of any Hazardous Substances, or the investigation, clean-up or remediation thereof.

(dd) "**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

(ee) "**Exchange Act**" means the Securities Exchange Act of 1934.

(ff) "**Exchange Ratio**" means a fraction (i) the numerator of which is the Merger Consideration and (ii) the denominator of which is the Parent Stock Price, rounded to four decimal places (with amounts 0.00005 and above rounded up).

(gg) "**Foreign Investment Law**" means any applicable Laws, including any state, national or multi-jurisdictional Laws, that are designed or intended to prohibit, restrict or regulate actions by foreigners to acquire interests in or control over domestic equities, securities, entities, assets, land or interests.

(hh) "**FTC**" means the United States Federal Trade Commission or any successor thereto.

(ii) "**GAAP**" means generally accepted accounting principles, consistently applied, in the United States.

(jj) "**Government Official**" means any officer or employee of a government or any department, agency or instrumentality thereof, or of a public international organization, or any person acting in an official capacity or on behalf of any such government, department, agency or instrumentality or for, or on behalf of, such public international organization, including but not limited to directors, officers, managers, employees and other agents of any enterprise owned directly or indirectly by a government or public international organization.

(kk) "**Governmental Authority**" means any government, governmental or regulatory (including any stock exchange or other self-regulatory organization) entity or body, department, commission, board, agency or instrumentality, and any court, tribunal, arbitrator or judicial body, in each case whether federal, state, county or provincial, and whether local or foreign.

(ll) "**Hazardous Substance**" means any substance, material or waste that is characterized or regulated by a Governmental Authority pursuant to any Environmental Law as "hazardous,"

"pollutant," "contaminant," "toxic" or "radioactive," including petroleum and petroleum products, polychlorinated biphenyls and friable asbestos.

(mm) "**HSR Act**" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(nn) "**Indebtedness**" means any of the following liabilities or obligations: (i) indebtedness for borrowed money (including any principal, premium, accrued and unpaid interest, related expenses, prepayment penalties, commitment and other fees, sale or liquidity participation amounts, reimbursements, indemnities and all other amounts payable in connection therewith); (ii) liabilities evidenced by bonds, debentures, notes or other similar instruments or debt securities; (iii) liabilities pursuant to or in connection with letters of credit or banker's acceptances or similar items (in each case whether or not drawn, contingent or otherwise); (iv) liabilities related to the deferred purchase price of property or services other than those trade payables incurred in the ordinary course of business; (v) liabilities arising from cash/book overdrafts; (vi) liabilities pursuant to capitalized leases; (vii) liabilities pursuant to conditional sale or other title retention agreements; (viii) liabilities with respect to vendor advances or any other advances; (ix) liabilities arising out of interest rate and currency derivative arrangements, forward contracts and any other arrangements designed to provide protection against fluctuations in interest or currency rates; (x) deferred purchase price liabilities related to past acquisitions; (xi) liabilities with respect to deferred compensation for services; (xii) liabilities arising in connection with earnouts, holdbacks, purchase price adjustments or other contingent payment obligations; (xiii) liabilities under sale-and-leaseback transactions, agreements to repurchase securities sold and other similar financing transactions; (xiv) liabilities arising from any breach of any of the foregoing; and (xv) indebtedness of the type referred to in clauses (i) through (xiv) of others guaranteed by the Company or any of its Subsidiaries or secured by any Lien.

(oo) "**Industry Standards**" means all industry and self-regulatory organization standards, to the extent applicable to the Company or its Subsidiaries, including, to the extent applicable to the Company or its Subsidiaries, standards of the Entertainment Software Ratings Board, the International Game Developers Association, Games Rating Authority and Video Standards Council.

(pp) "**Intellectual Property**" means all worldwide intellectual property rights, including all: (i) patents, trade secrets, know-how, confidential data, algorithms, inventions, methods and processes; (ii) copyrights (including copyrights in IT Assets) and database rights; (iii) moral rights, rights of publicity, "name and likeness" and similar rights; (iv) trademarks, service marks, corporate, trade and d/b/a names, logos, trade dress, domain names, social and mobile media identifiers and other source indicators, and all goodwill and all common law rights related thereto ("**Marks**"); and (v) registrations, applications, renewals, divisions, continuations, continuations-in-part, re-issues, re-examinations, foreign counterparts and equivalents of any of the foregoing.

(qq) "**Intervening Event**" means any positive change, effect, development, circumstance, condition, event or occurrence that (i) materially improves the business, assets or operations of the Company, (ii) as of the date of this Agreement was not known to the Company Board, or the consequences of which (based on facts known to the members of the Company Board as of the date of this Agreement) were not reasonably foreseeable as of the date of this Agreement, and (iii) is not related to an Acquisition Proposal.

(rr) "**IRS**" means the United States Internal Revenue Service or any successor thereto.

(ss) "**IT Assets**" means all hardware, firmware, middleware, software, databases, websites, applications, code, systems, networks and other computer, communication and information technology assets and equipment, including any of the foregoing incorporated into or used to support, host or service Company Products.

(tt) "**Knowledge**" of a Person, with respect to any matter in question, means (i) with respect to the Company, the actual knowledge of the individuals set forth on Section 1.1(tt) of the Company Disclosure Letter; and (ii) with respect to Parent, the actual knowledge of the individuals set forth on Section 1.1(tt) of the Parent Disclosure Letter, in each case after reasonable inquiry of those employees who would reasonably be expected to have actual knowledge of the matter in question.

(uu) "**Law**" means any federal, state, local, municipal, foreign, multi-national or other law, statute, constitution, ordinance, code, decree, order (including any executive order), directive, judgment, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Authority and any order or decision of an applicable arbitrator or arbitration panel.

(vv) "**Legal Proceeding**" means any claim, action, charge, lawsuit, litigation, hearing, investigation, inquiry, or other similarly formal legal proceeding, in each case, brought by or pending before any Governmental Authority, arbitrator, mediator or other tribunal.

(ww) "**Lien**" means any lien, encumbrance, pledge, security interest, claim and defect, covenant, imperfection, mortgage, deed of trust, hypothecation, encroachment, easement, use restriction, right-of-way, charge, adverse ownership interest, attachment, option or other right to acquire an interest, right of first refusal or conditional sale or similar restriction on transfer of title or voting and other restriction of title.

(xx) "**Material Contract**" means any of the following Contracts (but excluding Employee Plans):

(i) any "material contract" (as defined in Item 601(b)(10) of Regulation S-K promulgated by the SEC) with respect to the Company and its Subsidiaries, taken as whole;

(ii) material Contracts to which the Company or any of its Subsidiaries grants or is granted a license to use (or grants, is granted or shares rights or interests in or to use) any Intellectual Property, content, characters, features, data (excluding Personal Data) or IT Assets, including the following Contracts, to the extent they are material Contracts: (A) in-bound and out-bound licenses, royalty, consent, release, ownership, exclusivity, publishing, distribution, development, research and source code escrow agreements; (B) purchase options, rights of first refusal or negotiation, most favored nation, best price, price or content parity granted by the Company or any of its Subsidiaries; (C) hosting, support, maintenance, development, security and testing agreements; (D) sales and distribution agreements; (E) Contracts pursuant to which the Company or any of its Subsidiaries shares or makes available data (excluding Personal Data) generated in connection with usage of Company Products; and (F) non-disclosure and/or invention assignment agreements (for which only representative forms must be disclosed herein), in each case, other than (w) agreements for distribution of Company Products that would not be prohibited by Section 5.2(t) if entered into after the date hereof; (x) licenses granted by the Company or its Subsidiaries in the ordinary course of business or in connection with the provision or sale of any Company Products, in each case, consistent with past practice; (y) non-exclusive licenses of commercially available software or other technology granted to the Company or its Subsidiaries; or (z) any licenses to software and materials licensed as open-source, public-source or freeware;

(iii) any Contract containing any covenant (A) materially limiting the right of the Company or any of its Subsidiaries or their respective Affiliates to engage in any line of business or to compete with any Person in any line of business or in any geographic area that is material to the Company; (B) prohibiting the Company or any of its Subsidiaries from engaging in any material business with any Person or levying a material fine, charge or other payment for doing so; or (C) granting any material "most favored nation" status or similar pricing rights, granting exclusive material sales, distribution, marketing, streaming or other exclusive rights for a material period of time or granting material rights of first offer or rights of first refusal for a material period of time, in the case of each of clauses (A) through (C), other than any such Contracts that (x) are not material to the Company and its Subsidiaries, taken as a whole or (y) may be cancelled without liability to the Company or its Subsidiaries upon notice of thirty (30) days or less;

(iv) any Contract (A) relating to the disposition or acquisition of more than $35,000,000 of assets by the Company or any of its Subsidiaries after the date of this Agreement other than in the ordinary course of business; (B) pursuant to which the Company or any of its Subsidiaries will acquire any ownership interest of more than $35,000,000 in any other Person or other business enterprise other than any Subsidiary of the Company; or (C) that is an agreement with respect to

any acquisition or divestiture of more than $35,000,000 pursuant to which the Company or any of its Subsidiaries has continuing indemnification, "earn-out" or other contingent payment obligations;

(v) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other Contracts relating to Indebtedness, in each case in excess of $25,000,000, other than (A) accounts receivables and payables in the ordinary course of business; (B) loans to wholly owned Subsidiaries of the Company in the ordinary course of business; and (C) extensions of credit to customers in the ordinary course of business;

(vi) any Lease or Sublease set forth in Section 3.14(b) or Section 3.14(c) of the Company Disclosure Letter;

(vii) any Contract providing for indemnification of any officer, director or employee by the Company or any of its Subsidiaries;

(viii) any Contract that involves a material joint venture, joint development agreement (of Intellectual Property or otherwise), collaboration agreement, strategic alliance or strategic partnership, limited liability company, partnership or other similar agreement or arrangement relating to the formation, creation, operation, management or control of any of the foregoing;

(ix) any Contract containing any support, maintenance or service obligation on the part of the Company or any of its Subsidiaries that represents revenue in excess of $25,000,000 on an annual basis, other than those Contracts that may be cancelled without liability to the Company or any of its Subsidiaries upon notice of ninety (90) days or less;

(x) any Contract that prohibits the payment of dividends or distributions in respect of the capital stock of the Company or any of its Subsidiaries, prohibits the pledging of the capital stock of the Company or any Subsidiary of the Company, prohibits the issuance of guarantees by the Company or any Subsidiary of the Company or grants any rights of first refusal or rights of first offer or similar rights or that limits or proposes to limit the ability of the Company or any of its Subsidiaries or Affiliates to sell, transfer, pledge or otherwise dispose of any assets or businesses in excess of $50,000,000;

(xi) any Contract that contains a put, call or similar right pursuant to which the Company or any of its Subsidiaries could be required to purchase or sell, as applicable, any equity interests of any Person or assets, in each case with a value in excess of $35,000,000;

(xii) any Contract that (A) is with a Significant Vendor or (B) resulted in payments by the Company or its Subsidiaries of more than $35,000,000 during the 12 months ended December 31, 2021 or is reasonably likely to result in payments by the Company or its Subsidiaries of more than $35,000,000 during the 12 months ending December 31, 2022;

(xiii) any Contract that (A) is with a Significant Customer or (B) resulted in payments to the Company or its Subsidiaries of more than $25,000,000 during the 12 months ended December 31, 2021 or is reasonably likely to result in payments to the Company or its Subsidiaries of more than $25,000,000 during the 12 months ending December 31, 2022; and

(xiv) any Contract that is an agreement that is material to the Company and its Subsidiaries, taken as a whole, with any Governmental Authority.

(yy) "**Merger Consideration**" means $95.00 in cash, without interest.

(zz) "**NASDAQ**" means The Nasdaq Stock Market.

(aaa) "**Open Source License**" means any license for open source, public source or freeware software that is considered an open source software license by the Open Source Initiative or a free software license by the Free Software Foundation, including any version of the GNU General Public License, GNU Lesser/Library General Public License, Affero General Public License, Apache Software License, Mozilla Public License, BSD License, MIT License and Common Public License.

(bbb) "**Owned Company Shares**" means the Cancelled Owned Company Shares and the Specified Owned Company Shares, collectively.

(ccc) "**Parent Common Stock**" means the common stock, par value $0.00000625 per share, of Parent.

(ddd) "**Parent Material Adverse Effect**" means any Effect that would, or would reasonably be expected to, prevent or materially impede or materially delay, or prevents or materially impedes or materially delays, the consummation by Parent or Merger Sub of the Merger and the other transactions contemplated by this Agreement.

(eee) "**Parent Stock Plan**" means Parent's 2001 Stock Plan, as amended and restated.

(fff) "**Parent Stock Price**" means an amount equal to the volume weighted average price per share rounded to four decimal places (with amounts 0.00005 and above rounded up) of Parent Common Stock on NASDAQ (as reported by Bloomberg L.P. or another authoritative source mutually selected by Parent and the Company) for the five consecutive trading days ending with the last trading day ending immediately prior to the Closing Date.

(ggg) "**Permitted Liens**" means any of the following: (i) liens for Taxes, assessments and governmental charges or levies either not yet delinquent or that are being contested in good faith and by appropriate proceedings and for which appropriate reserves have been established to the extent required by GAAP; (ii) mechanics, carriers', workmen's, warehouseman's, repairmen's, materialmen's or other similar liens or security interests that are not yet due or that are being contested in good faith and by appropriate proceedings; (iii) third Person leases, subleases and licenses (other than capital leases and leases underlying sale and leaseback transactions) entered into in the ordinary course of business; (iv) pledges or deposits to secure obligations pursuant to workers' compensation Laws or similar legislation or to secure public or statutory obligations; (v) pledges and deposits to secure the performance of bids, trade contracts, leases, surety and appeal bonds, performance bonds and other obligations of a similar nature, in each case in the ordinary course of business; (vi) defects, imperfections or irregularities in title, easements, covenants and rights of way (unrecorded and of record) and other similar liens (or other encumbrances of any type), in each case that do not, and are not reasonably likely to, adversely affect in any material respect the current use or occupancy of the applicable property owned, leased, used or held for use by the Company or any of its Subsidiaries; (vii) zoning, building and other similar codes or restrictions which are not violated in any material respect by the current use or occupancy of the real property subject thereto; (viii) liens the existence of which are disclosed in the notes to the consolidated financial statements of the Company included in the Company SEC Reports filed as of the date of this Agreement; (ix) licenses to Company Intellectual Property entered into in the ordinary course of business consistent with past practice; (x) any other liens that do not secure a liquidated amount, that have been incurred or suffered in the ordinary course of business, and that would not, individually or in the aggregate, have a Company Material Adverse Effect; and (xi) statutory, common law or contractual liens of landlords under Leases or liens against the fee interests of the landlord or owner of any Leased Real Property.

(hhh) "**Person**" means any individual, corporation (including any non-profit corporation), limited liability company, joint stock company, general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, firm, Governmental Authority or other enterprise, association, organization or entity.

(iii) "**Personal Data**" means all information that identifies, is capable of identifying (directly or indirectly, either alone or in combination with other data) or otherwise relates to an individual person or household, personal or personally identifiable data or information, including personal data (or the equivalent) as defined in any applicable Law.

(jjj) "**Privacy Laws**" means all U.S., state and foreign Laws relating to Personal Data, including the European Union's General Data Protection Regulation and ePrivacy Directive, the UK General Data Protection Regulation, the California Consumer Privacy Act, the Illinois Biometric Information Privacy Act, the Children's Online Privacy Protection Act, the Personal Information Protection and

Electronic Documents Act 2000, the UK Data Protection Act of 2018, and any other Laws governing the privacy, security, integrity, accuracy, Processing or other protection of Personal Data.

(kkk) "**Privacy Policies**" means all (i) policies, representations, and statements relating to Personal Data and/or the Processing thereof, including those posted or made publicly available or provided to end users, employees or business partners in any media by the Company or its Subsidiaries and (ii) Industry Standards governing Personal Data or cybersecurity.

(lll) "**Process**" or "**Processing**" means, with respect to data (including Personal Data), the use, collection, creation, receipt, processing, aggregation, storage, maintenance, adaption, alteration, transfer, transmission, disclosure, dissemination, combination, erasure, destruction, de-identification, pseudonymizing or anonymizing of such data, any other operation or set of operations that is performed on data or on sets of data, in each case, whether or not by automated means, and any other form of processing, including as defined by or under any applicable Law.

(mmm) "**Sarbanes-Oxley Act**" means the Sarbanes-Oxley Act of 2002.

(nnn) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

(ooo) "**Securities Act**" means the Securities Act of 1933.

(ppp) "**Senior Notes**" means the (i) 3.400% senior notes due September 15, 2026 issued pursuant to the Indenture, dated as of September 19, 2016, by and among the Company, the Trustee, and the guarantors party thereto (the "**Indenture**"), (ii) 3.400% senior notes due June 15, 2027 issued pursuant to the Base Indenture, dated as of May 26, 2017, between the Company and the Trustee (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture, dated as of May 26, 2017, between the Company and the Trustee (together with the Base Indenture, the "**First Supplemental Indenture**"), (iii) 1.350% senior notes due September 15, 2030 issued pursuant to the Base Indenture, as supplemented by the Second Supplemental Indenture, dated as of August 10, 2020, between the Company and the Trustee (together with the Base Indenture, the "**Second Supplemental Indenture**"), (iv) 4.500% senior notes due June 15, 2047 issued pursuant to the First Supplemental Indenture and (v) 2.500% senior notes due September 15, 2050 issued pursuant to the Second Supplemental Indenture.

(qqq) "**Significant Customer**" means each of the 10 largest customers to the Company and its Subsidiaries (or groups of related customers) by accounts receivable, taken as a whole, at December 31, 2021, which customers are set forth on Section 1.1(qqq) of the Company Disclosure Letter.

(rrr) "**Significant Vendor**" means (i) each of the 10 largest suppliers, vendors, content partners or service providers to the Company and its Subsidiaries (or groups of related vendors or suppliers) by payments on invoices, taken as a whole, during the 12-month period ended on December 31, 2021, which vendors are set forth on Section 1.1(rrr) of the Company Disclosure Letter; and (ii) any other material vendors or suppliers of the Company with material agreements with the Company who are data center, data processing, cloud or hosting vendors.

(sss) "**Specified Litigation**" means any of the matters set forth on Section 1.1(sss) of the Company Disclosure Letter.

(ttt) "**Specified OSS License**" means an Open Source License that (i) requires that source code be licensed, distributed, released, conveyed or made available if such software (or any software incorporating, derived from, linking to or with the same) is licensed, distributed, modified, released, conveyed or otherwise made available or accessible to any third party ("**Distributed**"); (ii) requires that the right to make derivative works of such software be granted to any licensee of such software if any such software is Distributed to other Persons; (iii) requires that the software be Distributed to any licensee if it is Distributed to other Persons and that each licensee further Distribute such software on the same license terms if it is Distributed and/or (iv) expressly grants a patent license, covenant not to sue or non-assertion covenant of such license if any software governed by such license is Distributed to other Persons.

(uuu) "**Specified Owned Company Shares**" means all shares of Company Common stock held by the Specified Subsidiary as of immediately prior to the Effective Time.

(vvv) "**Specified Subsidiary**" means Amber Holding Subsidiary Co., a Delaware corporation and a wholly owned Subsidiary of the Company.

(www) "**Subsidiary**" of any Person means (i) a corporation more than 50% of the combined voting power of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries of such Person; (ii) a partnership of which such Person or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, is the general partner and has the power to direct the policies, management and affairs of such partnership; (iii) a limited liability company of which such Person or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries of such Person, directly or indirectly, is the managing member and has the power to direct the policies, management and affairs of such company; or (iv) any other Person (other than a corporation, partnership or limited liability company) in which such Person or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries of such Person, directly or indirectly, has at least a majority ownership or the power to direct the policies, management and affairs thereof (including by contract). Notwithstanding the foregoing, the entities set forth on Section 1.1(www) of the Company Disclosure Letter (each, a "**Specified JV Entity**" and together, the "**Specified JV Entities**") shall not be deemed to be Subsidiaries of the Company, except that with respect to the definition of Company Material Adverse Effect, representations and warranties set forth in 3.5(a), 3.5(c), 3.6, 3.8, 3.20, 3.21, 3.22, and 3.23 and the covenants set forth in Section 5.2, the term "Subsidiary" in such definition, representations and warranties and covenants shall be deemed to include the Specified JV Entities; provided, that such representations and warranties shall be deemed to be made to the Knowledge of the Company insofar as they relate to any Specified JV Entity.

(xxx) "**Superior Proposal**" means any bona fide written Acquisition Proposal for an Acquisition Transaction that the Company Board has determined in good faith (after consultation with the Company's financial advisor and outside legal counsel) is on terms that would be more favorable, from a financial point of view, to the Company Stockholders (in their capacity as such) than the Merger (taking into account any revisions to this Agreement made or proposed in writing by Parent prior to the time of such determination and after taking into account those factors and matters deemed relevant in good faith by the Company Board, including the identity of the Person making the proposal, the conditionality of such proposal, the likelihood of consummation in accordance with the terms of such proposal, and the legal, financial (including the financing terms), regulatory, timing and other aspects of such proposal). For purposes of the reference to an "Acquisition Proposal" in this definition, all references to "15%" in the definition of "Acquisition Transaction" will be deemed to be references to "50%."

(yyy) "**Tax Contest**" means any inquiry, audit, examination, hearing, trial, appeal, or other administrative or judicial proceeding with respect to any Taxes or Tax Returns of Company.

(zzz) "**Tax Group**" means any "affiliated group" of corporations within the meaning of Section 1504 of the Code (or any similar affiliated, combined, consolidated, or unitary group or arrangement for group relief for state, local, or foreign Tax purposes).

(aaaa) "**Taxes**" means any United States federal, state, local and non-United States taxes, charges, fees, levies, imposts, duties, and other similar assessments or charges of any kind whatsoever, imposed by any Governmental Authority in the nature of a tax, including gross receipts, income, profits, sales, use, occupation, value added, ad valorem, transfer, franchise, withholding, payroll, employment, excise and property taxes, assessments and any similar government charges and impositions of any kind, together with all interest, penalties and additions imposed with respect to such amounts.

(bbbb) "**Transaction Litigation**" means any Legal Proceeding against the Company or any of its Subsidiaries or Affiliates or directors or otherwise relating to, involving or affecting the Company or any of its Subsidiaries or Affiliates, in each case in connection with, arising from or otherwise relating

to the Merger or any other transaction contemplated by this Agreement, including any Legal Proceeding alleging or asserting any misrepresentation or omission in the Proxy Statement.

(cccc) "**Trustee**" means Wells Fargo Bank, National Association, as trustee under the Indenture, the Base Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, as applicable.

(dddd) "**WARN**" means the United States Worker Adjustment and Retraining Notification Act and any similar U.S. state or U.S. local Law.

1.2 *Additional Definitions*. The following capitalized terms have the respective meanings given to them in the respective Sections of this Agreement set forth opposite each of the capitalized terms below:

Term	Section Reference
Agreement	Preamble
Alternative Acquisition Agreement	5.3(a)
Assumed Company Option	2.8(c)(i)
Assumed Company Stock-Based Award	2.8(c)(ii)
Base Indenture	1.1(ppp)
Book-Entry Shares	2.9(b)
Burdensome Condition	6.2(b)
Bylaws	3.1
Cancelled Owned Company Shares	2.7(a)(ii)
Capitalization Date	3.7(a)
Certificate of Merger	2.2
Certificates	2.9(b)
Charter	3.1
Closing	2.3
Closing Date	2.3
Collective Bargaining Agreement	3.19(a)
Company	Preamble
Company Board Recommendation	3.3(a)
Company Board Recommendation Change	5.3(c)(i)
Company Disclosure Letter	1.4(a)
Company Employee	3.18(i)
Company Plans	6.9(b)
Company Recent SEC Reports	Article III
Company SEC Reports	3.9
Company Securities	3.7(d)
Company Stockholder Meeting	6.4(a)
Company Termination Fee	8.3(b)(i)
Comparable Plans	6.9(b)
Confidentiality Agreement	9.4
Consent	3.6
D&O Insurance	6.8(c)
DGCL	Recitals
Dissenting Company Shares	2.7(b)(i)

Term	Section Reference
Effect	1.1(o)
Effective Time	2.2
Electronic Delivery	9.12
Employee Plans	3.18(a)
ERISA Affiliate	3.18(a)
Exchange Fund	2.9(a)
FinCEN	3.21(d)
First Supplemental Indenture	1.1(ooo)
Indemnified Persons	6.8(a)
Indenture	1.1(ppp)
Initial Termination Date	8.1(c)
Injunction	8.1(b)
International Employee Plan	3.18(a)
Lease	3.14(b)
Leased Real Property	3.14(b)
Maximum Annual Premium	6.8(c)
Merger	Recitals
Merger Sub	Preamble
New Plans	6.9(c)
Notice Period	5.3(d)(ii)(3)
OFAC	3.21(c)
Old Plans	6.9(c)
Owned Real Property	3.14(a)
Parent	Preamble
Parent Disclosure Letter	1.4(b)
Parent Qualified Plan	6.9(d)
Parent Recent SEC Reports	Article IV
Parent Termination Fee	8.3(c)(i)
Party	Preamble
Paying Agent	2.9(a)
Payoff Letter	6.16(d)
Permits	3.20
Proxy Statement	6.3(a)
Representatives	5.3(a)
Repurchase Transaction	6.16(c)
Repurchase Transaction Notice	6.16(c)
Requisite Stockholder Approval	3.4
Revolving Credit Facility Termination	6.16(d)
Sanctioned Countries	3.21(c)
Sanctioned Person	3.21(c)
Sanctions	3.21(c)
Second Supplemental Indenture	1.1(ppp)
Sublease	3.14(c)

Term	Section Reference
Surrendered Company Stock-Based Award	2.8(a)
Surviving Corporation	2.1
Tax Returns	3.17(a)(i)
Termination Date	8.1(c)

1.3 *Certain Interpretations*.

(a) When a reference is made in this Agreement to an Article or a Section, such reference is to an Article or a Section of this Agreement unless otherwise indicated. When a reference is made in this Agreement to a Schedule or Exhibit, such reference is to a Schedule or Exhibit to this Agreement, as applicable, unless otherwise indicated.

(b) When used herein, (i) the words "hereof," "herein" and "herewith" and words of similar import will, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; and (ii) the words "include," "includes" and "including" will be deemed in each case to be followed by the words "without limitation."

(c) Unless the context otherwise requires, "neither," "nor," "any," "either" and "or" are not exclusive.

(d) The word "extent" in the phrase "to the extent" means the degree to which a subject or other thing extends, and does not simply mean "if."

(e) When used in this Agreement, references to "$" or "Dollars" are references to U.S. dollars.

(f) The meaning assigned to each capitalized term defined and used in this Agreement is equally applicable to both the singular and the plural forms of such term, and words denoting any gender include all genders. Where a word or phrase is defined in this Agreement, each of its other grammatical forms has a corresponding meaning.

(g) When reference is made to any party to this Agreement or any other agreement or document, such reference includes such party's successors and permitted assigns. References to any Person include the successors and permitted assigns of that Person.

(h) Unless the context otherwise requires, all references in this Agreement to the Subsidiaries of a Person will be deemed to include all direct and indirect Subsidiaries of such entity.

(i) A reference to any specific legislation or to any provision of any legislation includes any amendment to, and any modification, re-enactment or successor thereof, any legislative provision substituted therefor and all rules, regulations and statutory instruments issued thereunder or pursuant thereto, except that, for purposes of any representations and warranties in this Agreement that are made as a specific date, references to any specific legislation will be deemed to refer to such legislation or provision (and all rules, regulations and statutory instruments issued thereunder or pursuant thereto) as of such date. References to any agreement or Contract are to that agreement or Contract as amended, modified or supplemented from time to time.

(j) Except as otherwise provided herein, all accounting terms used herein will be interpreted, and all accounting determinations hereunder will be made, in accordance with GAAP.

(k) The table of contents and headings set forth in this Agreement are for convenience of reference purposes only and will not affect or be deemed to affect in any way the meaning or interpretation of this Agreement or any term or provision hereof.

(l) References to "from" or "through" any date mean, unless otherwise specified, from and including or through and including such date, respectively.

(m) The measure of a period of one month or year for purposes of this Agreement will be the date of the following month or year corresponding to the starting date. If no corresponding date exists,

then the end date of such period being measured will be the next actual date of the following month or year (for example, one month following February 18 is March 18 and one month following March 31 is May 1).

(n) The Parties agree that they have been represented by legal counsel during the negotiation and execution of this Agreement and therefore waive the application of any Law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the Party drafting such agreement or document.

(o) No summary of this Agreement or any Exhibit, Schedule or other document delivered herewith prepared by or on behalf of any Party will affect the meaning or interpretation of this Agreement or such Exhibit or Schedule.

(p) The information contained in this Agreement and in the Company Disclosure Letter and the Parent Disclosure Letter is disclosed solely for purposes of this Agreement, and no information contained herein or therein will be deemed to be an admission by any Party to any third Person of any matter whatsoever, including (i) any violation of Law or breach of contract; or (ii) that such information is material or that such information is required to be referred to or disclosed under this Agreement.

(q) The representations and warranties in this Agreement are the product of negotiations among the Parties and are for the sole benefit of the Parties. Any inaccuracies in such representations and warranties are subject to waiver by the Parties in accordance with Section 8.5 without notice or liability to any other Person. In some instances, the representations and warranties in this Agreement may represent an allocation among the Parties of risks associated with particular matters regardless of the knowledge of any of the Parties. Consequently, Persons other than the Parties may not rely on the representations and warranties in this Agreement as characterizations of actual facts or circumstances as of the date of this Agreement or as of any other date.

(r) Documents or other information or materials will be deemed to have been "made available" by the Company if such documents, information or materials have been (i) continuously made accessible to Parent by 4:00 p.m., Pacific time, on the date of this Agreement by means of a virtual data room managed by the Company at www.datasite.com; or (ii) delivered or provided to Parent or its Affiliates or Representatives by 4:00 p.m., Pacific time, on the date of this Agreement.

1.4 *Disclosure Letters*.

(a) The information set forth in the disclosure letter delivered by the Company to Parent and Merger Sub on the date of this Agreement (the "**Company Disclosure Letter**") will be disclosed under separate and appropriate Section and subsection references that correspond to the Sections and subsections of Article III and Article V to which such information relates. The information set forth in each Section or subsection of the Company Disclosure Letter will be deemed to be an exception to (or, as applicable, a disclosure for purposes of) (i) the representations and warranties (or covenants, as applicable) of the Company that are set forth in the corresponding Section or subsection of this Agreement; and (ii) any other representations and warranties (or covenants, as applicable) of the Company that are set forth in this Agreement, but in the case of this clause (ii) only if the relevance of that disclosure as an exception to (or a disclosure for purposes of) such other representations and warranties (or covenants, as applicable) is reasonably apparent on the face of such disclosure.

(b) The information set forth in the disclosure letter delivered by Parent and Merger Sub to the Company on the date of this Agreement (the "**Parent Disclosure Letter**") will be disclosed under separate and appropriate Section and subsection references that correspond to the Sections and subsections of Article IV to which such information relates. The information set forth in each Section or subsection of the Parent Disclosure Letter will be deemed to be an exception to (or, as applicable, a disclosure for purposes of) (i) the representations and warranties (or covenants, as applicable) of Parent and Merger Sub that are set forth in the corresponding Section or subsection of this Agreement; and (ii) any other representations and warranties (or covenants, as applicable) of Parent and Merger Sub that are set forth in this Agreement, but in the case of this clause (ii) only if the relevance of that disclosure as an

exception to (or a disclosure for purposes of) such other representations and warranties (or covenants, as applicable) is reasonably apparent on the face of such disclosure.

ARTICLE II
THE MERGER

2.1 *The Merger*. Upon the terms and subject to the conditions set forth in this Agreement and the applicable provisions of the DGCL, on the Closing Date, (a) Merger Sub will be merged with and into the Company; (b) the separate corporate existence of Merger Sub will thereupon cease; and (c) the Company will continue as the surviving corporation of the Merger and a Subsidiary of Parent. The Company, as the surviving corporation of the Merger, is sometimes referred to herein as the "**Surviving Corporation**."

2.2 *The Effective Time*. Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, Parent, Merger Sub and the Company will cause the Merger to be consummated pursuant to the DGCL by filing a certificate of merger (the "**Certificate of Merger**") with the Secretary of State of the State of Delaware in accordance with the applicable provisions of the DGCL (the time of such filing and acceptance with the Secretary of State of the State of Delaware, or such later time as may be agreed in writing by Parent, Merger Sub and the Company and specified in the Certificate of Merger in accordance with the DGCL, being referred to herein as the "**Effective Time**").

2.3 *The Closing*. The consummation of the Merger will take place at a closing (the "**Closing**") to occur at (a) 6:00 a.m., Pacific time by remote communication and by the exchange of signature pages by electronic transmission or, to the extent such exchange is not practicable or the Parties otherwise agree in writing, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY 10017, on a date to be agreed upon by Parent, Merger Sub and the Company that is no later than the third Business Day after the satisfaction or waiver (to the extent permitted hereunder) of the last to be satisfied or waived of the conditions set forth in Article VII (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver (to the extent permitted hereunder) of such conditions); or (b) such other time, location and date as Parent, Merger Sub and the Company mutually agree in writing. The date on which the Closing actually occurs is referred to as the "**Closing Date**."

2.4 *Effect of the Merger*. At the Effective Time, the effect of the Merger will be as provided in this Agreement and the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all (a) of the property, rights, privileges, powers and franchises of the Company and Merger Sub will vest in the Surviving Corporation; and (b) debts, liabilities and duties of the Company and Merger Sub will become the debts, liabilities and duties of the Surviving Corporation.

2.5 *Certificate of Incorporation and Bylaws*.

(a) *Certificate of Incorporation*. At the Effective Time, the certificate of incorporation of the Company as in effect immediately prior to the Effective Time shall be amended and restated in its entirety in the form attached hereto as Exhibit A and, as so amended, shall be the certificate of incorporation of the Surviving Corporation until, subject to Section 6.8(a), thereafter amended in accordance with the applicable provisions of the DGCL and such certificate of incorporation.

(b) *Bylaws*. The Parties will take all necessary actions so that at the Effective Time, the bylaws of Merger Sub, as in effect immediately prior to the Effective Time, will be the bylaws of the Surviving Corporation (except that the title thereof shall read "Bylaws of Activision Blizzard, Inc.") until, subject to Section 6.8(a), thereafter amended in accordance with the applicable provisions of the DGCL, the certificate of incorporation of the Surviving Corporation and such bylaws.

2.6 *Directors and Officers*.

(a) *Directors*. The Parties will take all necessary actions so that at the Effective Time, the initial directors of the Surviving Corporation will be the directors of Merger Sub as of immediately prior to the Effective Time, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their respective successors are duly elected or appointed and qualified.

(b) *Officers*. The Parties will take all necessary actions so that at the Effective Time, the initial officers of the Surviving Corporation will be the officers of the Company as of immediately prior to the Effective Time, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their respective successors are duly appointed.

2.7 *Effect on Capital Stock*.

(a) *Capital Stock*. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the holders of any of the following securities, the following will occur:

(i) each share of common stock, par value $0.01 per share, of Merger Sub that is issued and outstanding as of immediately prior to the Effective Time will be converted into one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation, and thereupon each certificate representing ownership of such shares of common stock of Merger Sub will thereafter represent ownership of shares of common stock of the Surviving Corporation;

(ii) (A) each share of Company Common Stock that is (x) held by the Company as treasury stock (but excluding the Specified Owned Company Shares); (y) owned by Parent or Merger Sub; or (z) owned by any direct or indirect wholly owned Subsidiary of Parent or Merger Sub other than the Specified Subsidiary as of immediately prior to the Effective Time ((x), (y) and (z), collectively, the "**Cancelled Owned Company Shares**") will be cancelled without any conversion thereof or consideration paid therefor; and (B) the Specified Owned Company Shares will remain outstanding and unaffected by the Merger; and

(iii) each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than Owned Company Shares and Dissenting Company Shares) will be cancelled and automatically converted into the right to receive the Merger Consideration.

(b) *Statutory Rights of Appraisal*.

(i) Notwithstanding anything to the contrary set forth in this Agreement, if required by the DGCL (but only to the extent required thereby), all shares of Company Common Stock that are issued and outstanding as of immediately prior to the Effective Time and held by Company Stockholders who have neither voted in favor of adoption of this Agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such shares of Company Common Stock in accordance with Section 262 of the DGCL (the "**Dissenting Company Shares**") will not be converted into, or represent the right to receive, the Merger Consideration pursuant to this Section 2.7 and instead will entitle the holders thereof to such rights as are granted to such holders by Section 262 of the DGCL. Each Dissenting Company Share held by a Company Stockholder who has failed to perfect or who has effectively withdrawn or lost his, her or its rights to appraisal of such Dissenting Company Share pursuant to Section 262 of the DGCL will thereupon be deemed to have been converted into, as of the Effective Time, the right to receive the Merger Consideration upon surrender of the Certificate or Book-Entry Share that formerly evidenced such share of Company Common Stock in the manner provided in Section 2.9.

(ii) The Company shall give Parent (A) prompt notice and copies of any written demands for appraisal, withdrawals or attempted withdrawals of such demands, and any other instruments served pursuant to applicable Law that are received by the Company relating to the Company Stockholders' demands of appraisal and (B) the opportunity to direct all negotiations and Legal Proceedings with respect to any demand for appraisal under the DGCL, including any determination to make any payment to any holder of Dissenting Company Shares with respect to any of their Dissenting Company Shares under Section 262(h) of the DGCL prior to the entry of judgment in the Legal Proceedings with respect to any demand for appraisal. The Company shall not, except with the prior written consent of Parent, voluntarily make any payment with respect to any demands for appraisals, offer to settle or settle any such demands or approve any withdrawal of any such demands, or agree to do any of the foregoing.

2.8 *Equity Awards*.

(a) *Surrendered Company Options*. Each Company Option that is outstanding as of immediately prior to the Effective Time and (i) is vested as of immediately prior to the Effective Time or (ii) will become vested by its terms without any action taken by the Company, the Company Board or a compensation committee of the Company Board upon the occurrence of the Effective Time (each, a "**Surrendered Company Option**") will, as of the Effective Time, be cancelled and converted into the right to receive the Merger Consideration for each share of Company Common Stock that would have been issuable upon exercise of such Surrendered Company Option immediately prior to the Effective Time, less the applicable exercise price for each such share of Company Common Stock under such Surrendered Company Option and any applicable withholding Taxes in accordance with Section 2.12. For the avoidance of doubt, in the event that the exercise price per share under any Surrendered Company Option is equal to or greater than the Merger Consideration, such Surrendered Company Option shall be cancelled as of the Effective Time without payment therefor and shall have no further force or effect.

(b) *Surrendered Company Stock-Based Awards*. Each Company Stock-Based Award that is outstanding as of immediately prior to the Effective Time and (i) is vested as of immediately prior to the Effective Time, (ii) that will become vested by its terms without any action taken by the Company, the Company Board or the compensation committee of the Company Board upon the occurrence of the Effective Time or (iii) that is granted to a non-employee member of the Company Board (each, a "**Surrendered Company Stock-Based Award**"), will, as of the Effective Time, be cancelled and converted into the right to receive the Merger Consideration with respect to each share of Company Common Stock subject to the Surrendered Company Stock-Based Award, less any applicable withholding Taxes in accordance with Section 2.12.

(c) *Assumed Company Awards*.

(i) *Assumed Company Options*. Each Company Option that is outstanding as of immediately prior to the Effective Time that is not a Surrendered Company Option and that has an exercise price per share of Company Common Stock that is less than the Merger Consideration (each, an "**Assumed Company Option**") will, as of the Effective Time, be, as determined by Parent, (x) assumed by Parent and converted into a nonqualified stock option or (y) converted into a nonqualified stock option granted pursuant to the Parent Stock Plan (in each case, with the terms and conditions relating to vesting and exercisability to remain the same with respect to Company Options subject to time-based vesting, and with respect to Company Options subject to performance-based vesting converted into time-based vesting Assumed Company Options (determined based on target performance levels) that shall vest at the conclusion of the original performance period, it being understood that the transactions contemplated by this Agreement constitute a "change in control" for purposes of the Company Stock Plans and award agreements thereunder), in respect of a number of shares of Parent Common Stock equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Company Common Stock subject to such Assumed Company Option as of immediately prior to the Effective Time (determined based on target performance levels) multiplied by (ii) the Exchange Ratio, at an exercise price per share of Parent Common Stock equal to the quotient of (i) the exercise price of such Company Option, as applicable immediately before the Effective Time divided by (ii) the Exchange Ratio (rounded up to the nearest whole cent) and in all cases in a manner intended to comply with Section 409A of the Code. If the foregoing calculation results in an Assumed Company Option being exercisable for a fraction of a share of Parent Common Stock, then the number of shares of Parent Common Stock subject to such Assumed Company Option will be rounded down to the nearest whole number of shares. As a result of any such conversion provided for in clause (y) above, any such Assumed Company Options shall be subject to all of the terms and conditions of the Parent Stock Plan and grant agreements for the Assumed Company Options (rather than the terms and conditions of the Company Stock Plan and grant agreements under which the Assumed Company Options were originally issued), subject to the foregoing sentence of this Section 2.8(c)(i). Notwithstanding the foregoing, prior to the Closing Date, Parent may elect to treat some or all of the Company Options that would otherwise be Assumed Company Options that

are scheduled to vest within 120 days following the Closing Date as vested Surrendered Company Options, which will be settled in accordance with Section 2.8(a), but the vesting of such Company Options will be fully accelerated prior to such treatment, except that the applicable settlement date may be delayed to the extent required by Section 409A of the Code. For the avoidance of doubt, in the event that the exercise price per share under any Company Option is equal to or greater than the Merger Consideration, such Company Option shall not become an Assumed Company Option and shall be cancelled as of the Effective Time without payment therefor and shall have no further force or effect.

(ii) *Assumed Company Stock-Based Awards*. Each Company Stock-Based Award that is outstanding as of immediately prior to the Effective Time and is not a Surrendered Company Stock-Based Award (each, an "**Assumed Company Stock-Based Award**"), will, as of the Effective Time, be, as determined by Parent, (x) assumed by Parent and converted into a stock-based award or (y) converted into a stock-based award granted pursuant to the Parent Stock Plan (in each case, with the terms and conditions relating to vesting to remain the same with respect to Company Stock-Based Awards subject to time-based vesting, and with respect to Company Stock-Based Awards subject to performance-based vesting converted into time-based vesting Assumed Company Stock-Based Awards (determined based on target performance levels) that shall vest at the conclusion of the original performance period, it being understood that the transactions contemplated by this Agreement constitute a "change in control" for purposes of the Company Stock Plans and award agreements thereunder), in respect of a number of shares of Parent Common Stock equal to the product (rounded down to the nearest whole share) of (i) the number of shares of Company Common Stock subject to such Assumed Company Stock-Based Award as of immediately prior to the Effective Time (determined based on target performance levels) multiplied by (ii) the Exchange Ratio. As a result of any such conversion provided for in clause (y) above, any such Assumed Company Stock-Based Awards shall be subject to all of the terms and conditions of the Parent Stock Plan and grant agreements for the Assumed Company Stock-Based Awards (rather than the terms and conditions of the Company Stock Plan and grant agreements under which the Assumed Company Stock-Based Awards were originally issued), subject to the foregoing sentence. Notwithstanding the foregoing, prior to the Closing Date, Parent may elect to treat some or all Company Stock-Based Awards that would otherwise be Assumed Company Stock-Based Awards as vested Surrendered Company Stock-Based Awards, which will be settled in accordance with Section 2.8(b), but the vesting of such Company Stock-Based Awards will be fully accelerated prior to such treatment, except that the applicable settlement date may be delayed to the extent required by Section 409A of the Code.

(iii) *Non-U.S. Grantees*. If the treatment of a non-U.S. grantee's Company Option or Company Stock-Based Award specified in this Section 2.8(c) would otherwise be prohibited, subject to onerous regulatory requirements, or subject to adverse tax treatment under the laws of the applicable jurisdiction (as reasonably determined by Parent), then this Section 2.8(c) shall not apply, and Parent shall provide compensation to the holder of such Company Option or Company Stock-Based Award that is equivalent in value to the value described in this Section 2.8(c), to the extent practicable and as would not result in the imposition of additional taxes under Section 409A of the Code, in the form of a cash payment which will be reduced by any applicable Taxes or a new equity award, as reasonably determined by Parent.

(d) *Actions Related to Assumed Awards*. Parent will take such actions as are reasonably necessary, if any, to reserve for issuance a number of authorized but unissued shares of Parent Common Stock for delivery upon exercise or settlement of the Assumed Company Options and Assumed Company Stock-Based Awards. Effective as of the Effective Time, to the extent the Assumed Company Options and Assumed Company Stock-Based Awards are not already registered by Parent under the Securities Act, Parent will cause to be filed with the SEC a registration statement on an appropriate form, or a post-effective amendment to a registration statement previously filed under the Securities Act, with respect to the shares of Parent Common Stock subject to the Assumed Company Options and Assumed Company Stock-Based Awards. Parent will use the same level of efforts that it uses to maintain the effectiveness of its other registration statements on Form S-8 (or other applicable

form) to maintain the effectiveness of such registration statement for so long as any Assumed Company Options and Assumed Company Stock-Based Awards remain outstanding.

(e) *Company Actions*. Prior to the Effective Time, the Company, the Company Board and the compensation committee of the Company Board, as applicable, will adopt any resolutions and take any actions within its authority with respect to the Company Stock Plans and the award agreements thereunder as it deems reasonably necessary to give effect to the transactions contemplated by this Section 2.8, including (i) providing notice to each holder of a Company Option or Company Stock-Based Award in a form reasonably acceptable to Parent of the treatment of the Company Options or Company Stock-Based Awards set forth in this Agreement and (ii) satisfying all applicable requirements of Rule 16b-3(c) promulgated under the Exchange Act. The Company will provide Parent with drafts of, and a reasonable opportunity to review and comment upon (and Parent's review and delivery of comments will occur promptly after the Company provides Parent with such drafts and the Company's acceptance of Parent's reasonable comments will not be unreasonably withheld), all notices, resolutions and other written actions or communications as may be required to give effect to the provisions of this Section 2.8.

(f) *Payment Procedures*. At or prior to the Closing, Parent will deposit (or cause to be deposited) with the Company, by wire transfer of immediately available funds, the aggregate amount owed to holders of Surrendered Company Options and Surrendered Company Stock-Based Awards. As promptly as reasonably practicable following the Closing Date, but in no event later than five Business Days following the Closing Date, the applicable holders of Surrendered Company Options and Surrendered Company Stock-Based Awards will receive a payment from the Company or the Surviving Corporation, through its payroll system or payroll provider, of all amounts required to be paid to such holders in respect of Surrendered Company Options and Surrendered Company Stock-Based Awards that are cancelled and converted pursuant to Section 2.8(a) or Section 2.8(b), as applicable. All such payments will be less any applicable withholding Taxes. Notwithstanding the foregoing, if any payment owed to a holder of Surrendered Company Options and Surrendered Company Stock-Based Awards pursuant to Section 2.8(a) or Section 2.8(b), as applicable, cannot be made through the Company's or the Surviving Corporation's payroll system or payroll provider, then the Surviving Corporation will issue a check for such payment to such holder, which check will be sent by overnight courier to such holder promptly following the Closing Date (but in no event more than five Business Days thereafter). All such payments will be less any applicable withholding or other Taxes or other amounts required by applicable Law to be withheld.

(g) *Section 409A.* Notwithstanding anything herein to the contrary, with respect to any Company Option or Company Stock-Based Award that constitutes nonqualified deferred compensation subject to Section 409A of the Code and that the Company determines prior to the Effective Time is not eligible to be canceled in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(B), such payment will be made at the earliest time permitted under the applicable Company Option or Company Stock-Based Award that will not trigger a Tax or penalty under Section 409A of the Code.

2.9 *Surrender of Shares*.

(a) *Paying Agent and Exchange Fund*. Prior to the Effective Time, Parent will enter into a customary agreement in a form reasonably acceptable to the Company with a paying agent designated by Parent and reasonably acceptable to the Company (the "**Paying Agent**") for the payment of the per share Merger Consideration as provided in Section 2.7(a)(iii). At or promptly following the Effective Time, Parent shall deposit or cause to be deposited with the Paying Agent a cash amount in immediately available funds sufficient in the aggregate to provide all funds necessary for the Paying Agent to make payments in respect of Company Common Stock under Section 2.7(a)(iii) (such cash being hereinafter referred to as the "**Exchange Fund**") in trust for the benefit of the holders of the Company Common Stock. The Paying Agent will deliver the Merger Consideration to be issued pursuant to Section 2.7 out of the Exchange Fund. Except as provided in Section 2.7, the Exchange Fund will not be used for any other purpose.

(b) *Exchange Procedures*. Parent will cause the Paying Agent to mail, as soon as reasonably practicable after the Effective Time (but in no event more than three Business Days thereafter), to each

Person who was, at the Effective Time, a holder of record of shares of Company Common Stock (other than Owned Company Shares and Dissenting Company Shares) whose shares of Company Common Stock were converted into the right to receive the Merger Consideration pursuant to Section 2.7, (i) a letter of transmittal (which will specify that delivery will be effected, and risk of loss and title to the Company Common Stock will pass, only upon proper delivery of the Company Common Stock to the Paying Agent) and (ii) instructions for use in effecting the surrender of the certificates evidencing such shares of Company Common Stock (each, a "**Certificate**" and together, the "**Certificates**") or the non-certificated shares of Company Common Stock ("**Book-Entry Shares**") in exchange for the Merger Consideration. Upon surrender of a Certificate (or affidavit of loss in lieu of the Certificate as provided in Section 2.11) for cancellation to the Paying Agent in the case of a transfer of shares of Company Common Stock represented by Certificates or receipt by the Paying Agent of an agent's message in the case of a transfer of Book-Entry Shares, together with such letter of transmittal, duly executed (in the case of Company Common Stock represented by Certificates), and such other documents as may reasonably be required by the Paying Agent in accordance with the terms of such materials and instructions, the holder of such Certificate or Book-Entry Shares will be entitled to receive in exchange for the number of shares of Company Common Stock represented by such Certificate and for such Book-Entry Shares, and Parent will cause the Paying Agent to pay and deliver in exchange therefor as promptly as practicable, in respect of such Certificate and Book-Entry Shares, the amount of Merger Consideration that such holder is entitled to pursuant to Section 2.7. The Certificates so surrendered and the Book-Entry Shares of such holders will be cancelled. No interest will be paid or accrue on any cash payable upon surrender of any Certificate or upon conversion of any Book-Entry Shares.

(c) *Investment of Exchange Fund*. Until disbursed in accordance with the terms and conditions of this Agreement, the cash in the Exchange Fund will be invested by the Paying Agent, as directed by Parent or the Surviving Corporation, in (i) obligations of or fully guaranteed by the United States or any agency or instrumentality thereof and backed by the full faith and credit of the United States with a maturity of no more than 30 days; (ii) commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively; or (iii) certificates of deposit, bank repurchase agreements or banker's acceptances of commercial banks with capital exceeding $1,000,000,000 (based on the most recent financial statements of such bank that are then publicly available). If (A) there are any losses with respect to any investments of the Exchange Fund; (B) the Exchange Fund diminishes for any reason below the level required for the Paying Agent to promptly pay the cash amounts contemplated by Section 2.7(a)(iii); or (C) all or any portion of the Exchange Fund is unavailable for Parent (or the Paying Agent on behalf of Parent) to promptly pay the cash amounts contemplated by Section 2.7(a)(iii) for any reason, then Parent will, or will cause the Surviving Corporation to, promptly replace or restore the amount of cash in the Exchange Fund so as to ensure that the Exchange Fund is at all times fully available for distribution and maintained at a level sufficient for the Paying Agent to make the payments contemplated by Section 2.7(a)(iii). Any income from investment of the Exchange Fund will be payable to Parent or the Surviving Corporation, as Parent directs.

(d) *Transfers of Ownership*. If a transfer of ownership of shares of Company Common Stock is not registered in the stock transfer books or ledger of the Company, or if any Merger Consideration is to be paid in a name other than that in which the Certificates or Book-Entry Shares surrendered or transferred in exchange therefor are registered in the stock transfer books or ledger of the Company, Merger Consideration may be paid to a Person other than the Person in whose name the Certificate or Book-Entry Shares so surrendered or transferred is registered in the stock transfer books or ledger of the Company only if such Certificate is properly endorsed and otherwise in proper form for surrender and transfer and the Person requesting such payment has paid to Parent (or any agent designated by Parent) any transfer Taxes required by reason of the payment of Merger Consideration to a Person other than the registered holder of such Certificate or Book-Entry Shares, or established to the satisfaction of Parent (or any agent designated by Parent) that such transfer Taxes have been paid or are otherwise not payable.

(e) *No Liability*. Notwithstanding anything to the contrary set forth in this Agreement, none of the Paying Agent, Parent, the Surviving Corporation or any other Party will be liable to a holder of

shares of Company Common Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law. If any Certificates or Book-Entry Shares shall not have been surrendered immediately prior to the date on which any cash in respect of such Certificate or Book-Entry Share would otherwise escheat to or become the property of any Governmental Authority, any such cash in respect of such Certificate or Book-Entry Share shall, to the extent permitted by applicable Law, become the property of Parent, free and clear of all claims or interest of any person previously entitled thereto.

(f) *Distribution of Exchange Fund to Parent*. Any portion of the Exchange Fund (including any interest or other amounts received with respect thereto) that remains undistributed to the holders of the Certificates or Book-Entry Shares on the date that is one year after the Effective Time will be delivered to Parent upon demand, and any holders of shares of Company Common Stock that were issued and outstanding immediately prior to the Merger who have not theretofore surrendered or transferred their Certificates or Book-Entry Shares representing such shares of Company Common Stock for exchange pursuant to this Section 2.9 will thereafter look for payment of the Merger Consideration payable in respect of the shares of Company Common Stock represented by such Certificates or Book-Entry Shares solely to Parent (subject to abandoned property, escheat or similar laws), as general creditors thereof, for any claim to the Merger Consideration to which such holders may be entitled pursuant to Section 2.7.

2.10 *No Further Ownership Rights in Company Common Stock*. From and after the Effective Time, (a) other than the Specified Owned Company Shares, all shares of Company Common Stock will no longer be outstanding and will automatically be cancelled and cease to exist; and (b) each holder (other than the Specified Subsidiary) of a Certificate or Book-Entry Shares theretofore representing any shares of Company Common Stock will cease to have any rights with respect thereto, except the right to receive the Merger Consideration payable therefor in accordance with Section 2.7(a)(iii), or in the case of Dissenting Company Shares, the rights pursuant to Section 2.7(b). The Merger Consideration paid in accordance with the terms of this Article II will be deemed to have been paid in full satisfaction of all rights pertaining to such shares of Company Common Stock. From and after the Effective Time, there will be no further registration of transfers on the records of the Surviving Corporation of shares of Company Common Stock other than the Specified Owned Company Shares that were issued and outstanding immediately prior to the Effective Time, other than transfers to reflect, in accordance with customary settlement procedures, trades effected prior to the Effective Time. Other than with respect to Specified Owned Company Shares, if, after the Effective Time, Certificates or Book-Entry Shares are presented to the Surviving Corporation for any reason, they will (subject to compliance with the exchange procedures of Section 2.9) be cancelled and exchanged as provided in this Article II.

2.11 *Lost, Stolen or Destroyed Certificates*. In the event that any Certificates have been lost, stolen or destroyed, the Paying Agent will issue in exchange therefor, upon the making of an affidavit of that fact by the holder thereof, the Merger Consideration payable in respect thereof pursuant to Section 2.7. Either of Parent or the Paying Agent may, in its discretion and as a condition precedent to the payment of such Merger Consideration, require the owners of such lost, stolen or destroyed Certificates to deliver a bond in such amount as it may direct as indemnity against any claim that may be made against Parent, the Surviving Corporation or the Paying Agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

2.12 *Required Withholding*. Each of the Paying Agent, Parent, the Company and the Surviving Corporation, or any Subsidiary of Parent, the Company or the Surviving Corporation, will be entitled to deduct and withhold from any cash amounts payable pursuant to this Agreement to any holder or former holder of shares of Company Common Stock, Company Stock-Based Awards or Company Options such amounts as will be required to be deducted or withheld therefrom pursuant to any Tax laws. To the extent that such amounts are so deducted or withheld they will be (a) paid over to the appropriate Governmental Authority and (b) treated for all purposes of this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

2.13 *Necessary Further Actions*. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the

Company and Merger Sub, then the directors and officers of the Company and Merger Sub as of immediately prior to the Effective Time will take all such lawful and necessary action.

2.14 *Adjustment to Merger Consideration*. If, during the period between the date of this Agreement and the Effective Time, any change in the outstanding shares of Company Common Stock occurs as a result of any reclassification, recapitalization, stock split (including reverse stock split) or combination, exchange or readjustment of shares, or any stock dividend, or any record date for any such purpose is established, the Merger Consideration and any other amounts payable pursuant to this Agreement will be appropriately adjusted, provided that nothing in this Section 2.14 shall be construed to permit the Company to take any action with respect to its securities that is prohibited by the terms of this Agreement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

With respect to any Section of this Article III, except (a) as disclosed in the reports, statements and other documents filed by the Company with the SEC or furnished by the Company to the SEC, in each case pursuant to the Exchange Act on or after January 1, 2021, and at least twenty-four (24) hours prior to the date of this Agreement (other than any disclosures contained or referenced therein under the captions "Risk Factors," "Cautionary Statement," "Quantitative and Qualitative Disclosures About Market Risk" and any other disclosures contained or referenced therein of information, factors or risks that are predictive, cautionary or forward-looking in nature) (the "**Company Recent SEC Reports**") (it being understood that this clause (a) will not apply to any of Section 3.2, Section 3.3, Section 3.4, Section 3.5, and Section 3.7); or (b) as set forth in the Company Disclosure Letter, the Company hereby represents and warrants to Parent and Merger Sub as follows:

3.1 *Organization; Good Standing*. The Company (a) is a corporation duly organized, validly existing and in good standing pursuant to the DGCL; and (b) has the requisite corporate power and authority to conduct its business as it is presently being conducted and to own, lease or operate its properties, rights and assets. The Company is duly qualified to do business and is in good standing in each jurisdiction where the character of its properties, rights and assets owned or leased or the nature of its activities make such qualification necessary (to the extent that the concept of "good standing" is applicable in the case of any jurisdiction outside the United States), except where the failure to be so qualified or in good standing would not have a Company Material Adverse Effect. The Company has made available to Parent true, correct and complete copies of the Third Amended and Restated Certificate of Incorporation of the Company (the "**Charter**") and the Fifth Amended and Restated Bylaws of the Company (the "**Bylaws**"), each as amended to date. The Charter and Bylaws are in full force and effect on the date of this Agreement. The Company is not in violation of the Charter or the Bylaws.

3.2 *Corporate Power; Enforceability*. The Company has the requisite corporate power and authority to (a) execute and deliver this Agreement; (b) perform its covenants and obligations hereunder; and (c) subject to receiving the Requisite Stockholder Approval, consummate the Merger. The execution and delivery of this Agreement by the Company, the performance by the Company of its covenants and obligations hereunder, and the consummation of the Merger have been duly authorized by all necessary corporate action on the part of the Company and no additional corporate actions on the part of the Company are necessary to authorize (i) the execution and delivery of this Agreement by the Company; (ii) the performance by the Company of its covenants and obligations hereunder; or (iii) subject to the receipt of the Requisite Stockholder Approval and the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, the consummation of the Merger. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Parent and Merger Sub, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting or relating to creditors' rights generally; and (B) is subject to laws governing specific performance, injunctive relief and other equitable remedies and general principles of equity.

3.3 *Company Board Approval; Opinion of the Company's Financial Advisor; Anti-Takeover Laws*.

(a) *Company Board Approval*. The Company Board has unanimously (i) determined that it is in the best interests of the Company and its stockholders to enter into this Agreement and consummate the Merger upon the terms and subject to the conditions set forth herein and declared this Agreement advisable; (ii) approved the execution and delivery of this Agreement by the Company, the performance by the Company of its covenants and other obligations hereunder, and the consummation of the Merger upon the terms and conditions set forth herein; (iii) directed that the adoption of this Agreement be submitted to a vote at a meeting of the stockholders of the Company and (iv) resolved to recommend that the Company Stockholders vote in favor of adoption of this Agreement in accordance with the DGCL (collectively, the "**Company Board Recommendation**").

(b) *Opinion of the Company's Financial Advisor*. The Company Board has received the written opinion (or an oral opinion to be confirmed in writing) of the Company's financial advisor, Allen & Company LLC ("**Allen & Company**"), to the effect that, as of the date of such opinion and based upon and subject to the various assumptions, qualifications, limitations and other matters set forth therein, the Merger Consideration to be received by holders of Company Common Stock (other than, to the extent applicable, Parent, Merger Sub and their respective affiliates) pursuant to this Agreement is fair, from a financial point of view, to such holders. As soon as practicable after the execution of this Agreement, the Company will deliver a copy of such opinion to Parent for informational purposes only.

(c) *Anti-Takeover Laws*. Assuming that the representations of Parent and Merger Sub set forth in Section 4.6 are true and correct, the Company Board has taken all necessary actions so that the restrictions on business combinations set forth in Section 203 of the DGCL and any other similar applicable "anti-takeover" Law will not be applicable to this Agreement or the Merger. No other "fair price," "moratorium," "control share acquisition" or other similar antitakeover statute or regulation enacted under any Laws applicable to the Company or any of its Subsidiaries is applicable to this Agreement or the Merger.

3.4 *Requisite Stockholder Approval*. The affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote to adopt this Agreement (the "**Requisite Stockholder Approval**") is the only vote of the holders of any class or series of Company Capital Stock that is necessary pursuant to applicable Law, the Charter or the Bylaws to consummate the Merger.

3.5 *Non-Contravention*. The execution and delivery of this Agreement by the Company, the performance by the Company of its covenants and obligations hereunder, and, assuming receipt of the Requisite Stockholder Approval, the consummation of the Merger do not (a) violate or conflict with any provision of the Charter or the Bylaws or the equivalent organizational or governing documents of any Subsidiary of the Company; (b) violate, conflict with, result in the breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) pursuant to, result in the termination of, accelerate the performance required by, or result in a right of termination or acceleration pursuant to any Material Contract or Privacy Policy; (c) assuming compliance with the matters referred to in Section 3.6 and, in the case of the consummation of the Merger, subject to obtaining the Requisite Stockholder Approval, violate or conflict with any Law or Privacy Policy applicable to the Company or any of its Subsidiaries; or (d) result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of the Company or any of its Subsidiaries, except in the case of each of clauses (b), (c) and (d) for such violations, conflicts, breaches, defaults, terminations, accelerations or Liens that would not have a Company Material Adverse Effect.

3.6 *Requisite Governmental Approvals*. No consent, approval, order or authorization of, filing or registration with, or notification to (any of the foregoing, a "**Consent**") any Governmental Authority is required on the part of the Company in connection with the (a) execution and delivery of this Agreement by the Company; (b) performance by the Company of its covenants and obligations pursuant to this Agreement; or (c) consummation of the Merger, except (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware; (ii) such filings and approvals as may be required by any federal or state securities Laws, including compliance with any applicable requirements of the Exchange Act; (iii) compliance with any applicable requirements of the HSR Act and any applicable foreign Antitrust Laws or Foreign Investment Laws, including the approvals set forth in Section 7.1(b) and Section 7.1(c) of

the Company Disclosure Letter; (iv) the rules of NASDAQ; and (v) such other Consents the failure of which to obtain would not have a Company Material Adverse Effect.

3.7 *Company Capitalization*.

(a) *Capital Stock*. The authorized capital stock of the Company consists of (i) 2,400,000,000 shares of Company Common Stock and (ii) 5,000,000 shares of Company Preferred Stock. As of 5:00 p.m., Pacific time, on January 13, 2022 (such time and date, the "**Capitalization Date**"), (A) 779,057,360 shares of Company Common Stock were issued and outstanding (for the avoidance of doubt, excluding shares held in treasury); (B) no shares of Company Preferred Stock were issued and outstanding; and (C) 428,676,471 shares of Company Common Stock were held by the Company as treasury shares.

(b) All outstanding shares of Company Common Stock are validly issued, fully paid, nonassessable and free of any preemptive rights. Since the close of business on the Capitalization Date until the date of this Agreement, the Company has not issued or granted any Company Securities other than pursuant to the exercise, vesting or settlement of Company Stock-Based Awards or Company Options granted prior to the date of this Agreement.

(c) *Stock Reservation*. As of the Capitalization Date, the Company has reserved 36,866,502 shares of Company Common Stock for issuance pursuant to the Company Stock Plans. As of the Capitalization Date, there were outstanding (i) time-vesting Company Stock-Based Awards representing the right to receive up to 8,717,050 shares of Company Common Stock, (ii) performance-vesting Company Stock-Based Awards representing the right to receive up to 4,424,740 shares of Company Common Stock, assuming achievement of applicable performance goals at target level (and 5,180,833 shares of Company Common Stock, assuming achievement of applicable performance goals at maximum level); and (iii) outstanding Company Options to acquire 9,083,202 shares of Company Common Stock, assuming achievement of applicable performance goals at target level (and 9,083,202 shares of Company Common Stock, assuming achievement of applicable performance goals at maximum level).

(d) *Company Securities*. Except as set forth in this Section 3.7, as of the Capitalization Date, there were (i) other than the Company Common Stock, no outstanding shares of capital stock of, or other equity or voting interest in, the Company; (ii) no outstanding securities of the Company convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, the Company; (iii) no outstanding options, warrants or other rights or binding arrangements to acquire from the Company, or that obligate the Company to issue or sell, any capital stock of, or other equity or voting interest in, or any securities convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, the Company; (iv) no obligations of the Company to grant, extend or enter into any subscription, warrant, right, convertible or exchangeable security, or other similar Contract relating to any capital stock of, or other equity or voting interest (including any voting debt) in, the Company; (v) no outstanding restricted shares, restricted share units, stock appreciation rights, performance shares, contingent value rights, "phantom" stock or similar securities or rights that are derivative of, or provide economic benefits based, directly or indirectly, on the value or price of, any capital stock of, or other securities or ownership interests in, the Company (the items in clauses (i), (ii), (iii), (iv) and (v), collectively with the Company Common Stock, the "**Company Securities**"); (vi) no voting trusts, proxies or similar arrangements or understandings to which the Company is a party or by which the Company is bound with respect to the voting of any shares of capital stock of, or other equity or voting interest in, the Company; (vii) no obligations or binding commitments of any character restricting the transfer of any shares of capital stock of, or other equity or voting interest in, the Company to which the Company is a party or by which it is bound; and (viii) no other obligations by the Company to make any payments based on the price or value of any Company Securities. The Company is not a party to any Contract that obligates it to repurchase, redeem or otherwise acquire any Company Securities. There are no accrued and unpaid dividends with respect to any outstanding shares of Company Common Stock. The Company does not have a stockholder rights plan in effect. Section 3.7(d) of the Company Disclosure Letter contains a correct and complete list as of the Capitalization Date of outstanding Company Options and Company Stock-Based Awards, including the holder's employee identification number, the location of employment of any holder that is a current employee of the Company as reflected in the current records of the Company, the Company Stock

Plan under which the award was granted, the date of grant, term (for Company Options), where applicable, number of shares of Company Common Stock underlying such Company Security and, where applicable, exercise price and vesting schedule. Each Company Option (x) was granted with an exercise price per share equal to or greater than the fair market value of a share of Company Common Stock on the effective date of such grant, and (y) has a grant date identical to the grant date approved by the Company Board or the compensation committee of the Company Board, which is either the date on which the Company Option was awarded or a later date specified by the Company Board or the compensation committee of the Company Board. The Company does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the Company Stockholders on any matter. No Subsidiary of the Company other than the Specified Subsidiary owns any shares of Company Common Stock.

(e) *Other Rights*. The Company is not a party to any Contract relating to the voting of, requiring registration of, or granting any preemptive rights, anti-dilutive rights or rights of first refusal or other similar rights with respect to any Company Securities.

3.8 *Subsidiaries*.

(a) *Subsidiaries*. Section 3.8(a) of the Company Disclosure Letter contains a true, correct and complete list of the name and jurisdiction of organization of each Subsidiary of the Company as of the date hereof. Each Subsidiary of the Company (i) is duly organized, validly existing and in good standing pursuant to the Laws of its jurisdiction of organization (to the extent that the concept of "good standing" is applicable in the case of any jurisdiction outside the United States); and (ii) has the requisite corporate power and authority to carry on its respective business as it is presently being conducted and to own, lease or operate its respective properties and assets, except where the failure to be in good standing would not have a Company Material Adverse Effect. Each Subsidiary of the Company is duly qualified to do business and is in good standing in each jurisdiction where the character of its properties owned or leased or the nature of its activities make such qualification necessary (to the extent that the concept of "good standing" is applicable in the case of any jurisdiction outside the United States), except where the failure to be so qualified or in good standing would not have a Company Material Adverse Effect. The Company has made available to Parent true, correct and complete copies of the certificates of incorporation, bylaws and other similar organizational documents of each "significant subsidiary" (as defined in Rule 1-02(w) of Regulation S-X promulgated by the SEC) of the Company, each as amended to date. No Subsidiary of the Company is in violation of its charter, bylaws or other similar organizational documents, except for such violations that would not have a Company Material Adverse Effect.

(b) *Capital Stock of Subsidiaries*. As of the Capitalization Date, all of the outstanding capital stock of, or other equity or voting interest in, each Subsidiary of the Company (i) has been duly authorized, validly issued and is fully paid and nonassessable; and (ii) is owned, directly or indirectly, by the Company, free and clear of all Liens (other than Permitted Liens) and any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other equity or voting interest) that would prevent such Subsidiary from conducting its business as of the Effective Time in substantially the same manner that such business is conducted on the date of this Agreement.

(c) *Other Securities of Subsidiaries*. There are no outstanding (i) securities convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, any Subsidiary of the Company; (ii) options, warrants or other rights or arrangements obligating the Company or any of its Subsidiaries to acquire from any Subsidiary of the Company, or that obligate any Subsidiary of the Company to issue, any capital stock of, or other equity or voting interest in, or any securities convertible into or exchangeable for, shares of capital stock of, or other equity or voting interest in, any Subsidiary of the Company; or (iii) obligations of any Subsidiary of the Company to grant, extend or enter into any subscription, warrant, right, convertible or exchangeable security, or other similar Contract relating to any capital stock of, or other equity or voting interest (including any voting debt) in, such Subsidiary to any Person other than the Company or one of its Subsidiaries.

(d) *Other Equity Interests*. Other than for the capital stock of its Subsidiaries, as of the date hereof, the Company does not own any equity or voting interest in any other Person.

3.9 *Company SEC Reports*. Since January 1, 2019, the Company has filed all forms, reports and documents with the SEC that have been required to be filed by it pursuant to applicable Laws prior to the date of this Agreement (the "**Company SEC Reports**"). Each Company SEC Report complied, as of its filing date, or, if amended or superseded by a subsequent filing made prior to the date of this Agreement, as of the date of the last such amendment or superseding filing prior to the date of this Agreement, in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act, as the case may be, and the applicable rules and regulations promulgated thereunder, each as in effect on the date that such Company SEC Report was filed. True, correct and complete copies of all Company SEC Reports are publicly available in the Electronic Data Gathering, Analysis and Retrieval database of the SEC. As of its filing date (or, if amended or superseded by a filing prior to the date of this Agreement, on the date of such amended or superseded filing), each Company SEC Report did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. No Subsidiary of the Company is required to file any forms, reports or documents with the SEC.

3.10 *Company Financial Statements; Internal Controls; Indebtedness*.

(a) *Company Financial Statements*. The consolidated financial statements of the Company and its Subsidiaries (including all notes thereto) filed with the Company SEC Reports (i) were prepared in accordance with GAAP (except as may be indicated in the notes thereto or as otherwise permitted by Form 10-Q with respect to any financial statements filed on Form 10-Q); and (ii) fairly present, in all material respects, the consolidated financial position of the Company and its Subsidiaries as of the dates thereof and the consolidated results of operations and cash flows and stockholders' equity for the periods then ended. Except as have been described in the Company SEC Reports, there are no unconsolidated Subsidiaries of the Company or any off-balance sheet arrangements of the type required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K promulgated by the SEC.

(b) *Disclosure Controls and Procedures*. The Company has established and maintains "disclosure controls and procedures" and "internal control over financial reporting" (in each case as defined pursuant to Rule 13a-15 and Rule 15d-15 promulgated under the Exchange Act). The Company's disclosure controls and procedures are reasonably designed to ensure that all (i) material information required to be disclosed by the Company in the reports that it files or furnishes pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC; and (ii) such material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act. The Company's management has completed an assessment of the effectiveness of the Company's internal control over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act for the fiscal year ended December 31, 2020, and such assessment concluded that such system was effective. The Company's independent registered public accountant has issued (and not subsequently withdrawn or qualified) an attestation report concluding that the Company maintained effective internal control over financial reporting as of December 31, 2020. Since December 31, 2020, to the Knowledge of the Company, no events, facts or circumstances have occurred such that management would not be able to complete its assessment of the effectiveness of the Company's internal control over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act for the fiscal year ending December 31, 2021, and conclude, after such assessment, that such system was effective. Since January 1, 2019, the principal executive officer and principal financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act. Since January 1, 2019, neither the Company nor its principal executive officer or principal financial officer has received notice from any Governmental Authority challenging or questioning the accuracy, completeness, form or manner of filing of such certifications.

(c) *Internal Controls*. The Company has established and maintains a system of internal accounting controls that are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP, including

policies and procedures that (i) require the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company and its Subsidiaries; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company and its Subsidiaries are being made only in accordance with appropriate authorizations of the Company's management and the Company Board; and (iii) provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company and its Subsidiaries. Neither the Company nor, to the Knowledge of the Company, the Company's independent registered public accounting firm has identified or been made aware of (A) any "significant deficiency" or "material weakness" (each as defined in Rule 13a-15(f) of the Exchange Act) in the system of internal control over financial reporting utilized by the Company and its Subsidiaries that has not been subsequently remediated; or (B) any fraud that involves the Company's management or other employees who have a role in the preparation of financial statements or the internal control over financial reporting utilized by the Company and its Subsidiaries.

3.11 *No Undisclosed Liabilities*. Neither the Company nor any of its Subsidiaries has any liabilities of a nature required to be reflected or reserved against on a balance sheet prepared in accordance with GAAP, other than liabilities (a) reflected or otherwise reserved against in the Audited Company Balance Sheet or in the consolidated balance sheets (and the notes thereto) of the Company and its Subsidiaries set forth in the Company's quarterly reports on Form 10-Q filed by the Company with the SEC since the date of the Audited Company Balance Sheet and prior to the date of this Agreement; (b) arising pursuant to this Agreement or incurred in connection with the Merger; (c) incurred in the ordinary course of business since September 30, 2021; (d) that would not have a Company Material Adverse Effect; or (e) incurred in connection with the transactions contemplated by this Agreement.

3.12 *Absence of Certain Changes; No Company Material Adverse Effect*.

(a) Since September 30, 2021 through the date of this Agreement, the business of the Company and its Subsidiaries has been conducted, in all material respects, in the ordinary course of business (other than as a result of COVID-19 and COVID-19 Measures). Since December 31, 2020 through the date of this Agreement, there has not occurred a Company Material Adverse Effect.

(b) Since September 30, 2021 through the date of this Agreement, the Company has not taken any action that would be prohibited by Sections 5.2(a)-(f), (j)-(l)(D)-(E), (m)-(q), (s) or (t) (or, to the extent relating to such subsections, Section 5.2(u)), if taken or proposed to be taken after the date of this Agreement.

3.13 *Material Contracts*.

(a) *List of Material Contracts*. Section 3.13(a) of the Company Disclosure Letter contains a true, correct and complete list as of the date hereof of all Material Contracts to or by which the Company or any of its Subsidiaries is a party or is bound (other than any Material Contracts contemplated by clause (i) of the definition of Material Contract). A copy of each Material Contract set forth in Section 3.13(a) of the Company Disclosure Letter has been made available to Parent prior to the date of this Agreement.

(b) *Validity*. Each Material Contract is valid and binding on the Company or each such Subsidiary of the Company party thereto, enforceable in accordance with its terms and is in full force and effect, and none of the Company, any of its Subsidiaries party thereto or, to the Knowledge of the Company, any other party thereto is or is alleged to be in breach of or default pursuant to any such Material Contract, except for such failures to be in full force and effect that would not have a Company Material Adverse Effect. No event has occurred that, with notice or lapse of time or both, would constitute such a breach or default pursuant to any Material Contract by the Company or any of its Subsidiaries, or, to the Knowledge of the Company, any other party thereto, except for such breaches and defaults that would not have a Company Material Adverse Effect. To the Knowledge of the Company, neither the Company nor any of its Subsidiaries has received written notice from any other party to a Material Contract that such other party intends to terminate, not renew or renegotiate in any material respects the terms of any such Material Contract, except for such written notices to terminate, not renew or renegotiate with respect to matters that would not have a Company Material Adverse Effect.

3.14 *Real Property*.

(a) *Owned Real Property*. Section 3.14(a) of the Company Disclosure Letter contains a true, correct and complete list, as of the date of this Agreement, of all of the real property and interests in real property owned by the Company and its Subsidiaries as of the date of this Agreement (together with all buildings, improvements and fixtures located thereon and appurtenances thereto, the "**Owned Real Property**"). Except as would not have a Company Material Adverse Effect and except as disclosed in Section 3.14(c) of the Company Disclosure Letter, (i) neither the Company nor its Subsidiaries has subleased, licensed or otherwise granted any Person the right to use or occupy the Owned Real Property or Leased Real Property (defined below) and (ii) the Company or one of its Subsidiaries has good and valid insurable title (or the local legal equivalent) to all of the Owned Real Property, free and clear of all Liens (other than Permitted Liens).

(b) *Leased Real Property*. Section 3.14(b) of the Company Disclosure Letter contains a true, correct and complete list, as of the date of this Agreement, of all of the existing leases, subleases, licenses or other agreements pursuant to which the Company or any of its Subsidiaries uses or occupies, or has the right to use or occupy any real property with such property subject to annual rent obligations in excess of $2,500,000 (such property, the "**Leased Real Property**," and each such lease, sublease or license (including any modifications, amendments, guaranties, exhibits, schedules and supplements thereto), a "**Lease**"). Each Lease is in full force and effect and is binding upon the Company or its Subsidiary, as applicable, and to the Knowledge of the Company, each other party thereto. With respect to each Lease, and except as would not have a Company Material Adverse Effect, (i) there are no material disputes with respect to such Lease and none of the Company or any of its Subsidiaries or, to the Knowledge of the Company, any other Person, is in breach or violation of, or default under, any Lease and no event has occurred and no circumstance exists which, if not remedied, would result in such a breach, violation or default under any Lease (with or without notice or lapse of time, or both), (ii) except as disclosed in this Agreement, the Company or one of its Subsidiaries has not collaterally assigned or granted any security interest in such Lease or any interest therein, and (iii) the Company or one of its Subsidiaries has valid leasehold estates in the Leased Real Property, free and clear of all Liens (other than Permitted Liens).

(c) *Subleases*. Section 3.14(c) of the Company Disclosure Letter contains a true, correct and complete list as of the date of this Agreement of all of the existing subleases and licenses (each, a "**Sublease**") granting to any Person, other than the Company or any of its Subsidiaries, any right to use or occupy, the Owned Real Property or the Leased Real Property. With respect to each of the Subleases, each Sublease is valid and binding on the Company or each such Subsidiary of the Company party thereto enforceable in accordance with its terms and is in full force and effect. None of the Company, any of its Subsidiaries party thereto or, to the Knowledge of the Company, any other party thereto is in breach of or default pursuant to any such Sublease and no circumstance exists which, if not remedied, would result in such a breach, violation or default under any Sublease (with or without notice or lapse of time, or both), except for such failures to be in full force and effect that would not have, or reasonably be expected to have a Company Material Adverse Effect.

(d) There is no pending or, to the Knowledge of the Company, threatened, appropriation, condemnation or similar proceeding affecting the Owned Real Property or Leased Real Property or any part thereof or interest therein or any sale or other disposition of the Owned Real Property or any part thereof or interest therein in lieu of condemnation.

3.15 *Environmental Matters*. Except as would not have a Company Material Adverse Effect, since January 1, 2019, neither the Company nor any of its Subsidiaries (a) has received any written notice alleging that the Company or any Subsidiary has violated any Environmental Law or is liable under any Environmental Law or regarding Hazardous Substances; (b) has, to the Knowledge of the Company, transported, produced, processed, manufactured, generated, used, treated, handled, stored, released or disposed of or arranged for disposal any Hazardous Substances in violation of or in a manner that would reasonably be expected to result in liability under any applicable Environmental Law, and to the Knowledge of the Company as of the date of this Agreement, Hazardous Substances are not otherwise present at or affecting any of the Owned Real Property or Leased Real Property in amounts or circumstances that would reasonably be expected to require the Company or any of its Subsidiaries to undertake any investigation

or corrective or remedial action under any applicable Environmental Law, or to give rise to any claim against or interfere with the operations of the Company or any of its Subsidiaries; (c) has exposed any employee or any other Person to Hazardous Substances in violation of, or in a manner that would reasonably be expected to result in liability under, any applicable Environmental Law; or (d) is a party to or is the subject of any pending or, to the Knowledge of the Company as of the date of this Agreement, threatened Legal Proceeding (i) alleging the noncompliance by the Company or any of its Subsidiaries with any Environmental Law; or (ii) seeking to impose any financial responsibility for any investigation, cleanup, removal or remediation pursuant to any Environmental Law or regarding Hazardous Substances; or (e) has, to the Knowledge of the Company as of the date of this Agreement, assumed or retained by Contract any liability under Environmental Law or regarding Hazardous Substances.

3.16 *Intellectual Property*; *Privacy and Security*.

Except as would not have a Company Material Adverse Effect:

(a) Section 3.16(a) of the Company Disclosure Letter sets forth a true, correct and complete list as of the date of this Agreement of all material Intellectual Property registrations and applications owned by the Company or its Subsidiaries. All of such registered or issued items are subsisting and unexpired, and to the Knowledge of the Company, valid and enforceable as of the date of this Agreement.

(b) The Company and its Subsidiaries are the sole owners of the Company Intellectual Property, free and clear of all Liens other than Permitted Liens. All Persons who have contributed to the creation, invention or development of any Company Intellectual Property have assigned in writing to the Company their rights and interests therein that do not initially vest with the Company by operation of Law.

(c) (i) Neither the Company nor any of its Subsidiaries is under any obligation to license (or grant any other rights in) any Company Intellectual Property to any Governmental Authority or any educational or research institution because it has received funding or other resources or assistance from any such Persons to develop such Company Intellectual Property and (ii) each of the Company and its Subsidiaries are not and have not been a member of, participant in or contributor to (or bound by) any standards-setting organization or patent pool that requires the Company or any of its Subsidiaries to license, release, covenant not to assert or make available any Company Intellectual Property to any other Person.

(d) (i) The business of the Company and its Subsidiaries as currently conducted does not infringe, violate or misappropriate the Intellectual Property other than patents (or to the Knowledge of the Company, patents) of any Person, and has not done so since January 1, 2019, and (ii) to the Knowledge of the Company, no Person is materially infringing, violating or misappropriating any Company Intellectual Property.

(e) Since January 1, 2019, neither the Company nor any of its Subsidiaries has received written notice (including cease and desist letters and invitations to take a patent license) from any Person (i) alleging that the operation of the business of the Company or any of its Subsidiaries infringes, violates or misappropriates its Intellectual Property or (ii) otherwise challenging the ownership, validity or enforceability of any Company Intellectual Property.

(f) The Company and each of its Subsidiaries have (i) taken commercially reasonable efforts to protect their confidential information and trade secrets or confidential information received from third Persons under an obligation of confidentiality and (ii) required all Persons (other than employees, counsel or other third parties who are already bound by confidentiality obligations) who have been provided with access to any trade secrets or material confidential information to be bound by reasonable confidentiality agreements. Since January 1, 2019, the Company and each of its Subsidiaries have used commercially reasonable efforts to qualify, in all material respects, for protection under the "safe harbors" of 17 U.S.C. § 512 and 47 U.S.C. § 230.

(g) No Person possesses (or has any current or contingent rights to access or possess) any source code owned by Company or its Subsidiaries, other than employees and contractors performing services

for the Company, for use solely in connection with performing such services and subject to reasonable confidentiality agreements.

(h) The Company and its Subsidiaries have not distributed, licensed, conveyed, released or made available to any Person any proprietary software that is, in whole or in part, subject to or governed by a Specified OSS License in a manner that, based on the Company's or its Subsidiaries' use of such software governed by such Specified OSS License would require (i) the disclosure, licensing or distribution of any material proprietary source code owned by the Company or its Subsidiaries or (ii) that such material proprietary source code be made available at no charge or otherwise licensed to third parties for the purpose of making derivative works.

(i) (i) The IT Assets owned or leased by the Company and its Subsidiaries are in good working order and are sufficient to operate its business as currently conducted; (ii) all Company Products and IT Assets owned or leased by the Company and its Subsidiaries: (A) have written documentation with respect to their proper maintenance, support and improvement that is accurate and complete in all material respects; (B) function in accordance with their specifications, documentation and/or intended purpose; and (C) to the Knowledge of the Company, are free from defects, deficiencies, vulnerabilities, errors, disabling mechanisms, viruses, time locks, Trojan horses, malware or other contaminants or corruptants; and (iii) the Company Products and such IT Assets are tested regularly by the Company and its Subsidiaries with respect to the items in clause (C) and all material problems are promptly corrected.

(j) (i) The Company and its Subsidiaries take reasonable actions to protect, maintain, audit, monitor and test the confidentiality, integrity, availability, redundancy, backup, continuous operation and security of the Company Products and IT Assets used in their businesses (and all data, including all Personal Data, Processed in connection with their businesses), and (ii) since January 1, 2019, to the Knowledge of the Company, there have been no breaches, violations, interruptions, outages, unauthorized uses of or unauthorized access to any of the foregoing, other than those that were resolved without material cost, liability or the duty to notify any Person.

(k) Where required under applicable Privacy Laws or Privacy Policies, the Company has valid consents from users of Company Products or other valid legal bases for (i) the Company or its contractors to Process their Personal Data in connection with such Company Product and to transfer such information for Processing in connection with other products, services, solutions or platforms of the Company and (ii) Parent and its other Subsidiaries to receive such Personal Data on and after the Closing Date and to Process same consistent with the Company's receipt and Processing of such information prior to the Closing Date.

(l) Where required under applicable Privacy Laws or Privacy Policies, the Company responds in a timely and proper manner to all valid requests and complaints by individuals under applicable Privacy Laws or Privacy Policies with respect to their Personal Data, and there are no claims or Legal Proceedings alleging otherwise.

3.17 *Tax Matters.*

(a) Except as would not reasonably be expected to result in material liability to the Company and its Subsidiaries:

(i) The Company and each of its Subsidiaries have timely filed all income and other material United States federal, state, local and non-United States returns, declarations, estimates, information statements and reports (including amendments thereto) relating to any and all Taxes ("**Tax Returns**") required to be filed by or with respect to any of them, and all such Tax Returns (i) were prepared in compliance with all applicable Laws and (ii) are true, correct, and complete in all material respects. Neither the Company nor any of its Subsidiaries is currently the beneficiary of any extension of time to file any Tax Return that has not been filed.

(ii) The Company and each of its Subsidiaries have timely paid all Taxes due and payable by any of them (whether or not such Taxes were reflected on any Tax Return). The unpaid Taxes of the Company and its Subsidiaries did not, as of the date of the Audited Company Balance Sheet,

exceed the amount accrued for current Taxes payable (for clarity, excluding any deferred Tax liabilities established to reflect timing differences between book and Tax income) set forth on the face of the Audited Company Balance Sheet (rather than in any notes thereto).

(iii) The Company and each of its Subsidiaries have (i) withheld all Taxes required to be withheld by any of them in respect of all payments to employees, officers, managers, directors, and any other Persons and (ii) timely remitted all such Taxes withheld to the appropriate Governmental Authorities in accordance with applicable Laws.

(iv) There are no material Tax Contests pending or being conducted. Neither the Company nor any of its Subsidiaries has received from any Governmental Authority any (A) notice indicating an intent to commence any Tax Contest, or (B) notice of deficiency, proposed adjustment, notice of assessment, or notice of Lien with respect to Taxes (whether claimed, proposed, asserted, or assessed). No Governmental Authority in a jurisdiction where the Company or its Subsidiaries do not file Tax Returns has made any claim that any of the Company or its Subsidiaries is or may be subject to Tax in that jurisdiction.

(v) Neither the Company nor any of its Subsidiaries will be required to include any item of income in, or exclude any item of deduction from, income for any Tax period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting made on or prior to the Closing Date pursuant to Section 481(a) of the Code (or any comparable provision of other applicable Law) or (ii) closing agreement described in Section 7121 of the Code (or any comparable provision of other applicable Law)

(b) *No Tax Liens*. There are no Liens for Taxes upon any asset of the Company or its Subsidiaries, except for Taxes not yet due and payable. There are no claimed, proposed, or asserted material Tax deficiencies or assessments of material Tax with respect to the Company or its Subsidiaries that have not been fully paid.

(c) *No Waiver*. Neither the Company nor any of its Subsidiaries has entered into or requested any agreement to extend or waive the statutory period of limitations for the assessment or collection of any material Taxes. Neither the Company nor any of its Subsidiaries has received, or requested any private letter rulings from the Internal Revenue Service (or any comparable Tax rulings from any other Governmental Authority).

(d) *Affiliated Groups*. During the past ten (10) years, neither the Company nor any of its Subsidiaries is or has ever been a member of any Tax Group, other than a Tax Group the common parent of which is the Company or one of its Subsidiaries. Neither the Company nor any of its Subsidiaries has any liability for Taxes of any other Person (other than the Company or its Subsidiaries) (i) as a result of being or ceasing to be a member of any Tax Group (including any liability under Treasury Regulation Section 1.1502-6 or any comparable provision of other applicable Law) or (ii) by operation of Law, by reason of being a successor or transferee.

(e) *No Tax Sharing Agreements*. Neither the Company nor any of its Subsidiaries is party to or bound by any contract, agreement, or other arrangement regarding the sharing or allocation of either liability for Taxes or payment of Taxes (excluding commercial agreements entered into with third parties in the ordinary course of business, the principal purpose of which is not related to Taxes).

(f) *Spin-offs*. Within the last two (2) years, neither the Company nor any of its Subsidiaries has been either a "distributing corporation" or a "controlled corporation" within the respective meanings of such terms under Section 355(a)(1)(A) of the Code in a distribution of stock qualifying under Section 355 of the Code.

(g) *No Listed Transactions*. Neither the Company nor any of its Subsidiaries has (i) "participated" within the meaning of Treasury Regulation Section 1.6011-4(c)(3) in any "listed transaction" within the meanings of such terms under Section 6707A(c) of the Code or (ii) entered into or engaged in any other transaction requiring disclosure under a comparable provision of other applicable Law.

(h) Section 3.17(h) of the Company Disclosure Letter sets forth the Company's expected future payments due to its election pursuant to Section 965(h) of the Code.

(i) *Tax Incentive Agreement.* Neither the Company nor any of its Subsidiaries is the beneficiary of any material Tax exemption, Tax holiday or other Tax incentive agreement or order.

(j) *CARES Act*. Neither the Company nor any of its Subsidiaries has deferred the employer's share of any "applicable employment taxes" under Section 2302 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

(k) None of Company, Parent, or any Affiliate of Parent will be obligated to pay or reimburse any Person for any Taxes imposed under Code Section 4999 (or any comparable provision of other applicable Law) as a result of the consummation of the transactions contemplated by this Agreement, either alone or in connection with any other event.

(l) Except as would not have a Company Material Adverse Effect (x) (i) No Company Option (or other right to acquire any Company Share) is or has ever been a "nonqualified deferred compensation plan" within the meaning of Code Section 409A(d)(1) and (ii) all Employee Plans that are "nonqualified deferred compensation plans" within the meaning of Code Section 409A(d)(1) satisfy the requirements of Code Sections 409A(a)(2), 409A(a)(3), and 409A(a)(4) and the guidance thereunder and have been operated in accordance with such requirements.

(m) It is agreed and understood that no representation or warranty is made by the Company in this Agreement in respect of any Tax matter, other than the representations and warranties set forth in Section 3.18 and this Section 3.17.

3.18 *Employee Plans*.

(a) *Employee Plans*. Section 3.18(a) of the Company Disclosure Letter sets forth a true, correct and complete list of all material Employee Plans. For purposes of this Agreement, the term "**Employee Plans**" means (i) all "employee benefit plans" (within the meaning of Section 3(3) of ERISA), whether or not subject to ERISA, including multiemployer plans within the meaning of Section 3(37) of ERISA; and (ii) all other employment, bonus, stock option, stock purchase or other equity-based, benefit, incentive compensation, profit sharing, savings, retirement, disability, insurance, vacation, deferred compensation, severance, termination, retention, change of control, employee loan, and other similar fringe, welfare or other compensation or employee benefit plans, programs, agreements, contracts, policies or arrangements (whether or not in writing) (A) that are sponsored, maintained or contributed to (or required to be contributed to) for the benefit of any current or former employee, director or independent contractor of the Company, any of its Subsidiaries or any other trade or business (whether or not incorporated) that would be treated as a single employer with the Company or any of its Subsidiaries pursuant to Section 414 of the Code (an "**ERISA Affiliate**"); or (B) with respect to which the Company or any of its Subsidiaries has any current liability, contingent or otherwise, in each case, other than any plan, program or arrangement maintained by a Governmental Authority to which the Company or any of its Subsidiaries is required to contribute pursuant to applicable Law. With respect to each material Employee Plan, other than a material International Employee Plan, to the extent applicable, the Company has made available to Parent true, correct and complete copies of (or, to the extent no such copy exists, an accurate description thereof, to the extent applicable) (1) the most recent annual report on Form 5500 required to have been filed with the IRS for each such Employee Plan, including all schedules thereto and any audited financial statements and actuarial valuation reports; (2) the most recent determination letter, if any, from the IRS for any such Employee Plan that is intended to qualify pursuant to Section 401(a) of the Code or, if such Employee Plan is a prototype plan, the opinion or notification letter which covers each such Employee Plan, if applicable; (3) the plan documents, including all amendments thereto, and summary plan descriptions and summaries of material modifications; (4) any related trust agreements, insurance contracts, insurance policies or other documents of any funding arrangements; (5) any notices to or from the IRS or any office or representative of the United States Department of Labor or any similar Governmental Authority relating to any material compliance issues in respect of any such Employee Plan; and (6) to the extent available, copies of any Code Section 280G calculations prepared (whether or not final) with respect to any employee, director or

independent contractor of the Company or any of its Subsidiaries in connection with the transactions contemplated by this Agreement (together with the underlying documentation on which such calculations were based). With respect to each material Employee Plan that is maintained in any non-United States jurisdiction or covers any employee residing or working outside the United States (each, whether or not material, an "**International Employee Plan**"), to the extent applicable, the Company has made available to Parent true, correct and complete copies of (a) the most recent annual report or similar compliance documents required to be filed with any Governmental Authority with respect to such plan; (b) any document comparable to the determination letter referenced pursuant to clause (2) above issued by a Governmental Authority relating to the satisfaction of Law necessary to obtain the most favorable tax treatment, (c) the plan documents, including all amendments thereto, and any legally required summaries thereof; (d) any related trust agreements, insurance contracts, insurance policies or other documents of any funding arrangements; and (e) any notices to or from any Governmental Authority relating to any material compliance issues in respect of any such International Employee Plan.

(b) *Absence of Certain Plans*. Neither the Company, it Subsidiaries nor any of their respective ERISA Affiliates has in the six (6) years preceding the date hereof maintained, sponsored, contributed to (or had an obligations to contribute to) or otherwise had any liability with respect to or currently maintains, sponsors or participates in, contributes to (or has an obligation to contribute to) or otherwise has any liability with respect to, (i) a "multiemployer plan" (within the meaning of Section 3(37) of ERISA); (ii) a "multiple employer plan" subject to Section 413 of the Code or Section 4063 or Section 4064 of ERISA; or (iii) a defined benefit pension plan or plan subject to Section 302 of Title I of ERISA, Section 412 of the Code or Section 4971 of the Code or Title IV of ERISA.

(c) *Compliance*. Except as would not have a Company Material Adverse Effect, each Employee Plan has been established, maintained, funded, operated and administered in compliance in all respects with its terms and with the requirements of all applicable Laws, including the applicable provisions of ERISA, the Code and any applicable regulatory guidance issued by any Governmental Authority.

(d) *Tax Qualified Status*. Except as would not have a Company Material Adverse Effect, each Employee Plan which is intended to be qualified within the meaning of Section 401(a) of the Code is so qualified and has received a favorable determination letter as to its qualification, or if such Employee Plan is a prototype plan, the opinion or notification letter for each such Employee Plan and nothing has occurred, whether by action or failure to act, that would reasonably be expected to cause the loss of such qualification.

(e) *Employee Plan Liabilities*. Except as would not have a Company Material Adverse Effect, no event has occurred and no condition exists that would subject the Company or any of its Subsidiaries, either directly or by reason of their affiliation with any ERISA Affiliate, to any Tax, fine, Lien, penalty or other liability imposed by ERISA, the Code or any other applicable Law.

(f) *Employee Plan Legal Proceedings*. Except as would not have a Company Material Adverse Effect, (i) there are no Legal Proceedings pending or threatened on behalf of or against any Employee Plan, the assets of any trust pursuant to any Employee Plan, or the plan sponsor, plan administrator or any fiduciary of any Employee Plan with respect to the administration or operation of such plans, other than routine claims for benefits in the ordinary course that have been or are being handled through an administrative claims procedure; and (ii) no facts or circumstances exist that would reasonably be expected to give rise to any such Legal Proceedings.

(g) *No Prohibited Transactions*. Except as would not have a Company Material Adverse Effect, none of the Company, any of its Subsidiaries nor any of their respective directors, officers, employees or agents, has, with respect to any Employee Plan, engaged in or been a party to any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) that would reasonably be expected to result in the imposition of a penalty assessed pursuant to Section 502(i) of ERISA or a Tax imposed by Section 4975 of the Code, in each case applicable to the Company, any of its Subsidiaries or any Employee Plan, or for which the Company or any of its Subsidiaries has any indemnification obligation.

(h) *No Welfare Benefit Plan*. Except as would not have a Company Material Adverse Effect, no Employee Plan that is a "welfare benefit plan" (within the meaning of Section 3(1) of ERISA) provides post-termination or retiree life insurance, health or other welfare benefits or coverage to any person, except as may be required by Section 4980B of the Code or any similar Law.

(i) *Employee Plans Impacted by Merger; Section 280G*. No Employee Plan exists that, as a result of the execution of this Agreement, shareholder approval of this Agreement, or the transactions contemplated by this Agreement (whether alone or in connection with any subsequent event(s)) would reasonably be expected to: (i) entitle any current or former employee, director, officer or independent contractor of the Company or any of its Subsidiaries (each, a "**Company Employee**") to severance pay, unemployment compensation or any other payment or benefit, (ii) accelerate the time of payment or vesting, or increase the amount of, any compensation or benefit due to any Company Employee, (iii) directly or indirectly cause the Company to transfer or set aside any assets to fund any benefits under any Employee Plan, or (iv) result in any payment or benefit that either alone or together with any other payments or benefits, constitutes or could reasonably be expected to constitute a "parachute payment" within the meaning of Code Section 280G(b)(2) (or any comparable provision of other applicable Law).

(j) *International Employee Plans*. Except as would not have a Company Material Adverse Effect, (i) each International Employee Plan has been established, maintained, funded, operated and administered in compliance in all respects with its terms and conditions and with the requirements prescribed by any applicable Laws and (ii) each International Employee Plan which is required or approved by any Governmental Authority has been so registered and approved and has been maintained in good standing with applicable requirements of the Governmental Authorities, and, if intended to qualify for special tax treatment, there are no existing circumstances or events that have occurred or that would reasonably be expected to affect adversely the special tax treatment with respect to such International Employee Plans. Furthermore, no International Employee Plan has unfunded liabilities that as of the Effective Time will not be offset by insurance or fully accrued. Except as would not have a Company Material Adverse Effect, no condition exists that would prevent the Company or any of its Subsidiaries from terminating or amending any International Employee Plan at any time for any reason without liability to the Company or its Subsidiaries (other than ordinary notice and administration requirements and expenses or routine claims for benefits).

(k) *No New Employee Plans*. Except as provided herein or in the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has any plan or commitment to materially amend any Employee Plan or establish any new employee benefit plan or to materially increase any benefits pursuant to any Employee Plan.

3.19 *Labor and Employment Matters*.

(a) *Union Activities*. Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement, labor union contract, trade union agreement or similar employee representative agreement, other than at the national, industry or sector level (each, a "**Collective Bargaining Agreement**"), and no employees of the Company or any of its Subsidiaries are members of a labor union, trade union, works council or any similar labor organization with regard to their employment with the Company or any of its Subsidiaries. To the Knowledge of the Company, there are no pending activities or proceedings of any labor union, trade union, works council or any similar labor organization to organize any employees of the Company or any of its Subsidiaries with regard to their employment with the Company or any of its Subsidiaries. No Collective Bargaining Agreement is being negotiated by the Company or any of its Subsidiaries. There is no strike, lockout, material slowdown, or material work stoppage against the Company or any of its Subsidiaries pending or, to the Knowledge of the Company, threatened directly against the Company or any of its Subsidiaries. There is no material unfair labor practice complaint pending or, to the Knowledge of the Company, threatened before the National Labor Relations Board with respect to any employee of the Company or any of its Subsidiaries. Except as would not have a Company Material Adverse Effect, the transactions contemplated by this Agreement will not trigger any legally required information, notification, consultation or other requirements with respect to any labor union, works council or other employee representative body.

(b) *Employment Law Compliance*. Except as would not have a Company Material Adverse Effect, the Company and its Subsidiaries are in compliance and have complied since January 1, 2019 with applicable Laws and orders (and since January 1, 2018 with respect to applicable California Laws), in each case, with respect to employment (including applicable Laws, rules and regulations regarding wage and hour requirements, immigration status, discrimination in employment, employee health and safety, collective bargaining and material contractual requirements pertaining to personally identifiable information). Neither the Company nor any of its Subsidiaries are bound by any current or pending consent decree with any Governmental Authority arising out of any employment or labor issues, and, to the Knowledge of the Company, no such decree has been threatened.

(c) *Legal Proceedings*. Except as would not have a Company Material Adverse Effect, there are no Legal Proceedings pending, or, to the Knowledge of the Company, threatened between the Company or any of its Subsidiaries and any of its or their current or former employees, or independent contractors, or any trade or labor union, works council or similar labor organization.

(d) *WARN Matters*. Neither the Company nor any of its Subsidiaries has effectuated a "plant closing" or "mass layoff" as those terms are defined in WARN, affecting in whole or in part any site of employment, facility, operating unit or employee of the Company, in each case, located in the United States, without complying with all provisions of WARN, or implemented any early retirement program, in each case, within the 24 months prior to the date of this Agreement, nor, as of the date of this Agreement, has the Company nor any of its Subsidiaries announced any such action or program for the future.

(e) *Withholding*. Except as would not have a Company Material Adverse Effect, the Company and each of its Subsidiaries have (i) withheld, since January 1, 2019, all amounts required by applicable Law (and since January 1, 2018, all amounts required by applicable California Law) to be withheld from the wages, salaries and other payments to employees, and (ii) are not liable for any arrears of wages or any Taxes or any penalty for failure to comply with any of the foregoing. Neither the Company nor any of its Subsidiaries is liable for any material payment to any trust or other fund or to any Governmental Authority with respect to unemployment compensation benefits, social security or other benefits for employees (other than routine payments to be made in the ordinary course of business).

(f) *No Allegations of Sexual Harassment, Sexual Misconduct or Retaliation*. To the Knowledge of the Company, the Company and each of its Subsidiaries have not been party to a material settlement agreement entered into since January 1, 2018 with a current or former officer or employee resolving material allegations of sexual harassment, sexual misconduct or retaliation for making a claim of sexual harassment or sexual misconduct, in each case, that was alleged to have occurred on or after January 1, 2018 in the United States, by either a current (i) officer of the Company or any of its Subsidiaries; or (ii) employee of the Company or any of its Subsidiaries holding a position at or above the level of Senior Vice President. There are no, and since January 1, 2018, there have not been any, material allegations of sexual harassment, sexual misconduct or retaliation for making a claim of sexual harassment or sexual misconduct, in each case, that was alleged to have occurred on or after January 1, 2018 in the United States, by or against any current director, officer or employee holding a position at or above the level of Senior Vice President, in each case, of the Company or any of its Subsidiaries.

3.20 *Permits*. Except as would not have a Company Material Adverse Effect, the Company and its Subsidiaries hold all permits, licenses, registrations, variances, clearances, consents, commissions, franchises, exemptions, orders and approvals from Governmental Authorities ("**Permits**") that are required for the operation of the business of the Company and its Subsidiaries as currently conducted. The Company and its Subsidiaries comply with the terms of all Permits except as would not have a Company Material Adverse Effect, no suspension, cancellation, non-renewal or adverse modification of any of the Permits is pending or, to the Knowledge of the Company, threatened, except for such noncompliance, suspensions, cancellations, non-renewals or adverse modifications that would not have a Company Material Adverse Effect. Except as would not have a Company Material Adverse Effect, all Permits are in full force and effect.

3.21 *Compliance with Laws*.

(a) *General Compliance*. Except as would not have a Company Material Adverse Effect, since January 1, 2019, the Company and each of its Subsidiaries, and all directors, officers, and to the

Knowledge of the Company, employees, agents, or other third parties, in each case, acting on behalf of the Company and its Subsidiaries, have been, and their business and operations have been conducted in compliance with all, and they have not received written notice of any default or violation of any, Laws, Industry Standards and Privacy Policies that are applicable to the Company and its Subsidiaries or to the conduct of the business or operations of the Company and its Subsidiaries.

(b) *Prohibited Payments; Anti-Corruption Laws*. Since January 1, 2017, neither the Company, nor any of its Subsidiaries or any director, officer or, to the Knowledge of the Company, employee or agent of the Company or any of its Subsidiaries has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful payments relating to an act by any Governmental Authority in material violation of any applicable Law relating to anti-corruption, bribery or similar matters; (ii) offered or given anything of value to any Government Official or employee, or to any political party or official thereof, or any candidate for foreign political office, or any other Person in material violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or (iii) made any other unlawful payment in material violation of any applicable Law relating to anti-corruption, bribery or similar matters. Since January 1, 2017, neither the Company nor any of its Subsidiaries has disclosed to any Governmental Authority that it violated or may have violated any Law relating to anti-corruption, bribery or similar matters. To the Knowledge of the Company, no Governmental Authority is investigating, examining or reviewing the Company's compliance with any applicable provisions of any Law relating to anti-corruption, bribery or similar matters. Since January 1, 2017, the Company has implemented and maintains in effect policies and procedures reasonably designed to promote compliance by the Company and its Subsidiaries, and their respective directors, officers, and employees with applicable Laws relating to anti-corruption, anti-bribery or similar matters.

(c) *OFAC; Sanctions; Export Controls*. Since January 1, 2017, the Company, its Subsidiaries, their directors and officers, and to the Knowledge of the Company, all agents, employees, Representatives and Affiliates of the Company and its Subsidiaries have been in compliance with applicable sanctions and export controls implemented by the U.S., E.U., U.K., U.N., or other jurisdiction to which the Company or any of its Subsidiaries are subject, including any sanctions or export controls administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"), the Bureau of Industry Security of the U.S. Department of Commerce, the U.S. Department of State, and any sanctions or export control measures under any statute, executive order, directive, or regulation pursuant to the authority of any of the foregoing, or any orders or licenses issued thereunder (collectively, "**Sanctions**"), except as would not reasonably be expected to have a Company Material Adverse Effect. Since January 1, 2017, none of the Company, any of its Subsidiaries or, to the Knowledge of the Company, any director, officer, agent, employee, Representative or Affiliate of the Company or any of its Subsidiaries: (i) has been or is a Person that is the subject or target of Sanctions or designated as a "Specially Designated National" or "Blocked Person" by OFAC, or any other similar designation established pursuant to Sanctions (collectively, "**Sanctioned Persons**"); (ii) has been or is 50% or more owned or controlled by a Sanctioned Person; (iii) has maintained or maintains any assets, employees, operations, or offices located in, or is organized under the Laws of, any country or territory that is the subject or target of comprehensive Sanctions (currently, Cuba, Iran, Syria, North Korea and the Crimea region of Ukraine, collectively, "**Sanctioned Countries**"); or (iv) has participated, to the Knowledge of the Company, in any transaction or business dealing with any Sanctioned Person, except as disclosed in Section 3.21(c) of the Company Disclosure Letter, or in any Sanctioned Country, except as lawful for a U.S. Person. The Company and its Subsidiaries have in place controls reasonably designed to prevent prohibited business with or in Sanctioned Countries.

3.22 *Anti-Money Laundering Laws.* The Company and its Subsidiaries and each of their respective officers and directors, in their capacity as such, and, to the Knowledge of the Company, other Persons acting on behalf of the Company, in their capacity as such have at all times since January 1, 2017 been in material compliance with applicable Anti-Money Laundering Laws. The Company and its Subsidiaries have implemented and maintain in effect policies and procedures reasonably designed to ensure compliance with Anti-Money Laundering Laws by the Company and its Subsidiaries. Since January 1, 2017, (i) the Company and its Subsidiaries have not received from any Governmental Authority any written notice, or inquiry regarding an actual or alleged violation of Anti-Money Laundering Law; or (ii) made any voluntary

or involuntary disclosure to a Governmental Authority regarding an actual or alleged violation of Anti-Money Laundering Laws.

3.23 *Legal Proceedings; Orders.*

(a) *No Legal Proceedings*. There are no Legal Proceedings pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries or against any present or former officer or director of the Company or any of its Subsidiaries in such individual's capacity as such that would have a Company Material Adverse Effect.

(b) *No Orders*. Neither the Company nor any of its Subsidiaries or any of their assets, rights or properties (including Intellectual Property) is subject to any order, writ, judgment, injunction, decree or award of any kind or nature that would (i) prevent or materially delay the consummation of the Merger or the ability of the Company to fully perform its covenants and obligations pursuant to this Agreement or (ii) have a Company Material Adverse Effect.

(c) *No Product Liability*. Except as would not have a Company Material Adverse Effect, since January 1, 2019, there have not been any claims or allegations made in writing made to the Company or its Subsidiaries with respect to any Company Products under any theory of tort liability, including strict liability, product liability, defects, errors, failure to warn, negligence, warranty or indemnity, other than individual requests for customer support or customer complaints in the ordinary course of business. Except as would not have a Company Material Adverse Effect, the Company and its Subsidiaries comply with all Industry Standards and take commercially reasonable actions to monitor, police and terminate user misconduct that occurs in connection with the use of any Company Products.

3.24 *Insurance*.

(a) *Policies and Programs*. Except as would not have a Company Material Adverse Effect, each of the insurance policies and all self-insurance programs and arrangements which have been bound in the last twelve (12) months relating to the business, assets and operations of the Company and its Subsidiaries is in full force and effect.

(b) *No Cancellation*. As of the date of this Agreement, except as would not have a Company Material Adverse Effect, since January 1, 2019, neither the Company nor any of its Subsidiaries have received any written notice regarding any cancellation or invalidation of any material insurance policy other than in connection with ordinary renewals. All premiums due with respect to such material insurance policies have been paid in accordance with the terms thereof.

3.25 *Related Person Transactions*. Except for compensation or other employment arrangements in the ordinary course of business, there are, and since January 1, 2019, there have been, no Contracts, transactions, arrangements or understandings between the Company or any of its Subsidiaries, on the one hand, and any Affiliate (including any director, officer or employee) thereof or any holder of 5% or more of the shares of Company Common Stock, but not including any wholly owned Subsidiary of the Company, on the other hand, that would be required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC in the Company's Form 10-K or proxy statement pertaining to an annual meeting of stockholders.

3.26 *Brokers*. Other than Allen & Company, there is no financial advisor, investment banker, broker, finder, agent or other Person that has been retained by or is authorized to act on behalf of the Company or any of its Subsidiaries, or any officer, director or employee thereof, or any other Person who is entitled to any financial advisor, investment banking, brokerage, finder's or other fee or commission from the Company or its Subsidiaries, in each case in connection with the Merger. A copy of the Company's engagement letter with Allen & Company in connection with the Merger has been made available to Parent.

3.27 *Exclusivity of Representations and Warranties*.

(a) *No Other Representations and Warranties*. The Company, on behalf of itself and its Subsidiaries, acknowledges and agrees that, except for the representations and warranties expressly set forth in Article IV:

(i) neither Parent or Merger Sub nor any of their respective Subsidiaries (or any other Person) makes, or has made, any representation or warranty relating to Parent or Merger Sub, their Subsidiaries or any of their businesses, operations or otherwise in connection with this Agreement or the Merger;

(ii) no Person has been authorized by Parent or Merger Sub, any of their Subsidiaries or any of their respective Affiliates or Representatives to make any representation or warranty relating to Parent or Merger Sub, their respective Subsidiaries or any of their businesses or operations or otherwise in connection with this Agreement or the Merger, and if made, such representation or warranty must not be relied upon by the Company or any of its Affiliates or Representatives as having been authorized by Parent or Merger Sub, any of their respective Subsidiaries or any of their Affiliates or Representatives (or any other Person); and

(iii) the representations and warranties made by Parent or Merger Sub in this Agreement are in lieu of and are exclusive of all other representations and warranties, including any express or implied or as to merchantability or fitness for a particular purpose, and each of Parent and Merger Sub hereby disclaims any other or implied representations or warranties, notwithstanding the delivery or disclosure to the Company or any of its Affiliates or Representatives of any documentation or other information (including any financial information, supplemental data or financial projections or other forward-looking statements).

(b) *No Reliance*. The Company, on behalf of itself and its Subsidiaries, acknowledges and agrees that, except for the representations and warranties expressly set forth in Article IV, it is not acting (including, as applicable, by entering into this Agreement or consummating the Merger) in reliance on:

(i) any representation or warranty, express or implied;

(ii) any estimate, projection, prediction, data, financial information, memorandum, presentation or other materials or information provided or addressed to the Company or any of its Affiliates or Representatives, in connection with presentations by or discussions with Parent's management whether prior to or after the date of this Agreement or in any other forum or setting; or

(iii) the accuracy or completeness of any other representation, warranty, estimate, projection, prediction, data, financial information, memorandum, presentation or other materials or information.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

With respect to any Section of this Article IV, except (a) as disclosed in the reports, statements and other documents filed by Parent with the SEC or furnished by Parent to the SEC, in each case pursuant to the Exchange Act on or after July 1, 2021, and at least twenty-four (24) hours prior to the date of this Agreement (other than any disclosures contained or referenced therein under the captions "Risk Factors," "Note About Forward-Looking Statements," "Quantitative and Qualitative Disclosures About Market Risk" and any other disclosures contained or referenced therein of information, factors or risks that are predictive, cautionary or forward-looking in nature) (the "**Parent Recent SEC Reports**") (it being understood that (i) any matter disclosed in any Parent Recent SEC Report will be deemed to be disclosed in a section of the Parent Disclosure Letter only to the extent that it is reasonably apparent from such disclosure in such Parent Recent SEC Report that it is applicable to such section of the Parent Disclosure Letter and (ii) this clause (a) will not apply to any of Section 4.2 or Section 4.8); or (b) as set forth in the Parent Disclosure Letter, Parent and Merger Sub hereby represent and warrant to the Company as follows:

4.1 *Organization; Good Standing*.

(a) *Parent*. Parent (i) is duly organized, validly existing and in good standing pursuant to the Laws of its jurisdiction of organization; and (ii) has the requisite power and authority to conduct its business as it is presently being conducted and to own, lease or operate its properties and assets, except

where the failure to be in such good standing, or to have such power or authority, would not prevent or materially delay the ability of Parent to consummate the Merger.

(b) *Merger Sub*. Merger Sub (i) is a corporation duly organized, validly existing and in good standing pursuant to the DGCL; and (ii) has the requisite corporate power and authority to conduct its business as it is presently being conducted and to own, lease or operate its properties and assets, except where the failure to be in such good standing, or to have such power or authority, would not prevent or materially delay the ability of Merger Sub to consummate the Merger. Merger Sub has been formed solely for the purpose of engaging in the Merger and, prior to the Effective Time, Merger Sub will not have engaged in any other business activities and will have incurred no material liabilities or obligations other than as contemplated by this Agreement. Parent or a direct or indirect Subsidiary of Parent is the sole record and beneficial stockholder of Merger Sub.

(c) *Organizational Documents*. Parent has made available to the Company true, correct and complete copies of the articles of incorporation, bylaws and other similar organizational documents of Parent and Merger Sub, each as amended to date. Neither Parent nor Merger Sub is in violation of its articles of incorporation, bylaws or other similar organizational document, except where the failure to be in such good standing, or to have such power or authority, would not prevent or materially delay the ability of Parent and Merger Sub to consummate the Merger. The articles of incorporation, bylaws or other similar organizational document of Parent and Merger Sub are in full force and effect on the date of this Agreement.

4.2 *Corporate Power; Enforceability*. Each of Parent and Merger Sub has the requisite power and authority to (a) execute and deliver this Agreement; (b) perform its covenants and obligations hereunder; and (c) consummate the Merger. The execution and delivery of this Agreement by each of Parent and Merger Sub, the performance by each of Parent and Merger Sub of its respective covenants and obligations hereunder and the consummation of the Merger have been duly authorized by all necessary action on the part of each of Parent and Merger Sub and, other than the adoption of this Agreement by Parent or the applicable direct or indirect Subsidiary of Parent immediately following the execution and delivery of this Agreement in its capacity as sole stockholder of Merger Sub in accordance with applicable Law and the certificate of incorporation and bylaws of Merger Sub, no additional actions on the part of Parent or Merger Sub are necessary to authorize (i) the execution and delivery of this Agreement by each of Parent and Merger Sub; (ii) the performance by each of Parent and Merger Sub of its respective covenants and obligations hereunder; or (iii) the consummation of the Merger or the other transactions contemplated by this Agreement (other than the filing with the Secretary of State of the State of Delaware of the Certificate of Merger as required by the DGCL). This Agreement has been duly executed and delivered by each of Parent and Merger Sub and, assuming the due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting or relating to creditors' rights generally; and (B) is subject to laws governing specific performance, injunctive relief and other equitable remedies and general principles of equity.

4.3 *Non-Contravention*. The execution and delivery of this Agreement by each of Parent and Merger Sub, the performance by each of Parent and Merger Sub of their respective covenants and obligations hereunder, and the consummation of the Merger do not (a) violate or conflict with any provision of the certificate of incorporation, bylaws or other similar organizational documents of Parent or Merger Sub; (b) violate, conflict with, result in the breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) pursuant to, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration pursuant to any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or Merger Sub is a party; (c) assuming the consents, approvals and authorizations referred to in Section 4.4 have been obtained, violate or conflict with any Law applicable to Parent or Merger Sub; or (d) result in the creation of any Lien (other than Permitted Liens) upon any of the material properties or material assets of Parent or Merger Sub, except in the case of each of clauses (b), (c) and (d) for such violations, conflicts, breaches, defaults, terminations, accelerations or Liens that would not, individually or in the aggregate, prevent or materially delay the consummation of the Merger.

4.4 *Requisite Governmental Approvals*. No Consent of any Governmental Authority is required on the part of Parent, Merger Sub or any of their Affiliates in connection with the (a) execution and delivery of this Agreement by each of Parent and Merger Sub; (b) performance by each of Parent and Merger Sub of their respective covenants and obligations pursuant to this Agreement; or (c) consummation of the Merger, except (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware; (ii) such filings and approvals as may be required by any federal or state securities Laws, including compliance with any applicable requirements of the Exchange Act; (iii) compliance with any applicable requirements of the HSR Act and any applicable foreign Antitrust Laws or Foreign Investment Laws, including the approvals set forth in Section 7.1(b) and Section 7.1(c) of the Company Disclosure Letter; (iv) the rules of NASDAQ and (v) such other Consents the failure of which to obtain would not, individually or in the aggregate, prevent or materially delay the consummation of the Merger.

4.5 *Legal Proceedings; Orders*.

(a) *No Legal Proceedings*. As of the date of this Agreement, there are no Legal Proceedings pending or, to the Knowledge of Parent or any of its Affiliates, threatened against Parent or Merger Sub that would, individually or in the aggregate prevent or materially delay the consummation of the Merger or the ability of Parent and Merger Sub to fully perform their respective covenants and obligations pursuant to this Agreement.

(b) *No Orders*. Neither Parent nor Merger Sub is subject to any order of any kind or nature that would prevent or materially delay the consummation of the Merger.

4.6 *Ownership of Company Common Stock*. Neither Parent nor Merger Sub is (or has been during the two years prior to the date of this Agreement) an "interested stockholder" (as defined in Section 203 of the DGCL) of the Company, assuming that the representations of the Company set forth in Section 3.3(c) are true and correct.

4.7 *Brokers*. There is no financial advisor, investment banker, broker, finder, agent or other Person that has been retained by or is authorized to act on behalf of Parent, Merger Sub or any of their Affiliates who is entitled to any financial advisor, investment banking, brokerage, finder's or other fee or commission for which the Company would be liable in connection with the Merger.

4.8 *No Parent Vote or Approval Required*. No vote or consent of the holders of any capital stock of, or other equity or voting interest in, Parent is necessary to approve this Agreement and the Merger. The vote or consent of Parent, as the sole stockholder of Merger Sub, is the only vote or consent of the capital stock of, or other equity interest in, Merger Sub necessary to adopt and approve this Agreement and the Merger.

4.9 *Sufficient Funds*. Parent has available and will have available at the Effective Time the funds necessary for the payment of all amounts payable pursuant to Article II in connection with or as a result of the Merger.

4.10 *Exclusivity of Representations and Warranties*.

(a) *No Other Representations and Warranties*. Each of Parent and Merger Sub, on behalf of itself and its Subsidiaries, acknowledges and agrees that, except for the representations and warranties expressly set forth in Article III:

(i) neither the Company nor any of its Subsidiaries (or any other Person) makes, or has made, any representation or warranty relating to the Company, its Subsidiaries or any of their businesses, operations or otherwise in connection with this Agreement or the Merger;

(ii) no Person has been authorized by the Company, any of its Subsidiaries or any of its or their respective Affiliates or Representatives to make any representation or warranty relating to the Company, its Subsidiaries or any of their businesses or operations or otherwise in connection with this Agreement or the Merger, and if made, such representation or warranty must not be relied upon by Parent, Merger Sub or any of their respective Affiliates or Representatives as having been authorized by the Company, any of its Subsidiaries or any of its or their respective Affiliates or Representatives (or any other Person); and

(iii) the representations and warranties made by the Company in this Agreement are in lieu of and are exclusive of all other representations and warranties, including any express or implied or as to merchantability or fitness for a particular purpose, and the Company hereby disclaims any other or implied representations or warranties, notwithstanding the delivery or disclosure to Parent, Merger Sub or any of their respective Affiliates or Representatives of any documentation or other information (including any financial information, supplemental data or financial projections or other forward-looking statements).

(b) *No Reliance*. Each of Parent and Merger Sub, on behalf of itself and its Subsidiaries, acknowledges and agrees that, except for the representations and warranties expressly set forth in Article III, it is not acting (including, as applicable, by entering into this Agreement or consummating the Merger) in reliance on:

(i) any representation or warranty, express or implied;

(ii) any estimate, projection, prediction, data, financial information, memorandum, presentation or other materials or information provided or addressed to Parent, Merger Sub or any of their respective Affiliates or Representatives, including any materials or information made available in the electronic data room hosted by or on behalf of the Company in connection with the Merger, in connection with presentations by or discussions with the Company's management whether prior to or after the date of this Agreement or in any other forum or setting; or

(iii) the accuracy or completeness of any other representation, warranty, estimate, projection, prediction, data, financial information, memorandum, presentation or other materials or information.

ARTICLE V
INTERIM OPERATIONS OF THE COMPANY

5.1 *Affirmative Obligations*. Except (a) as expressly contemplated by this Agreement; (b) as set forth in Section 5.1 or Section 5.2 of the Company Disclosure Letter; (c) as contemplated by Section 5.2; (d) as approved by Parent (which approval will not be unreasonably withheld, conditioned or delayed); or (e) as required by applicable Law or the regulations or requirements of any stock exchange or regulatory organization applicable to the Company or any of its Subsidiaries, at all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will, and will cause each of its Subsidiaries to, (i) use its respective reasonable best efforts to maintain its existence in good standing pursuant to applicable Law; (ii) subject to the restrictions and exceptions set forth in Section 5.2 or elsewhere in this Agreement, conduct its business and operations in the ordinary course of business, except with respect to actions or omissions that constitute COVID-19 Measures; and (iii) use its respective reasonable best efforts, consistent with its operations in the ordinary course of business, to (A) preserve intact its material assets, properties, Contracts or other legally binding understandings, licenses and business organizations; (B) keep available the services of its current officers and key employees; and (C) preserve its current relationships and goodwill with customers, suppliers, partners, platform providers, manufacturers, distributors, lessors, licensors, licensees, creditors, contractors and other Persons with which the Company or any of its Subsidiaries has business relations.

5.2 *Forbearance Covenants*. Except (i) as set forth in Section 5.2 of the Company Disclosure Letter; (ii) as approved by Parent (which approval will not be unreasonably withheld, conditioned or delayed); (iii) for actions or omissions that constitute COVID-19 Measures (following reasonable prior consultation with Parent); (iv) as expressly contemplated by the terms of this Agreement; or (v) as required by applicable Law or the regulations or requirements of any stock exchange or regulatory organization applicable to the Company or any of its Subsidiaries, at all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will not, and will not permit any of its Subsidiaries (it being understood and agreed that the Company's obligations with respect to the following, to the extent pertaining to the Specified JV Entities, shall be limited solely to its obligation not to, and to cause its Subsidiaries (other than the Specified JV Entities) not to, actively permit, authorize or consent to any of the

following actions to be taken by any of the Specified JV Entities to the extent that the Company or such Subsidiary (other than the Specified JV Entities) has the right to permit, authorize or consent to such action), to:

(a) amend or otherwise change the Charter, the Bylaws or any other similar organizational document, other than, with respect to the Company's wholly owned Subsidiaries, any immaterial or ministerial amendments thereto;

(b) propose or adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization;

(c) issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any Company Securities, except (x) for the issuance and sale of shares of Company Common Stock pursuant to the exercise or settlement, as applicable, of Company Options or Company Stock-Based Awards in accordance with their terms or (y) as provided on Section 5.2(h) of the Company Disclosure Letter;

(d) directly or indirectly acquire, repurchase or redeem any Company Securities or any securities of its Subsidiaries, except for (A) forfeitures, repurchases or withholding of Company Securities pursuant to the terms and conditions of Company Options and Company Stock-Based Awards in accordance with their terms or (B) transactions between the Company and any of its direct or indirect wholly owned Subsidiaries, or among any of the Company's direct or indirect wholly owned Subsidiaries;

(e) (A) adjust, split, subdivide, combine or reclassify any shares of capital stock, or issue or authorize or propose the issuance of any other Company Securities in respect of, in lieu of or in substitution for, shares of its capital stock or other equity or voting interest; (B) declare, set aside, authorize, establish a record date for or pay any dividend or other distribution (whether in cash, shares or property or any combination thereof) in respect of any shares of capital stock or other equity or voting interest, or make any other actual, constructive or deemed distribution in respect of the shares of capital stock or other equity or voting interest, except for (x) cash dividends made by any direct or indirect wholly owned Subsidiary of the Company to the Company or one of its other wholly owned Subsidiaries or (y) one regular cash dividend on Company Common Stock in an amount per share of Company Common Stock not in excess of $0.47; provided that the declaration, record and payment date of such dividend shall be consistent with the historical declaration, record and payment date for the dividend on Company Common Stock from fiscal year 2021 or if such date is not a Business Day, the next day that is a Business Day; (C) pledge or encumber any shares of its capital stock or other equity or voting interest; or (D) modify the terms of any shares of its capital stock or other equity or voting interest;

(f) (A) incur, assume, suffer or modify the terms of any Indebtedness (including any long-term or short-term debt) or issue any debt securities, except (1) for trade payables incurred in the ordinary course of business; (2) for loans or advances to direct or indirect wholly owned Subsidiaries of the Company or (3) for borrowings and letter of credit issuances under the Credit Facility in the ordinary course of business consistent with past practice; (B) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person, except with respect to obligations of direct or indirect wholly owned Subsidiaries of the Company; or (C) mortgage, pledge or otherwise encumber any assets, tangible or intangible, or create or suffer to exist any Lien thereupon (other than Permitted Liens);

(g) except in consultation with Parent, terminate any employee at the level of Senior Vice President or above (other than for cause) or hire any new employee at the level of Senior Vice President or above;

(h) (A) enter into, adopt, amend (including accelerating vesting), modify or terminate any Employee Plan or any agreement, trust, plan, fund or other arrangement that would be an Employee Plan if it were in existence as of the date of this Agreement; (B) increase the compensation or benefits of any Company Employee; (C) pay any special bonus or special remuneration to any Company Employee or pay any benefit not required by any Employee Plan; (D) grant any severance or termination pay to any Company Employee; or (E) grant to any Company Employee any right to reimbursement,

indemnification or payment for any Taxes, including any Taxes incurred under Section 409A or 4999 of the Code on any of the foregoing, except, in each case, as required by applicable Law or the terms of any Employee Plan;

(i) settle, release, waive or compromise any pending or threatened Legal Proceeding (which shall include Specified Litigation) against the Company or its Subsidiaries or agree to any remedies with respect to any Legal Proceeding or settlement thereof, except for the settlement of any Legal Proceedings or series of Legal Proceedings arising out of the same type of act or occurrence solely for monetary damages in an amount (1) not in excess of $10,000,000 for such Legal Proceedings or series of Legal Proceedings or (2) that does not exceed that which is reflected or reserved against in the Audited Company Balance Sheet;

(j) except as required by applicable Law or GAAP, (A) revalue any properties or assets material in any respect to the Company and its Subsidiaries, taken as a whole, including writing-off notes or accounts receivable, other than in the ordinary course of business; or (B) make any change in any of its accounting principles or practices;

(k) except as required by applicable Law, (A) amend any previously filed income Tax Return or other material Tax Return of the Company or any of its Subsidiaries; (B) other than with respect to any transaction conducted at arms'-length with a third party, incur any material liabilities for Taxes other than in the ordinary course of business, (C) make, revoke or change any material Tax election of the Company or its Subsidiaries; (D) adopt or change any accounting method with respect to Taxes or change an annual accounting period; (E) settle, consent to or compromise any material Tax claim or assessment relating to the Company or any of its Subsidiaries; (F) enter into any closing agreement or advance pricing agreement (or similar agreement) in respect of a material Tax; (G) surrender any right to claim a refund for material Taxes; or (H) consent to any extension or waiver of any limitation period with respect to any material Tax claim or assessment relating to the Company or any of its Subsidiaries (other than any automatic extension of time in which to file a Tax Return);

(l) (A) incur, authorize or commit to incur any capital expenditures other than (1) consistent in all material respects with the capital expenditure budget set forth in Section 5.2(l) of the Company Disclosure Letter; or (2) pursuant to agreements in effect prior to the date of this Agreement and set forth on Section 5.2(l) of the Company Disclosure Letter; (B) other than in the ordinary course of business, enter into, modify, amend or terminate any (1) Contract (other than any Material Contract) that if so entered into, modified, amended or terminated would have a Company Material Adverse Effect; or (2) Material Contract except in the ordinary course of business consistent with past practice; (C) fail to use reasonable best efforts to maintain insurance at or more than current levels or otherwise in a manner consistent with past practice; (D) engage in any transaction with, or enter into any agreement, arrangement or understanding with, any Affiliate of the Company or other Person covered by Item 404 of Regulation S-K promulgated by the SEC that would be required to be disclosed pursuant to Item 404; (E) grant any refunds, credits, rebates or other allowances to any end user, customer, platform provider, reseller or distributor, in each case, which would be material to the Company and its Subsidiaries, taken as a whole, or materially accelerate, or materially alter practices and policies relating to, the rate of collection of accounts receivable or payment of accounts payable, in each case other than in the ordinary course of business; or (F) waive, release, grant, encumber or transfer any right material to the Company and its Subsidiaries taken as a whole, other than in the ordinary course of business;

(m) effectuate a "plant closing" or "mass layoff" (each as defined in WARN) affecting in whole or in part any site of employment, facility, operating unit or employee, in each case, located in the United States;

(n) voluntarily recognize any labor union, works council or similar employee organization or enter into a Collective Bargaining Agreement;

(o) acquire (by merger, consolidation or acquisition of stock or assets or otherwise), or make any investment in any interest in, any assets or any other Person or any equity interest therein, in each case, with a value (i) in excess of $50,000,000 per transaction or series of transactions; provided that the

Company shall consult with Parent prior to acquiring (by merger, consolidation or acquisition of stock or assets or otherwise) or making any investment in any interest in, any assets or any other Person or any equity interest therein, in each case, with a value in excess of $25,000,000 and less than or equal to $50,000,000 per transaction or series of transactions; and (ii) in excess of $250,000,000, in the aggregate;

(p) make any loans, advances or capital contributions to, or investments for treasury management purposes in, any other Person, except for (i) advances to directors, officers and other employees for travel and other business-related expenses incurred in connection with such person's role at the Company or one of its Subsidiaries in the ordinary course of business consistent with past practice in accordance with Company policies for travel and business expenses, (ii) capital contributions made in response to any COVID-19 Measures or (iii) any investments in publicly-traded or private securities in the ordinary course of business consistent with past practice with a value equal to up to ten percent (10%) of the aggregate amount of all cash and cash equivalents of the Company as reflected in the most recent consolidated balance sheets (and the notes thereto) of the Company and its Subsidiaries;

(q) (A) sell or otherwise dispose of (whether by merger, consolidation or disposition of stock or assets or otherwise) any assets constituting a material line of business or any corporation, partnership or other business organization or material division thereof or (B) subject to a Lien, sell, assign, license (or grant a covenant not to sue or similar rights under), sublicense, transfer, allow to lapse or expire, pledge, abandon, discontinue, fail to maintain or otherwise dispose of any other material assets of the Company or any of its Subsidiaries or any material items of Company Intellectual Property, other than (x) agreements for distribution of Company Products that are not prohibited by Section 5.2(t) and (y) licenses granted by the Company or its Subsidiaries in the ordinary course of business consistent with past practice;

(r) modify any of its Privacy Policies or the integrity, security or operation of the IT Assets used in their businesses, in each case, in any materially adverse manner to the Company and its Subsidiaries, taken as a whole, except as required by applicable Law (as determined by the Company in its reasonable judgment);

(s) enter into any new business segment that is not reasonably related to any of the Company's and its Subsidiaries' existing business segments on the date of this Agreement;

(t) enter into any agreement of the type listed on Section 5.2(t) of the Company Disclosure Letter; or

(u) enter into, authorize or commit to enter into a Contract or other agreement to take any of the actions prohibited by this Section 5.2.

5.3 *No Solicitation*.

(a) *No Solicitation or Negotiation*. Subject to the terms of Section 5.3(b), from the date of this Agreement until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will cease and cause to be terminated any discussions or negotiations with and terminate any data room access (or other diligence access) of any Person and its Affiliates, directors, officers, employees, consultants, agents, representatives and advisors (collectively, "**Representatives**") relating to any Acquisition Transaction. Promptly following the date of this Agreement, the Company will request that each Person (other than Parent and its Representatives) that has, prior to the date of this Agreement, executed a confidentiality agreement in connection with its consideration of acquiring the Company to promptly return or destroy all non-public information furnished to such Person by or on behalf of the Company or any of its Subsidiaries prior to the date of this Agreement in accordance with the terms of such confidentiality agreement. Subject to the terms of Section 5.3(b) and Section 5.3(d), from the date of this Agreement until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company and its Subsidiaries and their respective directors, executive and other officers will not, and the Company will not authorize or direct any of its or its Subsidiaries' employees, consultants or other Representatives to, directly or indirectly, (i) solicit, initiate, propose or induce the making, submission or announcement of, or knowingly encourage, facilitate or assist, any proposal, offer or inquiry that constitutes, or is reasonably expected to lead to, an Acquisition Proposal; (ii) furnish to any Person (other than Parent,

Merger Sub or any designees of Parent or Merger Sub) any non-public information relating to the Company or any of its Subsidiaries or afford to any Person access to the business, properties, assets, books, records or other non-public information, or to any personnel, of the Company or any of its Subsidiaries (other than Parent, Merger Sub or any designees of Parent or Merger Sub), in any such case in connection with any Acquisition Proposal or with the intent to induce the making, submission or announcement of, or to knowingly encourage, facilitate or assist, an Acquisition Proposal or any inquiries or the making of any proposal that would reasonably be expected to lead to an Acquisition Proposal; (iii) participate or engage in discussions or negotiations with any Person with respect to an Acquisition Proposal, or with respect to any inquiries from third Persons relating to making a potential Acquisition Proposal (other than solely to inform such Persons of the provisions contained in this Section 5.3); (iv) approve, endorse or recommend any proposal that constitutes, or is reasonably expected to lead to, an Acquisition Proposal; (v) enter into any letter of intent, memorandum of understanding, merger agreement, expense reimbursement agreement, acquisition agreement or other Contract relating to an Acquisition Transaction, other than an Acceptable Confidentiality Agreement (any such letter of intent, memorandum of understanding, merger agreement, acquisition agreement or other Contract relating to an Acquisition Transaction, an "**Alternative Acquisition Agreement**"); or (vi) authorize or commit to do any of the foregoing. From the date of this Agreement until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will not be required to enforce, and will be permitted to waive, any provision of any standstill or confidentiality agreement to the extent necessary to permit a confidential proposal being made to the Company Board (or any committee thereof).

(b) *Superior Proposals*. Notwithstanding anything to contrary set forth in this Section 5.3, from the date of this Agreement until the Company obtains the Requisite Stockholder Approval, the Company and the Company Board (or a committee thereof) may, directly or indirectly through one or more of their Representatives (including the Company's legal and financial advisors), following the execution of an Acceptable Confidentiality Agreement, participate or engage in discussions or negotiations with, furnish any non-public information relating to the Company or any of its Subsidiaries to, or afford access to the business, properties, assets, books, records or other non-public information, or to any personnel, of the Company or any of its Subsidiaries to any Person or its Representatives (including, for these purposes, sources of financing) that has made or delivered to the Company a bona fide written Acquisition Proposal after the date of this Agreement that did not result or arise from a breach of Section 5.3(a), but only if the Company Board has determined in good faith (after consultation with the Company's financial advisor and outside legal counsel) that (i) such Acquisition Proposal either constitutes a Superior Proposal or is reasonably likely to lead to a Superior Proposal; and (ii) the failure to take the actions contemplated by this Section 5.3(b) would be inconsistent with its fiduciary duties pursuant to applicable Law. In connection with the foregoing, the Company will prior to or contemporaneously make available to Parent any non-public information concerning the Company and its Subsidiaries that is provided to any such Person or its Representatives that was not previously made available to Parent.

(c) *No Change in Company Board Recommendation or Entry into an Alternative Acquisition Agreement*. Except as provided by Section 5.3(d), at no time after the date of this Agreement may the Company Board (or a committee thereof):

(i) (A) withhold, withdraw, amend, qualify or modify, or publicly propose to withhold, withdraw, amend, qualify or modify, the Company Board Recommendation in a manner adverse to Parent; (B) adopt, approve or recommend an Acquisition Proposal; (C) fail to publicly reaffirm the Company Board Recommendation within 10 Business Days following Parent's written request made promptly following the occurrence of a material event or development relating to or reasonably likely to have a material effect on the Merger or the vote by the Company Stockholders at the Company Stockholder Meeting (or if the Company Stockholder Meeting is scheduled to be held within 10 Business Days, then within one Business Day after Parent so requests); (D) take any formal action or make any recommendation in connection with a tender or exchange offer, other than a recommendation against such offer or a "stop, look and listen" communication by the Company Board (or a committee thereof) to the Company Stockholders pursuant to Rule 14d-9(f) promulgated under the Exchange Act (or any substantially similar communication) (it being

understood that the Company Board (or a committee thereof) may refrain from taking a position with respect to an Acquisition Proposal until the close of business on the 10th Business Day after the commencement of a tender or exchange offer in connection with such Acquisition Proposal without such action being considered a violation of this Section 5.3); or (E) fail to include the Company Board Recommendation in the Proxy Statement (any action described in clauses (A) through (E), a "**Company Board Recommendation Change**"), it being understood that neither (1) the determination in itself by the Company Board (or a committee thereof) that an Acquisition Proposal constitutes or is reasonably likely to lead to a Superior Proposal nor (2) the delivery in itself by the Company to Parent of any notice contemplated by Section 5.3(d) will constitute a Company Board Recommendation Change or violate this Section 5.3; or

(ii) cause or permit the Company or any of its Subsidiaries to enter into an Alternative Acquisition Agreement.

(d) *Company Board Recommendation Change; Entry into Alternative Acquisition Agreement*. Notwithstanding anything to the contrary set forth in this Agreement, at any time prior to obtaining the Requisite Stockholder Approval:

(i) other than in connection with a bona fide Acquisition Proposal that constitutes a Superior Proposal, the Company Board may effect a Company Board Recommendation Change in response to an Intervening Event if the Company Board determines in good faith (after consultation with the Company's financial advisor and outside legal counsel) that the failure to do so would be inconsistent with its fiduciary duties pursuant to applicable Law and then if and only if:

(1) the Company has provided prior written notice to Parent at least three Business Days in advance to the effect that the Company Board has (A) so determined; and (B) resolved to effect a Company Board Recommendation Change pursuant to this Section 5.3(d)(i), which notice will describe the Intervening Event in reasonable detail; and

(2) prior to effecting such Company Board Recommendation Change, the Company and its Representatives, during such three Business Day period, have (A) negotiated with Parent and its Representatives in good faith (to the extent that Parent requests in writing to so negotiate) to make such adjustments to the terms and conditions of this Agreement so that the Company Board no longer determines in good faith that the failure to make a Company Board Recommendation Change in response to such Intervening Event would be inconsistent with its fiduciary duties pursuant to applicable Law; and (B) provided Parent and its Representatives with an opportunity to make a presentation to the Company Board regarding this Agreement and any adjustments with respect thereto (to the extent that Parent requests to make such a presentation); or

(ii) if the Company has received a bona fide written Acquisition Proposal that the Company Board has concluded in good faith (after consultation with the Company's financial advisor and outside legal counsel) is a Superior Proposal, then the Company Board may (A) effect a Company Board Recommendation Change with respect to such Superior Proposal or (B) authorize the Company to terminate this Agreement pursuant to Section 8.1(h) to enter into an Alternative Acquisition Agreement with respect to such Superior Proposal, in each case if and only if:

(1) the Company Board determines in good faith (after consultation with the Company's financial advisor and outside legal counsel) that the failure to do so would be inconsistent with its fiduciary duties pursuant to applicable Law;

(2) such Acquisition Proposal did not result from a breach of this Section 5.3; and

(3) (i) the Company has provided prior written notice to Parent at least three Business Days in advance (the "**Notice Period**") to the effect that the Company Board has (A) received a bona fide written Acquisition Proposal that has not been withdrawn; (B) concluded in good faith that such Acquisition Proposal constitutes a Superior Proposal; and (C) resolved to effect a Company Board Recommendation Change or to terminate this Agreement pursuant

to this Section 5.3(d)(ii), which notice will describe the basis for such Company Board Recommendation Change or termination, including the identity of the Person or "group" of Persons making such Acquisition Proposal, the material terms and conditions of such Acquisition Proposal and copies of all relevant documents relating to such Acquisition Proposal; and (ii) prior to effecting such Company Board Recommendation Change or termination, the Company and its Representatives, during the Notice Period, have (1) negotiated with Parent and its Representatives in good faith (to the extent that Parent requests in writing to so negotiate) to make such adjustments to the terms and conditions of this Agreement so that such Acquisition Proposal would cease to constitute a Superior Proposal; and (2) provided Parent and its Representatives with an opportunity to make a presentation to the Company Board regarding this Agreement and any adjustments with respect thereto (to the extent that Parent requests to make such a presentation), it being understood that (a) in the event of any material revisions to such Acquisition Proposal, the Company will be required to deliver a new written notice to Parent and to comply with the requirements of this Section 5.3(d)(ii)(3) with respect to such new written notice (with the "Notice Period" in respect of such new written notice being two Business Days, provided that such new notice shall in no event shorten the original three Business Day notice period); and (b) the Company Board, at the end of the Notice Period (after consultation with the Company's financial advisor and outside legal counsel), must have in good faith reaffirmed its determination that such bona fide written Acquisition Proposal is a Superior Proposal.

(e) *Notice*. From the date of this Agreement until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will promptly (and, in any event, by the later of (i) 24 hours from the receipt thereof or (ii) 5:00 p.m., Pacific time, on the next Business Day) notify Parent if (x) any Acquisition Proposal is, to the Knowledge of the Company or of any member of the Company Board, received by the Company or any of its Representatives, (y) any inquiry from any third Person that would be reasonably expected to result in an Acquisition Proposal is, to the Knowledge of the Company or of any member of the Company Board, received by the Company or any of its Representatives, or (z) to the Knowledge of the Company or of any member of the Company Board, any non-public information is requested by any third Person that would be reasonably expected to result in an Acquisition Proposal from or any discussions or negotiations that would be reasonably expected to result in an Acquisition Proposal are sought by any third Person to be initiated or continued with the Company or any of its Representatives. Such notice must include (A) the identity of the Person or "group" of Persons making such offers or proposals (unless, in each case, such disclosure is prohibited pursuant to the terms of any confidentiality agreement with such Person or "group" of Persons that is in effect on the date of this Agreement); and (B) a summary of the material terms and conditions of such offers or proposals or if such Acquisition Proposal or request is in writing, a copy thereof. Thereafter, the Company must keep Parent reasonably informed, on a prompt basis, of the status and terms of any such offers or proposals (including any amendments thereto) and the status of any such discussions or negotiations.

(f) *Certain Disclosures*. So long as the Company Board expressly publicly reaffirms the Company Board Recommendation in such disclosure (other than a customary "stop-look-and-listen" communication to the stockholders of the Company pursuant to Rule 14d-9(f) under the Exchange Act), then nothing in this Agreement will prohibit the Company or the Company Board (or a committee thereof) from (i) taking and disclosing to the Company Stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or complying with Rule 14d-9 promulgated under the Exchange Act, including a "stop, look and listen" communication by the Company Board (or a committee thereof) to the Company Stockholders pursuant to Rule 14d-9(f) promulgated under the Exchange Act (or any substantially similar communication); (ii) complying with Item 1012(a) of Regulation M-A promulgated under the Exchange Act; or (iii) making any disclosure to the Company Stockholders (including regarding the business, financial condition or results of operations of the Company and its Subsidiaries) that the Company Board (or a committee thereof), after consultation with outside counsel, has determined in good faith is required by applicable Law. In addition, so long as the Company Board expressly publicly reaffirms the Company Board Recommendation in such disclosure (other than a customary "stop-look-and-listen" communication to the stockholders of the Company pursuant to Rule 14d-9(f) under the Exchange Act), then it is understood and agreed that, for

purposes of this Agreement, a factually accurate public statement by the Company or the Company Board solely that (A) describes the Company's receipt of an Acquisition Proposal; (B) identifies the Person making such Acquisition Proposal; (C) provides the material terms of such Acquisition Proposal; or (D) describes the operation of this Agreement with respect thereto will not be deemed to be (1) a withholding, withdrawal, amendment, qualification or modification, or proposal by the Company Board (or a committee thereof) to withhold, withdraw, amend, qualify or modify, the Company Board Recommendation; (2) an adoption, approval or recommendation with respect to such Acquisition Proposal; or (3) a Company Board Recommendation Change.

(g) *Breach by Representatives*. The Company agrees that any action taken by any Representative (other than any employee or consultant of the Company who is not at the senior vice president level or above or other officer of the Company) of the Company that, if taken by the Company, would be a breach of this Section 5.3, then such action will be deemed to constitute a breach by the Company of this Section 5.3.

5.4 *No Control of the Company's Business*. The Parties acknowledge and agree that the restrictions set forth in this Agreement are not intended to give Parent or Merger Sub, directly or indirectly, the right to control or direct the business or operations of the Company or its Subsidiaries at any time prior to the Effective Time. Prior to the Effective Time, the Company and its Subsidiaries will exercise, consistent with the terms, conditions and restrictions of this Agreement, complete control and supervision over their own business and operations.

ARTICLE VI
ADDITIONAL COVENANTS

6.1 *Required Action and Forbearance; Efforts.*

(a) *Reasonable Best Efforts*. Upon the terms and subject to the conditions set forth in this Agreement and provided that at all times the provisions of Section 6.2 shall govern the matters set forth therein, Parent and Merger Sub, on the one hand, and the Company, on the other hand, will use their respective reasonable best efforts to (A) take (or cause to be taken) all actions; (B) do (or cause to be done) all things; and (C) assist and cooperate with the other Parties in doing (or causing to be done) all things, in each case as are necessary, proper or advisable pursuant to applicable Law or otherwise to consummate and make effective, in the most expeditious manner practicable, the Merger, including by using reasonable best efforts to:

(i) cause the conditions to the Merger set forth in Article VII to be satisfied;

(ii) (1) seek to obtain all consents, waivers, approvals, orders and authorizations from Governmental Authorities; and (2) make all registrations, declarations and filings with Governmental Authorities, in each case that are necessary or advisable to consummate the Merger; and

(iii) (1) seek to obtain all consents, waivers and approvals and (2) deliver all notifications pursuant to any Material Contracts (or other applicable Contracts of the Company or its Subsidiaries) in connection with this Agreement and the consummation of the Merger so as to seek to maintain and preserve the benefits to the Surviving Corporation of such Material Contracts (or other applicable Contracts of the Company or its Subsidiaries) as of and following the consummation of the Merger, in each of cases (1) and (2) to the extent directed to do so by Parent following consultation therewith.

(b) *No Failure to Take Necessary Action*. In addition to the foregoing, subject to the terms and conditions of this Agreement, neither Parent or Merger Sub, on the one hand, nor the Company, on the other hand, will take any action, or fail to take any action, that is intended to or has (or would reasonably be expected to have) the effect of (i) preventing or materially impairing or materially delaying or otherwise materially adversely affecting the consummation of the Merger; or (ii) the ability of such Party to fully perform its obligations pursuant to this Agreement. For the avoidance of doubt, no action by the Company taken in compliance with Section 5.3 will be considered a violation of this Section 6.1.

6.2 *Regulatory Approvals*.

(a) *Antitrust Law and Foreign Investment Law Filings*. Each of Parent and Merger Sub (and their respective Affiliates, if applicable), on the one hand, and the Company (and its Affiliates, if applicable), on the other hand, will use their respective reasonable best efforts to (i) file with the FTC and the Antitrust Division of the DOJ a Notification and Report Form relating to this Agreement and the Merger as required by the HSR Act promptly following the date of this Agreement; and (ii) promptly file comparable pre-merger or post-merger notification filings, forms and submissions with any Governmental Authority that are required by other applicable Antitrust Laws or Foreign Investment Laws or that are, in the reasonable judgment of Parent, advisable in connection with the Merger, as identified in Section 6.2(a) of the Company Disclosure Letter, provided that Parent shall make the final decision as to any required or advisable filings. Each of Parent and the Company will (A) cooperate and coordinate (and cause its respective Affiliates to cooperate and coordinate, if applicable) with the other in the making of such filings; (B) use its respective reasonable best efforts to supply the other (or cause the other to be supplied) with any information that may be required in order to make such filings; (C) use its respective reasonable best efforts to supply (or cause the other to be supplied) any additional information that reasonably may be required or requested by the FTC, the DOJ or the Governmental Authorities of any other applicable jurisdiction in which any such filing is made; (D) use its respective reasonable best efforts to take all action necessary to (1) cause the expiration or termination of the applicable waiting periods pursuant to the HSR Act and any other Antitrust Laws or Foreign Investment Laws applicable to the Merger; and (2) obtain any required consents pursuant to any Antitrust Laws or Foreign Investment Laws applicable to the Merger, in each case as soon as practicable; and (E) prior to independently participating in any meeting, or engaging in any substantive conversation, with any Governmental Authority in respect of any such filings or any investigations or other inquiries relating thereto, provide notice to the other party of such meeting or conversation and, unless prohibited by such Governmental Authority, the opportunity to attend or participate. Parent shall, after good faith consultation with the Company and after considering, in good faith, the Company's views and comments, control and lead all communications, negotiations, timing decisions, and strategy on behalf of the parties relating to regulatory approvals under the Antitrust Laws or Foreign Investment Laws, and any litigation matters pertaining to the Antitrust Laws or Foreign Investment Laws, subject to Parent's obligation hereunder (but subject to the limitations herein) to use its reasonable best efforts to take all action necessary to (1) cause the expiration or termination of the applicable waiting periods pursuant to the HSR Act and any other Antitrust Laws or Foreign Investment Laws applicable to the Merger and (2) obtain any required consents pursuant to any Antitrust Laws or Foreign Investment Laws applicable to the Merger, in each case as soon as practicable, and the Company shall take all reasonable actions to support Parent in connection therewith. Each of Parent and Merger Sub (and their respective Affiliates, if applicable), on the one hand, and the Company (and its Affiliates), on the other hand, will permit the other Party and its Representatives to review in advance any written communication proposed to be made by such Party to any Governmental Authority and will consider in good faith the views of the other Party and promptly inform the other Party of any substantive communication from any Governmental Authority regarding the Merger in connection with such filings. If any Party or Affiliate thereof receives a request for additional information or documentary material from any Governmental Authority with respect to the Merger pursuant to the HSR Act or any other Antitrust Laws or Foreign Investment Laws applicable to the Merger, then such Party will use reasonable best efforts to make (or cause to be made), as soon as reasonably practicable and after consultation with the other Parties, an appropriate response in compliance with such request. Each of Parent and the Company may, as they deem necessary, designate any sensitive materials to be exchanged in connection with this Section 6.2 as "outside-counsel only." Any such materials, as well as the information contained therein, shall be provided only to a receiving party's outside counsel (and mutually acknowledged outside consultants) and not disclosed by such counsel (or consultants) to any employees, officers, or directors of the receiving party without the advance written consent of the party supplying such material or information.

(b) *Regulatory Remedies*. In furtherance and not in limitation of the foregoing, if and to the extent necessary to obtain clearance of the Merger pursuant to the HSR Act and any other Antitrust Laws or Foreign Investment Laws set forth in Section 7.1(b) and Section 7.1(c) of the Company Disclosure Letter, each of Parent and Merger Sub (and their respective Affiliates) will and, solely to the

extent requested by Parent, the Company and its Affiliates will: (i) offer, negotiate, commit to and effect, by consent decree, hold separate order or otherwise, (A) the sale, divestiture, license or other disposition of assets (whether tangible or intangible), rights, products or businesses of the Company and its Subsidiaries; and (B) any other restrictions on the activities of the Company and its Subsidiaries; and (ii) contest, defend and appeal any Legal Proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Merger. Notwithstanding the foregoing, Parent will not be required, either pursuant to this Section 6.2(b) or otherwise, to offer, negotiate, commit to, effect or otherwise take any action would reasonably be expected to (i) have a material adverse impact on the Company and its Subsidiaries, taken as a whole, (ii) have a material impact on the benefits expected to be derived from the Merger by Parent or (iii) have a more than immaterial impact on any business or product line of Parent (any of clauses (i), (ii) or (iii), a "**Burdensome Condition**").

6.3 *Proxy Statement*.

(a) *Preparation*. Promptly after the execution of this Agreement the Company will prepare (with Parent's reasonable cooperation) and file as promptly as practicable, and in any event within 20 Business Days after the date of this Agreement, with the SEC a preliminary proxy statement to be sent to the Company Stockholders in connection with the Company Stockholder Meeting (the proxy statement, including any amendments or supplements, the "**Proxy Statement**") relating to the Company Stockholder Meeting. The Company will not file the Proxy Statement with the SEC without first providing Parent and its counsel a reasonable opportunity to review and comment thereon, and the Company will give due consideration to all reasonable additions, deletions or changes suggested by Parent or its counsel. Subject to Section 5.3, the Company must include the Company Board Recommendation in the Proxy Statement. The Company will use its reasonable best efforts to resolve all SEC comments, if any, with respect to the Proxy Statement as promptly as practicable after receipt thereof. Promptly following confirmation by the SEC that the SEC has no further comments, the Company will cause the Proxy Statement in definitive form to be mailed to the Company Stockholders.

(b) *Assistance*. Each of the Company, Parent and Merger Sub will furnish all information concerning such Person and its Affiliates to the other, and provide such other assistance, as may be reasonably requested by such other Party to be included therein and will otherwise reasonably assist and cooperate with the other in the preparation, filing and distribution of the Proxy Statement and the resolution of any comments to either received from the SEC.

(c) *SEC Correspondence*. The Parties will notify each other promptly of the receipt of any comments, whether written or oral, from the SEC or its staff and of any request by the SEC or its staff for amendments or supplements to the Proxy Statement or for additional information, and will supply each other with copies of all correspondence between it or any of its Representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to such filings.

(d) *No Amendments*. Except in connection with a Company Board Recommendation Change, or incorporation of filings by reference, no amendment or supplement to the Proxy Statement will be made by the Company without the approval of Parent, which approval will not be unreasonably withheld, conditioned or delayed.

(e) *Accuracy; Supplied Information*.

(i) *Company*. On the date of filing, the date of mailing to the Company Stockholders (if applicable) and at the time of the Company Stockholder Meeting, the Proxy Statement will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not false or misleading. Notwithstanding the foregoing, no covenant is made by the Company with respect to any information supplied by Parent, Merger Sub or any of their Affiliates for inclusion or incorporation by reference in the Proxy Statement. The information supplied by the Company for inclusion or incorporation by reference in the Proxy Statement will not, at the time that such Proxy Statement is filed with the SEC, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(ii) *Parent*. The information supplied by Parent, Merger Sub and their respective Affiliates for inclusion or incorporation by reference in the Proxy Statement will not, at the time that the Proxy Statement is filed with the SEC, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. Notwithstanding the foregoing, no covenant is made by Parent or Merger Sub with respect to any information supplied by the Company for inclusion or incorporation by reference in the Proxy Statement.

6.4 *Company Stockholder Meeting*.

(a) *Call of Company Stockholder Meeting*. The Company will take all action necessary in accordance with the DGCL, the Charter, the Bylaws and the rules of NASDAQ to establish a record date for, duly call, give notice of, convene and hold a meeting of its stockholders (the "**Company Stockholder Meeting**") as promptly as reasonably practicable following the mailing of the Proxy Statement to the Company Stockholders, for the sole purpose of obtaining the Requisite Stockholder Approval and obtaining advisory approval of the compensation that the Company's named executive officers may receive in connection with the Merger (and, if applicable, for the Company Stockholders to act on such other matters of procedure required in connection with the adoption of this Agreement and matters required by applicable Law to be voted on by the Company Stockholders in connection with the adoption of this Agreement). Notwithstanding anything to the contrary in this Agreement, the Company will convene, subject to Section 6.4(b), and hold the Company Stockholder Meeting on or around the 20th Business Day following the mailing of the Proxy Statement to the Company Stockholders or on such other date elected by the Company with Parent's consent (not to be unreasonably withheld, conditioned or delayed). Subject to Section 5.3 and unless there has been a Company Board Recommendation Change, the Company will include (i) the Company Board Recommendation in the Proxy Statement; and (ii) use its reasonable best efforts to solicit proxies to obtain the Requisite Stockholder Approval.

(b) *Adjournment of Company Stockholder Meeting*. The Company will cooperate with and keep Parent informed upon Parent's reasonable request regarding its solicitation efforts and voting results following the dissemination of the Proxy Statement to the Company Stockholders. The Company will be permitted to postpone or adjourn the Company Stockholder Meeting if, but only if, (i) as of the time that the Company Stockholder Meeting is originally scheduled (as set forth in the Proxy Statement), there are holders of an insufficient number of shares of the Company Common Stock present or represented by proxy at the Company Stockholder Meeting to constitute a quorum at the Company Stockholder Meeting, (ii) the Company Board has determined in good faith (after consultation with outside legal counsel) (A) that it is required by applicable Law or order to postpone or adjourn the Company Stockholder Meeting, (B) that such postponement or adjournment is required by applicable Law to ensure that any supplement or amendment to the Proxy Statement that is required by applicable Law is provided to Company Stockholders with adequate time for review prior to the Company Stockholder Meeting or (C) that such postponement or adjournment is necessary to permit completion of any pending Notice Period in respect of a Company Board Recommendation Change, (iii) the Company is requested to postpone or adjourn the Company Stockholder Meeting by the SEC or its staff or (iv) with the prior written consent of Parent (which shall not be unreasonably withheld, conditioned or delayed). In no event will the Company Stockholder Meeting be postponed or adjourned (i) by more than 10 calendar days at a time without the prior written consent of Parent; or (ii) with respect to Section 6.4(b)(i), by more than 30 calendar days after the date on which the Company Stockholder Meeting was (or was required to be) originally scheduled without the prior written consent of Parent. In no event will the record date of the Company Stockholder Meeting be changed without Parent's prior written consent. The Company will postpone or adjourn the Company Stockholder Meeting on one or more occasions for an aggregate period of up to 30 days if so requested by Parent (and subsequently hold the Company Stockholder Meeting as promptly as practicable after such postponement or adjournment), in each case, if, on the date for which the Company Stockholder Meeting is then-scheduled, the Company has not received proxies representing a sufficient number of shares of Company Common Stock to obtain the Requisite Stockholder Approval, whether or not a quorum is present. Without the prior written consent of Parent (which shall not be unreasonably withheld, conditioned or delayed), the adoption of this Agreement shall be the only matter (other than

matters of procedure and matters required by applicable Law to be voted on by the Company Stockholders in connection with the adoption of this Agreement) that the Company shall propose to be acted on by the Company Stockholders at the Company Stockholder Meeting.

6.5 *Anti-Takeover Laws*. The Company and the Company Board will (a) take all actions within their power to ensure that no "anti-takeover" statute or similar statute or regulation is or becomes applicable to the Merger; and (b) if any "anti-takeover" statute or similar statute or regulation becomes applicable to the Merger, take all action within their power to ensure that the Merger may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the Merger.

6.6 *Access*. At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will afford Parent and its Representatives reasonable access during normal business hours, upon reasonable advance notice, to the properties, books and records, facilities and personnel and Representatives of the Company, except that the Company may restrict or otherwise prohibit access to any documents or information to the extent that (a) any applicable Law or regulation requires the Company to restrict or otherwise prohibit access to such documents or information; (b) access to such documents or information would give rise to a material risk of waiving any attorney-client privilege, work product doctrine or other privilege applicable to such documents or information, provided that the Company shall take all reasonable steps to permit inspection of or to disclose such information and to respond in a timely manner to all subsequent queries by Parent and its Representatives based on such information on a basis that does not compromise the Company's attorney-client or other privilege with respect thereto; (c) access to a Contract in effect as of the date of this Agreement to which the Company or any of its Subsidiaries is a party or otherwise bound would violate or cause a default pursuant to, or give a third Person the right to terminate or accelerate the rights pursuant to, such Contract; or (d) such access unreasonably interferes with the conduct of the business of the Company and its Subsidiaries or creates a risk of damage or destruction to any property or assets of the Company or its Subsidiaries. Subject to applicable Law and the immediately preceding sentence, the Company will provide Parent with reports of the Company reasonably requested by Parent. Any access to the properties (including systems) of the Company and its Subsidiaries will be subject to the Company's reasonable security measures and insurance requirements and will not include the right to perform invasive testing. Notwithstanding anything to the contrary herein, the Company may satisfy its obligations set forth above by electronic means if physical access is not reasonably feasible or would not be permitted under applicable Law as a result of COVID-19 or any COVID-19 Measures. The terms and conditions of the Confidentiality Agreement will apply to any information obtained by Parent or any of its Representatives in connection with any investigation conducted pursuant to the access contemplated by this Section 6.6 (including pursuant the actions contemplated by Section 6.6 of the Company Disclosure Letter). All requests for access pursuant to this Section 6.6 must be directed to the Chief Legal Officer of the Company, or another person designated in writing by the Company. Following the execution and delivery of this Agreement, the Parties will use commercially reasonable efforts to take the actions set forth on Section 6.6 of the Company Disclosure Letter. For the avoidance of doubt, notwithstanding anything to the contrary contained herein, this Agreement shall not be deemed to prohibit any action taken pursuant to the preceding sentence.

6.7 *Section 16(b) Exemption*. The Company will take all actions reasonably necessary to cause the Merger, and any dispositions of equity securities of the Company (including derivative securities) in connection with the Merger by each individual who is a director or executive officer of the Company, to be exempt pursuant to Rule 16b-3 promulgated under the Exchange Act. Parent will take all actions reasonably necessary to cause the Merger, and any acquisitions of equity securities of Parent (including derivative securities) in connection with the Merger by each individual who is contemplated to become a director or executive officer of Parent, to be exempt pursuant to Rule 16b-3 promulgated under the Exchange Act.

6.8 *Directors' and Officers' Exculpation, Indemnification and Insurance*.

(a) *Indemnified Persons*. The Surviving Corporation will (and Parent shall cause the Surviving Corporation to) honor and fulfill, in all respects, the obligations of the Company pursuant to any indemnification agreements set forth on Section 6.8(a) of the Company Disclosure Letter in effect on the date of this Agreement between the Company, on the one hand, and any of its current or former

directors and officers, on the other hand, and the indemnification, exculpation and advancement of expenses provisions set forth in the Charter and the Bylaws as in effect on the date of this Agreement with respect to any of the Company's current or former directors and officers (collectively, the "**Indemnified Persons**"). In addition, during the period commencing at the Effective Time and ending on the sixth anniversary of the Effective Time, the Surviving Corporation will (and Parent will cause the Surviving Corporation to) cause the certificates of incorporation, bylaws and other similar organizational documents of the Surviving Corporation to contain provisions with respect to indemnification, exculpation and the advancement of expenses that are at least as favorable to the Indemnified Persons as the indemnification, exculpation and advancement of expenses provisions set forth in the Charter and the Bylaws as of the date of this Agreement. During such six-year period, such provisions may not be repealed, amended or otherwise modified in any manner except as required by applicable Law.

(b) *Indemnification Obligation*. Without limiting the generality of the provisions of Section 6.8(a), during the period commencing at the Effective Time and ending on the sixth anniversary of the Effective Time, the Surviving Corporation will (and Parent will cause the Surviving Corporation to) indemnify and hold harmless, to the fullest extent permitted by applicable Law or pursuant to any indemnification agreements set forth on Section 6.8(b) of the Company Disclosure Letter with the Company or any of its Subsidiaries in effect on the date of this Agreement, each Indemnified Person from and against any costs, fees and expenses (including attorneys' fees and investigation expenses), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement or compromise in connection with any Legal Proceeding, whether civil, criminal, administrative or investigative, to the extent that such Legal Proceeding arises, directly or indirectly, out of or pertains, directly or indirectly, to (i) any action or omission, or alleged action or omission, in such Indemnified Person's capacity as a director, officer, employee or agent of the Company or any of its Subsidiaries or other Affiliates (regardless of whether such action or omission, or alleged action or omission, occurred prior to, at or after the Effective Time); and (ii) the Merger, as well as any actions taken by the Company, Parent or Merger Sub with respect thereto, except that if, at any time prior to the sixth anniversary of the Effective Time, any Indemnified Person delivers to Parent a written notice asserting a claim for indemnification pursuant to this Section 6.8(b), then the claim asserted in such notice will survive the sixth anniversary of the Effective Time until such claim is fully and finally resolved. In the event of any such Legal Proceeding, (A) the Surviving Corporation will have the right to control the defense thereof after the Effective Time; (B) each Indemnified Person will be entitled to retain his or her own counsel (the fees and expenses of which will be paid by the Surviving Corporation), whether or not the Surviving Corporation elects to control the defense of any such Legal Proceeding; (C) the Surviving Corporation will advance all fees and expenses (including fees and expenses of any counsel) as incurred by an Indemnified Person in the defense of such Legal Proceeding, whether or not the Surviving Corporation elects to control the defense of any such Legal Proceeding upon receipt of an undertaking by or on behalf of such Indemnified Person to repay such amount if it is ultimately determined that such Indemnified Person is not entitled to be indemnified; and (D) no Indemnified Person will be liable for any settlement of such Legal Proceeding effected without his or her prior written consent. Notwithstanding anything to the contrary in this Agreement, none of Parent, the Surviving Corporation nor any of their respective Affiliates will settle or otherwise compromise or consent to the entry of any judgment with respect to, or otherwise seek the termination of, any Legal Proceeding for which indemnification may be sought by an Indemnified Person pursuant to this Agreement unless such settlement, compromise, consent or termination includes an unconditional release of all Indemnified Persons from all liability arising out of such Legal Proceeding. Any determination required to be made with respect to whether the conduct of any Indemnified Person complies or complied with any applicable standard will be made by independent legal counsel selected by the Surviving Corporation (which counsel will be reasonably acceptable to such Indemnified Person), the fees and expenses of which will be paid by the Surviving Corporation.

(c) *D&O Insurance*. During the period commencing at the Effective Time and ending on the sixth anniversary of the Effective Time, the Surviving Corporation will (and Parent will cause the Surviving Corporation to) maintain in effect the Company's current directors' and officers' liability insurance ("**D&O Insurance**") in respect of acts or omissions occurring at or prior to the Effective Time on terms (including with respect to coverage, conditions, retentions, limits and amounts) that are

equivalent to those of the D&O Insurance. In satisfying its obligations pursuant to this Section 6.8(c), the Surviving Corporation will not be obligated to pay annual premiums in excess of 350% of the amount paid by the Company for coverage for its last full fiscal year, which amount is set forth on Section 6.8(c) of the Company Disclosure Letter (such 350% amount, the "**Maximum Annual Premium**"). If the annual premiums of such insurance coverage exceed the Maximum Annual Premium, then the Surviving Corporation will be obligated to obtain a policy with the greatest coverage available for a cost not exceeding the Maximum Annual Premium from an insurance carrier with the same or better credit rating as the Company's current directors' and officers' liability insurance carrier. Prior to the Effective Time, and in lieu of maintaining the D&O Insurance pursuant to this Section 6.8(c), the Company may (or if Parent requests, the Company will) purchase a prepaid "tail" policy with respect to the D&O Insurance from an insurance carrier with the same or better credit rating as the Company's current directors' and officers' liability insurance carrier so long as the annual cost for such "tail" policy does not exceed the Maximum Annual Premium. If the Company purchases such a "tail" policy prior to the Effective Time, the Surviving Corporation will (and Parent will cause the Surviving Corporation to) maintain such "tail" policy in full force and effect and continue to honor its obligations thereunder for so long as such "tail" policy is in full force and effect.

(d) *Successors and Assigns*. If Parent, the Surviving Corporation or any of their respective successors or assigns will (i) consolidate with or merge into any other Person and not be the continuing or surviving corporation or entity in such consolidation or merger; or (ii) transfer all or substantially all of its properties and assets to any Person, then proper provisions will be made so that the successors and assigns of Parent, the Surviving Corporation or any of their respective successors or assigns will assume all of the obligations of Parent and the Surviving Corporation set forth in this Section 6.8.

(e) *No Impairment*. The obligations set forth in this Section 6.8 may not be terminated, amended or otherwise modified in any manner that adversely affects any Indemnified Person (or any other person who is a beneficiary pursuant to the D&O Insurance or the "tail" policy referred to in Section 6.8(c) (and their heirs and representatives)) without the prior written consent of such affected Indemnified Person or other person. Each of the Indemnified Persons or other persons who are beneficiaries pursuant to the D&O Insurance or the "tail" policy referred to in Section 6.8(c) (and their heirs and representatives) are intended to be third-party beneficiaries of this Section 6.8, with full rights of enforcement as if a Party. The rights of the Indemnified Persons (and other persons who are beneficiaries pursuant to the D&O Insurance or the "tail" policy referred to in Section 6.8(c) (and their heirs and representatives)) pursuant to this Section 6.8 will be in addition to, and not in substitution for, any other rights that such persons may have pursuant to (i) the Charter and Bylaws; (ii) the similar organizational documents of the Subsidiaries of the Company; (iii) any and all indemnification agreements entered into with the Company or any of its Subsidiaries; or (iv) applicable Law (whether at law or in equity).

(f) *Other Claims*. Nothing in this Agreement is intended to, or will be construed to, release, waive or impair any rights to directors' and officers' insurance claims pursuant to any applicable insurance policy or indemnification agreement that is or has been in existence with respect to the Company or any of its Subsidiaries for any of their respective directors, officers or other employees, it being understood and agreed that the indemnification provided for in this Section 6.8 is not prior to or in substitution for any such claims pursuant to such policies or agreements.

6.9 *Employee Matters*.

(a) *Acknowledgement*. Parent hereby acknowledges and agrees that a "change of control" (or similar phrase) within the meaning of each of the Employee Plans, as applicable, will occur as of the Effective Time.

(b) *Employment; Benefits*. The Surviving Corporation or one of its Subsidiaries will (and Parent will cause the Surviving Corporation or one of its Subsidiaries to) continue the employment of all employees of the Company and its Subsidiaries as of the Effective Time by taking such actions, if any, as are required by applicable Law. Subject to the terms of any Collective Bargaining Agreement, for a period of twelve months following the Effective Time, the Surviving Corporation and its Subsidiaries will (and Parent will cause the Surviving Corporation and its Subsidiaries to) either (i) maintain for the

benefit of each Continuing Employee the Employee Plans (other than Employee Plans from which equity awards are granted) of the Surviving Corporation or any of its Subsidiaries (the "**Company Plans**") at benefit levels that are, in the aggregate, no less than those in effect at the Company or its applicable Subsidiaries on the date of this Agreement, and provide target cash compensation and benefits (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment) to each Continuing Employee pursuant to such Company Plans; (ii) provide target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments to each Continuing Employee that, taken as a whole, are no less favorable in the aggregate than the target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments provided to such Continuing Employee immediately prior to the Effective Time ("**Comparable Plans**"); or (iii) provide some combination of Company Plans and Comparable Plans such that each Continuing Employee receives target cash compensation, benefits and severance payments that, taken as a whole, are no less favorable in the aggregate than the target cash compensation (other than any equity-based compensation, retention, transaction, milestone or other one-time bonus or payment), benefits and severance payments and benefits provided to such Continuing Employee immediately prior to the Effective Time. Notwithstanding anything in this Section 6.9(b) to the contrary, standard Parent compensation, benefits and/or severance that is provided to any Continuing Employee that would be provided to a similarly situated Parent employee shall be deemed to satisfy Parent's, the Surviving Corporation's and any Subsidiary's obligations under this Section 6.9(b).

(c) *New Plans*. To the extent that a Company Plan or Comparable Plan is made available to any Continuing Employee at or after the Effective Time, the Surviving Corporation and its Subsidiaries will (and Parent will cause the Surviving Corporation and its Subsidiaries to) cause to be granted to such Continuing Employee credit for all service with the Company and its Subsidiaries and their respective predecessors prior to the Effective Time for purposes of eligibility to participate, vesting and entitlement to benefits where length of service is relevant (including for purposes of vacation accrual and severance pay entitlement, but excluding for purposes of benefit accruals under any defined benefit pension plan or post-employment welfare plan), except that such service need not be credited to the extent that it would result in duplication of benefits. In addition, and without limiting the generality of the foregoing, (i) each Continuing Employee will be immediately eligible to participate, without any waiting period, in any and all employee benefit plans sponsored by the Surviving Corporation and its Subsidiaries (other than the Company Plans) (such plans, the "**New Plans**") to the extent that coverage pursuant to any such New Plan replaces coverage pursuant to a comparable Company Plan in which such Continuing Employee participates immediately before the Effective Time (such plans, the "**Old Plans**"); (ii) for purposes of each New Plan providing medical, dental, pharmaceutical, vision or disability benefits to any Continuing Employee, the Surviving Corporation will cause all waiting periods, pre-existing condition exclusions, evidence of insurability requirements and actively-at-work or similar requirements of such New Plan to be waived for such Continuing Employee and his or her covered dependents, to the extent waived under the corresponding Old Plan, and the Surviving Corporation will cause any eligible expenses incurred by such Continuing Employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date that such Continuing Employee's participation in the corresponding New Plan begins to be given full credit pursuant to such New Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such Continuing Employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with such New Plan, to the extent credited under the corresponding Old Plan; and (iii) credit the accounts of such Continuing Employees pursuant to any New Plan that is a flexible spending plan with any unused balance in the account of such Continuing Employee. Any vacation or paid time off accrued but unused by a Continuing Employee as of immediately prior to the Effective Time will be credited to such Continuing Employee following the Effective Time in accordance with the Company's vacation or paid time off policies in effect immediately prior to the Effective Time.

(d) *Termination of Company's 401(k) Plan*. If requested by Parent prior to the Closing Date, the Company will terminate any and all of the Company Plans that are intended to be qualified within the meaning of Code Sections 401(a) and 401(k) (each, a "**Company Qualified Plan**") effective as of the day immediately before the Closing Date but contingent upon the occurrence of the Effective Time

and reflected in the resolutions of the Company Board. In such event, prior to the Closing Date and thereafter (as applicable), the Company and Parent shall use commercially reasonable efforts to permit each Continuing Employee to make rollover contributions of "eligible rollover distributions" (within the meaning of Section 401(a)(31) of the Code) in cash or notes (representing plan loans from the Company Qualified Plan) in an amount equal to the eligible rollover distribution portion of the account balance distributable to such Continuing Employee from such Company Qualified Plan to the corresponding U.S. tax-qualified defined contribution plan maintained by Parent or one of its Subsidiaries (each, a "**Parent Qualified Plan**").

(e) *Existing Arrangements*. From and after the Effective Time, the Surviving Corporation will (and Parent will cause the Surviving Corporation to) honor all of the Employee Plans and compensation and severance arrangements in accordance with their terms as in effect immediately prior to the Effective Time. Notwithstanding the preceding sentence, nothing will require Parent, the Surviving Corporation or any Subsidiary thereof to continue any Employee Plan, Company Plan or Comparable Plan or prohibit the Surviving Corporation or any of its Subsidiaries from amending or terminating any such plans in accordance with their terms or if otherwise required pursuant to applicable Law.

(f) *No Third-Party Beneficiary Rights*. Notwithstanding anything to the contrary set forth in this Agreement, this Section 6.9 will not be deemed to (i) guarantee employment for any period of time for, or preclude the ability of Parent, the Surviving Corporation or any of their respective Subsidiaries to terminate the employment of any Continuing Employee for any reason; (ii) require Parent, the Surviving Corporation or any of their respective Subsidiaries to continue any Company Plan or prevent the amendment, modification or termination thereof after the Effective Time; or (iii) create any third-party beneficiary rights in any Person.

6.10 *Obligations of Merger Sub*. Parent will take all action necessary to cause Merger Sub and the Surviving Corporation to perform their respective obligations pursuant to this Agreement and to consummate the Merger upon the terms and subject to the conditions set forth in this Agreement. Parent and Merger Sub will be jointly and severally liable for the failure by either of them to perform and discharge any of their respective covenants, agreements and obligations pursuant to this Agreement.

6.11 *Notification of Certain Matters*.

(a) *Notification by the Company*. At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, the Company will give prompt notice to Parent upon becoming aware that any representation or warranty made by it in this Agreement has become untrue or inaccurate in any material respect, or of any failure by the Company to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it pursuant to this Agreement, in each case if and only to the extent that such untruth, inaccuracy, or failure would reasonably be expected to cause any of the conditions to the obligations of Parent and Merger Sub to consummate the Merger set forth in Section 7.2(a) or Section 7.2(b) to fail to be satisfied at the Closing, except that no such notification will affect or be deemed to modify any representation or warranty of the Company set forth in this Agreement or the conditions to the obligations of Parent and Merger Sub to consummate the Merger or the remedies available to the Parties under this Agreement (and no failure to provide any such notification shall be treated as a breach of any covenant or agreement for purposes of Section 7.2(b)). The terms and conditions of the Confidentiality Agreement apply to any information provided to Parent pursuant to this Section 6.11(a).

(b) *Notification by Parent*. At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the termination of this Agreement pursuant to Article VIII and the Effective Time, Parent will give prompt notice to the Company upon becoming aware that any representation or warranty made by Parent or Merger Sub in this Agreement has become untrue or inaccurate in any material respect, or of any failure by Parent or Merger Sub to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it pursuant to this Agreement, in each case if and only to the extent that such untruth, inaccuracy or failure would reasonably be expected to cause any of the conditions to the obligations of the Company to consummate the Merger set forth in Section 7.3(a) or Section 7.3(b) to fail to be

satisfied at the Closing, except that no such notification will affect or be deemed to modify any representation or warranty of Parent or Merger Sub set forth in this Agreement or the conditions to the obligations of the Company to consummate the Merger or the remedies available to the Parties under this Agreement (and no failure to provide any such notification shall be treated as a breach of any covenant or agreement for purposes of Section 7.3(b)). The terms and conditions of the Confidentiality Agreement apply to any information provided to the Company pursuant to this Section 6.11(b).

6.12 *Public Statements and Disclosure*. The initial press release concerning this Agreement and the Merger will be a joint press release reasonably acceptable to the Company and Parent. Thereafter, the Company (unless the Company Board has made a Company Board Recommendation Change) and Parent will use their respective reasonable best efforts to consult with the other Party before (a) participating in any media interviews; (b) engaging in any meetings or calls with analysts, institutional investors or other similar Persons; or (c) providing any statements that are public or are reasonably likely to become public, in any such case to the extent relating to the Merger, except that the Company and Parent will not be obligated to use their respective reasonable best efforts to consult with the other Party with respect to communications that are (x) required by applicable Law, regulation or stock exchange rule or listing agreement, (y) consistent with the initial press release or other mutually agreed communications (including the Proxy Statement and other public filings made with the SEC in connection with the Agreement or the Merger) or (z) internal communications to employees of the Company or its Subsidiaries or Parent or its Subsidiaries, as applicable, that, in the good faith assessment of the Company or Parent, as applicable, would not need to be publicly filed pursuant to applicable Law. Except as required by applicable Law, regulation, stock exchange rule or listing agreement, Parent and the Company will not issue any subsequent press release concerning this Agreement or the Merger without the other Party's consent.

6.13 *Specified and Transaction Litigation*.

(a) *Specified Litigation*. Prior to the Effective Time, the Company will provide Parent with prompt notice of any material updates to all Specified Litigation (including by providing copies of all pleadings with respect thereto) and keep Parent reasonably informed with respect to the status thereof. The Company will consult with Parent with respect to the defense and settlement of any Specified Litigation and will consider in good faith Parent's advice with respect to such Specified Litigation.

(b) *Transaction Litigation*. Prior to the Effective Time, the Company will provide Parent with prompt notice of all Transaction Litigation (including by providing copies of all pleadings with respect thereto) and keep Parent reasonably informed with respect to the status thereof. The Company will (a) give Parent the opportunity to participate in the defense, settlement or prosecution of any Transaction Litigation; and (b) consult with Parent with respect to the defense, settlement and prosecution of any Transaction Litigation and will consider in good faith Parent's advice with respect to such Transaction Litigation. The Company may not compromise, settle or come to an arrangement regarding, or agree to compromise, settle or come to an arrangement regarding, any Transaction Litigation unless Parent has consented thereto in writing.

6.14 *Stock Exchange Delisting; Deregistration*. Prior to the Effective Time, the Company will cooperate with Parent and use its reasonable best efforts to take, or cause to be taken, all actions and do, or cause to be done, all things reasonably necessary, proper or advisable on its part pursuant to applicable Law and the rules and regulations of NASDAQ to cause (a) the delisting of the Company Common Stock from NASDAQ as promptly as practicable after the Effective Time; and (b) the deregistration of the Company Common Stock pursuant to the Exchange Act as promptly as practicable after such delisting.

6.15 *Additional Agreements*. If at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation with full title to all properties, assets, rights, approvals, immunities and franchises of either of the Company or Merger Sub, then the proper officers and directors of each Party will use their reasonable best efforts to take such action. Without limiting the foregoing, the Company shall take the actions set forth on Section 6.15 of the Company Disclosure Letter.

6.16 *Senior Notes; Credit Facility.*

(a) *Senior Notes*. Notwithstanding anything to the contrary in this Agreement, prior to the Effective Time, the Company shall give any notices and take all other actions necessary in accordance with the terms of the Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Senior Notes, which actions shall include, without limitation, the Company (or its Subsidiaries) (i) giving any notices that may be required in connection with the Merger and the other transactions contemplated by this Agreement, (ii) preparing any supplemental indentures required in connection with the Merger and the other transactions contemplated by this Agreement and the consummation thereof to be executed and delivered to the Trustee at or prior to the Effective Time, in form and substance reasonably satisfactory to the Trustee and Parent, and (iii) delivering any opinions of counsel required to be delivered prior to the Effective Time and any officer's certificates or other documents or instruments, as may be necessary to comply with all of the terms and conditions of the Indenture, the First Supplemental Indenture and the Second Supplemental Indenture in connection with the Merger and the other transactions contemplated by this Agreement, provided that opinions of counsel required by the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, as may be necessary to comply with all of the terms and conditions of the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture in connection with the Merger and the other transactions contemplated by this Agreement shall be delivered by Parent and its counsel to the extent required to be delivered at or after the Effective Time.

(b) *Notifications under Senior Notes*. The Company shall provide Parent and its counsel reasonable opportunity to review and comment on any notices, certificates, press releases, supplemental indentures, legal opinions, officer's certificates or other documents or instruments required to be delivered pursuant to or in connection with the Indenture, the First Supplemental Indenture, the Second Supplemental Indenture or the Senior Notes in connection with the Merger and the other transactions contemplated by this Agreement prior to the dispatch or making thereof, and the Company shall promptly respond to any reasonable questions from, and reflect any reasonable comments made by, Parent or its counsel with respect thereto prior to the dispatch or making thereof.

(c) *Repurchase Transaction*. In connection with the Merger and the other transactions contemplated by this Agreement, in the event that Parent delivers a written notice (the "**Repurchase Transaction Notice**") to the Company no later than 5 Business Days prior to the Closing Date of its desire to consummate a repurchase offer, redemption or similar transaction, in each case in Parent's sole discretion, with respect to any or all of the Senior Notes (any such transaction, a "**Repurchase Transaction**"), with such Repurchase Transaction Notice to include a description of the proposed terms, conditions and timing of such Repurchase Transaction, each of the Company, Parent and Merger Sub shall use their respective reasonable best efforts to, and will use their respective reasonable best efforts to cause their respective Subsidiaries and Representatives (and, in the case of the Company, the Trustee under the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, as applicable) to, cooperate with one another in good faith to permit such Repurchase Transaction to be effected on such terms, conditions and timing as set forth in the Repurchase Transaction Notice (subject to applicable law and the terms and conditions under the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, as applicable), including if so requested by Parent in the Repurchase Transaction Notice, causing such Repurchase Transaction to be consummated substantially concurrently with, but not prior to, the Closing, and the Company shall prepare and deliver, or cause to be delivered, any required documentation related thereto in form and substance reasonably satisfactory to Parent; it being understood that (i) in no event shall the Company be required to prepare or commence any documentation or action for any Repurchase Transaction that will result in such Repurchase Transaction being effective prior to the Effective Time or incur any cost or expense in connection with such Repurchase Transaction unless Parent agrees to reimburse the Company for all costs and expenses incurred by the Company in connection therewith and (ii) any opinions of counsel required by the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, as may be necessary to comply with all of the terms and conditions of the Indenture, the First Supplemental Indenture or the Second Supplemental Indenture in connection with the Repurchase Transaction shall be delivered by Parent and its counsel to the extent required to be delivered at or after the Effective Time.

(d) *Payoff of Credit Facility*. On or prior to the third Business Day prior to the Closing Date, the Company shall use reasonable best efforts to deliver to Parent a copy of (A) the payoff letter (the "**Payoff Letter**") in customary form from the Administrative Agent (as defined in the Credit Facility Agreement) for the Credit Facility and (B) any UCC 3 termination statements and similar instruments terminating any liens against any assets of the Company and its Subsidiaries in connection with the Credit Facility. The Payoff Letter shall (i) state the total amount required to be paid as of the anticipated Closing Date (and the daily accrual thereafter) to fully satisfy all principal, interest (including the per diem interest amount), prepayment premiums, penalties or similar obligations and all fees, costs and expenses under the Credit Facility Agreement, together with appropriate wire instructions, (ii) state that upon receipt of the applicable payoff amount, the Credit Facility Agreement and related loan documentation shall be terminated, (iii) state that all Liens and all guarantees in connection therewith relating to the assets and properties of the Company and its Subsidiaries securing the Credit Facility shall be, upon the receipt of the payoff amount and the filing of any necessary termination statements or similar documentation, released and terminated and (iv) agree to take any actions reasonably requested by the Company to release such Liens and guarantees securing the Credit Facility after the receipt of the payoff amounts. The Company shall, and shall cause its Subsidiaries to, use reasonable best efforts to take all actions reasonably requested by Parent (including delivery of any prepayment notices) to payoff, discharge and terminate the commitments under the Credit Facility Agreement, repay in full all borrowings and obligations (other than with respect to letters of credit that will be backstopped or cash collateralized with the prior written consent (not to be unreasonably withheld or delayed) of Parent or other obligations that will survive such termination) then outstanding under the Credit Facility and the release of any Liens and termination of all guarantees in connection therewith (such termination, repayment and release, the "**Revolving Credit Facility Termination**") substantially concurrently with, but not prior to, the Closing; it being understood that in no event shall the Company be required to take any such action that will result in the Revolving Credit Facility Termination being effective prior to the Effective Time or incur any cost or expense in connection with such Revolving Credit Facility Termination unless Parent agrees to reimburse the Company for all costs and expenses incurred by the Company in connection therewith.

6.17 *Parent Vote; Merger Sub.*

(a) Immediately following the execution and delivery of this Agreement, Parent or its applicable direct or indirect Subsidiary, in its capacity as the sole stockholder of Merger Sub, will execute and deliver to Merger Sub a written consent adopting the Agreement in accordance with the DGCL.

(b) Parent shall ensure that Merger Sub duly performs, satisfies and discharges each of the covenants, obligations and liabilities of Merger Sub under this Agreement pursuant to the terms and conditions of this Agreement, and Parent shall be jointly and severally liable with Merger Sub for the failure by Merger Sub to perform and satisfy each such covenant, obligation and liability in accordance with the terms of this Agreement.

(c) During the period from the date of this Agreement through the earlier of the Effective Time or the date of termination of this Agreement, Merger Sub shall not engage in any activities of any nature, except as provided in or contemplated by this Agreement.

6.18 *Tax Matters*.

(a) The Company and its Subsidiaries shall cooperate reasonably, as and to the extent reasonably requested by Parent, in providing any information regarding the Tax matters of the Company and its Subsidiaries. Such cooperation shall include making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. In addition to the foregoing, the Company and its Subsidiaries shall use reasonable efforts after the date hereof to promptly provide Parent with the information requested pursuant to Section 6.18(a) of the Company Disclosure Letter, to the extent reasonably available.

(b) The Company and its Subsidiaries will (i) promptly notify Parent (including a description of the applicable matter and relevant materials) if the Company receives from any Governmental Authority any material notice of deficiency, proposed adjustment, or assessment, or any notice indicating an

intent to commence any material Tax Contest, and (ii) keep Parent reasonably informed of any material development in such matter and consider in good faith Parent's comments with respect to the defense of such matter.

ARTICLE VII
CONDITIONS TO THE MERGER

7.1 *Conditions to Each Party's Obligations to Effect the Merger*. The respective obligations of Parent, Merger Sub and the Company to consummate the Merger are subject to the satisfaction or waiver (where permissible pursuant to applicable Law) prior to the Effective Time of each of the following conditions:

(a) *Requisite Stockholder Approval*. The Company's receipt of the Requisite Stockholder Approval at the Company Stockholder Meeting.

(b) *Competition Approvals*. The waiting periods (and any extensions thereof), if any, applicable to the Merger pursuant to the HSR Act (or under any applicable timing agreements or commitments entered into with or made to the FTC or the DOJ to extend any waiting period or not close the transactions contemplated hereby) and the other Laws set forth in Section 7.1(b) of the Company Disclosure Letter will have expired or otherwise been terminated, or all requisite clearances, consents, and approvals pursuant thereto will have been obtained in each case, without the imposition, individually or in the aggregate, of a Burdensome Condition.

(c) *Other Regulatory Approvals*. The waiting periods (and any extensions thereof), if any, applicable to the Merger pursuant to any of the Laws set forth in Section 7.1(c) of the Company Disclosure Letter will have expired or otherwise been terminated, or all requisite clearances, consents, and approvals pursuant thereto will have been obtained in each case, without the imposition, individually or in the aggregate, of a Burdensome Condition.

(d) *No Prohibitive Laws or Injunctions*. No temporary restraining order, preliminary or permanent injunction or other judgment or order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger will be in effect, nor will any action have been taken by any Governmental Authority of competent jurisdiction, and no statute, rule, regulation or order will have been enacted, entered, enforced or deemed applicable to the Merger, that in each case (i) prohibits, makes illegal, or enjoins (or seeks to prohibit, make illegal or enjoin) the consummation of the Merger or (ii) imposes or seeks to impose a Burdensome Condition.

7.2 *Conditions to the Obligations of Parent and Merger Sub*. The obligations of Parent and Merger Sub to consummate the Merger will be subject to the satisfaction or waiver (where permissible pursuant to applicable Law) prior to the Effective Time of each of the following conditions, any of which may be waived exclusively by Parent:

(a) *Representations and Warranties*.

(i) Other than the representations and warranties listed in Section 7.2(a)(ii), Section 7.2(a)(iii) and Section 7.2(a)(iv), the representations and warranties of the Company set forth in this Agreement will be true and correct (without giving effect to any materiality or Company Material Adverse Effect qualifications set forth therein) as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for such failures to be true and correct that would not have or reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(ii) The representations and warranties set forth in Section 3.1, Section 3.2, Section 3.3, Section 3.4, the second sentence of Section 3.12(a) and Section 3.26 that (A) are not qualified by "material," "materiality" or Company Material Adverse Effect will be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of

an earlier date, in which case such representation and warranty will be so true and correct as of such earlier date); and (B) that are qualified by "material," "materiality" or Company Material Adverse Effect will be true and correct (without disregarding such "material," "materiality" or Company Material Adverse Effect qualifications) as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be so true and correct as of such earlier date).

(iii) The representations and warranties set forth in Section 3.8(b) and Section 3.8(c) will be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date.

(iv) The representations and warranties set forth in Section 3.7(a), the second sentence of Section 3.7(b), the second sentence of Section 3.7(c) and Section 3.7(d)(i)-(v) will be true and correct as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for such inaccuracies that are *de minimis* in the aggregate (viewed in the context of the Company's total capitalization).

(b) *Performance of Obligations of the Company*. The Company will have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by it at or prior to the Closing.

(c) *Officer's Certificate*. Parent and Merger Sub will have received a certificate of the Company, validly executed for and on behalf of the Company and in its name by a duly authorized executive officer thereof, certifying that the conditions set forth in Section 7.2(a) and Section 7.2(b) have been satisfied.

(d) *Company Material Adverse Effect*. No Company Material Adverse Effect will have occurred after the date of this Agreement that is continuing.

7.3 *Conditions to the Company's Obligations to Effect the Merger*. The obligations of the Company to consummate the Merger are subject to the satisfaction or waiver (where permissible pursuant to applicable Law) prior to the Effective Time of each of the following conditions, any of which may be waived exclusively by the Company:

(a) *Representations and Warranties*. The representations and warranties of Parent and Merger Sub set forth in this Agreement will be true and correct as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), except for any such failure to be true and correct that would not have or reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) *Performance of Obligations of Parent and Merger Sub*. Parent and Merger Sub will have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by Parent and Merger Sub at or prior to the Closing.

(c) *Officer's Certificate*. The Company will have received a certificate of Parent and Merger Sub, validly executed for and on behalf of Parent and Merger Sub and in their respective names by a duly authorized officer thereof, certifying that the conditions set forth in Section 7.3(a) and Section 7.3(b) have been satisfied.

ARTICLE VIII
TERMINATION, AMENDMENT AND WAIVER

8.1 *Termination*. This Agreement may be validly terminated at any time prior to the Effective Time, whether prior to or after receipt of the Requisite Stockholder Approval (except as provided herein) only as follows (it being understood and agreed that this Agreement may not be terminated for any other reason or on any other basis):

(a) by mutual written agreement of Parent and the Company;

(b) by either Parent or the Company if (i) any permanent injunction or other judgment or order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger will be in effect, or any action has been taken by any Governmental Authority of competent jurisdiction, that, in each case, prohibits, makes illegal or enjoins the consummation of the Merger and has become final and non-appealable; or (ii) any statute, rule, regulation or order will have been enacted, entered, enforced or deemed applicable to the Merger that prohibits, makes illegal or enjoins the consummation of the Merger (either of clause (i) or (ii), an "**Injunction**"), except that the right to terminate this Agreement pursuant to this Section 8.1(b) will not be available if the terminating Party's material breach of any provision of this Agreement is the primary cause of the failure of the Merger to be consummated by the Termination Date;

(c) by either Parent or the Company if the Effective Time has not occurred by 11:59 p.m., Pacific time, on January 18, 2023 (such time and date, the "**Initial Termination Date**," and the Initial Termination Date, as it may be extended pursuant to this Section 8.1(c), the "**Termination Date**"), except that (i) if as of the Initial Termination Date all conditions to this Agreement are satisfied (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing) or waived (where permissible pursuant to applicable Law), other than the conditions set forth in Section 7.1(b), Section 7.1(c) or Section 7.1(d) (solely in connection with an Antitrust Law or Foreign Investment Law), then the Termination Date shall automatically be extended to 11:59 p.m., Pacific time, on April 18, 2023, and (ii) if as of 11:59 p.m., Pacific time, on April 18, 2023, all conditions to this Agreement are satisfied (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing) or waived (where permissible pursuant to applicable Law), other than the conditions set forth in Section 7.1(b), Section 7.1(c) or Section 7.1(d) (solely in connection with an Antitrust Law or Foreign Investment Law), then the Termination Date shall automatically be extended to 11:59 p.m., Pacific time, on July 18, 2023, unless, in the case of each of clauses (i) and (ii), Parent and the Company mutually agree prior to such time in writing that the Termination Date will not be so extended, it being understood that the right to terminate this Agreement pursuant to this Section 8.1(c) will not be available if the terminating Party's material breach of any provision of this Agreement is the primary cause of the failure of the Merger to be consummated by the Termination Date;

(d) by either Parent or the Company if the Company fails to obtain the Requisite Stockholder Approval at the Company Stockholder Meeting (or any adjournment or postponement thereof) at which a vote is taken on the adoption of this Agreement, except that the right to terminate this Agreement pursuant to this Section 8.1(d) will not be available to any Party whose material breach of any provision of this Agreement has been the primary cause of the failure to obtain the Requisite Stockholder Approval at the Company Stockholder Meeting (or any adjournment or postponement thereof);

(e) by Parent, if the Company has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform would (if the Closing were scheduled to occur at such time) result in a failure of a condition set forth in Section 7.2(a) or Section 7.2(b), except that if such breach is capable of being cured by the Termination Date, Parent will not be entitled to terminate this Agreement prior to the delivery by Parent to the Company of written notice of such breach, stating Parent's intention to terminate this Agreement pursuant to this Section 8.1(e) and the basis for such termination, delivered at least 30 days prior to such termination, or, if earlier, the Termination Date, it being understood that Parent will not be entitled to terminate this Agreement (i) if such breach has been cured prior to termination or (ii) if Parent itself is in breach of any provision of this Agreement or has failed to perform or comply with, or if there is any inaccuracy of, any of its representations, warranties, covenants or agreements set forth in this Agreement, and which breach, failure or inaccuracy would result in the failure of the conditions set forth in Section 7.3(a) or Section 7.3(b);

(f) by Parent, if at any time the Company Board (or a committee thereof) has effected a Company Board Recommendation Change;

(g) by the Company, if Parent or Merger Sub has breached or failed to perform in any material respect any of its respective representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform would (if the Closing were scheduled to occur at such time) result in a failure of a condition set forth in Section 7.3(a) or Section 7.3(b), except that if such breach is capable of being cured by the Termination Date, the Company will not be entitled to terminate this Agreement prior to the delivery by the Company to Parent of written notice of such breach, stating the Company's intention to terminate this Agreement pursuant to this Section 8.1(g) and the basis for such termination, delivered at least 30 days prior to such termination, or, if earlier, the Termination Date, it being understood that the Company will not be entitled to terminate this Agreement (i) if such breach has been cured prior to termination or (ii) if the Company itself is in breach of any provision of this Agreement or has failed to perform or comply with, or if there is any inaccuracy of, any of its representations, warranties, covenants or agreements set forth in this Agreement, and which breach, failure or inaccuracy would result in the failure of the conditions set forth in Section 7.2(a) or Section 7.2(b); or

(h) by the Company, at any time prior to receiving the Requisite Stockholder Approval if (i) the Company has received a Superior Proposal; (ii) the Company Board has authorized the Company to enter into an Alternative Acquisition Agreement to consummate the Acquisition Transaction contemplated by that Superior Proposal and the Company pays or causes to be paid to Parent (or its designee) the Company Termination Fee pursuant to Section 8.3(b)(iii); and (iii) the Company has complied with Section 5.3(d)(ii) with respect to such Superior Proposal.

8.2 *Manner and Notice of Termination; Effect of Termination*.

(a) *Manner of Termination*. The Party terminating this Agreement pursuant to Section 8.1 (other than pursuant to Section 8.1(a)) must deliver prompt written notice thereof to the other Parties setting forth in reasonable detail the provision of Section 8.1 pursuant to which this Agreement is being terminated and the facts and circumstances forming the basis for such termination pursuant to such provision.

(b) *Effect of Termination*. Any proper and valid termination of this Agreement pursuant to Section 8.1 will be effective immediately upon the delivery of written notice by the terminating Party to the other Parties. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement will be of no further force or effect without liability of any Party (or any partner, member, stockholder, director, officer, employee, affiliate, agent or other representative of such Party) to the other Parties, as applicable, except that Section 3.27, Section 4.10, Section 6.12, the reimbursement obligations of Parent set forth in Section 6.16(c), this Section 8.2, Section 8.3 and Article IX will each survive the termination of this Agreement. Notwithstanding the foregoing, nothing in this Agreement will relieve any Party from any liability for any willful breach of this Agreement. For purposes of this Agreement, "willful breach" means a material breach that is a consequence of an act taken by the breaching party, or the failure by the breaching party to take an act it is required to take under this Agreement, in each case with actual knowledge that the taking of, or the failure to take, such act would, or would be reasonably expected to, cause a breach of this Agreement. In addition to the foregoing, no termination of this Agreement will affect the rights or obligations of any Party pursuant to the Confidentiality Agreement, which rights, obligations and agreements will survive the termination of this Agreement in accordance with their respective terms.

8.3 *Fees and Expenses*.

(a) *General*. Except as set forth in this Section 8.3, all fees and expenses incurred in connection with this Agreement and the Merger will be paid by the Party incurring such fees and expenses whether or not the Merger is consummated. For the avoidance of doubt, Parent or the Surviving Corporation will be responsible for all fees and expenses of the Paying Agent.

(b) *Company Termination Fee*.

(i) *Future Transaction*. If (A) this Agreement is terminated pursuant to (1) Section 8.1(c), and at the time of such termination, either (x) the Company Stockholder Meeting has not yet been held or (y) the condition in Section 7.1(b), Section 7.1(c) or Section 7.1(d) has not been satisfied

and the primary cause of the failure of either such condition to be satisfied was a breach of any provision of this Agreement by the Company, (2) Section 8.1(d) or (3) Section 8.1(e); (B) following the execution and delivery of this Agreement and prior to such termination of this Agreement pursuant to Section 8.1(c), Section 8.1(d) or Section 8.1(e) an Acquisition Proposal has been publicly announced (i) on or prior to the date of the Company Stockholder Meeting, with respect to any termination pursuant to Section 8.1(d) or (ii) on or prior to the date of such termination, with respect to any termination pursuant to Section 8.1(c) or Section 8.1(e); and (C) within one year of such termination of this Agreement pursuant to Section 8.1(c), Section 8.1(d) or Section 8.1(e), either an Acquisition Transaction is consummated or the Company enters into a definitive agreement providing for the consummation of an Acquisition Transaction, then the Company will promptly (and in any event within two Business Days) after the earlier of the (1) entry into such definitive agreement or (2) consummation of such Acquisition Transaction pay to Parent (or its designee) an amount equal to $2,270,100,000 (the "**Company Termination Fee**") by wire transfer of immediately available funds to an account or accounts designated in writing by Parent. For purposes of this Section 8.3(b)(i), all references to "15%" in the definition of "Acquisition Transaction" will be deemed to be references to "50%."

(ii) *Company Board Recommendation Change*. If this Agreement is terminated pursuant to Section 8.1(f), then the Company will promptly (and in any event within two Business Days) following such termination pay to Parent (or its designee) the Company Termination Fee by wire transfer of immediately available funds to an account or accounts designated in writing by Parent.

(iii) *Superior Proposal*. If this Agreement is terminated pursuant to Section 8.1(h), then the Company will concurrently with such termination pay or cause to be paid to Parent the Company Termination Fee by wire transfer of immediately available funds to an account or accounts designated in writing by Parent.

(c) *Parent Termination Fee*. If this Agreement is terminated pursuant to (x) Section 8.1(b) due to an Injunction arising from Antitrust Laws or (y) Section 8.1(c) and all conditions to this Agreement are satisfied (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing) or waived (where permissible pursuant to applicable Law), other than the conditions set forth in Section 7.1(b) or Section 7.1(d) (solely in connection with an Antitrust Law), and, in either case of clause (x) or (y), the Company is not then in material breach of any provision of this Agreement (provided that any breach by the Company that is the primary cause of the failure of any condition to this Agreement to be satisfied shall be considered a material breach), then Parent shall promptly pay (or cause to be paid) to the Company (i) if such termination notice is provided prior to January 18, 2023, an amount equal to $2,000,000,000, (ii) if such termination notice is provided after January 18, 2023, and prior to April 18, 2023, an amount equal to $2,500,000,000 or (iii) if such termination notice is provided at any time after April 18, 2023, an amount equal to $3,000,000,000 (any fee payable pursuant to clause (i), (ii) or (iii), the "**Parent Termination Fee**") by wire transfer of immediately available funds to an account or accounts designated in writing by Company.

(d) *Single Payment Only*. The Parties acknowledge and agree that in no event will the Company be required to pay the Company Termination Fee on more than one occasion and in no event will Parent be required to pay the Parent Termination Fee on more than one occasion, whether or not the Company Termination Fee or the Parent Termination Fee may be payable pursuant to more than one provision of this Agreement at the same or at different times and upon the occurrence of different events.

(e) *Payments; Default*. The Parties acknowledge that the agreements contained in this Section 8.3 are an integral part of the Merger, and that, without these agreements, the Parties would not enter into this Agreement. Accordingly, if a Party fails to promptly pay any amount due pursuant to Section 8.3(b) or Section 8.3(c) and, in order to obtain such payment, the other Party commences a Legal Proceeding that results in a judgment against such Party for the amount set forth in Section 8.3(b) or Section 8.3(c) or any portion thereof, the Party that has failed to make such payment will pay to the other Party its out-of-pocket costs and expenses (including attorneys' fees) in connection with such Legal Proceeding, together with interest on such amount or portion thereof at the annual rate of the prime rate as published in *The Wall Street Journal* in effect on the date that such payment or portion

thereof was required to be made through the date that such payment or portion thereof was actually received, or a lesser rate that is the maximum permitted by applicable Law.

8.4 *Amendment*. Subject to applicable Law and subject to the other provisions of this Agreement, this Agreement may be amended by the Parties at any time by execution of an instrument in writing signed on behalf of each of Parent, Merger Sub and the Company (pursuant to authorized action by the Company Board (or a committee thereof)), except that in the event that the Company has received the Requisite Stockholder Approval, no amendment may be made to this Agreement that requires the approval of the Company Stockholders pursuant to the DGCL without such approval.

8.5 *Extension; Waiver*. At any time and from time to time prior to the Effective Time, any Party may, to the extent legally allowed and except as otherwise set forth herein, (a) extend the time for the performance of any of the obligations or other acts of the other Parties, as applicable; (b) waive any inaccuracies in the representations and warranties made to such Party contained herein or in any document delivered pursuant hereto; and (c) subject to the requirements of applicable Law, waive compliance with any of the agreements or conditions for the benefit of such Party contained herein. Any agreement on the part of a Party to any such extension or waiver will be valid only if set forth in an instrument in writing signed by such Party. Any delay in exercising any right pursuant to this Agreement will not constitute a waiver of such right.

ARTICLE IX
GENERAL PROVISIONS

9.1 *Survival of Representations, Warranties and Covenants*. The representations, warranties and covenants of the Company, Parent and Merger Sub contained in this Agreement will terminate at the Effective Time, except for Section 3.27 and Section 4.10 and that any covenants that by their terms survive the Effective Time will survive the Effective Time in accordance with their respective terms.

9.2 *Notices*. All notices and other communications hereunder must be in writing and will be deemed to have been duly delivered and received hereunder (i) four Business Days after being sent by registered or certified mail, return receipt requested, postage prepaid; (ii) one Business Day after being sent for next Business Day delivery, fees prepaid, via a reputable nationwide overnight courier service; (iii) immediately upon delivery by hand; or (iv) at the time sent (if sent before 5:00 p.m., addressee's local time and on the next Business Day if sent after 5:00 p.m., addressee's local time), if sent by email of a .pdf, .tif, .gif, .jpg or similar attachment; provided, that any notice provided by email shall state in such email that it is a notice delivered pursuant to this Section 9.2, in each case to the intended recipient as set forth below:

(a) if to Parent or Merger Sub to:

Microsoft Corporation
One Microsoft Way
Redmond, Washington 98052-6399
Attn: Amy Hood
Keith R. Dolliver
Email: amyhood@microsoft.com
keithd@microsoft.com

with a copy (which will not constitute notice) to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attn: Alan M. Klein
Anthony F. Vernace
William J. Allen
Email: aklein@stblaw.com
avernace@stblaw.com
william.allen@stblaw.com

(b) if to the Company (prior to the Effective Time) to:

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405
Attn: Grant Dixton
Email: Grant.Dixton@activision.com

with a copy (which will not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
525 University Avenue
Palo Alto, California 94301
Attn: Kenton J. King
Sonia K. Nijjar
Email: kenton.king@skadden.com
sonia.nijjar@skadden.com

Any notice received at the addressee's location on any Business Day after 5:00 p.m., addressee's local time, or on any day that is not a Business Day will be deemed to have been received at 9:00 a.m., addressee's local time, on the next Business Day. From time to time, any Party may provide notice to the other Parties of a change in its address through a notice given in accordance with this Section 9.2, except that notice of any change to the address or any of the other details specified in or pursuant to this Section 9.2 will not be deemed to have been received until, and will be deemed to have been received upon, the later of the date (A) specified in such notice; or (B) that is five Business Days after such notice would otherwise be deemed to have been received pursuant to this Section 9.2.

9.3 *Assignment*. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Parties; provided, that, Parent and Merger Sub may assign any or all of their rights, interests and obligations to Affiliates of Parent or Merger Sub without the prior written approval of any other Party. Subject to the preceding sentence, this Agreement will be binding upon and will inure to the benefit of the Parties and their respective successors and permitted assigns. No assignment by any Party will relieve such Party of any of its obligations hereunder.

9.4 *Confidentiality*. Parent, Merger Sub and the Company hereby acknowledge that Parent and the Company have previously executed a non-disclosure agreement, dated December 6, 2021 (the "**Confidentiality Agreement**"), that will continue in full force and effect in accordance with its terms. Each of Parent, Merger Sub, the Company and their respective Representatives will hold and treat all documents and information concerning the other Parties furnished or made available to them or their respective Representatives in connection with the Merger in accordance with the Confidentiality Agreement.

9.5 *Entire Agreement*. This Agreement and the documents and instruments and other agreements among the Parties as contemplated by or referred to herein, including the Confidentiality Agreement and the Company Disclosure Letter, constitute the entire agreement among the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the Parties with respect to the subject matter hereof. Notwithstanding anything to the contrary in this Agreement, the Confidentiality Agreement will (a) not be superseded; (b) survive any termination of this Agreement; and (c) continue in full force and effect until the earlier to occur of the Effective Time and the date on which the Confidentiality Agreement expires in accordance with its terms or is validly terminated by the parties thereto.

9.6 *Third-Party Beneficiaries*. Except as set forth in Section 6.8 and this Section 9.6, the Parties agree that their respective representations, warranties and covenants set forth in this Agreement are solely for the benefit of the other Parties in accordance with and subject to the terms of this Agreement. This Agreement is not intended to, and will not, confer upon any other Person any rights or remedies hereunder, except (a) as set forth in or contemplated by Section 6.8 and (b) from and after the Effective Time, the rights of the holders of shares of Company Common Stock, Company Options and Company Stock-Based Awards to receive the Merger Consideration set forth in Article II.

9.7 *Severability*. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other Persons or circumstances will be interpreted so as reasonably to effect the intent of the Parties. The Parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

9.8 *Remedies*.

(a) *Remedies Cumulative*. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby or by law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy.

(b) *Specific Performance*.

(i) The Parties agree that irreparable damage for which monetary damages, even if available, would not be an adequate remedy would occur in the event that the Parties do not perform the provisions of this Agreement (including any Party failing to take such actions as are required of it hereunder in order to consummate this Agreement) in accordance with its specified terms or otherwise breach such provisions. The Parties acknowledge and agree that (A) they will be entitled, in addition to any other remedy to which they are entitled at law or in equity, to an injunction, specific performance and other equitable relief to prevent breaches (or threatened breaches) of this Agreement and to enforce specifically the terms and provisions hereof; and (B) the right of specific enforcement is an integral part of the Merger and without that right, neither the Company nor Parent would have entered into this Agreement.

(ii) The Parties agree not to raise any objections to (A) the granting of an injunction, specific performance or other equitable relief to prevent or restrain breaches or threatened breaches of this Agreement by the Company, on the one hand, or Parent and Merger Sub, on the other hand; and (B) the specific performance of the terms and provisions of this Agreement to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants, obligations and agreements of the Company, Parent and Merger Sub pursuant to this Agreement. Any Party seeking an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement will not be required to provide any bond or other security in connection with such injunction or enforcement, and each Party irrevocably waives any right that it may have to require the obtaining, furnishing or posting of any such bond or other security.

9.9 *Governing Law*. This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the State of Delaware, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of Delaware.

9.10 *Consent to Jurisdiction*. Each of the Parties (a) irrevocably consents to the service of the summons and complaint and any other process (whether inside or outside the territorial jurisdiction of the Chosen Courts) in any Legal Proceeding relating to the Merger, for and on behalf of itself or any of its properties or assets, in accordance with Section 9.2 or in such other manner as may be permitted by applicable Law, but nothing in this Section 9.10 will affect the right of any Party to serve legal process in any other manner permitted by applicable Law; (b) irrevocably and unconditionally consents and submits itself and its properties and assets in any Legal Proceeding to the exclusive general jurisdiction of the Chosen Courts in the event that any dispute or controversy arises out of this Agreement or the Merger; (c) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any Chosen Court; (d) agrees that any Legal Proceeding arising in connection with this Agreement or the Merger will be brought, tried and determined only in the Chosen Courts; (e) waives any objection that it may now or hereafter have to the venue of any such Legal Proceeding in the Chosen Courts or that such Legal Proceeding was brought in an inconvenient court and agrees not to plead or claim the same; and (f) agrees that

it will not bring any Legal Proceeding relating to this Agreement or the Merger in any court other than the Chosen Courts. Each of Parent, Merger Sub and the Company agrees that a final judgment in any Legal Proceeding in the Chosen Courts will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Law.

9.11 *WAIVER OF JURY TRIAL*. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE PURSUANT TO THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT THAT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE MERGER. EACH PARTY ACKNOWLEDGES AND AGREES THAT (a) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (b) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (c) IT MAKES THIS WAIVER VOLUNTARILY; AND (d) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

9.12 *Counterparts*. This Agreement and any amendments hereto may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties, it being understood that all Parties need not sign the same counterpart. Any such counterpart, to the extent delivered by .pdf, .tif, .gif, .jpg or similar attachment to electronic mail (any such delivery, an "**Electronic Delivery**"), will be treated in all manner and respects as an original executed counterpart and will be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. No Party may raise the use of an Electronic Delivery to deliver a signature, or the fact that any signature or agreement or instrument was transmitted or communicated through the use of an Electronic Delivery, as a defense to the formation of a contract, and each Party forever waives any such defense, except to the extent such defense relates to lack of authenticity.

9.13 *No Limitation*. It is the intention of the Parties that, to the extent possible, unless provisions are mutually exclusive and effect cannot be given to both or all such provisions, the representations, warranties, covenants and closing conditions in this Agreement will be construed to be cumulative and that each representation, warranty, covenant and closing condition in this Agreement will be given full, separate and independent effect and nothing set forth in any provision herein will (except to the extent expressly stated) in any way be deemed to limit the scope, applicability or effect of any other provision hereof.

[*Signature page follows*.]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first written above.

MICROSOFT CORPORATION

By: /s/ Satya Nadella

Name: Satya Nadella
Title: Chairman and Chief Executive Officer

[Signature Page to Agreement and Plan of Merger]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first written above.

ANCHORAGE MERGER SUB INC.

By: /s/ Keith R. Dolliver

Name: Keith R. Dolliver
Title: President and Treasurer

[Signature Page to Agreement and Plan of Merger]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first written above.

ACTIVISION BLIZZARD, INC.

By: /s/ Robert A. Kotick

Name: Robert A. Kotick
Title: Chief Executive Officer

[Signature Page to Agreement and Plan of Merger]

Exhibit A

[*See Attached*]

ANNEX B

APPRAISAL RIGHTS OF STOCKHOLDERS
DELAWARE GENERAL CORPORATION LAW

§ 262. Appraisal rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in 1 or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation (or, in the case of a merger pursuant to § 251(h), as of immediately prior to the execution of the agreement of merger), were either: (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (b)(1) of this section, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a. and b. of this section; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a., b. and c. of this section.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(4) Repealed by 82 Laws 2020, ch. 256, § 15.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the provisions of this section, including those set forth in subsections (d), (e), and (g) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares; provided that a demand may be delivered to the corporation by electronic transmission if directed to an information processing system (if any) expressly designated for that purpose in such notice. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 251(h), § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of giving such notice or, in the case of a merger approved pursuant to § 251(h) of this title, within the later of the consummation of the offer contemplated by § 251(h) of this title and 20 days after the date of giving such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares; provided that a demand may be delivered to the corporation by electronic transmission if directed to an information processing system (if any) expressly designated for that purpose in such notice. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within

10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice or, in the case of a merger approved pursuant to § 251(h) of this title, later than the later of the consummation of the offer contemplated by § 251(h) of this title and 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon request given in writing (or by electronic transmission directed to an information processing system (if any) expressly designated for that purpose in the notice of appraisal), shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation (or, in the case of a merger approved pursuant to § 251(h) of this title, the aggregate number of shares (other than any excluded stock (as defined in § 251(h)(6)d. of this title)) that were the subject of, and were not tendered into, and accepted for purchase or exchange in, the offer referred to in § 251(h)(2)), and, in either case, with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such statement shall be given to the stockholder within 10 days after such stockholder's request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder. If immediately before the merger or consolidation the shares of the class or series of stock of the constituent corporation as to which appraisal rights are available were listed on a national securities exchange, the Court shall dismiss the proceedings as to all holders of such shares who are otherwise entitled to appraisal rights unless (1) the total number of shares entitled to appraisal exceeds 1% of the outstanding shares of the class or series eligible for appraisal, (2) the value of the consideration provided in the merger or consolidation for such total number of shares exceeds $1 million, or (3) the merger was approved pursuant to § 253 or § 267 of this title.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, and except as provided in this subsection, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. At any time before the entry of judgment in the proceedings, the surviving corporation may pay to each stockholder entitled to appraisal an amount in cash, in which case interest shall accrue thereafter as provided herein only upon the sum of (1) the difference, if any, between the amount so paid and the fair value of the shares as determined by the Court, and (2) interest theretofore accrued, unless paid at that time. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal

shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

ANNEX C

OPINION OF ALLEN & COMPANY LLC

January 17, 2022

The Board of Directors
Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, California 90405

The Board of Directors:

We understand that Activision Blizzard, Inc., a Delaware corporation ("Activision Blizzard"), Microsoft Corporation, a Washington corporation ("Microsoft"), and Anchorage Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Microsoft ("Merger Sub"), propose to enter into an Agreement and Plan of Merger (the "Agreement"). As more fully described in the Agreement, (i) Merger Sub will be merged with and into Activision Blizzard, with Activision Blizzard continuing as the surviving corporation and a subsidiary of Microsoft (the "Merger"), and (ii) each outstanding share of the common stock, par value $0.000001 per share, of Activision Blizzard ("Activision Blizzard Common Stock") will be converted into the right to receive $95.00 per share in cash (the "Merger Consideration"). The terms and conditions of the Merger are more fully set forth in the Agreement.

Allen & Company LLC ("Allen & Company") has acted as a financial advisor to Activision Blizzard in connection with the proposed Merger and has been asked to render an opinion to the Board of Directors of Activision Blizzard (the "Board") as to the fairness, from a financial point of view, to holders of Activision Blizzard Common Stock, other than as specified below, of the Merger Consideration to be received by such holders pursuant to the Agreement. For such services, Activision Blizzard has agreed to pay to Allen & Company cash fees, of which a portion is payable upon the delivery of this opinion (the "Opinion Fee") and the principal portion is contingent upon consummation of the Merger. No portion of the Opinion Fee is contingent upon either the conclusion expressed in this opinion or successful consummation of the Merger. Activision Blizzard also has agreed to reimburse Allen & Company's reasonable expenses and to indemnify Allen & Company and related parties against certain liabilities arising out of our engagement.

Allen & Company, as part of our investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and related financings, negotiated underwritings, secondary distributions of listed and unlisted securities, and valuations for corporate and other purposes. As the Board is aware, although Allen & Company is not currently providing, and during the past two years has not provided, investment banking services to Activision Blizzard unrelated to the Merger or to Microsoft for which Allen & Company has received compensation, Allen & Company in the future may provide such services to Activision Blizzard, Microsoft and/or their respective affiliates, for which Allen & Company would expect to receive compensation. In the ordinary course, Allen & Company as a broker-dealer and certain of Allen & Company's affiliates, directors and officers have invested or may invest, hold long or short positions and may trade, either on a discretionary or non-discretionary basis, for their own or beneficiaries' accounts or for those of Allen & Company's clients, in the debt and equity securities (or related derivative securities) of Activision Blizzard, Microsoft and/or their respective affiliates. The issuance of this opinion has been approved by Allen & Company's opinion committee.

Our opinion as expressed herein reflects and gives effect to our general familiarity with Activision Blizzard and the industry in which Activision Blizzard operates as well as information that we received during the course of this assignment, including information provided by the management of Activision Blizzard in the course of discussions relating to the Merger as more fully described below. In arriving at our opinion, we neither conducted a physical inspection of the properties or facilities of Activision Blizzard or any other entity nor made or obtained any evaluations or appraisals of the assets or liabilities (contingent, accrued, derivative, off-balance sheet or otherwise) of Activision Blizzard or any other entity, or conducted any analysis concerning the solvency or fair value of Activision Blizzard or any other entity. We have not investigated, and express no opinion or view regarding, any actual or potential litigation, proceedings or claims involving or impacting Activision Blizzard or any other entity and we have assumed, with your

consent, that there will be no developments with respect to any such matters that would be meaningful in any respect to our analyses or opinion.

In arriving at our opinion, we have, among other things:

(i) reviewed the financial terms of a draft, dated January 17, 2022, of the Agreement;

(ii) reviewed certain publicly available historical business and financial information relating to Activision Blizzard, including public filings of Activision Blizzard, and historical market prices for Activision Blizzard Common Stock;

(iii) reviewed certain financial information relating to Activision Blizzard, including certain internal financial forecasts, estimates and other financial and operating data relating to Activision Blizzard, provided to or discussed with us by the management of Activision Blizzard;

(iv) held discussions with the management of Activision Blizzard relating to the operations, financial condition and prospects of Activision Blizzard;

(v) reviewed and analyzed certain publicly available information, including certain stock market data and financial information, relating to selected companies with businesses that we deemed generally relevant in evaluating Activision Blizzard;

(vi) reviewed and analyzed certain publicly available financial information relating to selected transactions that we deemed generally relevant in evaluating the Merger; and

(vii) conducted such other financial analyses and investigations as we deemed necessary or appropriate for purposes of the opinion expressed herein.

In rendering our opinion, we have relied upon and assumed, with your consent and without independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information available to us from public sources, provided to or discussed with us by the management and other representatives of Activision Blizzard or otherwise reviewed by us. With respect to the financial forecasts, estimates and other financial and operating data relating to Activision Blizzard that we have been directed to utilize for purposes of our analyses and opinion, we have been advised by the management of Activision Blizzard and we have assumed, at your direction, that such financial forecasts, estimates and other financial and operating data have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such management as to, and are a reasonable basis upon which to evaluate, the future financial and operating performance of Activision Blizzard and the other matters covered thereby. We express no opinion or view as to any financial forecasts, estimates or other financial or operating data or the assumptions on which they are based.

We have relied, at your direction, upon the assessments of the management of Activision Blizzard as to, among other things, (i) the potential impact on Activision Blizzard of certain market, competitive, macroeconomic, seasonal, cyclical and other conditions, trends and developments in and prospects for, and governmental, regulatory and legislative policies and matters relating to or otherwise affecting, the interactive entertainment industry, (ii) existing and new products, franchises and related intellectual property and other technology of Activision Blizzard (including associated risks), (iii) workforce matters and related litigation, investigations, consent decrees and other proceedings, including the potential impact thereof on Activision Blizzard, (iv) implications for Activision Blizzard and its operations of the global COVID-19 pandemic, and (v) existing and future agreements and arrangements involving, and the ability to attract, retain and/or replace, key employees and contractors, customers, third-party developers, manufacturers, distributors and other commercial relationships of Activision Blizzard. With your consent, we have assumed that there will be no developments with respect to any such matters that would have an adverse effect on Activision Blizzard or the Merger or that otherwise would be meaningful in any respect to our analyses or opinion.

Further, our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect the conclusion expressed in this opinion and that we assume no

responsibility for advising any person of any change in any matter affecting this opinion or for updating or revising our opinion based on circumstances or events occurring after the date hereof. As you are aware, the credit, financial and stock markets, the industry in which Activision Blizzard operates and the securities of Activision Blizzard have experienced and may continue to experience volatility and we express no opinion or view as to any potential effects of such volatility on Activision Blizzard or the Merger.

We have assumed, with your consent, that the Merger will be consummated in accordance with its terms and in compliance with all applicable laws, documents and other requirements, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary governmental, regulatory or third party approvals, consents, releases, waivers, decrees and agreements for the Merger, no delay, limitation, restriction or condition, including any divestiture or other requirements or remedies, amendments or modifications, will be imposed or occur that would have an adverse effect on Activision Blizzard or the Merger or that otherwise would be meaningful in any respect to our analyses or opinion. In addition, we have assumed, with your consent, that the final executed Agreement will not differ from the draft reviewed by us in any respect meaningful to our analyses or opinion.

Our opinion is limited to the fairness, from a financial point of view and as of the date hereof, of the Merger Consideration (to the extent expressly specified herein), without regard to individual circumstances of specific holders of Activision Blizzard Common Stock (whether by virtue of control, voting, liquidity, contractual arrangements or otherwise) that may distinguish such holders or the securities of Activision Blizzard held by such holders, and our opinion does not in any way address proportionate allocation or relative fairness. Our opinion also does not address any other terms, aspects or implications of the Merger, including, without limitation, the form or structure of the Merger, any repurchase, payoff or similar transaction, cloud-related agreements or arrangements or any other agreements, arrangements or understandings entered into in connection with, related to or contemplated by the Merger or otherwise. We express no opinion or view as to the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation or other consideration payable to any officers, directors or employees of any party to the Merger or any related entities, or any class of such persons or any other party, relative to the Merger Consideration or otherwise. We are not expressing any opinion or view as to the prices at which Activision Blizzard Common Stock or any other securities of Activision Blizzard may trade or otherwise be transferable at any time, including following announcement or consummation of the Merger. In addition, we express no opinion or view with respect to accounting, tax, regulatory, legal or similar matters, including, without limitation, as to tax or other consequences of the Merger or otherwise or changes in, or the impact of, accounting standards, tax and other laws, regulations and governmental and legislative policies affecting Activision Blizzard or the Merger, and we have relied, at your direction, upon the assessments of representatives of Activision Blizzard as to such matters. This opinion does not constitute a recommendation as to the course of action that Activision Blizzard (or the Board or any committee thereof) should pursue in connection with the Merger or otherwise address the merits of the underlying decision by Activision Blizzard to engage in the Merger, including in comparison to other strategies or transactions that might be available to Activision Blizzard or which Activision Blizzard might engage in or consider.

It is understood that this opinion and our advisory services are intended for the benefit and use of the Board (in its capacity as such) in connection with its evaluation of the Merger Consideration from a financial point of view. This opinion does not constitute advice or a recommendation to any securityholder or other person as to how to vote or act on any matter relating to the Merger or otherwise.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration to be received by holders of Activision Blizzard Common Stock (other than, to the extent applicable, Microsoft, Merger Sub and their respective affiliates) pursuant to the Agreement is fair, from a financial point of view, to such holders.

Very truly yours,

ALLEN & COMPANY LLC

EX-FILING FEES

Calculation of Filing Fee Tables

SCHEDULE 14A

(Form Type)

ACTIVISION BLIZZARD, INC.

(Exact Name of Registrant as Specified in its Charter)

Table 1 — Transaction Value

	Proposed Maximum Aggregate Value of Transaction	Fee rate	Amount of Filing Fee**
Fees to Be Paid	$75,610,503,722.46	0.0000927	$7,009,093.70
Fees Previously Paid	—		—
Total Transaction Valuation*	$75,610,503,722.46		
Total Fees Due for Filing			$7,009,093.70
Total Fees Previously Paid			—
Total Fee Offsets			—
Net Fee Due			$7,009,093.70

* Estimated for purposes of calculating the filing fee only. The maximum aggregate value was determined based upon the sum of: (A) 779,164,450 shares of common stock multiplied by $95.00 per share; (B) 8,965,229 shares of common stock underlying outstanding stock options with exercise prices below $95.00 per share multiplied by $37.74 (the difference between $95.00 and the weighted average exercise price of $57.26 per share); (C) 9,284,650 shares of common stock issuable upon settlement of restricted stock units multiplied by $95.00 per share; and (D) 3,889,384 shares of common stock issuable upon settlement of performance stock unit awards (assuming achievement of relative total shareholder return goals at target and achievement of financial and/or operational goals at target) multiplied by $95.00 per share.

** In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying the transaction value by 0.0000927.

Table 2 — Fee Offset Claims and Sources

	Registrant or filer name	Form or filing type	File number	Initial filing date	Filing date	Fee offset claimed	Fee paid with offset source
Fee Offset Claims							
Fee Offset Sources							

PUBLIC

PX9005

PUBLIC

2021 Annual Report

To Our Shareholders

Since 1991, when we purchased our initial stake in the company and were given the privilege of managing it, the company's book value per share has grown at a compound annual rate of 29%. If you had invested $1,000 in our company 20 years ago, your investment, including dividend reinvestment, would have been worth $21,942 at the end of 2021, or over four times the S&P 500's $5,169 over the same period.

Activision Blizzard delivered record full-year GAAP results in 2021, growing GAAP revenue 9%, GAAP operating profit 19%, and GAAP EPS 22%, in each case year-over-year.

While these are impressive growth rates, particularly following very strong growth in 2020, it is important to note that these GAAP measures benefited from our business success in the prior year, and that the underlying business growth in 2021 was not as strong. For example, net bookings[1] were broadly consistent, declining 1% year-over-year (we encourage you to read the footnotes in this annual report for a full explanation of this term). This is still a creditable achievement considering net bookings[1] grew over 30% in the prior year, but we believe the business is capable of even more considering the breadth of our portfolio, the talent of our people, and the opportunities afforded in an industry with so many tailwinds.

The last year included some important successes that point to the effectiveness of our strategy and the scale of the opportunity across our business. We are focused on growing the reach, engagement, and player investment of our franchises, by delivering a more frequent cadence of compelling content, introducing new free-to-play and mobile experiences, and making our franchises more social. In 2021, we continued to grow the development teams working on our largest intellectual properties to unlock the full potential of our franchises.

We saw particular success on mobile devices, where net bookings[1] grew 23% year-over-year in 2021 to represent almost 40% of the total. Mobile is the largest and fastest-growing platform in gaming, and we are determined to build on our strong position by expanding our portfolio of globally-recognized game franchises to mobile devices. Further success in mobile is a key element for us to deliver on our vision of reaching one billion players.

In our King business, where we already have a leadership position on mobile, we grew net bookings[1] 19% year-over-year in 2021 and passed the $1 billion annual operating income milestone for the first time. This performance was led by Candy Crush, which has delivered outstanding results since we increased investment and focus on King's largest franchise after acquiring King in the first quarter of 2016. Candy Crush has been the top-grossing game franchise in the U.S. app stores for five years in a row, and in-game spending on Candy Crush has grown at a double digit CAGR since the acquisition.

Our teams are delivering more in-game events and seasonal content for Candy Crush's 200 million players than ever before, driving engagement for existing players as well as attracting back some of the billion-plus people who have played Candy Crush in the past. This work led to double-digit year-over-year growth in monthly payers in Candy Crush last year, and almost 20% growth in Candy Crush in-game spending. We still see a long runway for further growth in both metrics. Our mobile advertising business also continues to grow rapidly. Advertising revenue grew 60% year-over-year to exceed $350 million in 2021 as we continued to offer advertisers a safe, premium platform for reaching hundreds of millions of people.

We also continued to demonstrate the potential for our console and PC franchises on mobile. Call of Duty Mobile enjoyed a record year following its launch in China, with annual consumer spending on the title of well above $1 billion. Over 650 million people have downloaded Call of Duty Mobile around the world, and the number of people experiencing Call of Duty on mobile each month almost matched those playing on console and PC in 2021. This is no mean feat given the success of the free-to-play Warzone experience on console and PC, but we see an even greater opportunity ahead – we are building a sizeable and talented internal development team that is working on a mobile version of Warzone that we expect will help take the Call of Duty franchise to new heights.

We made strong progress on other mobile initiatives in 2021. These include important initiatives to deliver Diablo and Warcraft mobile experiences into players' hands in 2022, as well as numerous unannounced projects based on both existing and new intellectual properties. We are approaching the attractive mobile opportunity with discipline, both from a financial perspective and in ensuring that our teams have the time required to deliver success and sustained performance.

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

In 2021, World of Warcraft again demonstrated the structural expansion that the franchise has enjoyed since the launch of Classic, a recreation of the game from 15 years ago that is offered under a single subscription along with the Modern game. WOW delivered its strongest annual engagement and net bookings[1] outside of a Modern expansion year in a decade, and the team is planning to build on this with substantial additional content for both the Classic and Modern games in 2022.

Call of Duty, our largest franchise, continued to see the benefits of our initiatives to expand reach, engagement and player investment in 2021. The Warzone free-to-play experience continued to engage tens of millions of monthly players, including many in countries outside of our traditional regions, creating numerous opportunities for player investment in in-game content and our premium releases. While Call of Duty remains one of the most successful entertainment franchises of all time, our 2021 premium release didn't meet our expectations, we believe primarily due to our own execution. The game's World War II setting didn't resonate with some of our community and we didn't deliver as much innovation in the premium game as we would have liked. We are certainly addressing both of these issues with the 2022 launch. Development on the 2022 premium and Warzone experiences is being led by Activision's renowned Infinity Ward studio. We are working on the most ambitious plan in Call of Duty history, with over 3,000 people now working on the franchise and a return to the Modern Warfare setting that delivered our most successful Call of Duty title ever.

While our teams continued to show ingenuity and resilience in serving our communities while working from home last year, some of the major upfront content in our pipeline is taking longer to complete than we expected. In particular, we gave our teams more time to work on the eagerly anticipated sequels to Overwatch and Diablo as we aim for these releases to exceed their communities' expectations, not just at launch, but with robust ongoing content for years to come. The teams are making good progress on the titles, and we are looking forward to getting the new content into our players' hands in the near future.

We expect both of these proven franchises to again be material contributors to the business as the teams delight and engage their communities. And we are also making progress on promising new potential franchises. In total, we see more opportunity for growth in reach, engagement, and player investment than ever before.

The gaming industry has seen incredible change over the last three decades, even as our passion for connecting and engaging the world through epic entertainment has been a constant. Delivering long-term value to our shareholders over this period has required a willingness to transform the business at pivotal moments in our history. We are at another such moment, and we believe the proposed acquisition by Microsoft, announced in January 2022, will accelerate achievement of the company's ambitions as well as deliver significant value for our shareholders. At the transaction price of $95.00 per share, our returns to shareholders since 1991 would be even further ahead of the S&P 500 than as discussed above.

Advances in technology, including the proliferation of sophisticated mobile devices, have enabled massive expansion in the worldwide gaming audience, with over three billion people now playing games. The industry has expanded enormously, and gaming is now one of the largest media categories in terms of worldwide spending. Yet as many companies have discovered, these tailwinds are no guarantee of success.

The complexity involved in expanding reach and sustaining engagement for massive global communities is only increasing. Competition for talent is more intense than ever, exacerbated by the growth of well-funded new entrants in the industry. This includes many disruptive new entrants, some with a willingness to lose large amounts of money, as well as extremely large international and domestic companies who bring extremely competitive attributes and positions to our markets.

We are gratified that key strategic actions, a commitment to operational excellence, and the work of our talented employees have delivered exceptional long-term value for our shareholders. As we look forward, we see more opportunity than ever before for our talented teams and our large portfolio of fully-owned intellectual properties. We also believe that access to Microsoft's technological capabilities and resources will help our teams to unlock the full potential of our franchises, reinvigorate some of our globally-recognized but

currently dormant game franchises, and launch potential new franchises. We are confident that this transaction will benefit our employees, our player communities, and our shareholders in an increasingly competitive industry.

The pending transaction will not detract from our focus on ensuring a safe, welcoming and inclusive working environment. We have long believed that we can only serve a diverse global audience of hundreds of millions of people by attracting and retaining a diverse and inclusive group of highly talented and motivated employees. In the last year we have accelerated our operational and governance initiatives in this critical area, introduced ambitious diversity goals, and increased our transparency to ensure accountability as we deliver on our pledges. We are committed to being a leader in the industry in ensuring a safe, diverse, and inclusive working environment for our people with continued commitment to excellence.

ENSURING A SAFE AND DIVERSE WORKING ENVIRONMENT

Over the last decade, as we've acquired companies, grown our workforce, and expanded our business, we believed we had the systems, policies, and people in place to ensure that our company always lived up to its reputation as a great place to work. It has become clear that in some important aspects, we can do better.

We have learned that in some cases, people didn't consistently feel comfortable reporting concerns, or their concerns weren't always addressed promptly or properly. Our expectations of excellence extend to every area of our business, especially workplace excellence. For us, even a single instance of workplace misconduct not adequately or promptly addressed is one too many.

We've made progress over the last few years fostering diversity and creating a better work environment, and in 2021 we committed to accelerating our initiatives to create the model workplace in our industry. First and foremost, we have dedicated even more resources to investigating complaints of harassment, discrimination, and retaliation raised through various reporting channels, and have taken appropriate action. We announced new policies and practices with respect to the prevention of harassment, discrimination, and retaliation. We have improved our workplace initiatives, committed to more transparency, and will work closely with the EEOC to ensure we are recognized as the very best place to work.

We introduced a goal to increase the representation of women and non-binary people by 50% within the next five years. We announced the conversion of over 1,500 temporary workers to full-time employees, with most receiving increased wages and expanded benefits.

We committed to increasing transparency around our employment practices and diversity. We shared the results of a review of 2020 U.S. pay equity at our company conducted by an independent firm. This study showed that in the U.S., women on average earned slightly more than men for comparable work in 2020. We are committed to compensation remaining equitable for all people performing comparable work. Last year we shared representation data with employees and shareholders, including detailed and disaggregated company data with respect to gender globally, and for the U.S., racial and ethnic diversity. We will continue to keep our employees, investors, and other stakeholders informed on our progress in the service of building an even more welcoming, inclusive workplace.

It is critical to ensure accountability as we deliver on our pledges, and in November our Board of Directors formed a "Workplace Responsibility Committee" to oversee implementation of our workplace initiatives and measure progress. There is still more to be done for the company to be recognized as a model workplace in the industry, and we are committed to keeping stakeholders informed as we continue on our journey.

The safety and wellbeing of our employees is similarly of paramount importance as our teams start to return to office. We continue to work closely with medical and health and safety experts to ensure our workspaces reflect the latest guidance on safety protocols, and at the time of writing, we are piloting a number of approaches that give different teams the flexibility to collaborate in different ways, supporting their health and safety. Throughout the pandemic we have invested in the very best resources to ensure our employees can have confidence that their healthcare needs and the needs of their families are prioritized. We will continue to do whatever it takes to support the safety of our teams as they return to office.

OUR FUTURE WITH MICROSOFT

As noted above, given all of the dynamism of our industry and the opportunities at Activision Blizzard, we are as excited about the growth potential for the business now as we were 31 years ago when we acquired control of the company. Our mission of connecting and engaging the world through epic entertainment is more relevant than ever; we operate in an industry with many tailwinds; and we have many proof points that our franchise-focused approach is the right one. The long-term prospects for the company and our portfolio of fully-owned intellectual properties are strong.

At the same time, the competition for diverse talent and the creative and technical capabilities needed to meet the expectations of our players have never been greater. And the long-term opportunity to create even more social and immersive experiences through ideas like a metaverse will further increase competition for talent and raise the bar for the technical capabilities required to create and sustain compelling gaming experiences. Many of the world's biggest companies have ambitions with their own extremely well-funded interactive entertainment initiatives.

Against this backdrop, in January 2022 we announced a definitive agreement to become a wholly owned subsidiary of Microsoft for $95.00 per share in cash, representing a 45% premium to the stock's price immediately prior to the acquisition announcement. We expect to benefit tremendously from having a partner like Microsoft to accelerate achievement of our ambitions. Not only does Microsoft have the resources and capabilities to help accelerate our progress, but, like Activision Blizzard, Microsoft has a cultural passion for gaming that goes back to the 1980s. Microsoft's capabilities in cloud computing, AI, machine learning, data analytics, user interface, and user experience will be important enablers for our passionate and inspired development teams, and will help accelerate our plans for our biggest franchises. And Microsoft's resources also create additional opportunities for our globally-recognized but currently dormant game franchises, as well as our ambition to launch potential new franchises.

Microsoft has made it clear that it wants to build upon the foundation Activision Blizzard brings, and that includes the company's talented teams. Microsoft's culture of inspiring people through caring and empathy is a powerful motivator, and one that is aligned with our initiatives to set a new standard for a welcoming and inclusive workplace culture.

The proposed $95.00 per share, all-cash transaction represents significant value for our shareholders, representing a deal value of $68.7 billion, inclusive of our company's net cash. The Board unanimously determined that the terms of the definitive agreement with Microsoft and the transactions contemplated thereby are advisable, fair to, and in the best interests of Activision Blizzard and its shareholders. We are excited about our combined potential with Microsoft following the closing of the proposed transaction, which we anticipate will occur in Microsoft's fiscal year ending June 30, 2023, subject to the satisfaction of certain regulatory approvals and other customary closing conditions.

We have been able to create this shareholder value by adhering to the principles that have guided us over the last 30 years:

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

Thank you to our employees around the world for the exceptional work they deliver day in and day out. And on behalf of all of us at Activision Blizzard, we would like to thank our shareholders, debt holders, partners, and most importantly – our players for always inspiring us to deliver the very best games.

With appreciation,

Bobby Kotick
Chief Executive Officer
Activision Blizzard

Brian Kelly
Chairman of the Board
Activision Blizzard

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

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

For the Fiscal Year Ended December 31, 2021

OR

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

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4803544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2701 Olympic Boulevard Building B Santa Monica, CA	**90404**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

None

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 30, 2021 (based on the closing sale price as reported on the Nasdaq) was $73,721,746,854.

The number of shares of the registrant's Common Stock outstanding at February 18, 2022 was 779,234,888.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the 2022 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K to the extent stated herein. The 2022 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2021.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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PART I

CAUTIONARY STATEMENT

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

We caution that a number of important factors, many of which are beyond our control, could cause our actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Some of the risk factors that could cause our actual results to differ from those stated in the forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of this Annual Report on Form 10-K. The forward-looking statements contained herein are based on information available to Activision Blizzard, Inc. as of the date of this filing, and we assume no obligation to update any such forward-looking statements. Actual events or results may differ from those expressed in forward-looking statements. As such, you should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, prospects, strategy, and financial needs. These statements are not guarantees of our future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

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

Item 1. BUSINESS

Overview

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

Merger Agreement

On January 18, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Microsoft Corporation ("Microsoft") and Anchorage Merger Sub Inc. ("Merger Sub"), a wholly owned subsidiary of Microsoft. Subject to the terms and conditions of the Merger Agreement, Microsoft agreed to acquire the Company for $95.00 per issued and outstanding share of our common stock, par value $0.000001 per share (the "Shares"), in an all-cash transaction. Pursuant to the Merger Agreement, following consummation of the merger of Merger Sub with and into the Company (the "Merger"), the Company will be a wholly-owned subsidiary of Microsoft. As a result of the Merger, we will cease to be a publicly traded company. We have agreed to various customary covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger (the "Effective Time"). We do not believe these restrictions will prevent us from meeting our debt service obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023. The consummation of the Merger remains subject to customary closing conditions, including satisfaction of certain regulatory approvals, approval by our stockholders and other customary closing conditions. The Merger is currently expected to close in Microsoft's fiscal year ending June 30, 2023.

For additional information related to the Merger Agreement, please refer to the preliminary proxy statement previously filed with the SEC and other relevant materials in connection with the transaction that we will file with the SEC and that will contain important information about the Company and the Merger.

Our Strategy and Vision

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

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

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

Increasing player investment. The connected, online nature of our network enables us to offer content and player investment opportunities directly to our consumers on a year-round basis. In addition to purchasing full games or subscriptions, players can invest in our franchises by purchasing incremental in-game content. These digital revenue streams tend to be more recurring and have relatively higher profit margins. In addition, we generate revenue through offering advertising within certain of our franchises, and we believe there are opportunities to grow new forms of player investment through esports and consumer products. We are still in the early stages of developing these new revenue streams.

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

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

Other

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

Impacts of the Global COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") emerged and has since extensively impacted global health and the economic environment. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In an effort to contain the spread of COVID-19, domestic and international governments around the world enacted various measures, including orders to close all businesses not deemed "essential," quarantine orders for individuals to stay in their homes or places of residence, and to practice social distancing when engaging in essential activities.

During the early stages of the COVID-19 pandemic, our business experienced an increase in demand for certain of our products and services as a result of the stay-at-home orders enacted in various regions as players had more time to engage with our games. We have, however, seen a moderation in these trends from when the stay-at-home orders were originally enacted early in 2020 and at this time stay-at-home orders have largely been lifted in most regions. It is uncertain how our business could be impacted in the current state of the pandemic as stay-at-home orders in certain regions are reduced, lifted, or at times, fully or partially reinstated, as new cases and variants of COVID-19 arise and evolve.

In an effort to protect the health and safety of our employees, the majority of our workforce continues to work from home, and we have placed restrictions on non-essential business travel. During 2022 we expect that our workforce will return to our offices in some capacity while also having the option to continue to work from home depending on business requirements and health and safety concerns. Additionally, thus far, the pandemic has caused minimal disruption to our game titles' published release dates. Please see "Management's Overview of Business Trends" section included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

As the COVID-19 pandemic continues to be present and evolve, the impact on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, and stock price will depend on numerous evolving factors that we are not able to fully predict at this time, including the duration and spread of the pandemic and associated macroeconomic impacts including labor shortages and supply chain disruption, the speed and effectiveness of regional and worldwide containment and vaccination efforts including vaccine mandates, and the impact of these and other factors on our employees, customers, and partners. We will continue to actively monitor the developments of the COVID-19 pandemic and may take further actions that could alter our business operations as may be required by federal, state, local, or foreign authorities, or that we determine are in the best interests of our employees, customers, partners, and shareholders.

Refer to Part I, Item 1A "Risk Factors" of this Annual Report on Form 10-K for additional details on risks and uncertainties regarding the impacts of the global COVID-19 pandemic on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, and stock price.

Products

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

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

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

Product Development and Support

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

We develop and produce our titles using a model in which individual game studios have responsibility for the entire development and production process, including the supervision and coordination of internal and, where appropriate, external resources. We believe this model allows us to deploy the best resources for a given task, including by supplementing our internal expertise with top-quality external resources on an as-needed basis.

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

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

Marketing, Sales, and Distribution

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

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

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

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

Manufacturing

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

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

Significant Customers and Top Franchises

Customers

While the Company does sell directly to end consumers in certain instances, such as sales through Battle.net, in other instances our customers are platform providers, such as Sony, Microsoft, Google, and Apple, or retailers, such as Walmart, Target, Best Buy, and GameStop, who act as distributors of our content to end consumers.

The percentage of our consolidated net revenues by our most significant customers were as follows:

	For the Years Ended		
	December 31, 2021	**December 31, 2020**	**December 31, 2019**
Apple	17 %	15 %	17 %
Google	17 %	14 %	13 %
Sony	15 %	17 %	11 %
Microsoft	*	11 %	*

* Customer did not account for 10% or more of our consolidated net revenues for the noted period.

No other customer accounted for 10% or more of our net revenues in the periods above. We had two customers—Microsoft and Sony—who accounted for 20% and 22%, respectively, of consolidated gross receivables at December 31, 2021, and 28% and 21%, respectively, at December 31, 2020. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

Top Franchises

For the years ended December 31, 2021, 2020, and 2019, our top three franchises—Call of Duty, Candy Crush, and Warcraft—collectively accounted for 82%, 79%, and 72%, respectively, of our net revenues. No other franchise comprised 10% or more of our net revenues in those periods.

Competition

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

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

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

As our teams have contributed to transforming gaming into social experiences, enabling players to find purpose and meaning through games, we believe connecting these communities together is the next step in our industry. This can be seen by established and emerging competitors seeing opportunity for virtual worlds filled with professionally produced content, user generated content and rich social connections. As investments in cloud computing, artificial intelligence and machine learning, data analytics, and user interface and experience capabilities are becoming more competitive, we believe that our recently announced merger and partnership with Microsoft will better enable our ambitions in this dynamic and highly competitive environment.

Intellectual Property

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

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

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

Our People

We are committed to becoming the most welcoming, inclusive company in our industry. Genuinely embodying this mission and responsibility to our communities is a powerful lever to attract and retain the very best talent. Our continued success and growth are directly related to our ability to attract, recruit, enable, retain, and develop diverse and innovative talent.

During 2021, the Company has worked to address concerns raised regarding our workplace and related matters. These concerns have been set forth in, among other contexts, various legal actions against the Company, as described in Part I, Item 1A “Risk Factors” and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K. The leadership of the Company has committed to take action to produce meaningful change and provide employees the resources and support to succeed in our collective aspiration to be the model workplace in our industry.

Steps we have taken to improve our workplace and address concerns include:

- In November 2021, the Board of Directors formed a “Workplace Responsibility Committee” (the “Committee”), initially comprised of two independent directors, to oversee the Company’s progress in successfully implementing its workplace policies, procedures, and commitments. The Committee will require management to develop key performance indicators and/or other means to measure progress and ensure accountability, with executive management providing frequent progress reports to the Committee, which will regularly brief the full Board of Directors.

- For any Activision Blizzard employee who chooses not to arbitrate an individual claim of sexual harassment, unlawful discrimination, or related retaliation arising from events after October 2021, the Company will waive any obligation to do so.

- We have investigated–and will continue to investigate–complaints of harassment, discrimination and retaliation raised through various reporting channels. In October 2021, we combined our investigations groups into one centralized “investigations unit” within the Ethics & Compliance team. This centralized unit with expanded resources increases our ability to conduct prompt investigations and maintain and measure consistency throughout investigations of all types and across the Company.

- Our Way to Play Heroes–who are volunteers who help other employees understand reporting options, champion speaking up, and provide feedback and advise on how to strengthen our overall ethics and compliance program–are receiving additional resources and recognition through an overall expansion of the program.

- We are committed to continuing to grow our investment in anti-harassment and anti-discrimination training resources.

- We released our U.S. Pay Equity Review 2020 in October 2021. We also released our 2021 Representation Data report in December 2021, based on data in Company records as of November 30, 2021. We believe transparency with our stakeholders is an important part of our mission.

- In October 2021, we announced the launch of a new zero-tolerance harassment policy Company-wide.

- We launched Upward Feedback in December 2021, an annual process where employees share constructive, actionable feedback to their managers through an anonymous survey, enabling awareness regarding managers' inclusive behaviors and commitment to living our values.

- We announced a global drug and alcohol policy for Company-sponsored events and zero tolerance for alcohol consumption in the workplace in November 2021.

- We removed content in our games that we believe to be inappropriate.

While some of these initiatives will have an immediate impact, others may take time to be felt across the Company and will continue to evolve as we gather further feedback from our employees. Additionally, our employees in the U.S. are not covered by collective bargaining agreements. At Raven Software, one of our studios, the Communications Workers of America has filed a petition to represent a unit of employees, and the National Labor Relations Board will oversee the election process, including a determination of the appropriate set of employees who would be included in any bargaining unit (and thus participate in the election on potential unionization). We deeply respect the rights of all employees to make their own decisions about whether or not to join a union and exercise all other National Labor Relations Act rights. Across the Company, we believe that a direct relationship between managers and team members allows us to quickly respond and deliver the strongest results and opportunities for employees. As discussed in Part I, Item 1A under "Risk Factors" of this Annual Report on Form 10-K, while the Merger Agreement is in effect, we are also subject to certain interim covenants with respect to various matters (including, among other things, with respect to collective bargaining agreements and employee benefit plans) concerning the operation of our business during the pendency of the Merger.

Other important aspects and areas of focus for the Company to attract, recruit, enable, retain, and develop diverse and innovative talent are set out below:

Overview: As of December 31, 2021, Activision Blizzard had approximately 9,800 full-time and part-time employees, with approximately 68% in North America, approximately 25% in the Europe, Middle East, and Africa ("EMEA") region, and approximately 7% in the Asia Pacific region. Of these employees, approximately 68% either work directly on, or support, our game and technology development, which represents an approximate seven percentage point increase from 2020.

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

Our Corporate Governance Principles and Policies demonstrate our commitment to diversity at the Board of Directors level, providing that the initial list from which any new independent director nominee is chosen includes qualified female and racially/ethnically diverse candidates and, similarly, if we conduct an external search for a new CEO, that the initial list of external candidates includes qualified female and racially/ethnically diverse candidates. As of December 31, 2021, 20% of the members of our Board of Directors are women, and 20% are members of underrepresented communities. Under current California law, we were required to add an additional female director to our Board of Directors by the end of 2021. To meet this requirement and improve the diversity of our Board of Directors, the Company retained a search firm and began interviewing potential additional female directors in 2021. However, since the Company's current directors would cease to continue to serve on our Board of Directors upon consummation of our proposed transaction with Microsoft, we were unable to conclude the process in 2021. We will be continuing our efforts to appoint a new female director.

Additionally, since 2016, the number of women in our game development leadership roles has more than doubled. As of November 30, 2021, approximately 24% of our global employee population identifies as women or non-binary, and in 2021, we committed to increase the percentage of women and non-binary employees in our workforce by 50% over the next five years to achieve over one-third representation. Further, upon joining the Company, and again every two years, every employee is required to take our bespoke online Equality & Diversity Training, which underscores our commitment to creating a respectful workplace culture.

Our overall goal in hiring is to provide an objective and equitable process that helps us recruit the very best creative and technical talent in the world and explore an array of resources to increase the share of women, underrepresented ethnic groups ("UEGs"), and other forms of diversity in our workforce.

In 2021 we launched a new tool that tracks–for every single hire–data on the representation and presence of women and UEG candidates at applicant, interview, and hiring stages of our recruiting process. This tool will enable us to provide transparency on our diversity progress as well as helping to reinforce our objective of having diverse candidate slates for open positions.

We also recognize that formal tools and mechanisms around our candidate slates alone will not create the change we strive for in our organization or our industry, which is why we have also prioritized and taken meaningful action on a broad portfolio of initiatives–from expanding opportunities in the gaming and technology space for underrepresented communities to mentorship and sponsorship programs for our current teammates and future leaders. As part of these efforts, we have committed to invest $250 million over the next 10 years in initiatives that foster expanded opportunities in gaming and technology for under-represented communities. Additionally, our work to support the Call of Duty Endowment in 2021 resulted in 16,138 veteran job placements and more than $1 billion in positive economic impact for the veteran community.

Compensation and Benefits: The main objective of our compensation program is to provide a compensation package that attracts, retains, motivates, and rewards employees that operate in a highly competitive and technologically challenging environment. We seek to do this by linking compensation (including annual changes in compensation) to overall Company and business unit/franchise performance, as well as each individual's contribution to the results achieved. The emphasis on overall Company performance is intended to align our employees' financial interests with the interests of our shareholders. We continue to make efforts across our global organization to promote equal pay practices. For example, our U.S. analysis showed that women at the Company on average earned slightly more than men for comparable work in 2020. Further, we have announced improved benefits provided to a large portion of our employees, such as increased holiday, sick, and vacation time off. We also have increased our overall investment in development and operations by announcing the conversion of approximately 500 temporary workers to full-time employees at our Activision studios.

We are committed to providing comprehensive benefit options, and it is our intention to offer benefits that allow our employees and their families to live healthier and more secure lives. Some examples of our wide-ranging benefits offered are: 401(k) with matching Company contributions; a comprehensive well-being program; paid leave programs; medical insurance; prescription drug benefits; dental insurance; vision insurance; accidental death and dismemberment insurance; critical illness insurance; life insurance; disability insurance; health savings accounts; flexible spending accounts; and benefits to support current and hopeful parents. We frequently upgrade our benefit portfolio by seeking out pioneer partners that give our employees modern benefit experiences. As an example, at the onset of the COVID-19 pandemic when traditional medical services became under huge demand, in order to help ensure that our employees and their families had access to medical advice, we created an enterprise-wide global network of physicians.

Further, the Company has been reviewing our overall compensation structure and philosophy and began implementing changes to our compensation payments for 2021, primarily to enhance employee equity ownership and bring our employee equity compensation in line with current industry practice. As a result of this review, the Company made changes to our 2021 bonus and equity structure so that all eligible employees will receive incentives in the form of Company equity for 2021 in an amount equal to or greater than 2021 target Company performance without regard to whether target performance was achieved.

Developing Careers and Growing Leaders: Recognizing that ours is a rapidly changing industry with constant innovation, developing our diverse and innovative talent base is vital to our business. Our talent processes are focused on performance management, strategic talent assessment and succession planning, and career and leadership development opportunities through promotion and internal mobility. We intend for our employees to have a clear understanding of their strengths and development opportunities, while fostering a collaborative and productive relationship between employees and their managers. Our performance management process begins with the establishment of goals, followed by encouraged regular check-ins on progress and performance so that employees have an understanding of their strengths, areas for improvement, and how they are contributing to the Company. We assess employee contributions to our Company results and culture so that we can recognize and reward their contributions. Additionally, on an annual basis, we conduct an organizational and performance review process with our CEO and all segment, business unit, and function leaders, focusing on our high-performing and high-potential talent, diversity and inclusion, and the performance and succession for our most critical roles.

Engaging Employees: Employees across the Company have the opportunity to join and contribute to one of our nine Employee Networks. These groups enrich our employees' experiences, our culture, and our business by driving inclusion, cultural awareness, professional development, networking, and community involvement. Employee engagement also plays a critical role in how we identify and improve the way we work. We capture and act on the voice of our employees through multiple means including pulse surveys, listening sessions and newly added upward feedback. We emphasize to employees that this is their chance to "provide honest, candid feedback about their experience working for the Company." Our employee feedback is dynamic and relevant to our employees' immediate needs.

Sustainability

We understand that we have a responsibility to operate sustainably. Our ongoing conversion to a more digital business is enabling us to set and achieve important sustainability goals. As a result of this transition, during 2021 we have made significant progress in reducing packaging waste for which, using 2019 as a baseline, we have achieved a 60% reduction, surpassing our original goal of a 50% reduction by 2024. We are also in the process of establishing baselines and setting quantitative interim targets to measure progress towards our goal of achieving net zero greenhouse gas emissions by 2050.

Information about our Executive Officers

Our executive officers and their biographical summaries are provided below:

Name	Age	Position
Robert A. Kotick	58	Chief Executive Officer of Activision Blizzard
Daniel Alegre	53	President and Chief Operating Officer of Activision Blizzard
Armin Zerza	52	Chief Financial Officer of Activision Blizzard
Grant Dixton	48	Chief Legal Officer of Activision Blizzard
Brian Bulatao	57	Chief Administrative Officer of Activision Blizzard

Robert A. Kotick, Chief Executive Officer of Activision Blizzard

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

Daniel Alegre, President and Chief Operating Officer of Activision Blizzard

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

Armin Zerza, Chief Financial Officer of Activision Blizzard

Armin Zerza has served as our Chief Financial Officer since April 2021. Prior to that, he served as the Company's Chief Commercial Officer from 2019 to 2021, as the Chief Operating Officer of Blizzard from 2017 to 2019, and as Chief Financial Officer of Blizzard from 2015 to 2017. Mr. Zerza joined Activision Blizzard in August 2015 with more than 20 years of senior leadership experience at Procter & Gamble, serving in North America, Europe, Asia, and Latin America. Mr. Zerza has held a number of senior roles across multi-billion dollar businesses at Procter & Gamble, including as Director of Procter & Gamble's global M&A team and CFO of the European Baby Care and Latin America divisions. Mr. Zerza also served as a board member of the Italy Procter & Gamble-Fater and Spain Procter & Gamble-Arbora & Ausonia joint ventures. Mr. Zerza holds a degree from Vienna University.

Grant Dixton, Chief Legal Officer of Activision Blizzard

Grant Dixton has served as our Chief Legal Officer since June 2021. From 2006 to 2021, Mr. Dixton held a number of positions of increasing responsibility within the legal department of The Boeing Company, an aerospace company and leading manufacturer in space and security systems, most recently as Senior Vice President, General Counsel, and Corporate Secretary, in addition to serving as a member of the company's Executive Council. Prior to joining The Boeing Company, Mr. Dixton served in the White House as Associate Counsel to the President. Earlier in his career, Mr. Dixton practiced law at Kirkland & Ellis in Washington, D.C. He served as a law clerk for the Honorable Anthony M. Kennedy at the Supreme Court of the United States and for the Honorable J. Michael Luttig at the United States Court of Appeals for the Fourth Circuit. Mr. Dixton holds an A.B. degree in history from Harvard University and a J.D. from Harvard Law School.

Brian Bulatao, Chief Administrative Officer of Activision Blizzard

Brian Bulatao has served as Chief Administrative Officer of Activision Blizzard since March 2021. Prior to joining the Company, Mr. Bulatao served as the Under Secretary of State for Management from 2018 to 2021, directly responsible for the budget, security, IT infrastructure, consular affairs and global talent management of the U.S. State Department's 70,000 plus workforce based in 190 countries around the world. Prior to that, Mr. Bulatao served as Chief Operating Officer at the Central Intelligence Agency from 2017 to 2018, where he also led diversity and inclusion initiatives. Before joining the CIA, Mr. Bulatao held a number of leadership positions in private equity and investment companies, having served as Senior Advisor at Highlander Partners from 2016 to 2017 and Managing Director at Pallas Capital Partners from 2015 to 2017, helping companies grow organically and through acquisitions and creating transformational value through strategic positioning. Prior to that, Mr. Bulatao held executive and CEO roles at The Nefab Group, co-founded Thayer Aerospace with fellow West Point graduates, and served as a consultant with McKinsey & Company. Mr. Bulatao is a retired Infantry Captain and a distinguished graduate of the US Army Ranger School. Mr. Bulatao holds a BS degree in Engineering Management from the United States Military Academy at West Point and an MBA degree from Harvard Business School.

Additional Financial Information

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

Available Information

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

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

Risk Factors Summary

Below is a summary of the principal risks associated with an investment in the Company. This summary should not be relied upon as an exhaustive list of the material risks facing our business.

- the Merger, the pendency of the Merger Agreement, or our failure to complete the Merger;
- the impact of the global COVID-19 pandemic;
- our ability to deliver popular, high-quality content in a timely manner;
- the level of demand for our games and products;
- our ability to meet customer expectations with respect to our brands, games, services, and/or business practices;
- negative impacts on our business resulting from concerns regarding our workplace, including associated legal proceedings;
- our ability to attract, retain, and motivate skilled personnel;
- competition;
- our reliance on a relatively small number of franchises for a significant portion of our revenues and profits;
- negative impacts from unionization or attempts to unionize by our workforce;
- our ability to adapt to rapid technological change and allocate our resources accordingly;
- the increasing importance of digital sales and the risks of that business model;
- our ability to effectively manage the scope and complexity of our business;
- our reliance on third-party platforms, which are also our competitors, for the distribution of products;
- our dependence on the success and availability of video game consoles manufactured by third parties and our ability to develop commercially successful products for these consoles;
- the increasing importance of free-to-play games and the risks of that business model;
- the risks and uncertainties of conducting business outside the U.S., including the need for regulatory approval to operate, the relatively weaker protection for our intellectual property rights, and the impact of cultural differences on consumer preferences;
- the importance of retail sales to our business and the risks of that business model;
- our ability to realize the expected benefits of our recent restructuring actions;
- any difficulties in integrating acquired businesses or realizing the anticipated benefits of strategic transactions;
- seasonality in the sale of our products;
- fluctuation in our recurring business;
- the risk of distributors, retailers, development, and licensing partners or other third parties being unable to honor their commitments or otherwise putting our brand at risk;
- our reliance on tools and technologies owned by third parties;
- our use of open source software;
- risks associated with undisclosed content or features in our games;
- impact of objectionable consumer- or other third-party-created content on our operating results or reputation;
- outages, disruptions, or degradations in our services, products, and/or technological infrastructure;
- any cybersecurity-related attack, significant data breach, fraudulent activity, or disruption of our information technology systems or networks;
- significant disruption during our live events;
- catastrophic events;
- climate change;
- provisions in our corporate documents and Delaware state law that could delay or prevent a change of control;
- ongoing legal proceedings, related to workplace concerns and otherwise;
- increasing regulation in key territories over our business, products, and distribution;
- changes in government regulation relating to the Internet;

- our compliance with evolving data privacy laws and regulations;
- scrutiny regarding the appropriateness of the content in our games and our ability to receive target ratings for certain titles;
- changes in tax rates and/or tax laws and exposure to additional tax liabilities;
- fluctuations in currency exchange rates;
- changes in financial accounting standards or the application of existing or future standards as our business evolves;
- insolvency or business failure of any of our business partners; and
- declines in general economic conditions and related discretionary spending on our products and services.

The following are detailed descriptions of our Risk Factors summarized above.

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

Risks Related to the Merger

While the Merger Agreement is in effect, we are subject to certain interim covenants.

On January 18, 2022, we entered into the Merger Agreement with Microsoft and Merger Sub, a wholly owned subsidiary of Microsoft, pursuant to which Microsoft agreed to acquire the Company in an all-cash transaction for $95.00 per share of our issued and outstanding common stock.

The Merger Agreement generally requires us to operate our business in the ordinary course, subject to certain exceptions, including as required by applicable law, pending consummation of the Merger, and subjects us to customary interim operating covenants that restrict us, without Microsoft's approval (such approval not to be unreasonably conditioned, withheld or delayed), from taking certain specified actions until the Merger is completed or the Merger Agreement is terminated in accordance with its terms. These restrictions could prevent us from pursuing certain business opportunities that may arise prior to the consummation of the Merger and may affect our ability to execute our business strategies and attain financial and other goals and may impact our financial condition, results of operations and cash flows.

The announcement and pendency of the Merger may result in disruptions to our business, and the Merger could divert management's attention, disrupt our relationships with third parties and employees, and result in negative publicity or legal proceedings, any of which could negatively impact our operating results and ongoing business.

In connection with the pending Merger, our current and prospective employees may experience uncertainty about their future roles with us following the Merger, which may materially adversely affect our ability to attract and retain key personnel and other employees while the Merger is pending. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the Merger, and may depart prior to the consummation of the Merger. Accordingly, no assurance can be given that we will be able to attract and retain key employees to the same extent that we have been able to in the past.

The proposed Merger could cause disruptions to our business or business relationships with our existing and potential customers, suppliers, vendors, landlords, and other business partners, and this could have an adverse impact on our results of operations. Parties with which we have business relationships may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties, or seek to negotiate changes or alter their present business relationships with us. Parties with whom we otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The pursuit of the Merger may place a significant burden on management and internal resources, which may have a negative impact on our ongoing business. It may also divert management's time and attention from the day-to-day operation of our remaining businesses and the execution of our other strategic initiatives. This could adversely affect our financial results. In addition, we have incurred and will continue to incur other significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed Merger, and many of these fees and costs are payable regardless of whether or not the pending Merger is consummated.

Any of the foregoing, individually or in combination, could materially and adversely affect our business, our financial condition and our results of operations and prospects.

The Merger may not be completed within the expected timeframe, or at all, for a variety of reasons, including the possibility that the Merger Agreement is terminated prior to the consummation of the Merger, and the failure to complete the Merger could adversely affect our business, results of operations, financial condition, and the market price of our common stock.

There can be no assurance that the Merger will be completed in the expected timeframe, or at all. The Merger Agreement contains a number of customary closing conditions that must be satisfied or waived prior to the completion of the Merger, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

There can be no assurance that all required approvals will be obtained or that all closing conditions will otherwise be satisfied (or waived, if applicable), and, if all required approvals are obtained and all closing conditions are satisfied (or waived, if applicable), we can provide no assurance as to the terms, conditions and timing of such approvals or that the Merger will be completed in a timely manner or at all. Many of the conditions to completion of the Merger are not within our or Microsoft's control, and we cannot predict when or if these conditions will be satisfied (or waived, as applicable). Even if regulatory approval is obtained, it is possible conditions will be imposed that could result in a material delay in, or the abandonment of, the Merger or otherwise have an adverse effect on us.

The Merger Agreement contains customary mutual termination rights for us and Microsoft, which could prevent the consummation of the Merger, including if the Merger is not completed by January 18, 2023 (subject to automatic extension first to April 18, 2023, then to July 18, 2023, in each case, to the extent the regulatory closing conditions are the only conditions that remain outstanding).

The Merger Agreement also contains customary termination rights for the benefit of each party, including if the other party breaches its representations, warranties, or covenants under the Merger Agreement in a way that would result in a failure of the other party's condition to closing being satisfied (subject to certain procedures and cure periods). Additionally, the Merger Agreement provides termination rights, if certain conditions are met, including (1) for Microsoft, if our Board of Directors changes its recommendation in favor of the Merger, and (2) for us, if our Board of Directors authorizes entry into a definitive agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger.

If the Merger is not completed within the expected timeframe or at all, we may be subject to a number of material risks, including:

- the market price of our common stock may decline to the extent that current market prices reflect a market assumption that the Merger will be completed;
- if the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee, including that we will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, and Microsoft will be required to pay us a reverse termination fee ranging from $2.0 billion to $3.0 billion under specified circumstances;

- some costs related to the Merger must be paid whether or not the Merger is completed, and we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed transaction, as well as the diversion of management and resources towards the Merger, for which we will have received little or no benefit if completion of the Merger does not occur; and
- we may experience negative publicity and/or reactions from our investors, customers, partners, suppliers, vendors, landlords, other business partners and employees

Stockholder litigation could prevent or delay the closing of the pending Merger or otherwise negatively impact our business, operating results and financial condition.

We may incur additional costs in connection with the defense or settlement of stockholder litigation in connection with the pending Merger. Such litigation may adversely affect our ability to complete the pending Merger. We could incur significant costs in connection with such litigation, including costs associated with the indemnification obligations to our directors and officers. Such litigation may be distracting to management and may require us to incur additional, significant costs. Such litigation could result in the Merger being delayed and/or enjoined by a court of competent jurisdiction, which could prevent the Merger from becoming effective. See Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a description of complaints filed on February 24, 2022 with respect to the pending Merger.

Business and Industry Risks

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

Since COVID-19 emerged in December 2019 and was declared a pandemic in March 2020, it has extensively impacted global health and the economic environment. The full extent to which the global COVID-19 pandemic and its aftermath impacts our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price continues to depend on numerous evolving factors that we are not able to fully predict, including: the duration and severity of the pandemic and the prevalence and severity of new COVID variants; the impact of the pandemic on the global economy and consumer habits; the impact of governmental, business, and individual actions that have been and will continue to be taken in response to the pandemic; unintended consequences of actions we take, or have taken, in response to the pandemic; the impact of the pandemic on the health or productivity of our employees and external developers, including the ability to develop high-quality and well-received interactive software products and entertainment content and/or to release our products and content in a timely manner with effective quality control; the longer-term impact of substantially-increased remote access to our networks and systems on our ability to prevent, detect, and remedy cyber-attacks or information security incidents while our workforce remains dispersed; the effects on the health, finances and discretionary spending patterns of our consumers, including the ability of our consumers to pay for our products and content; our ability to sell products at assumed prices; the financial impact, supply chain constraints and other strains on the retail customers and distributors on whom we rely to sell our physical products to consumers; the financial impact and strain on platform providers for whose video game consoles and/or on whose networks certain of our products are exclusively available; the financial impact and strain on third-party mobile and web platforms that provide significant online distribution for, and/or provide other services critical for the operation of, a number of our games; the effects on our suppliers who manufacture our physical products and on other third parties with which we partner (e.g., to market or ship our products), including from supply chain disruptions; the effects on our lenders and financial counterparties; the effects on regulatory agencies around the world on which we rely; our ability to continue to develop our emerging businesses, such as advertising; increased volatility in foreign currency exchange rates; the impact of recent and potential upcoming or ongoing large-scale actions by local and federal governments and agencies or similar governing bodies in the U.S. and around the world, the U.S. Federal Reserve, and other central banks around the world, including the impact of any of these actions on the U.S. or world economy or global financial markets; and any other factor which results in disruptions or increased costs associated with the development, production, post-production, marketing and distribution of our products, and/or the digital advertising offered within our content. If adverse effects in these areas from the ongoing global COVID-19 pandemic continue or worsen, our business may be negatively impacted. Further, we cannot predict the emergence of new variants, the rise and fall of case rates, or the associated reducing, lifting, and reenacting of stay-at-home orders and other, similar measures to mitigate the spread of COVID-19. As in the case of COVID-19, the occurrence of other epidemics, medical emergencies, and other public health crises outside of our control could have a negative impact on our business. Additionally, stay-at-home orders, the curtailment of certain other forms of entertainment, and other pandemic-related factors that make consumers more inclined to spend time at home may increase demand for our products, and such increase may not be sustained if pandemic-related restrictions and behaviors change. These trends may continue to evolve, and prior trends for revenues, net income, and other financial results and operating metrics, may not be indicative of results for future periods, particularly as pandemic-related factors become less significant.

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

If we do not consistently deliver popular, high-quality content in a timely manner, our business may be negatively impacted.

Consumer preferences for games are usually cyclical and difficult to predict. Even the most successful games can lose consumer audiences over time, and remaining popular is increasingly dependent on the games being refreshed with new content or other enhancements. In order to remain competitive and maximize the chances that consumers select our products as opposed to the various entertainment options available to them and with which we compete, we must continuously develop new products or new content for, or other enhancements to, our existing products. These products or enhancements may not be well-received by consumers, even if well-reviewed and of high quality.

Additionally, consumer expectations regarding the quality, performance, and integrity of our products and services are high. Consumers may be critical of our brands, games, services, and/or business practices for a wide variety of reasons, and such negative reactions may not be foreseeable or within our control to manage effectively. For example, we are subject to legal proceedings regarding workplace concerns, as described in Note 22 of the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, and could become subject to additional, similar legal proceedings in the future. These legal proceedings have negatively impacted our public reputation and, as a result, some consumers have elected not to continue subscribing to one of our games, and existing and potential players may decide not to play our games in the future. Some existing sponsors, partners, and advertisers have also elected not to be associated with our brand due to this impact on our reputation, and others may so elect in the future. As another example, if we fail to create fun, fair, and safe playing environments, consumers may engage less with our games. All of this may negatively impact, and in the case of those legal proceedings is negatively impacting, our business.

Our products and services are complex software programs. We have quality controls in place to detect defects, "bugs," or other errors in our products and services before they are released. Nonetheless, these quality controls are subject to human error, overriding, and resource or technical constraints. As such, these quality controls and preventative measures may not be effective, and at times have not been successful, in detecting all defects, bugs, or errors in our products and services before they have been released into the marketplace. Our games with online features are frequently updated, increasing the risk that a game may contain errors. If any of these issues occur, consumers may stop playing the game and may be less likely to return to the game as often in the future, which may negatively impact our business. If our games or services, such as our proprietary online gaming platform, do not function as consumers expect, whether because they fail to function as advertised or otherwise, our sales may suffer. The risk that this may occur is particularly pronounced with respect to our games with online features because they involve ongoing consumer expectations, which we may not be able to consistently satisfy.

Negative reactions to our products and services may not be foreseeable. We also may not effectively manage or respond to these negative perceptions for reasons within or outside of our control. We expect to continue to expend resources to address concerns with our products and services. Negative perceptions could arise despite our efforts, though, and may result in loss of engagement with our products and services, increased scrutiny from government bodies and consumer groups, and/or litigation, any of which could negatively impact our business.

Further, delays in product releases or disruptions following the commercial release of one or more new products have negatively impacted, and could in the future negatively impact, our business and reputation and could cause our results of operations to be materially different from expectations. Our ability to meet development schedules depends on numerous factors, some of which are outside of our control, including our ability to attract and retain qualified personnel, the time-intensive nature of creative processes, the coordination of large and often dispersed development teams, the complexity of our products and the platforms for which they are developed, and third-party approvals. If we fail to release our products in a timely manner, or if we are unable to continue to extend the life of existing games by adding features and functionality that will encourage continued engagement with the game, our business may be negatively impacted. For example, we are now planning for a later launch for our Overwatch 2 and Diablo IV titles than originally expected, which will delay the uplift to our results that we usually experience following the release of new titles. Any negative impact which occurs during key selling periods, particularly in the fourth quarter of the year, could be especially pronounced.

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

We are experiencing adverse effects related to concerns raised about our workplace.

As described below under "We are subject to legal proceedings regarding workplace concerns that have negatively affected our reputation" and in Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, we are subject to legal proceedings regarding workplace concerns. The outcome of these matters remains uncertain, though such matters could be decided unfavorably to the Company and could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

We are taking actions to address the concerns of employees and other key stakeholders and the adverse consequences to our business. We are experiencing, and are likely to continue to experience, adverse publicity regarding our Company and executives related to these matters. These matters are having a negative effect on the Company's business and reputation. If we experience significantly reduced productivity, significant worker protests or strikes in regards to these matters, significant continued loss of sponsors, advertisers or players, or other negative consequences relating to these matters, our business could be materially adversely impacted. We cannot predict the duration and severity of these impacts, and we are continuing to carefully monitor all aspects of our business for such impacts and to take actions to address such concerns.

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

Our success depends significantly on our ability to identify, attract, hire, retain, motivate, and utilize the abilities of qualified personnel which includes both our direct employees and talent from other employers such as consultants, agencies, and external developers. This particularly pertains to personnel with the specialized skills needed to create and deliver high-quality, well-received content upon which our business is substantially dependent, as well as to ensure business continuity in areas such as risk management, information security, human resources, and compliance. Our industry is generally characterized by a high level of employee mobility, competitive compensation programs, and aggressive recruiting among competitors for employees with technical, marketing, sales, engineering, product development, creative, and/or management skills, all of which is magnified for us because of our leading position within the industry. We have observed labor shortages, increasing competition for talent, and increasing attrition. We are experiencing increased difficulty in attracting and retaining skilled personnel. For example, we observed a significantly higher turnover rate of our human resources function in 2021. Additionally, recent litigation involving the Company relating to workplace and employee concerns, as further discussed in this Part I, Item 1A "Risk Factors" and Note 22 of the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, and related media attention can be expected to have an adverse effect on our ability to attract and retain employees and has resulted in work stoppages. If we are unable to attract additional qualified personnel or retain and utilize the services of key personnel, we can expect this would adversely affect our business.

If consumers prefer products from our competitors, our business may be negatively impacted.

Our competitors include very large corporations with significantly greater financial, marketing, and product development resources than we have—increasingly including technology companies entering, or expanding their investment in, interactive entertainment. Our larger competitors may be able to leverage their greater financial, technical, personnel, and other resources to provide larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties, as well as adopt more aggressive pricing policies to develop more commercially successful video game products than we do. The proliferation of companies developing for mobile platforms creates similar risks.

Competitors may develop content that imitates or competes with our best-selling games, potentially reducing our sales or our ability to charge the same prices we have historically charged for our products. These competing products may take a larger share of consumer spending than anticipated, which could cause product sales to fall below expectations. If we do not continue to develop consistently high-quality and well-received games or new content for or enhancements to those games, if our marketing fails to resonate with our consumers, or if consumers lose interest in a genre of games we produce, our revenues and profit margins could decline. In addition, our own best-selling products could compete with our other games, reducing sales for those other games. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well-received, could potentially result in additional expenditures to respond to consumer demands, harm our reputation, and increase the likelihood that our future products will not be well-received. The increased importance of add-on content to our business amplifies these risks, as add-on content for poorly-received games typically generates lower-than-expected sales. The increased demand for consistent new content releases for, and enhancements to, our products also requires a greater allocation of financial resources to those products.

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

We follow a franchise model, and a significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises. These products are also responsible for a disproportionately high percentage of our profits. For example, in 2021, revenues associated with the Call of Duty, Candy Crush, and Warcraft franchises, collectively, accounted for approximately 82% of our net revenues—and a significantly higher percentage of our operating income. We expect that a relatively limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could negatively impact our business. Additionally, if the popularity of a franchise declines, as has happened in the past with other popular franchises, we may have to write off the unrecovered portion of the underlying intellectual property assets, which could negatively impact our business.

We may be impacted by unionization or attempts to unionize by our workforce.

Our personnel may attempt, successfully or unsuccessfully, to form one or more unions. For example, at Raven Software, one of our studios, the Communications Workers of America has filed a petition to represent a unit of employees, and the National Labor Relations Board will oversee the election process, including a determination of the appropriate set of employees who would be included in any bargaining unit (and thus participate in the election on potential unionization). Work stoppages or strikes could occur within a unionized workforce. While none of our employees are currently unionized, several of our employees have engaged in a strike for one or more days, leading to a business impact. Further disruptions to our workforce could negatively impact our business and lead to delayed product and content releases as well as a potential impact on product quality.

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

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

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

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

The proportion of our revenues derived from digital distribution channels, as compared to traditional retail sales, continues to increase. The increased importance of digital online channels in our industry increases our potential competition, as the minimum capital needed to produce and publish a digitally delivered game, particularly a game for a mobile platform, may be significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console or PC. Further, some of the providers of the platforms through which we digitally distribute content are also publishers of their own content distributed on those platforms, and, therefore, a platform provider may give priority to its own products or those of our competitors.

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

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

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

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

Sony and Microsoft are also platform providers which control the networks over which consumers purchase digital products and services for their platforms and through which we provide online game capabilities for our products. The control that these platform providers have over consumer access to our games, the fee structures and/or retail pricing for products and services for their platforms and online networks and the terms and conditions under which we do business with them could impact the availability of our products or the volume of purchases of our products made over their networks and our profitability. The networks provided by these platform providers are the exclusive means of selling and distributing our content on these platforms. Further, increased competition for limited premium "digital shelf space" has placed the platform providers in an increasingly better position to negotiate favorable terms of sale. If the platform provider establishes terms that restrict our offerings on its platform, significantly alters the financial terms on which these products or services are offered, or does not approve the inclusion of content on its platform, our business could be negatively impacted. We also derive significant revenues from distribution on third-party mobile and web platforms, such as the Apple App Store, the Google Play Store, and Facebook, which are also our direct competitors, and in some cases the exclusive means through which our content reaches gamers on those platforms, and most of the virtual currency we sell is purchased using these platform providers' payment processing systems. These platforms also serve as significant online distribution platforms for, and/or provide other services critical for the operation of, a number of our games. If these platforms deny access to our games, modify their current discovery mechanisms, communication channels available to developers, operating systems, terms of service, or other policies (including fees), our business could be negatively impacted. Additionally, if these platform providers change how they label a game's business model, such as free-to-play, change how they apply content ratings to a game, or change how the personal information of consumers is made available to developers, our business could be negatively impacted. These platform providers or their services may be unavailable or may not function as intended or may experience issues with their in-app purchasing functionality. As has sometimes happened in the past, if any of these events occurs on a prolonged, or even short-term, basis or other similar issues arise that impact players' ability to access our games, access social features, or make purchases, it may result in lost revenues and otherwise negatively impact our business.

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

We derive a substantial portion of our revenues from the sale of products for play on video game consoles manufactured by third parties, such as Sony's PS4 and PS5, Microsoft's Xbox One and Series X, and Nintendo's Switch. Sales of products for consoles accounted for 30% of our consolidated net revenues in 2021. The success of our console business is driven in large part by our ability to accurately predict which consoles will be successful in the marketplace and our ability to develop commercially successful products for these consoles. We also rely on the availability of an adequate supply of these video game consoles (which has been negatively impacted by supply chain issues) and the continued support for these consoles by their manufacturers, including our ability to reach consumers via the online networks operated by these console manufacturers. If increased costs are not offset by higher revenues and other cost efficiencies, our business could be negatively impacted. If the consoles for which we develop new software products or modify existing products do not attain significant consumer acceptance, we may not be able to recover our development costs, which could be significant.

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

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

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

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

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

A deterioration in relations between either us or the U.S. and any country in which we have significant operations or sales, or the implementation of government regulations in the U.S. or such a country, could result in the adoption or expansion of trade restrictions, including economic sanctions or absolute prohibitions, that could have a negative impact on our business. For instance, to operate in China, all games must have regulatory approval. A decision by the Chinese government to revoke its approval for any of our games or to decline to approve any products we desire to sell in China in the future could have a negative impact on our business, as could delays in the approval process. Additionally, in the past, legislation has been implemented in China that has required modifications to our products and our business model to satisfy regulatory requirements, such as Chinese regulations that limit the number of hours per week children under the age of 18 can play video games. The future implementation of similar or new laws or regulations in China or any other country in which we have operations or sales may restrict or prohibit the sale of our products or may require engineering modifications to our products and our business model that are not cost-effective, if even feasible at all, or could degrade the consumer experience to the point where consumers cease to purchase such products. Changes in Chinese game approval procedures in 2018 have resulted in reduced rates of approval for games and unclear approval timeframes, making it uncertain as to if and when our new products will be approved for release in China. Further, the continued enforcement of regulations relating to mobile and other games with an online element in China could have a negative impact on our business in China.

The laws of some countries either do not protect our products, brands, and intellectual property to the same extent as the laws of the U.S. or are inconsistently enforced. Legal protection of our rights may be ineffective in countries with weaker intellectual property enforcement mechanisms. In addition, certain third parties have registered our intellectual property rights without authorization in foreign countries. Successfully registering such intellectual property rights could limit or restrict our ability to offer products and services based on such rights in those countries. Although we take steps to enforce and police our rights, our practices and methodologies may not be effective against all eventualities.

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

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

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

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

We may not realize the expected benefits of our recent restructuring actions.

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. While we believe this plan enables us to provide better opportunities for talent, and greater expertise and scale over the long term, our ability to achieve the desired and anticipated benefits from the plan is subject to many estimates and assumptions. These estimates and assumptions are also subject to significant economic, competitive, and other uncertainties, some of which are beyond our control.

Additionally, there can be no assurance that our business will be more efficient or effective than prior to implementation of the plan, and we do not expect to realize significant net savings as a result of the plan as cost reductions in our selling, general and administrative activities are expected to be offset by increased investment in product development. Any of these consequences could negatively impact our business. In addition, there can be no assurance that additional plans will not be required or implemented in the future.

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

As part of our business strategy, from time to time, we acquire, make investments in, or enter into strategic alliances and joint ventures with, complementary businesses. These transactions may involve significant risks and uncertainties, including: (1) in the case of an acquisition, (i) the potential for the acquired business to underperform relative to our expectations and the acquisition price, (ii) the potential for the acquired business to cause our financial results to differ from expectations in any given period, or over the longer-term, (iii) unexpected tax consequences from the acquisition, or the tax treatment of the acquired business's operations going forward, giving rise to incremental tax liabilities that are difficult to predict, (iv) difficulty in integrating the acquired business, its operations, and its employees in an efficient and effective manner, (v) any unknown liabilities or internal control deficiencies assumed as part of the acquisition, and (vi) the potential loss of key employees of the acquired businesses; and (2) in the case of an investment, alliance, or joint venture, (i) our ability to cooperate with our partner, (ii) our partner having economic, business, or legal interests or goals that are inconsistent with ours, and (iii) the potential that our partner may be unable to meet its economic or other obligations, which may require us to fulfill those obligations alone.

Further, any such transaction may involve the risk that our senior management's attention will be excessively diverted from our other operations, the risk that our industry does not evolve as anticipated, and that any intellectual property or personnel skills acquired do not prove to be those needed for our future success, and the risk that our strategic objectives, cost savings or other anticipated benefits are otherwise not achieved.

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

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

Our recurring business is subject to fluctuation, and we could see a decline in that portion of our business.

Our business model includes recurring revenue we deem recurring in nature, such as revenue from subscriptions for *World of Warcraft*. There is no guarantee that demand for this service will remain at current levels. Consumer demand has declined and fluctuated in the past, and could do so in the future. If consumers lose interest in our services; if we fail to adapt our services to changing markets, distribution channels, and business models; if we discontinue our services; if we, or third parties we rely on, experience network disruptions or outages; if our competitors offer more attractive services; if our advertising and marketing of our service fails; or if there is a general downturn in the market, revenues generated by this service may decline, which could negatively impact our business.

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

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

In developing our games, we rely on tools and technologies owned by third parties.

In developing our games, we often use tools and technologies owned by third parties. If entities that own tools and technologies we use are acquired by our competitors we may lose access to such resources. Further, third party tools and technologies we use might be "sunsetted" or modified in such a way that would require us to engineer a workaround. Such events could cause delays in our production schedule and we may incur time and cost as we acquire or develop alternative assets.

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

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

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

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

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

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

Certain of our games and esports broadcasts support collaborative online features that allow consumers to communicate with one another and post narrative comments, in real time, that are visible to other consumers. Additionally, certain of our games allow consumers to create and share "user-generated content" that is visible to other consumers. From time to time, objectionable and offensive consumer content may be distributed within our games and on our broadcasts through these features or to gaming websites or other sites or forums with online chat features or that otherwise allow consumers to post comments. Although we expend resources, and expect to continue to expend resources, to promote positive play, our efforts may not be successful due to scale, limitations of existing technologies, or other factors. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content.

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

We may experience outages, disruptions, or degradations in our services, products, and/or technological infrastructure.

The reliable performance of our products and services depends on the continuing operation and availability of our information technology systems and those of our external service providers, including third-party "cloud" computing services. Our games and services are complex software products, and maintaining the sophisticated internal and external technological infrastructure required to reliably deliver these games and services is expensive and complex. The reliable delivery and stability of our products and services has been, and could in the future be, adversely impacted by outages, disruptions, failures, or degradations in our network and related infrastructure, as well as in the online platforms or services of key business partners that offer, support or host our products and services. The reliability and stability of our products and services has been affected by events outside of our control as well as by events within our control, such as the migration of data among data centers and to third-party hosted environments, the performance of upgrades and maintenance on our systems, and online demand for our products and services that exceeds the capabilities of our technological infrastructure.

If we or our external business partners were to experience an event that caused a significant system outage, disruption, or degradation or if a transition among data centers or service providers or an upgrade or maintenance session encountered unexpected interruptions, unforeseen complexity, or unplanned disruptions, our products and services may not be available to consumers or may not be delivered reliably and stably. As a result, our reputation and brand may be harmed, consumer engagement with our products and services may be reduced, and our revenue and profitability could be negatively impacted. We do not have redundancy for all our systems and many of our critical applications reside in only one of our data centers, which may make such an event more damaging to us.

As our digital business grows, we will require an increasing amount of internal and external technical infrastructure, including network capacity and computing power to continue to satisfy the needs of our players. We are investing, and expect to continue to invest, in our own technology, hardware, and software and the technology, hardware, and software of external service providers to support our business. It is possible that we may fail to scale effectively and grow this technical infrastructure to accommodate increased demands, which may adversely affect the reliable and stable performance of our games and services, therefore negatively impact our business.

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

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

Additionally, many of our games include virtual economies, comprising virtual currencies and assets, which are subject to fraud, exploitation, and abuse. In-game exploits and the use of automated or other fraudulent practices to generate virtual currency or assets illegitimately can detract from players' enjoyment of our games and can cause loss of revenue and harm to our reputation. Further, the measures we take to remedy abuse and protect against future fraudulent actions can be costly and time-consuming and may negatively impact our operations and financial outlook.

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

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

Catastrophic events may disrupt our business.

Our corporate headquarters and our primary corporate data center are located in the Los Angeles, California area, which is near a major earthquake fault. A major earthquake or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems, impacts the health and safety of our employees or the employees of third-party affiliates and the regulatory agencies we rely on, or otherwise prevents us from conducting our normal business operations, could require significant expenditures to resume operations and negatively impact our business. While we maintain insurance coverage for some of these events, the potential liabilities associated with such events could exceed the insurance coverage we maintain. Further, our system redundancy may be ineffective or inadequate to protect us against such events. Any such event could also limit the ability of retailers, distributors, or our other customers to sell or distribute our products.

Climate change may have an impact on our business.

Risks related to climate change are increasing in both impact and type. We do not expect significant near-term impacts to our operations as a result of climate change, but long-term impacts remain unknown. There may be business or operational risk due to the significant impacts that climate change could pose to our employees' lives, consumers' lives, our supply chain, or other operational disruptions from climate change-related weather events. In addition, rapidly changing customer and regulatory requirements, along with stakeholder expectations, to reduce carbon emissions and otherwise to reduce our environmental footprint could increase our costs of operations to comply or present a risk of loss of business if we are not able to meet those requirements.

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

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

Regulatory and Legal Risks

We are subject to legal proceedings regarding workplace concerns that have negatively affected our reputation.

As described in Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, in July 2021, the California Department of Fair Employment and Housing (the "DFEH") filed a complaint against Activision Blizzard, Blizzard Entertainment, and Activision Publishing alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act. The Company is separately awaiting court approval of a consent decree with the EEOC settling claims against the Company regarding certain employment practices, while the DFEH has objected to the consent decree. The Company has also been named as a defendant in a shareholder class action and a nominal defendant in shareholder derivative actions involving allegations similar to those alleged in the foregoing matters and is cooperating in an investigation with the SEC with respect to its disclosures on employment matters and related issues. The outcome of these matters remains uncertain, and we could become subject to additional, similar legal proceedings in the future. If such matters are decided unfavorably to the Company, they could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

These legal proceedings have negatively impacted our public reputation and, as a result, some consumers have elected not to continue subscribing to one or more of our games, and existing and potential players may decide not to play our games in the future. Some existing sponsors, partners, and advertisers have also elected not to be associated with our brand due to this impact on our reputation, and others may so elect in the future. The outcome of these matters remains uncertain, though such matters could be decided unfavorably to the Company and could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

We are involved in legal proceedings that can have a negative impact on our business.

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

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

There is also inherent uncertainty in determining reserves for these matters. Significant judgment is required in the analysis of these matters, including assessing the probability of potential outcomes and determining whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Further, it may take time to develop factors on which reasonable judgments and estimates can be based.

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

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

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

For example, many foreign countries have laws that permit governmental entities to restrict or prohibit marketing or distribution of interactive entertainment software products because of the content therein (and similar legislation has been introduced at one time or another at the federal and state levels in the U.S., including legislation that attempts to impose additional taxes based on content). In addition, certain jurisdictions have laws that restrict or prohibit marketing or distribution of interactive entertainment software products with random digital item mechanics, which some of our online games and services include, or subject such products to additional regulation and oversight, such as reporting to regulators, mandatory disclosure to consumers of item drop rates, and higher age ratings for products that contain such mechanics.

We are also subject to laws in a number of jurisdictions concerning the operation and offering of tournaments and games, many of which are still evolving and could be interpreted in ways that could harm our business. Certain jurisdictions also have laws that restrict or prohibit certain types of esports tournament structures. These laws may have an impact on our ability to offer certain esports competitions and/or to offer consumers of our online and casual games various types of contests and promotional opportunities.

Further, the growth and development of electronic commerce, virtual items, and currency may prompt calls for more stringent consumer protection laws that may impose additional burdens or limitations on operations of companies such as ours conducting business through the Internet and mobile devices, including related to screen time. Also, existing laws or new laws regarding the marketing of in-app purchases, regulation of currency, banking institutions, unclaimed property, and money laundering may be interpreted to cover virtual currency or goods. Additionally, laws may limit or prevent the auto-renewal of contracts and subscriptions. Further, the European Commission has recently imposed a large antitrust fine on a number of other game publishers who had been geoblocking certain EU countries. In addition, in 2019 the World Health Organization included "gaming disorder" in the 11th Revision of the International Classification of Diseases (ICD-11), leading some countries to consider legislation and policies aimed at addressing this issue. Moreover, the public dialogue concerning interactive entertainment may have an adverse impact on our reputation and consumers' willingness to purchase our products.

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

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

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

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

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

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

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

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

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

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

Financial and Economic Risks

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

Our income tax liability and effective tax rate could be adversely affected by a variety of factors, including changes in our business, the mix of earnings in countries with differing statutory tax rates, changes in tax laws or tax rulings, changes in interpretations of existing laws, or developments in tax examinations or investigations. Any of these factors could have a negative impact on our business or require us to change the manner in which we operate our business. The tax regimes we are subject to, or operate under, are unsettled and may be subject to significant change. Furthermore, tax authorities may choose to examine or investigate our tax reporting or tax liability, including under transfer pricing or permanent establishment theories. These proceedings may lead to adjustments or proposed adjustments to our income taxes or provisions for uncertain tax positions. Additionally, a number of countries, including the U.S., have been pursuing fundamental changes to the tax laws applicable to multinational companies like us, including changing the U.S. taxation of non-U.S. income, developing new global OECD guidelines, and enacting revenue-based taxes on digital services. If these developments lead to enacted policy changes, it may have an adverse impact on our income tax expense and could negatively impact our business.

Fluctuations in currency exchange rates could negatively impact our business.

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

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

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information and Holders

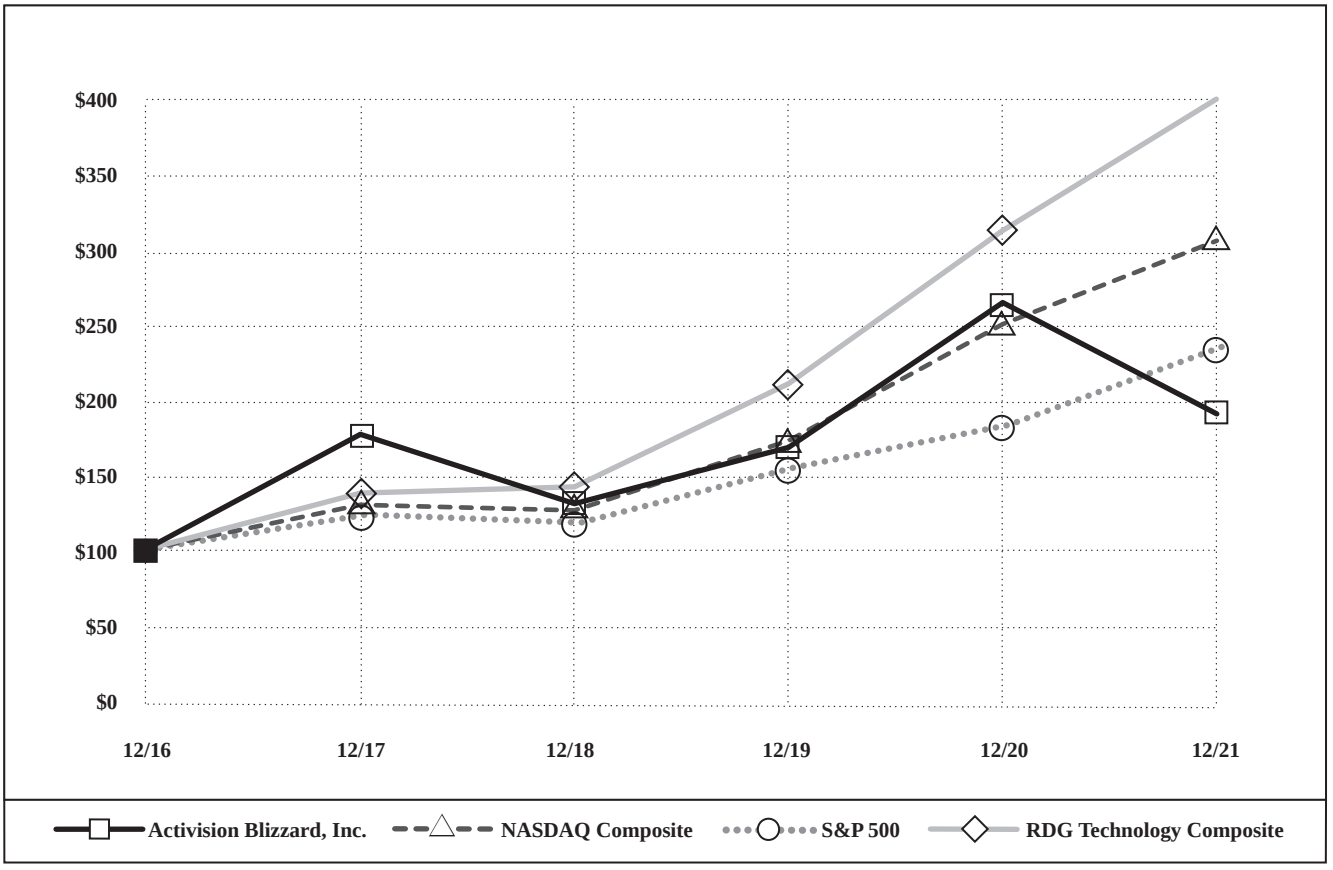
Our common stock is quoted on the Nasdaq National Market under the symbol "ATVI". At February 18, 2022, there were 1,482 holders of record of our common stock.

Stock Performance Graph

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

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

The following graph and table compare the cumulative total stockholder return on our common stock, the Nasdaq Composite Index, the S&P 500 Index, and the RDG Technology Composite Index. The graph and table assume that $100 was invested on December 31, 2016, and that dividends were reinvested daily. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Fiscal year ending December 31:	12/16	12/17	12/18	12/19	12/20	12/21
Activision Blizzard, Inc.	$ 100.00	$ 176.41	$ 130.41	$ 167.75	$ 263.83	$ 189.96
Nasdaq Composite	100.00	129.64	125.96	172.17	249.51	304.85
S&P 500	100.00	121.83	116.49	153.17	181.35	233.41
RDG Technology Composite	100.00	137.44	141.58	210.04	311.64	400.39

Cash Dividends

We have paid a dividend annually since 2010. Below is a summary of cash dividends paid over the past three fiscal years, along with the dividend most recently declared by the Board of Directors that will be paid in May 2022:

Year	Per Share Amount	Record Date	Dividend Payment Date
2022	$0.47	4/15/2022	5/6/2022
2021	$0.47	4/15/2021	5/6/2021
2020	$0.41	4/15/2020	5/6/2020
2019	$0.37	3/28/2019	5/9/2019

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

Under the Merger Agreement, we may declare and pay one regular cash dividend not to exceed $0.47 per common share and consistent with the declaration, record, and payment date of our dividend from our most recent fiscal year. On February 3, 2022, our Board of Directors declared the regular cash dividend of $0.47 per common share permitted under the terms of the Merger Agreement, payable on May 6, 2022, to shareholders of record at the close of business on April 15, 2022. We may not declare, set aside, authorize, establish a record date for, or pay any further dividend or other distribution (whether in cash, shares, or property or any combination thereof) in respect of any shares of capital stock or other equity or voting interest, or make any other actual, constructive, or deemed distribution in respect of the shares of capital stock or other equity or voting interest, without obtaining Microsoft's approval (which may not be unreasonably withheld, conditioned, or delayed).

Issuer Purchase of Equity Securities

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to $4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. To date, we have not repurchased any shares under this program and are restricted from making any repurchases during the period between the execution of the Merger Agreement and the effective time of the Merger without obtaining Microsoft’s approval (which may not be unreasonably withheld, conditioned, or delayed).

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

Item 6. [RESERVED]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

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

Merger Agreement

On January 18, 2022, we entered into the Merger Agreement with Microsoft and Merger Sub, in which we agreed to be acquired for $95.00 in cash per Share. Pursuant to the terms of the Merger Agreement, our acquisition will be accomplished through the merger of Merger Sub with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Microsoft.

Pursuant to the terms of the Merger Agreement, and subject to the terms and conditions set forth therein, at the Effective Time, each Share (other than Shares (1) held by the Company as treasury stock (excluding certain Shares held by a wholly owned subsidiary of the Company, which shares will remain outstanding and unaffected by the Merger), (2) owned by Microsoft or Merger Sub, (3) owned by any direct or indirect wholly owned subsidiary of Microsoft or Merger Sub or (4) held by stockholders who have neither voted in favor of adoption of the Merger Agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such Shares in accordance with Section 262 of the Delaware General Corporation Law, in each case, immediately prior to the Effective Time) issued and outstanding immediately prior to the Effective Time will be cancelled and automatically converted into the right to receive $95.00 in cash, without interest.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023.

The consummation of the Merger is subject to customary closing conditions, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

Employment Matters

We are subject to legal proceedings regarding our workplace and are experiencing adverse effects related to these proceedings and to concerns raised about our workplace. For information about these matters, see Part I, Item 1A "Risk Factors" and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

King delivers content through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on mobile platforms. King's key product franchise is Candy Crush™, a "match three" franchise.

Other

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

2021 financial highlights included:

- consolidated net revenues increased 9% to $8.8 billion and consolidated operating income increased 19% to $3.3 billion, as compared to consolidated net revenues of $8.1 billion and consolidated operating income of $2.7 billion in 2020;
- diluted earnings per common share increased 22% to $3.44, as compared to $2.82 in 2020; and
- cash flows from operating activities were approximately $2.4 billion, an increase of 7%, as compared to $2.3 billion in 2020.

Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. Net revenues and operating income for the year ended December 31, 2021, include a net effect of $449 million and $347 million, respectively, from the recognition of deferred net revenues and related cost of revenues.

The percentage of our consolidated net revenues that are recognized from revenue sources that are recognized at a "point-in-time" and from sources that are recognized "over-time and other" were as follows:

	For the Years Ended December 31,	
	2021	**2020**
Point-in-time (1)	14 %	16 %
Over-time and other (2)	86 %	84 %

(1) Revenue recognized at a "point-in-time" is primarily comprised of the portion of revenue from software products that is recognized when the customer takes control of the product (i.e., upon delivery of the software product) and revenues from our Distribution business.

(2) Revenue recognized "over-time and other revenue" is primarily comprised of revenue associated with the online functionality of our games, in-game purchases, and subscriptions.

2021 Content Release and Event Highlights

Throughout the year we regularly release new content through seasonal and live services updates within our franchises, including Call of Duty, Candy Crush, and Warcraft. In addition to these updates, notable game releases during 2021 included:

- Activision's *Call of Duty: Vanguard*;
- Activision's *Call of Duty: Warzone Pacific*;
- Blizzard's *World of Warcraft: Burning Crusade Classic™*;
- Blizzard's *Hearthstone: Mercenaries*; and
- Blizzard's *Diablo II: Resurrected™,* a remastered version of the original action role-playing game title *Diablo II.*

Summary of Title Release Dates

Below is a summary of release dates for titles that are discussed throughout our analysis for our operating metrics, our consolidated results, and operating segment results.

Title	Release Date
Call of Duty: Vanguard	November 2021, and when referred to herein, is inclusive of *Call of Duty: Warzone* from the release of *Call of Duty: Vanguard* Season 1 content and *Call of Duty: Warzone Pacific* on December 8, 2021.
Call of Duty: Black Ops Cold War	November 2020, and when referred to herein, is inclusive of *Call of Duty: Warzone* from the release of *Call of Duty: Black Ops Cold War* Season 1 content on December 16, 2020 through December 8, 2021.
Crash Bandicoot™ 4: It's About Time	October 2020.
Tony Hawk's™ Pro Skater™ 1 + 2	September 2020.
Call of Duty: Modern Warfare	October 2019, and when referred to herein, is inclusive of *Call of Duty: Warzone* from its release in March 2020 through December 16, 2020.
Call of Duty: Mobile	October 2019.
Crash™ Team Racing Nitro-Fueled	June 2019.
Call of Duty: Black Ops 4	October 2018.
Diablo II: Resurrected	September 2021.
World of Warcraft: Burning Crusade Classic	June 2021.
World of Warcraft: Shadowlands	November 2020.

International Sales

International sales are a fundamental part of our business. An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Net revenues from international sales accounted for approximately 51%, 52%, and 54% of our total consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. The majority of our net revenues from foreign countries are generated by consumers in Australia, Canada, China, France, Germany, Italy, Japan, South Korea, and the U.K. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Operating Metrics

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

Net bookings and in-game net bookings

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

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

	For the Years Ended December 31,		Increase (Decrease)
	2021	2020	
Net bookings	$ 8,354	$ 8,419	$ (65)
In-game net bookings	$ 5,100	$ 4,852	$ 248

Net bookings

The decrease in net bookings for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to:

- a $464 million decrease in Activision net bookings, driven by lower net bookings from (1) *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*, (2) *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*, (3) *Tony Hawk's Pro Skater 1 + 2,* and (4) *Crash Bandicoot 4: It's About Time*, partially offset by higher net bookings from *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4* and *Call of Duty: Mobile*; and

- a $78 million decrease in Blizzard net bookings, driven by lower net bookings from *World of Warcraft*, partially offset by higher net bookings from *Diablo II: Resurrected*.

The decrease in net bookings was partially offset by a $416 million increase in King net bookings, driven by higher net bookings from in-game player purchases and advertising, primarily in the Candy Crush franchise.

In-game net bookings

The increase in in-game net bookings for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $265 million increase in King in-game net bookings, driven by the Candy Crush franchise.

This increase was partially offset by a $18 million decrease in Activision in-game net bookings, with lower in-game net bookings from (1) *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare*, and (2) *Call of Duty: Vanguard*, as compared to *Call of Duty: Black Ops Cold War*, being largely offset by higher in-game net bookings from *Call of Duty: Mobile* and *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*.

Monthly Active Users

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

The number of MAUs for a given period can be significantly impacted by the timing of new content releases, since new releases may cause a temporary surge in MAUs. Accordingly, although we believe that overall trends 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):

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Activision	107	119	127	150	128
Blizzard	24	26	26	27	29
King	240	245	255	258	240
Total	371	390	408	435	397

Average MAUs decreased by 19 million, or 5%, for the three months ended December 31, 2021, as compared to the three months ended September 30, 2021. The decrease was primarily due to lower average MAUs for Activision, primarily driven by the Call of Duty franchise.

Average MAUs decreased by 26 million or 7% for the three months ended December 31, 2021 as compared to the three months ended December 31, 2020. The decrease was primarily due to lower average MAUs for Activision, primarily driven by the Call of Duty franchise.

Management's Overview of Business Trends

Impacts of the Global COVID-19 Pandemic

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

Interactive Entertainment Growth

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate, based on consumer spending, that the total industry has grown, on average, 10% annually from 2018 to 2021. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more commonplace across age groups and as more developing regions gain access to this form of entertainment.

Mobile Gaming and Free-to-Play Games

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

In addition, the free-to-play business model, which allows players to try a new game with no upfront cost, has begun to receive broader acceptance on PC and console platforms. This provides opportunities for us to increase the reach of our franchises through free-to-play offerings, which, in turn, provides opportunities to further drive player investment, as was seen with our *Call of Duty: Warzone* release in March 2020, and continuous content updates including the release of a completely new map with the launch of *Call of Duty: Warzone Pacific.*

Concentration of Sales Among the Most Popular Franchises

The top titles in the industry are also becoming more consistent as players and revenues concentrate more heavily in established franchises.

A significant portion of our revenues historically has been derived from video games based on a few popular franchises, and these video games have also been responsible for a disproportionately higher percentage of our profits. For example, in 2021, the Call of Duty, Candy Crush, and Warcraft franchises, collectively, accounted for 82% of our consolidated net revenues —and a significantly higher percentage of our operating income.

In addition to investing in new content for our top franchises, with the aim of releasing such content more frequently, we are continually exploring additional ways to expand those franchises, such as our release of Activision's *Call of Duty: Warzone*. Additionally, we have been increasing our development efforts to focus on expanding our franchises to mobile platforms, as demonstrated by the release of *Call of Duty: Mobile* and our recent release of *Crash Bandicoot: On the Run!* in March 2021, as well as our plans for *Diablo Immortal™*, which is currently in development.

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

Recurring Revenue Business Models

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

Opportunities to Expand Franchises Outside of Games

Our fans spend significant time engaging in our franchises and investing through purchases of our game content, including full games and in-game content. Given the passion our players have for our franchises, we believe there are emerging opportunities to drive additional engagement and investment in our franchises through adding non-gaming experiences within games or by adding ways to engage outside of games, such as with our Overwatch and Call of Duty esports leagues. Our efforts to build these adjacent opportunities are still relatively nascent and have experienced negative impacts from COVID-19 on their growth.

Increased Competition for Talent

We believe that our continued success and growth is directly related to our ability to attract, retain, and develop top talent. We have seen increased competition in the market for talent and expect the competitive environment to continue at least in the short term. We have experienced challenges in both the retention of our existing talent and attraction of new talent, with our average voluntary turnover rates being higher in the current year as compared to the prior year in many parts of our Company. This competition, voluntary turnover and recruiting difficulty, has negatively impacted our ability to deliver future game releases, and if they persist, could continue to negatively impact our ability to deliver content in a cadence that will be optimal for our business.

Additionally, refer to the "Our People" section under Part I, Item 1 "Business" for discussion on Activision Blizzard's initiatives and focus on our employees, including anticipated future investments to achieve our diversity aspirations. See also Part I, Item 1A "Risk Factors" and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a discussion of recent employment matters affecting the Company.

Upcoming Content Releases

As previously announced, we are now planning for a later launch for our *Overwatch 2* and *Diablo IV* titles than originally expected in order to provide the development teams the extra time they need to deliver the experiences that their communities deserve, and to set the franchises up for success over a multi-year period. As a result, we will not have the financial uplift that we had expected in 2022 from the release of these two titles. Additionally, as previously announced, Blizzard's mobile title based on the Diablo franchise, *Diablo Immortal*, is now anticipated to release in 2022 and recently completed public testing in February 2022. In the second half of 2022, we also plan to release the next premium title in our Call of Duty franchise. In addition, throughout the year we expect to deliver ongoing content for our various franchises, including continued in-game content for *Call of Duty: Vanguard*, which includes seasonal content updates for *Call of Duty: Warzone*, seasonal content updates for *Call of Duty: Mobile*, substantial new content for key Blizzard franchises, and continued releases of content, features, and services across King's portfolio with an ongoing focus on the Candy Crush franchise. We will also continue to invest in opportunities that we think have the potential to drive our growth over the long-term, including continuing to build on our advertising initiatives and investments in mobile titles.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,			
	2021		2020	
Net revenues				
Product sales	$ 2,311	26 %	$ 2,350	29 %
In-game, subscription, and other revenues	6,492	74	5,736	71
Total net revenues	8,803	100	8,086	100
Costs and expenses				
Cost of revenues—product sales:				
Product costs	649	28	705	30
Software royalties, amortization, and intellectual property licenses	346	15	269	11
Cost of revenues—in-game, subscription, and other:				
Game operations and distribution costs	1,215	19	1,131	20
Software royalties, amortization, and intellectual property licenses	107	2	155	3
Product development	1,337	15	1,150	14
Sales and marketing	1,025	12	1,064	13
General and administrative	788	9	784	10
Restructuring and related costs	77	1	94	1
Total costs and expenses	5,544	63	5,352	66
Operating income	3,259	37	2,734	34
Interest and other expense (income), net	95	1	87	1
Loss on extinguishment of debt (1)	—	—	31	—
Income before income tax expense	3,164	36	2,616	32
Income tax expense	465	5	419	5
Net income	$ 2,699	31 %	$ 2,197	27 %

(1) Represents the loss on extinguishment of debt we recognized in connection with our debt financing activities during the year ended December 31, 2020.

Consolidated Net Revenues

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

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

	For the Years Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Consolidated net revenues	$ 8,803	$ 8,086	$ 717	9 %
In-game net revenues (1)	$ 5,266	$ 4,571	$ 695	15 %

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

Consolidated net revenues

The increase in consolidated net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily driven by an increase in revenues of $1.3 billion due to higher revenues from:

- the Candy Crush franchise;
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*;
- *Call of Duty: Mobile*;
- *Diablo II: Resurrected*; and
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*.

This increase was partially offset by a decrease in revenues of $331 million due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time*.

The remaining net decrease in revenues of $288 million was driven by various other franchises and titles.

In-game net revenues

The increase in in-game net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily driven by an increase in in-game net revenues of $924 million due to higher in-game net revenues from:

- *Call of Duty: Modern Warfare,* as compared to *Call of Duty: Black Ops 4*;
- the Candy Crush franchise;
- *Call of Duty: Mobile*; and
- *World of Warcraft.*

This increase was partially offset by a decrease in in-game net revenues of $120 million due to lower in-game net revenues from *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare.*

The remaining net decrease in in-game net revenues of $109 million was driven by various other franchises and titles.

Operating Segment Results

We have three reportable segments—Activision, Blizzard, and King. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense (including liability awards accounted for under ASC 718); 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.

The Company has been reviewing its overall compensation structure and philosophy and began implementing changes to its compensation payments for 2021, primarily to enhance equity ownership for employees and bring our employee equity compensation more in line with the current industry practice. As an aspect of this change, the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved, resulting in a year-end share-based compensation liability of $194 million. The changes during the three months ended December 31, 2021 resulted in $160 million of expense related to achievement against 2021 performance targets that would have otherwise been included in our reportable segment operating income to instead be excluded from our 2021 operating income as it is now part of share-based compensation, accounted for as a liability under ASC 718. The changes increased our Activision, Blizzard, King and non-reportable segment operating income by $43 million, $25 million, $65 million, and $27 million, respectively, for the three months and year ended December 31, 2021. In addition, going forward, to the extent certain of our previously cash-based bonus programs are instead issued as time-based equity or settled via equity, such amounts will be recorded as share-based compensation and will be excluded from segment operating income.

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

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

	For the Year Ended December 31, 2021				Increase / (decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Revenues								
Net revenues from external customers	$ 3,478	$ 1,733	$ 2,580	$ 7,791	$ (464)	$ (61)	$ 416	$ (109)
Intersegment net revenues (1)	—	94	—	94	—	(17)	—	(17)
Segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 7,885	$ (464)	$ (78)	$ 416	$ (126)
Segment operating income	$ 1,667	$ 698	$ 1,140	$ 3,505	$ (201)	$ 5	$ 283	$ 87

	For the Year Ended December 31, 2020			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$ 3,942	$ 1,794	$ 2,164	$ 7,900
Intersegment net revenues (1)	—	111	—	111
Segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 8,011
Segment operating income	$ 1,868	$ 693	$ 857	$ 3,418

(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 Year Ended December 31,	
	2021	2020
Reconciliation to consolidated net revenues:		
Segment net revenues	$ 7,885	$ 8,011
Revenues from non-reportable segments (1)	563	519
Net effect from recognition (deferral) of deferred net revenues (2)	449	(333)
Elimination of intersegment revenues (3)	(94)	(111)
Consolidated net revenues	$ 8,803	$ 8,086
Reconciliation to consolidated income before income tax expense:		
Segment operating income	$ 3,505	$ 3,418
Operating income (loss) from non-reportable segments (1)	2	(55)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	347	(238)
Share-based compensation expense (4)	(508)	(218)
Amortization of intangible assets	(10)	(79)
Restructuring and related costs (Note 17)	(77)	(94)
Consolidated operating income	3,259	2,734
Interest and other expense (income), net	95	87
Loss on extinguishment of debt	—	31
Consolidated income before income tax expense	$ 3,164	$ 2,616

(1) Includes other income and expenses outside of our reportable segments, including our Distribution business and 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) Expenses related to share-based compensation, including liability awards accounted for under ASC 718. Refer to Note 16.

Segment Results

Activision

The decrease in Activision's segment net revenues and operating income for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time*.

This decrease in segment net revenues was partially offset by higher revenues from:

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

The decrease in Activision's segment operating income, driven by the overall decrease in segment net revenues, was partially offset by:

- lower cost of revenues, driven by lower software amortization and royalties for *Call of Duty: Vanguard*, as compared to *Call of Duty: Black Ops Cold War*, as well as for *Tony Hawk's Pro Skater 1 + 2* and *Crash Bandicoot 4: It's About Time*;
- lower sales and marketing costs, primarily for the Call of Duty franchise and *Crash Bandicoot 4: It's About Time*; and
- lower product development costs driven by lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation.

Blizzard

The decrease in Blizzard's segment net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from *World of Warcraft*; partially offset by higher revenues from *Diablo II: Resurrected*.

Blizzard's segment operating income was comparable to 2020, as the impact of lower segment net revenues and higher product development costs to support game development efforts were offset by:

- lower cost of revenues, driven by lower software amortization and royalties for *World of Warcraft: Shadowlands*, partially offset by higher software amortization and royalties for *Diablo II: Resurrected*;
- lower marketing costs, driven by lower marketing costs for *World of Warcraft* and *Hearthstone*, partially offset by higher marketing costs for *Diablo II: Resurrected;* and
- lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation.

King

The increase in King's segment net revenues and operating income for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from in-game player purchases and advertising, primarily in the Candy Crush franchise.

In addition, the increase in King's segment operating income was driven by:

- lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation; and
- higher insurance claim proceeds primarily relating to a network outage which occurred in 2018 from changes made by a third-party partner which inadvertently impacted some users' ability to play and spend money in King games.

These increases in King's segment operating income were partially offset by:

- higher sales and marketing costs, primarily for the Candy Crush franchise; and
- higher service provider fees, primarily digital storefront fees, driven by the higher revenues from in-game player purchases.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $100 million and $61 million on Activision Blizzard's segment net revenues for the years ended December 31, 2021 and 2020, respectively, in each case as compared to 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.

Net Revenues by Distribution Channel

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

	For the Year Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Net revenues by distribution channel:				
Digital online channels (1)	$ 7,663	$ 6,658	$ 1,005	15 %
Retail channels	479	741	(262)	(35)
Other (2)	661	687	(26)	(4)
Total consolidated net revenues	$ 8,803	$ 8,086	$ 717	9

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

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

Digital Online Channel Net Revenues

The increase in net revenues from digital online channels for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- in-game player purchases and advertising in the Candy Crush franchise;
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*;
- *Call of Duty: Mobile*;
- *Diablo II: Resurrected*; and
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*.

Retail Channel Net Revenues

The decrease in net revenues from retail channels for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Crash Bandicoot 4: It's About Time*;
- *Crash Team Racing Nitro-Fueled*; and
- *Tony Hawk's Pro Skater 1 + 2.*

Net Revenues by Platform

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

	For the Year Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Net revenues by platform:				
Console	$ 2,637	$ 2,784	$ (147)	(5)%
PC	2,323	2,056	267	13
Mobile and ancillary (1)	3,182	2,559	623	24
Other (2)	661	687	(26)	(4)
Total consolidated net revenues	$ 8,803	$ 8,086	$ 717	9

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

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

Console

The decrease in net revenues from the console platform for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare;*
- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time.*

The decrease was partially offset by higher revenues from *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*.

PC

The increase in net revenues from the PC platform for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*;
- *Diablo II: Resurrected*; and
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*.

Mobile and Ancillary

The increase in net revenues from mobile and ancillary for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- in-game player purchases and advertising in the Candy Crush franchise; and
- *Call of Duty: Mobile*.

Costs and Expenses

Cost of Revenues

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

	Year Ended December 31, 2021	% of associated net revenues	Year Ended December 31, 2020	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	$ 649	28 %	$ 705	30 %	$ (56)
Software royalties, amortization, and intellectual property licenses	346	15	269	11	77
Cost of revenues—in-game, subscription, and other:					
Game operations and distribution costs	1,215	19	1,131	20	84
Software royalties, amortization, and intellectual property licenses	107	2	155	3	(48)
Total cost of revenues	$ 2,317	26 %	$ 2,260	28 %	$ 57

Cost of Revenues—Product Sales:

The decrease in product costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was driven by a $51 million decrease in product costs from Activision, as a result of lower retail channel revenues.

The increase in software royalties, amortization, and intellectual property licenses related to product sales for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $123 million increase in software amortization and royalties from Blizzard, driven by higher software amortization and royalties from (1) *World of Warcraft,* following the release of *World of Warcraft: Shadowlands*, with no comparable amortization in the prior year, and (2) *Diablo II: Resurrected*.

This increase was partially offset by a $46 million decrease in software amortization and royalties from Activision, driven by lower software amortization and royalties from (1) *Tony Hawk's Pro Skater 1 + 2*, (2) *Crash Bandicoot 4: It's About Time*, and (3) *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*, partially offset by higher software amortization and royalties from *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare*.

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

The increase in game operations and distribution costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $114 million increase in service provider fees, such as digital storefront fees (e.g., fees retained by Apple and Google for our sales on their platforms) and payment processor fees, as a result of higher revenues.

The decrease in software royalties, amortization, and intellectual property licenses related to in-game, subscription, and other revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a decrease of $61 million in amortization of internally-developed franchise and developed software intangible assets acquired as part of our 2016 acquisition of King. The decrease was partially offset by an increase in software amortization and royalties from Activision of $23 million, driven by *Call of Duty: Mobile*.

Product Development (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Product development	$ 1,337	15 %	$ 1,150	14 %	$ 187

The increase in product development costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher development spending of $275 million, driven by increased personnel costs and outside developer fees to support our franchises. The increase was partially offset by an $89 million increase in capitalization of development costs driven by the timing of Activision's game development cycles.

Sales and Marketing (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Sales and marketing	$ 1,025	12 %	$ 1,064	13 %	$ (39)

The decrease in sales and marketing expenses for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a decrease of $24 million in costs for marketing personnel and support services. Marketing spending for the year ended December 31, 2021 was comparable to the year ended December 31, 2020, primarily due to lower spending for the Call of Duty franchise being offset by higher spending for the Candy Crush franchise.

General and Administrative (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
General and administrative	$ 788	9 %	$ 784	10 %	$ 4

General and administrative expenses for the year ended December 31, 2021 were comparable to the year ended December 31, 2020.

Restructuring and related costs (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Restructuring and related costs	$ 77	1 %	$ 94	1 %	$ (17)

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. Since then, we have been focusing on these goals as we execute against our plan for which, at the end of 2021, we had substantially completed the actions contemplated under our plan. The restructuring and related costs incurred during 2021 relate primarily to severance costs. We do not expect to realize significant net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general and administrative activities are expected to be offset by increased investment in product development. Refer to Note 17 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion.

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

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Interest and other expense (income), net	$ 95	1 %	$ 87	1 %	$ 8

Interest and other expense (income), net, for the year ended December 31, 2021, was comparable to the year ended December 31, 2020 with a $24 million increase in gains on equity investments being offset by a $16 million decrease in interest income as a result of lower interest rates.

Income Tax Expense (amounts in millions)

	December 31, 2021	% of Pretax income	December 31, 2020	% of Pretax income	Increase (Decrease)
Income tax expense	$ 465	15 %	$ 419	16 %	$ 46

The income tax expense of $465 million for the year ended December 31, 2021 reflects an effective tax rate of 15%, which is lower than the effective tax rate of 16% for the year ended December 31, 2020. The decrease is primarily due to a benefit resulting from deferred tax asset remeasurements.

The effective tax rate of 15% for the year ended December 31, 2021, is lower than the U.S. statutory rate of 21%, primarily due to foreign earnings taxed at lower rates, research and development credits and a benefit resulting from a deferred tax asset remeasurement.

The overall effective income tax rate in future periods will depend on a variety of factors, such as changes in pre-tax income or loss by jurisdiction, applicable accounting rules, applicable tax laws and regulations, and rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss.

Further analysis of the differences between the U.S. federal statutory rate and the consolidated effective tax rate, as well as other information about our income taxes, is provided in Note 19 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $107 million and $62 million on our consolidated net revenues in 2021 and 2020, respectively, as compared to the same periods in the previous year.

Changes in foreign exchange rates had a positive impact of $30 million and $35 million on our consolidated operating income in 2021 and 2020, respectively, as compared to the same periods in the previous year.

Comparison of 2020 to 2019

For the comparison of 2020 to 2019, refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2020.

Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. Despite the impacts of the COVID-19 pandemic on the global economy, in the near term, we expect our business and financial condition to remain strong and to continue to generate significant operating cash flows, which, we believe, in combination with our existing balance of cash and cash equivalents and short-term investments of $10.6 billion, our access to debt and equity 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 and beyond. Our primary sources of liquidity include our cash and cash equivalents, short-term investments, and cash flows provided by operating activities. Our material cash requirements include operating expenses, potential dividend payments and share repurchases, scheduled debt maturities (the next of which is in 2026), capital expenditures and other commitments, as discussed below.

As of December 31, 2021, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was $3.9 billion, as compared to $2.5 billion as of December 31, 2020. 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 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, dividends, share repurchases, and other structural changes, with certain of the foregoing actions, if we were to move forward with them, requiring Microsoft's approval under the Merger Agreement (which may not be unreasonably withheld, conditioned, or delayed), subject to certain exceptions. These transactions may result in future cash proceeds or payments.

Sources of Liquidity (amounts in millions

	December 31, 2021	December 31, 2020	Increase (Decrease)
Cash and cash equivalents	$ 10,423	$ 8,647	$ 1,776
Short-term investments	195	170	25
	$ 10,618	$ 8,817	$ 1,801
Percentage of total assets	42 %	38 %	

	For the Year Ended December 31,		
	2021	2020	Increase (Decrease)
Net cash provided by operating activities	$ 2,414	$ 2,252	$ 162
Net cash used in investing activities	(59)	(178)	119
Net cash (used in) provided by financing activities	(521)	711	(1,232)
Effect of foreign exchange rate changes	(48)	69	(117)
Net increase in cash and cash equivalents and restricted cash	$ 1,786	$ 2,854	$ (1,068)

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities for the year ended December 31, 2021, was $2.4 billion, as compared to $2.3 billion for the year ended December 31, 2020. The increase was primarily due to higher net income and lower tax payments in the current year, as the prior-year period included payments for a tax settlement in France with no comparable activity in 2021, partially offset by changes in our working capital resulting from the timing of collections and payments.

Net Cash Used in Investing Activities

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

Net cash used in investing activities for the year ended December 31, 2021, was $59 million, as compared to $178 million for the year ended December 31, 2020. The decrease in cash used in investing activities was primarily due to net proceeds from the sale and maturities of available-for-sale investments of $32 million for the year ended December 31, 2021, as compared to net purchases of available-for-sale investments of $100 million for the year ended December 31, 2020.

Net Cash Used in Financing Activities

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

Net cash used in financing activities for the year ended December 31, 2021, was $521 million, as compared to net cash provided by financing activities of $711 million for the year ended December 31, 2020. The increase in cash used in financing activities was primarily due to:

- net debt proceeds of $896 million received for the year ended December 31, 2020, resulting from the issuance of an aggregate principal amount of $2.0 billion of new notes and the early redemption of $1.05 billion of our previously outstanding notes, with no comparable activity for the year ended December 31, 2021;
- higher tax payments made for net share settlements on restricted stock units, driven by a higher volume of share releases, at higher market values, resulting in $246 million of payments during the year ended December 31, 2021, as compared to $39 million during the year ended December 31, 2020; and
- lower proceeds on issuance of stock to employees, with $90 million received during the year ended December 31, 2021, as compared to $170 million during the year ended December 31, 2020.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a negative impact of $48 million and a positive impact of $69 million on our cash and cash equivalents for the years ended December 31, 2021 and December 31, 2020, respectively. The change was primarily due to changes in the value of the U.S. dollar relative to the euro and the British pound.

Debt

At both December 31, 2021 and December 31, 2020, our total gross unsecured senior notes outstanding was $3.7 billion, bearing interest at a weighted average rate of 2.87%.

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

	At December 31, 2021	At December 31, 2020
2026 Notes	$ 850	$ 850
2027 Notes	400	400
2030 Notes	500	500
2047 Notes	400	400
2050 Notes	1,500	1,500
Total gross long-term debt	$ 3,650	$ 3,650
Unamortized discount and deferred financing costs	(42)	(45)
Total net carrying amount	$ 3,608	$ 3,605

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

Dividends

On February 3, 2022, our Board of Directors declared a cash dividend of $0.47 per common share, payable on May 6, 2022, to shareholders of record at the close of business on April 15, 2022.

On February 4, 2021, our Board of Directors declared a cash dividend of $0.47 per common share. On May 6, 2021, we made an aggregate cash dividend payment of $365 million to shareholders of record at the close of business on April 15, 2021.

Capital Expenditures

We made capital expenditures of $80 million in 2021, as compared to $78 million in 2020. In 2022, we anticipate total capital expenditures of approximately $100 million, primarily for computer hardware, leasehold improvements, and software purchases.

Commitments

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

Comparison of 2020 to 2019

For the comparison of 2020 to 2019, refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2020, under the subheading “Liquidity and Capital Resources.”

Off-balance Sheet Arrangements

At each of December 31, 2021 and December 31, 2020, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

We determine revenue recognition by:

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

Certain products are sold to customers with a "street date" (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

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

Product Sales

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

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

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular advertisement, are recorded as "Sales and marketing" expense when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the good or service.

Products with Online Functionality

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

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

Online Hosted Software Arrangements

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

In-game, Subscription, and Other Revenues

In-game Revenues

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

Subscription Revenues

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

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

Other Revenues

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

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

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

Revenues from advertising arise primarily from contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers to display advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. Our advertising arrangements are primarily impression-based and we recognize revenue from these in the contracted period in which the impressions are delivered. Impressions are considered delivered when an advertisement is displayed to users. The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order. The transaction price in advertising arrangements governed by a master contract is generally based on a revenue share percentage stated in the contract. The transaction price in advertising arrangements governed by an insertion order is generally the product of the number of advertising units delivered (e.g., impressions, videos viewed) and the contractually agreed upon price per advertising unit.

Significant Judgment around Revenue Arrangements with Multiple Deliverables

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

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

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with our content for a period of time. We also consider known online trends such as the cadence of content delivery in our games, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires significant management judgment. The estimated service periods for players of our current games are less than 12 months.

Historically, we have not observed significant variability in our estimated service period as the online content for our games has generally been comparable to previously released titles resulting in similar usage patterns. Future usage patterns could change from historical patterns as a result of various factors, including but not limited to, changes in our online content, frequency of content delivery, competitor's offerings, and other changes that impact player's engagement that we may not be able to reasonable predict at the time of deriving our estimate. If future usage patterns were to change significantly from historical patterns, in the future our estimated service period could change and materially impact our future consolidated net revenues and operating income.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and

- which party has discretion in establishing the price for the specified good or service.

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

Income Taxes

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

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to tax expense in the period such determination is made.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC Topic 740 and complex tax laws. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our business and results of operations in an interim period in which the uncertainties are ultimately resolved.

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

We are also subject to the continuous examination of our income tax returns by the IRS and are regularly subject to audit by other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition. For the year ended December 31, 2021, one percentage point increase in our effective tax rate would have resulted in an increase in our income tax expense of approximately $32 million.

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

Software Development Costs

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

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

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

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

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

Recently Issued Accounting Pronouncements

For a detailed discussion of all relevant recently issued accounting pronouncements, see Note 3 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, with a heightened risk for volatility in the future due to potential impacts of COVID-19 on global financial markets. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won, Chinese yuan, and Swedish krona. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions will result in reduced revenues, operating expenses, net income, and cash flows from our international operations. Similarly, our revenues, operating expenses, net income, and cash flows will increase for our international operations if the U.S. dollar weakens against foreign currencies. Since we have significant international sales but incur the majority of our costs in the U.S., 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" and Foreign Currency Forward Contracts Not Designated as Hedges

Refer to Note 10 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for disclosures regarding our foreign currency forward contracts.

In the absence of hedging activities for the year ended December 31, 2021, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately $184 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in this manner, and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio, as our outstanding debt is all at fixed rates. Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents, or short-term securities is more subject to market fluctuations than a portfolio of longer-term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer-term securities. At December 31, 2021, our cash and cash equivalents were comprised primarily of money market funds.

As of December 31, 2021, based on the composition of our investment portfolio, we anticipate investment yields may remain low, which would continue to negatively impact our future interest income. Such impact is not expected to be material to the Company's liquidity.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Definition and Limitations of Disclosure Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2021, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized, and reported on a timely basis, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of December 31, 2021, of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

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

The effectiveness of our internal control over financial reporting as of December 31, 2021, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2021. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2021, 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.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item, other than the information regarding executive officers, which is included in Item 1 of this report, is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Proposal 1—Election of Directors," "Corporate Governance Matters—Board Committees," "Corporate Governance Matters—Governance Documents—Code of Conduct," and, if applicable, "Beneficial Ownership Matters—Delinquent Section 16(a) Reports" to be filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Executive Compensation" and "Director Compensation" to be filed with the SEC.

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

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Beneficial Ownership Matters," "Equity Compensation Plan Information," and "Corporate Governance Matters—Board Committees," to be filed with the SEC.

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

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Corporate Governance Matters—Director Independence", "Corporate Governance Matters—Board Committees" and "Certain Relationships and Related Person Transactions" to be filed with the SEC.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Audit-Related Matters" to be filed with the SEC.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1 *Financial Statements* See Item 8.—Consolidated Financial Statements and Supplementary Data for index to Financial Statements and Financial Statement Schedule on page 65 herein.

2 *Financial Statement Schedule* The following financial statement schedule of Activision Blizzard for the years ended December 31, 2021, 2020, and 2019 is filed as part of this report on page F-52 and should be read in conjunction with the consolidated financial statements of Activision Blizzard:

Schedule II—Valuation and Qualifying Accounts

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

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

Item 16. FORM 10-K SUMMARY

None.

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Activision Blizzard, Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

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

Revenue Recognition – Determination of Estimated Service Period

As described in Note 2 to the consolidated financial statements, a portion of the Company's $8.8 billion of total net revenues for the year ended December 31, 2021, is recognized ratably over an estimated service period, which for players of the Company's current games is less than twelve months. Management considers a variety of data points when determining the estimated service periods for players of the Company's games, including the weighted-average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with the games' content for a period of time. Management also considers known online trends such as the cadence of content delivery in the Company's games, the service period of previously released games, and, to the extent publicly available, the service period of competitors' games that are similar in nature. Determining the estimated service period is subjective and requires management's judgment.

The principal considerations for our determination that performing procedures relating to revenue recognition - determination of estimated service period is a critical audit matter are the significant judgment by management when determining the estimated service period, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to the data used by management in determining the estimated service period, such as the player data for historical or comparable titles to determine the weighted-average number of days between players' unique purchase or first day played online and the time at which players become inactive and cease engaging with the games' content for a period of time, and qualitative factors utilized by management, such as analysis of competitor information.

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

Los Angeles, California
February 25, 2022

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

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

	At December 31, 2021	At December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 10,423	$ 8,647
Accounts receivable, net of allowances of $36 and $83, at December 31, 2021 and December 31, 2020, respectively	972	1,052
Software development	449	352
Other current assets	712	514
Total current assets	12,556	10,565
Software development	211	160
Property and equipment, net	169	209
Deferred income taxes, net	1,377	1,318
Other assets	497	641
Intangible assets, net	447	451
Goodwill	9,799	9,765
Total assets	$ 25,056	$ 23,109
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 285	$ 295
Deferred revenues	1,118	1,689
Accrued expenses and other liabilities	1,008	1,116
Total current liabilities	2,411	3,100
Long-term debt, net	3,608	3,605
Deferred income taxes, net	506	418
Other liabilities	932	949
Total liabilities	7,457	8,072
Commitments and contingencies (Note 22)		
Shareholders' equity:		
Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,207,729,623 and 1,202,906,087 shares issued at December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	11,715	11,531
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2021 and December 31, 2020	(5,563)	(5,563)
Retained earnings	12,025	9,691
Accumulated other comprehensive loss	(578)	(622)
Total shareholders' equity	17,599	15,037
Total liabilities and shareholders' equity	$ 25,056	$ 23,109

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

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

	For the Years Ended December 31,		
	2021	2020	2019
Net revenues			
Product sales	$ 2,311	$ 2,350	$ 1,975
In-game, subscription, and other revenues	6,492	5,736	4,514
Total net revenues	8,803	8,086	6,489
Costs and expenses			
Cost of revenues—product sales:			
Product costs	649	705	656
Software royalties, amortization, and intellectual property licenses	346	269	240
Cost of revenues—in-game, subscription, and other:			
Game operations and distribution costs	1,215	1,131	965
Software royalties, amortization, and intellectual property licenses	107	155	233
Product development	1,337	1,150	998
Sales and marketing	1,025	1,064	926
General and administrative	788	784	732
Restructuring and related costs	77	94	132
Total costs and expenses	5,544	5,352	4,882
Operating income	3,259	2,734	1,607
Interest and other expense (income), net (Note 18)	95	87	(26)
Loss on extinguishment of debt	—	31	—
Income before income tax expense	3,164	2,616	1,633
Income tax expense	465	419	130
Net income	$ 2,699	$ 2,197	$ 1,503
Earnings per common share			
Basic	$ 3.47	$ 2.85	$ 1.96
Diluted	$ 3.44	$ 2.82	$ 1.95
Weighted-average number of shares outstanding			
Basic	777	771	767
Diluted	784	778	771

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

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Net income	$ 2,699	$ 2,197	$ 1,503
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	(17)	35	5
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	53	(36)	(15)
Unrealized gains (losses) on available-for-sale securities, net of tax	8	(2)	(8)
Total other comprehensive income (loss)	$ 44	$ (3)	$ (18)
Comprehensive income	$ 2,743	$ 2,194	$ 1,485

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

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Cash flows from operating activities:			
Net income	$ 2,699	$ 2,197	$ 1,503
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	7	(94)	(352)
Non-cash operating lease cost	65	65	64
Depreciation and amortization	116	197	328
Amortization of capitalized software development costs and intellectual property licenses (1)	324	249	225
Share-based compensation expense (Note 16) (2)	508	218	166
Realized and unrealized gain on equity investment (Note 10)	(28)	(3)	(38)
Other	2	31	42
Changes in operating assets and liabilities:			
Accounts receivable, net	71	(194)	182
Software development and intellectual property licenses	(426)	(378)	(275)
Other assets	(114)	(88)	186
Deferred revenues	(537)	216	(154)
Accounts payable	(7)	(10)	31
Accrued expenses and other liabilities	(266)	(154)	(77)
Net cash provided by operating activities	2,414	2,252	1,831
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	214	121	153
Proceeds from sale of available-for-sale investments	66	—	—
Purchases of available-for-sale investments	(248)	(221)	(65)
Capital expenditures	(80)	(78)	(116)
Other investing activities	(11)	—	6
Net cash used in investing activities	(59)	(178)	(22)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	90	170	105
Tax payment related to net share settlements on restricted stock units	(246)	(39)	(59)
Dividends paid	(365)	(316)	(283)
Proceeds from debt issuances, net of discounts	—	1,994	—
Repayment of long-term debt	—	(1,050)	—
Payment of financing costs	—	(20)	—
Premium payment for early redemption of note	—	(28)	—
Net cash (used in) provided by financing activities	(521)	711	(237)
Effect of foreign exchange rate changes on cash and cash equivalents	(48)	69	(3)
Net increase (decrease) in cash and cash equivalents and restricted cash	1,786	2,854	1,569
Cash and cash equivalents and restricted cash at beginning of period	8,652	5,798	4,229
Cash and cash equivalents and restricted cash at end of period	$ 10,438	$ 8,652	$ 5,798
Supplemental cash flow information:			
Cash paid for income taxes, net of refunds	$ 468	$ 806	$ 319
Cash paid for interest	109	82	86

(1) Excludes deferral and amortization of share-based compensation expense, including liability awards accounted for under ASC 718.
(2) Includes the net effects of capitalization, deferral, and amortization of share-based compensation expense, including liability awards accounted for under ASC 718.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2021, 2020, and 2019
(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	—	—	—	—	—	1,503	—	1,503
Other comprehensive income (loss)	—	—	—	—	—	—	(18)	(18)
Issuance of common stock pursuant to employee stock options	4	—	—	—	105	—	—	105
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(58)	—	—	(58)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	164	—	—	164
Dividends ($0.37 per common share)	—	—	—	—	—	(283)	—	(283)
Balance at December 31, 2019	**1,197**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,174**	**$ 7,813**	**$ (619)**	**$ 12,805**
Cumulative impact from adoption of new credit loss standard	—	—	—	—	—	(3)	—	(3)
Components of comprehensive income:								
Net income	—	—	—	—	—	2,197	—	2,197
Other comprehensive income (loss)	—	—	—	—	—	—	(3)	(3)
Issuance of common stock pursuant to employee stock options	5	—	—	—	171	—	—	171
Issuance of common stock pursuant to restricted stock units	1	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	—	—	—	—	(40)	—	—	(40)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	226	—	—	226
Dividends ($0.41 per common share)	—	—	—	—	—	(316)	—	(316)
Balance at December 31, 2020	**1,203**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,531**	**$ 9,691**	**$ (622)**	**$ 15,037**
Components of comprehensive income:								
Net income	—	—	—	—	—	2,699	—	2,699
Other comprehensive income (loss)	—	—	—	—	—	—	44	44
Issuance of common stock pursuant to employee stock options	2	—	—	—	90	—	—	90
Issuance of common stock pursuant to restricted stock units	6	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(3)	—	—	—	(245)	—	—	(245)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	339	—	—	339
Dividends ($0.47 per common share)	—	—	—	—	—	(365)	—	(365)
Balance at December 31, 2021	**1,208**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,715**	**$ 12,025**	**$ (578)**	**$ 17,599**

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

1. Description of Business

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

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

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

Other

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

2. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

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

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

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

Cash and Cash Equivalents

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

Investment Securities

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

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

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

Investments in equity securities which are not accounted for under the equity method and for which there is not a readily determinable fair value are carried at cost, less impairment, and adjusted for changes resulting from observable price changes in orderly transactions for identical or similar investment of the same issuer. Investments in equity securities with a readily determinable fair value are measured at fair value each reporting period, with unrealized gains and losses recorded within "Interest and other expense (income)" in our consolidated statements of operations.

Financial Instruments

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

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

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

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

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

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

Concentration of Credit Risk

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

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

Our customer base includes first party digital storefronts, retailers and distributors, including mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores in the U.S. and other countries worldwide. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers.

The percentage of our consolidated net revenues by our most significant customers were as follows:

	For the Years Ended		
	December 31, 2021	**December 31, 2020**	**December 31, 2019**
Apple Inc.	17 %	15 %	17 %
Google Inc.	17 %	14 %	13 %
Sony Interactive Entertainment Inc.	15 %	17 %	11 %
Microsoft Corporation	*	11 %	*

* Customer did not account for 10% or more of our consolidated net revenues for the noted period.

No other customer accounted for 10% or more of our net revenues in the periods above. We had two customers—Microsoft Corporation ("Microsoft") and Sony Interactive Entertainment Inc. ("Sony")—who accounted for 20% and 22%, respectively, of consolidated gross receivables at December 31, 2021, and 28% and 21%, respectively, at December 31, 2020. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

Software Development Costs and Intellectual Property Licenses

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

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

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

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

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

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

Assets Recognized from Costs to Obtain a Contract with a Customer

We apply the practical expedient to expense, as incurred, costs to obtain a contract with a customer when the amortization period would have been one year or less for certain similar contracts in which commissions are paid to internal personnel or third parties. We believe application of the practical expedient has a limited effect on the amount and timing of cost recognition. Total capitalized costs to obtain a contract were immaterial as of December 31, 2021 and 2020.

Long-Lived Assets

Property and Equipment.

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

Goodwill and Other Indefinite-Lived Assets.

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

Our annual goodwill impairment test is performed at the reporting unit level. As of December 31, 2021 and 2020, our reporting units were the same as our operating segments. We generally test goodwill for possible impairment first by performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If a qualitative assessment is not used, or if the qualitative assessment is not conclusive, a quantitative impairment test is performed. If a quantitative test is performed, we determine the fair value of the related reporting unit and compare this value to the recorded net assets of the reporting unit, including goodwill. The fair value of our reporting units is determined using an income approach based on discounted cash flow models. In the event the recorded net assets of the reporting unit exceed the estimated fair value of such assets, an impairment charge is recorded for this amount under revised accounting guidance we adopted during the year ended December 31, 2020, and is applicable for future periods. Based on our annual impairment assessment, no impairments of goodwill were identified for the years ended December 31, 2021, 2020, and 2019.

We test our acquired trade names for possible impairment by applying the same process as for goodwill. In the instance when a qualitative test is not performed or is inconclusive, a quantitative test is performed by using a discounted cash flow model to estimate fair value of our acquired trade names. Based on our annual impairment assessment, no impairments of our acquired trade names were identified for the years ended December 31, 2021, 2020, and 2019.

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

Amortizable Intangible and Other Long-lived Assets.

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

We evaluate the recoverability of our definite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. We consider certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. We did not record an impairment charge to our definite-lived intangible assets for the years ended December 31, 2021, 2020, and 2019.

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 are payments based on an index or rate known at the commencement date of the lease. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. The operating lease right-of-use ("ROU") asset also includes any lease payments made prior to the lease commencement date, initial direct costs incurred, and lease incentives received. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate in determining the present value of future payments. The incremental borrowing rate represents an approximation of the rate that would be charged to borrow funds to purchase the leased asset over a similar term, and is based on the information available at the commencement date of the lease. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets.

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

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

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

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

Revenue Recognition

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

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

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

We determine revenue recognition by:

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

Certain products are sold to customers with a “street date” (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

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

Product Sales

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

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

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer's national circular advertisement, are recorded as "Sales and marketing" expense when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the good or service.

Products with Online Functionality

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

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

Online Hosted Software Arrangements

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

In-game, Subscription, and Other Revenues

In-game Revenues

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

Subscription Revenues

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

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

Other Revenues

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

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

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

Revenues from advertising arise primarily from contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers to display advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. Our advertising arrangements are primarily impression-based and we recognize revenue from these in the contracted period in which the impressions are delivered. Impressions are considered delivered when an advertisement is displayed to users. The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order. The transaction price in advertising arrangements governed by a master contract is generally based on a revenue share percentage stated in the contract. The transaction price in advertising arrangements governed by an insertion order is generally the product of the number of advertising units delivered (e.g., impressions, videos viewed) and the contractually agreed upon price per advertising unit.

Significant Judgment around Revenue Arrangements with Multiple Deliverables

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

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

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with our content for a period of time. We also consider known online trends such as the cadence of content delivery in our games, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires significant management judgment. The estimated service periods for players of our current games are less than 12 months.

Historically, we have not observed significant variability in our estimated service period as the online content for our games has generally been comparable to previously released titles resulting in similar usage patterns. Future usage patterns could change from historical patterns as a result of various factors, including but not limited to, changes in our online content, frequency of content delivery, competitor's offerings, and other changes that impact player's engagement that we may not be able to reasonable predict at the time of deriving our estimate. If future usage patterns were to change significantly from historical patterns, in the future our estimated service period could change and materially impact our future consolidated net revenues and operating income.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and

- which party has discretion in establishing the price for the specified good or service.

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

Allowances for Returns and Price Protection

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

Management uses judgment in estimates made with respect to potential future product returns and price protection related to current period product revenues and when establishing the allowance for returns and price protection. We estimate the amount of future returns and price protection for current period product revenues utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer, and record revenue for the transferred products in the amount of consideration to which we expect to be entitled.

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

Contract Balances

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

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

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

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

Shipping and Handling

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

Cost of Revenues

Our cost of revenues consist of the following:

Cost of revenues—product sales:

(1) "Product costs"—includes the manufacturing costs of goods produced and sold. These generally include product costs, manufacturing royalties (net of volume discounts), personnel-related costs, warehousing, and distribution costs. We generally recognize volume discounts when they are earned (typically in connection with the achievement of unit-based milestones).

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to product sales revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to product sales revenues.

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

(1) "Game operations and distribution costs"—includes costs to operate our games, such as customer service, Internet bandwidth and server costs, platform provider fees, and payment provider fees, along with costs to associated with our esports activities.

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to in-game, subscription, and other revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to in-game, subscription, and other revenues.

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising, which are deferred and charged to expense when the related advertisement is run for the first time. Advertising expenses for the years ended December 31, 2021, 2020, and 2019 were $736 million, $746 million, and $587 million, respectively, and are included in "Sales and marketing" in the consolidated statements of operations.

Income Taxes

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

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

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

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

Foreign Currency Translation

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

Earnings (Loss) Per Common Share

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

Share-Based Payments

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

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

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

For share-based compensation grants that are liability classified, if any, we update our grant date valuation at each reporting period and recognize a cumulative catch-up adjustment for changes in the value related to the requisite service already rendered. Additionally, any obligations that are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, and are to be settled with a variable number of shares of our common stock, are liability classified with expense recognized ratably over the vesting period. Liability classified awards are subsequently reclassified to equity upon settlement in shares of our common stock.

Loss Contingencies

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

3. Recently Issued Accounting Pronouncements

Recently adopted accounting pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued new guidance, which is intended to simplify various aspects associated with the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 for recognizing deferred taxes for investments, performing an intra-period allocation, and calculating income taxes in interim periods. The amendment also clarifies and amends certain areas of existing guidance to reduce complexity and improve consistency in the application of Topic 740. Generally, the guidance must be applied prospectively upon adoption, with the exception of certain topics, which are required to be applied on a retrospective or modified retrospective basis. On January 1, 2021, we adopted this new accounting standard and applied the topics in the manner required by the standard. The adoption of this standard did not have a material impact on our consolidated financial statements.

4. Cash and Cash Equivalents

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

	At December 31,	
	2021	**2020**
Cash	$ 354	$ 268
Foreign government treasury bills	34	34
Money market funds	10,035	8,345
Cash and cash equivalents	$ 10,423	$ 8,647

5. Software Development and Intellectual Property Licenses

Our total capitalized software development costs of $660 million and $512 million, as of December 31, 2021 and December 31, 2020, respectively, primarily relate to internal development costs. As of both December 31, 2021 and December 31, 2020, capitalized intellectual property licenses were not material.

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Amortization of capitalized software development costs and intellectual property licenses	$ 341	$ 263	$ 241

6. Property and Equipment, Net

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

	At December 31,	
	2021	**2020**
Land	$ 1	$ 1
Buildings	4	4
Leasehold improvements	227	246
Computer equipment	703	704
Office furniture and other equipment	90	95
Total cost of property and equipment	1,025	1,050
Less accumulated depreciation	(856)	(841)
Property and equipment, net	$ 169	$ 209

Depreciation expense for the years ended December 31, 2021, 2020, and 2019 was $105 million, $117 million, and $124 million, respectively.

7. Intangible Assets, Net

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

	At December 31, 2021			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	$ 1,154	$ (1,154)	$ —
Trade names and other	1 - 10 years	80	(66)	14
Total definite-lived intangible assets (1)		$ 1,234	$ (1,220)	$ 14
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433
Total intangible assets, net				$ 447

(1) Beginning with the first quarter of 2021, the balances of the developed software intangible assets have been removed as such amounts were fully amortized in the prior year.

	At December 31, 2020			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	$ 1,154	$ (1,151)	$ 3
Developed software	2 - 5 years	601	(601)	—
Trade names and other	1 - 10 years	73	(58)	15
Total definite-lived intangible assets		$ 1,828	$ (1,810)	$ 18
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433
Total intangible assets, net				$ 451

Amortization expense of our intangible assets was $11 million, $80 million, and $204 million for the years ended December 31, 2021, 2020, and 2019, respectively.

8. Goodwill

The carrying amount of goodwill by reportable segment at both December 31, 2021 and December 31, 2020, was as follows (amounts in millions):

	Activision	Blizzard	King	Total
Balance at December 31, 2019	$ 6,898	$ 190	$ 2,676	$ 9,764
Other	1	—	—	1
Balance at December 31, 2020	$ 6,899	$ 190	$ 2,676	$ 9,765
Additions through acquisition (1)	34	—	—	34
Balance at December 31, 2021	$ 6,933	$ 190	$ 2,676	$ 9,799

(1) On October 28, 2021 we acquired a mobile game developer, Digital Legends, that will operate as a studio under our Activision segment. The total net assets acquired were not material.

9. Other Assets and Liabilities

Included in "Accrued expenses and other liabilities" in our consolidated balance sheets are accrued payroll-related costs of $364 million and $406 million at December 31, 2021 and 2020, respectively, and the current portion of income taxes payable of $144 million and $100 million at December 31, 2021 and 2020, respectively.

10. Fair Value Measurements

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

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

Fair Value Measurements on a Recurring Basis

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

		Fair Value Measurements at December 31, 2021 Using			
	As of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 10,035	$ 10,035	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	130	130	—	—	Other current assets
Equity securities	50	50	—	—	Other current assets
Foreign currency forward contracts designated as hedges	20	—	20	—	Other current assets
Total	$ 10,269	$ 10,249	$ 20	$ —	

		Fair Value Measurements at December 31, 2020 Using			
	As of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 8,345	$ 8,345	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	164	164	—	—	Other current assets
Total	$ 8,543	$ 8,543	$ —	$ —	
Financial Liabilities:					
Foreign currency forward contracts not designated as hedges	$ (2)	$ —	$ (2)	$ —	Accrued expenses and other liabilities
Foreign currency forward contracts designated as hedges	(24)	—	(24)	—	Accrued expenses and other liabilities
Total	$ (26)	$ —	$ (26)	$ —	

Foreign Currency Forward Contracts

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

The total gross notional amounts and fair values of our Cash Flow Hedges, all of which had remaining maturities of 12 months or less as of December 31, 2021, are as follows (amounts in millions):

	As of December 31, 2021		As of December 31, 2020	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell EUR	$ 382	$ 20	$ 542	$ (24)

For the years ended December 31, 2021, 2020, and 2019, 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 were not material.

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 December 31, 2021		As of December 31, 2020	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell GBP	$ —	$ —	$ 116	$ (2)

For the years ended December 31, 2021, 2020, and 2019, pre-tax net gains (losses) associated with these forward contracts were recorded in "General and administrative expenses" and were not material.

Equity Securities Fair Value Measurement

At December 31, 2020, we held an investment in equity securities with a carrying value of $45 million. The investment did not have a readily-determinable fair value and was carried at cost, less impairment, and adjusted for changes resulting from observable price changes in orderly transactions for identical or similar investments in the same issuer. During June 2021, the investee completed a merger with a special purpose acquisition company ("SPAC") and, as a result, our investment was converted into common shares of the publicly traded company.

In connection with the SPAC transaction, we sold a portion of our investment for $22 million and recognized a realized gain of $16 million during the three months ended June 30, 2021. Our remaining investment is now measured at fair value at the end of each reporting period. As of December 31, 2021, the carrying value of the investment was $50 million and was classified within "Other current assets" in our consolidated balance sheets. The realized and unrealized gains were recorded within "Interest and other expense (income), net" in our consolidated statement of operations (refer to Note 18) for the year ended December 31, 2021.

11. Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of the fulfillment of our associated performance obligations. The aggregate of the current and non-current balances of deferred revenues as of December 31, 2021 and December 31, 2020, were $1.1 billion and $1.7 billion, respectively. For the year ended December 31, 2021, 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, all of which were in the ordinary course of business. During the years ended December 31, 2021, December 31, 2020, and December 31, 2019, $1.7 billion, $1.3 billion, and $1.5 billion of revenues, respectively, were recognized that were included in the deferred revenues balance at beginning of the period.

As of December 31, 2021, the aggregate amount of contracted revenues allocated to our unsatisfied performance obligations was $1.6 billion, which included our deferred revenues balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately $1.3 billion over the next 12 months, $0.1 billion in the subsequent 12-month period, and the remainder thereafter. This balance did not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee or any estimated amounts of variable consideration that are subject to constraint in accordance with the revenue accounting standard.

12. Leases

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating leases			
Operating lease costs	$ 78	$ 75	$ 75
Variable lease costs	18	20	20

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Supplemental Operating Cash Flows Information			
Cash paid for amounts included in the measurement of lease liabilities	$ 75	$ 77	$ 80
ROU assets obtained in exchange for new lease obligations	64	80	65

	At December 31, 2021	At December 31, 2020
Weighted Average Lease terms and discount rates		
Remaining lease term	4.10 years	4.48 years
Discount rate	3.01 %	3.40 %

Future undiscounted lease payments for our operating lease liabilities, and a reconciliation of these payments to our operating lease liabilities at December 31, 2021, are as follows (amounts in millions):

For the years ending December 31,	
2022	$ 84
2023	81
2024	63
2025	43
2026	21
Thereafter	15
Total future lease payments	$ 307
Less imputed interest	(18)
Total lease liabilities	$ 289

Operating lease ROU assets and liabilities recorded on our consolidated balance sheet as of December 31, 2021 and December 31, 2020, were as follows (amounts in millions):

	At December 31, 2021	At December 31, 2020	Balance Sheet Classification
ROU assets	$ 237	$ 243	Other assets
Current lease liabilities	$ 77	$ 66	Accrued expenses and other current liabilities
Non-current lease liabilities	212	224	Other liabilities
	$ 289	$ 290	Total lease liabilities

13. Debt

Credit Facilities

As of December 31, 2021 and December 31, 2020, we had $1.5 billion available under a revolving credit facility (the "Revolver") pursuant to a credit agreement entered into on October 11, 2013 (as amended thereafter and from time to time, the "Credit Agreement"). To date, we have not drawn on the Revolver.

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

Under the Credit Agreement, we are subject to a financial covenant requiring the Company's Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) not to exceed 3.75:1.00 (or, at the Company's option and for a limited period of time upon the consummation of a Qualifying Acquisition (as defined in the Credit Agreement), 4.25:1.00). The Credit Agreement contains covenants customary for transactions of this type for issuers with similar credit ratings. These include those restricting liens, debt of non-guarantor subsidiaries and certain fundamental changes, in each case with exceptions, including exceptions for secured debt and debt of non-guarantor subsidiaries of the Company, in each case up to an amount not exceeding 7.5% of Total Assets (as defined in the Credit Agreement). We were in compliance with the terms of the Credit Agreement as of December 31, 2021.

Unsecured Senior Notes

As of December 31, 2021 and December 31, 2020, we had $3.7 billion of gross unsecured senior notes outstanding. A summary of our outstanding unsecured senior notes is as follows (amounts in millions):

				At December 31, 2021		At December 31, 2020	
Unsecured Senior Notes	Interest Rate	Semi-Annual Interest Payments Due On	Maturity	Principal	Fair Value (Level 2)	Principal	Fair Value (Level 2)
2026 Notes	3.40%	Mar. 15 & Sept. 15	Sept. 2026	$ 850	$ 912	$ 850	$ 970
2027 Notes	3.40%	Jun. 15 & Dec. 15	Jun. 2027	400	430	400	454
2030 Notes	1.35%	Mar. 15 & Sept. 15	Sept. 2030	500	463	500	490
2047 Notes	4.50%	Jun. 15 & Dec. 15	Jun. 2047	400	480	400	525
2050 Notes	2.50%	Mar. 15 & Sept. 15	Sept. 2050	1,500	1,320	1,500	1,462
Total gross long-term debt				$ 3,650		$ 3,650	
Unamortized discount and deferred financing costs				(42)		(45)	
Total net carrying amount				$ 3,608		$ 3,605	

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

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

The outstanding notes are general senior obligations of the Company and rank pari passu in right of payment to all of the Company's existing and future senior indebtedness, including the Revolver described above. The notes are not secured and are effectively junior to any of the Company's existing and future indebtedness that is secured to the extent of the value of the collateral securing such indebtedness. The notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of secured debt, entry into sale or leaseback transactions, and certain merger or consolidation transactions. We were in compliance with the terms of the notes outstanding as of December 31, 2021.

As of December 31, 2021, with the exception of our 2026 Notes, which are scheduled to mature in September 2026, no other contractual principal repayments of our long-term debt were due within the next five years.

14. Accumulated Other Comprehensive Income (Loss)

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

	For the Year Ended December 31, 2021			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2020	$ (589)	$ (5)	$ (28)	$ (622)
Other comprehensive income (loss) before reclassifications	(17)	(2)	44	25
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	10	9	19
Balance at December 31, 2021	$ (606)	$ 3	$ 25	$ (578)

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

15. Operating Segments and Geographic Regions

We have three reportable segments—Activision, Blizzard, and King. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense (including liability awards accounted for under ASC 718); 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.

The Company has been reviewing its overall compensation structure and philosophy and began implementing changes to its compensation payments for 2021, primarily to enhance equity ownership for employees and bring our employee equity compensation more in line with the current industry practice. As an aspect of this change, the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved, resulting in a year-end share-based compensation liability of $194 million. In addition, going forward, to the extent certain of our previously cash-based bonus programs are instead issued as time-based equity or settled via equity, such amounts will be recorded as share-based compensation and will be excluded from segment operating income.

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 are presented below (amounts in millions):

	Year Ended December 31, 2021			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 3,478	$ 1,733	$ 2,580	$ 7,791
Intersegment net revenues (1)	—	94	—	94
Segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 7,885
Segment operating income	$ 1,667	$ 698	$ 1,140	$ 3,505

	Year Ended December 31, 2020			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 3,942	$ 1,794	$ 2,164	$ 7,900
Intersegment net revenues (1)	—	111	—	111
Segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 8,011
Segment operating income	$ 1,868	$ 693	$ 857	$ 3,418

	Year Ended December 31, 2019			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 2,219	$ 1,676	$ 2,031	$ 5,926
Intersegment net revenues (1)	—	43	—	43
Segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 5,969
Segment operating income	$ 850	$ 464	$ 740	$ 2,054

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

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

	Years Ended December 31,		
	2021	2020	2019
Reconciliation to consolidated net revenues:			
Segment net revenues	$ 7,885	$ 8,011	$ 5,969
Revenues from non-reportable segments (1)	563	519	462
Net effect from recognition (deferral) of deferred net revenues (2)	449	(333)	101
Elimination of intersegment revenues (3)	(94)	(111)	(43)
Consolidated net revenues	$ 8,803	$ 8,086	$ 6,489
Reconciliation to consolidated income before income tax expense:			
Segment operating income	$ 3,505	$ 3,418	$ 2,054
Operating income (loss) from non-reportable segments (1)	2	(55)	24
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	347	(238)	52
Share-based compensation expense (4)	(508)	(218)	(166)
Amortization of intangible assets	(10)	(79)	(203)
Restructuring and related costs (Note 17)	(77)	(94)	(137)
Discrete tax-related items (5)	—	—	(17)
Consolidated operating income	3,259	2,734	1,607
Interest and other expense (income), net	95	87	(26)
Loss on extinguishment of debt	—	31	—
Consolidated income before income tax expense	$ 3,164	$ 2,616	$ 1,633

(1) Includes other income and expenses outside of our reportable segments, including our Distribution business and 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) Expenses related to share-based compensation, including liability awards accounted for under ASC 718. Refer to Note 16.

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

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	$ 3,287	$ 1,873	$ 2,597	$ —	$ (94)	$ 7,663
Retail channels	449	30	—	—	—	479
Other (2)	40	72	—	549	—	661
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Digital online channels (1)	$ (264)	$ (140)	$ (17)	$ —	$ —	$ (421)
Retail channels	(34)	(8)	—	—	—	(42)
Other (2)	—	—	—	14	—	14
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Digital online channels (1)	$ 3,023	$ 1,733	$ 2,580	$ —	$ (94)	$ 7,242
Retail channels	415	22	—	—	—	437
Other (2)	40	72	—	563	—	675
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

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

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

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

(2) Net revenues from "Other" include revenues from our Distribution business, the Overwatch League, and the Call of Duty League.

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

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 2,446	$ 876	$ 1,664	$ —	$ (55)	$ 4,931
EMEA (1)	976	638	665	549	(31)	2,797
Asia Pacific	354	461	268	—	(8)	1,075
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Americas	$ (198)	$ (79)	$ (11)	$ —	$ —	$ (288)
EMEA (1)	(80)	(65)	(5)	14	—	(136)
Asia Pacific	(20)	(4)	(1)	—	—	(25)
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Americas	$ 2,248	$ 797	$ 1,653	$ —	$ (55)	$ 4,643
EMEA (1)	896	573	660	563	(31)	2,661
Asia Pacific	334	457	267	—	(8)	1,050
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

	Year Ended December 31, 2020					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 2,316	$ 794	$ 1,384	$ —	$ (60)	$ 4,434
EMEA (1)	1,061	550	568	538	(37)	2,680
Asia Pacific	312	459	215	—	(14)	972
Total consolidated net revenues	$ 3,689	$ 1,803	$ 2,167	$ 538	$ (111)	$ 8,086
Change in deferred revenues:						
Americas	$ 228	$ 58	$ (1)	$ —	$ —	$ 285
EMEA (1)	36	43	(1)	(19)	—	59
Asia Pacific	(11)	1	(1)	—	—	(11)
Total change in deferred revenues	$ 253	$ 102	$ (3)	$ (19)	$ —	$ 333
Segment net revenues:						
Americas	$ 2,544	$ 852	$ 1,383	$ —	$ (60)	$ 4,719
EMEA (1)	1,097	593	567	519	(37)	2,739
Asia Pacific	301	460	214	—	(14)	961
Total segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 519	$ (111)	$ 8,419

	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 1,286	$ 822	$ 1,254	$ —	$ (21)	$ 3,341
EMEA (1)	691	543	557	464	(16)	2,239
Asia Pacific	210	487	218	—	(6)	909
Total consolidated net revenues	$ 2,187	$ 1,852	$ 2,029	$ 464	$ (43)	$ 6,489
Change in deferred revenues:						
Americas	$ 16	$ (62)	$ 2	$ —	$ —	$ (44)
EMEA (1)	12	(57)	—	(2)	—	(47)
Asia Pacific	4	(14)	—	—	—	(10)
Total change in deferred revenues	$ 32	$ (133)	$ 2	$ (2)	$ —	$ (101)
Segment net revenues:						
Americas	$ 1,302	$ 760	$ 1,256	$ —	$ (21)	$ 3,297
EMEA (1)	703	486	557	462	(16)	2,192
Asia Pacific	214	473	218	—	(6)	899
Total segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 462	$ (43)	$ 6,388

(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%, 48%, and 46% of consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. The Company's net revenues in the United Kingdom ("U.K.") were 11%, 12%, and 12% of consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. No other country's net revenues exceeded 10% of consolidated net revenues for the years ended December 31, 2021, 2020, or 2019.

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	$ 2,502	$ 135	$ —	$ —	$ —	$ 2,637
PC	660	1,673	84	—	(94)	2,323
Mobile and ancillary (1)	574	95	2,513	—	—	3,182
Other (2)	40	72	—	549	—	661
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Console	$ (248)	$ (6)	$ —	$ —	$ —	$ (254)
PC	(82)	(145)	(1)	—	—	(228)
Mobile and ancillary (1)	32	3	(16)	—	—	19
Other (2)	—	—	—	14	—	14
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Console	$ 2,254	$ 129	$ —	$ —	$ —	$ 2,383
PC	578	1,528	83	—	(94)	2,095
Mobile and ancillary (1)	606	98	2,497	—	—	3,201
Other (2)	40	72	—	563	—	675
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

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

	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	$ 1,783	$ 137	$ —	$ —	$ —	$ 1,920
PC	298	1,346	117	—	(43)	1,718
Mobile and ancillary (1)	103	188	1,912	—	—	2,203
Other (2)	3	181	—	464	—	648
Total consolidated net revenues	$ 2,187	$ 1,852	$ 2,029	$ 464	$ (43)	$ 6,489
Change in deferred revenues:						
Console	$ (36)	$ (18)	$ —	$ —	$ —	$ (54)
PC	57	(110)	—	—	—	(53)
Mobile and ancillary (1)	11	(5)	2	—	—	8
Other (2)	—	—	—	(2)	—	(2)
Total change in deferred revenues	$ 32	$ (133)	$ 2	$ (2)	$ —	$ (101)
Segment net revenues:						
Console	$ 1,747	$ 119	$ —	$ —	$ —	$ 1,866
PC	355	1,236	117	—	(43)	1,665
Mobile and ancillary (1)	114	183	1,914	—	—	2,211
Other (2)	3	181	—	462	—	646
Total segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 462	$ (43)	$ 6,388

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

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

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

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

	At December 31,		
	2021	2020	2019
Long-lived assets* by geographic region:			
Americas	$ 264	$ 270	$ 322
EMEA	122	166	142
Asia Pacific	20	17	21
Total long-lived assets by geographic region	$ 406	$ 453	$ 485

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

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

16. Share-Based Payments

Activision Blizzard Equity Incentive Plans

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

While the Compensation Committee has broad discretion to create equity incentives, our current share-based compensation program generally utilizes a combination of options and restricted stock units. The majority of our options have time-based vesting schedules, generally vesting annually over a period of three years to five years, and expire 10 years from the grant date. In addition, under the terms of the 2014 Plan, the exercise price for the options must be equal to or greater than the closing price per share of our common stock on the date the award is granted, as reported on Nasdaq. Restricted stock units have time-based vesting schedules, generally vesting in their entirety on an anniversary of the date of grant, or vest annually over a period of three years to five years, and may also be contingent on the achievement of specified performance measures, including those which are market-based. Achievement against such performance measures typically results in vesting of amounts that are different than the target shares at grant based on over- or under-achievement against the performance targets. Typically, performance-based RSUs provide for vesting up to 125% of the grant date target shares if performance targets are sufficiently overachieved (and will be cancelled without the vesting of any shares if the threshold level of performance measures is not met), but in certain instances some of our unvested performance-based RSUs can vest up to 250% of the grant date target amount based on achievement against the performance targets.

As of the date it was approved by our shareholders, there were 46 million shares available for issuance under the 2014 Plan. The number of shares of our common stock reserved for issuance under the 2014 Plan has been, and may be further, increased from time to time by: (1) the number of shares relating to awards outstanding under any Prior Plan that: (i) expire, or are forfeited, terminated or canceled, without the issuance of shares; (ii) are settled in cash in lieu of shares; or (iii) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; (2) if the exercise price of any option outstanding under any Prior Plans is, or the tax withholding requirements with respect to any award outstanding under any Prior Plans are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares; and (3) if a share appreciation right is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred. As of December 31, 2021, we had approximately 13 million shares of our common stock reserved for future issuance under the 2014 Plan. Shares issued in connection with awards made under the 2014 Plan are generally issued as new stock issuances.

Fair Value Valuation Assumptions

Valuation of Stock Options

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

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

	Employee Stock Options		
	For the Years Ended December 31,		
	2021	2020	2019
Expected life (in years)	7.61	7.70	7.85
Volatility	31.06 %	30.89 %	30.00 %
Risk free interest rate	1.29 %	0.70 %	1.90 %
Dividend yield	0.51 %	0.53 %	0.76 %
Weighted-average grant date fair value	$ 30.65	$ 25.93	$ 17.12
Stock price volatility range:			
Low	31.00 %	30.00 %	30.00 %
High	35.00 %	39.00 %	38.17 %

Expected life

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

Volatility

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

Risk-free interest rate

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

Dividend yield

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

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

Valuation of Restricted Stock Units ("RSUs")

The fair value of the Company's RSU awards granted are generally based upon the closing price of the Company's common stock on the date of grant reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We also grant market-based RSU awards, from time to time, the fair value of which is determined using a Monte Carlo simulation. Such market-based RSU awards include performance conditions based on our own stock price and may also include performance conditions that compare our stock price performance to an index, such as the S&P 500 Total Shareholder Return index. The valuation assumptions utilized in the Monte Carlo model are generally consistent with the inputs discussed in the valuation of stock options above. The weighted average risk free interest rate, volatility, and dividend yield utilized in the Monte Carlo model for market-based RSU awards in 2020 were 0.11%, 37.39%, and 0.47%, respectively.

On December 14, 2021, we granted approximately 1.6 million RSU awards which were valued at approximately $70.00 per share rather than the closing share price on the date of grant of $59.52. None of these awards were granted to named executive officers of the Company. While these grants were not made in contemplation of the Company's recent announcement of the merger agreement (see Note 23) entered into with Microsoft, in light of the proximity to when the Company became aware of a potential merger, and date of the merger agreement, the Company has determined the fair value for these awards should consider potential subsequent value appreciation that would be expected from the market upon announcement of the merger. In determining the adjustment to the closing share price to estimate the fair value of these awards, the Company considered various factors such as, observable share prices before and after announcement of a merger in recent transactions, the offer price range known at time of the grants being made, the final merger per share consideration, the actual increase in share price seen after announcement of the merger, industry practices in applying liquidity discounts and probability of the merger being entered into. The awards vest over their requisite service period and do not provide for any accelerated vesting or other features as a result of entering into or upon closing of the merger.

Accuracy of Fair Value Estimates

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

Stock Option Activity

Stock option activity is as follows:

	Number of shares (in thousands)	Weighted-average exercise price per stock option	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding stock options at December 31, 2020	11,297	$ 53.84		
Granted	754	92.56		
Exercised	(1,954)	45.84		
Forfeited	(866)	65.23		
Expired	(98)	45.15		
Outstanding stock options at December 31, 2021	9,133	$ 57.77	7.04	$ 125
Vested and expected to vest at December 31, 2021	8,798	$ 56.96	6.98	$ 124
Exercisable at December 31, 2021	5,711	$ 48.90	6.26	$ 107

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the closing stock price is greater than the exercise price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the market value of our stock. The total intrinsic value of options actually exercised was $88 million, $174 million, and $80 million for the years ended December 31, 2021, 2020, and 2019, respectively. The total grant date fair value of options that vested during the years ended December 31, 2021, 2020, and 2019 was $57 million, $62 million, and $94 million, respectively.

At December 31, 2021, $32 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.14 years.

RSU Activity

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

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

	Number of shares	Weighted-average grant date fair value per RSU
Unvested RSUs at December 31, 2020	7,102	$ 82.50
Granted	10,856	77.17
Vested	(3,187)	96.58
Forfeited	(1,513)	75.73
Unvested RSUs at December 31, 2021	13,258	$ 75.51

Certain of our performance-based RSUs did not have an accounting grant date as of December 31, 2021, as for each such grant there is not a mutual understanding between the Company and the employee of the performance terms. Generally, these performance terms relate to operating income performance for future years, the goals for which have yet to be set. As of December 31, 2021, based on the target potential shares that could be earned, there were 2.0 million performance-based RSUs outstanding for which the accounting grant date had not been set, of which 1.3 million were 2021 grants. Accordingly, no grant date fair value was established and the weighted average grant date fair values calculated above excludes these RSUs.

At December 31, 2021, approximately $505 million of total unrecognized compensation cost was related to RSUs and is expected to be recognized over a weighted-average period of 1.79 years. Of the total unrecognized compensation cost, $62 million was related to performance-based RSUs, which is expected to be recognized over a weighted-average period of 1.00 year. The total grant date fair value of RSUs that vested during the years ended December 31, 2021, 2020, and 2019 was $306 million, $82 million, and $147 million, respectively.

The income tax benefit from stock option exercises and RSU vestings was $70 million, $61 million, and $47 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Share-Based Compensation Expense

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Cost of revenues—product sales: Software royalties, amortization, and intellectual property licenses	$ 17	$ 14	$ 19
Cost of revenues—in-game, subscription, and other: Game Operations and Distribution Costs	7	1	1
Cost of revenues—in-game, subscription, and other: Software royalties, amortization, and intellectual property licenses	—	—	1
Product development	211	42	53
Sales and marketing	44	21	10
General and administrative	229	140	82
Share-based compensation expense before income taxes	508	218	166
Income tax benefit	(36)	(28)	(29)
Total share-based compensation expense, net of income tax benefit	$ 472	$ 190	$ 137

Share-based compensation expense for the year ended December 31, 2021 includes $194 million, inclusive of $20 million of expense that was capitalized as part of software development, for liability awards accounted for under ASC 718. The liability awards primarily relate to recent changes to the Company's compensation payments for 2021 for which the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved.

17. Restructuring

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

- increasing our investment in development for our largest, internally-owned franchises—across upfront releases, in-game content, mobile, and geographic expansion;
- reducing certain non-development and administrative-related costs across our business; and
- integrating our global and regional sales and "go-to-market," partnerships, and sponsorship 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.

We have substantially completed all actions under our plan and have accrued for these costs accordingly. The remaining activity under the plan is primarily related to cash outlays to be made to impacted personnel.

The following table summarizes accrued restructuring and related costs included in "Accrued expenses and other liabilities" and "Other liabilities" in our consolidated balance sheet and the cumulative charges incurred (amounts in millions):

	Severance and employee related costs	Facilities and related costs	Other costs	Total
Balance at December 31, 2019	$ 32	$ —	$ 3	$ 35
Costs charged to expense	76	6	5	87
Cash payments	(20)	—	(5)	(25)
Non-cash charge adjustment (1)	—	(6)	—	(6)
Balance at December 31, 2020	$ 88	$ —	$ 3	$ 91
Costs charged to expense	36	16	27	79
Cash payments	(55)	—	(6)	(61)
Non-cash charge adjustment (1)	(5)	(16)	(3)	(24)
Balance at December 31, 2021	$ 64	$ —	$ 21	$ 85
Cumulative charges incurred through December 31, 2021	$ 188	$ 51	$ 59	$ 298

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

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

	Years Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Activision	$ 2	$ 13	$ 19
Blizzard	70	71	68
King	1	(1)	20
Other segments (1)	6	4	25
Total	$ 79	$ 87	$ 132

(1) Includes charges outside of our reportable segments, including charges for our corporate and administrative functions.

During the years ended December 31, 2021 and 2020, we incurred additional restructuring charges and adjustments that are not included in the plan discussed above. Such amounts were not material.

We have substantially completed our accruals for all actions under the plan. The charges associated with the plan primarily relate to severance and employee-related costs (approximately 62% of the aggregate charge), facilities and related costs (approximately 17% of the aggregate charge), and other costs (approximately 21% of the aggregate charge), including charges for restructuring-related fees and the write-down of assets. A substantial majority (approximately 77%) of the total pre-tax charge associated with the restructuring is expected to be paid in cash using amounts on hand, and such cash outlays are largely expected to be completed within the next 12 months. We do not expect to realize significant net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general, and administrative activities are expected to be offset by increased investment in product development.

The total charges incurred through December 31, 2021, which represent our total expected pre-tax restructuring charges related to the plan, by segment, inclusive of amounts already incurred and inclusive of certain inventory write-downs in prior years, are presented below (amounts in millions):

	Total charges incurred through December 31, 2021
Activision	$ 34
Blizzard	214
King	21
Other segments (1)	34
Total	$ 303

(1) Includes charges outside of our reportable segments, including charges for our corporate and administrative functions.

18. Interest and Other Expense (Income), Net

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

	For the Years Ended December 31,		
	2021	2020	2019
Interest income	$ (5)	$ (21)	$ (79)
Interest expense from debt and amortization of debt discount and deferred financing costs	108	99	90
Realized and unrealized loss (gain) on equity investment (Note 10)	(28)	(3)	(38)
Other expense (income), net	20	12	1
Interest and other expense (income), net	$ 95	$ 87	$ (26)

19. Income Taxes

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

	For the Years Ended December 31,		
	2021	2020	2019
Income before income tax expense:			
Domestic	$ 1,451	$ 1,160	$ 328
Foreign	1,713	1,456	1,305
	$ 3,164	$ 2,616	$ 1,633
Income tax expense (benefit):			
Current:			
Federal	$ 189	$ 206	$ 136
State	35	92	24
Foreign	229	218	323
Total current	453	516	483
Deferred:			
Federal	73	(84)	781
State	12	(10)	(16)
Foreign	(73)	(3)	(1,118)
Total deferred	12	(97)	(353)
Income tax expense	$ 465	$ 419	$ 130

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

	For the Years Ended December 31,					
	2021		2020		2019	
Federal income tax provision at statutory rate	$ 664	21 %	$ 549	21 %	$ 343	21 %
State taxes, net of federal benefit	67	2	43	2	21	1
Research and development credits	(81)	(2)	(70)	(3)	(38)	(2)
Foreign earnings taxed at different rates	(120)	(4)	(93)	(4)	(118)	(7)
Foreign-derived intangible income	(50)	(1)	(40)	(2)	(1)	—
Change in tax reserves	43	1	60	2	96	6
Audit settlements	—	—	—	—	54	3
Change in Tax Legislation	(53)	(2)	(23)	(1)	—	—
Change in valuation allowance	11	—	35	2	11	—
Intra-entity IP Transfer	—	—	(31)	(1)	(230)	(14)
Other	(16)	—	(11)	—	(8)	—
Income tax expense	$ 465	15 %	$ 419	16 %	$ 130	8 %

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

In October 2019, we completed an intra-entity transfer of certain intellectual property rights to one of our subsidiaries in the U.K., aligning the ownership of these rights with our evolving business. The transfer did not result in a taxable gain; however, our U.K. subsidiary received a step-up in tax basis based on the fair value of the transferred intellectual property rights. Such fair value was determined based on our expectations of future cash flows, long-term growth rates, and discount rates. We recorded a one-time benefit of $230 million in the quarter ended December 31, 2019 for the recognition of a $1.1 billion deferred tax asset in the U.K. related to the amortizable tax basis in the transferred intellectual property, net of uncertain tax positions and a valuation allowance, partially offset by a related $920 million deferred tax liability for U.S. taxes on foreign earnings. The U.K. amortizable tax basis will be recovered over a period of three years to 25 years and the related deferred tax asset was measured using the enacted U.K. corporate tax rates for the years in which the amortization will be realized. We recorded a valuation allowance of $110 million in 2019 for the portion of the deferred tax asset for which it is more-likely-than-not that a benefit will not be realized. During the year ended December 31, 2021, we recognized a one-time net benefit of $53 million from remeasuring this deferred tax asset due to the enactment of a change in the UK corporate tax rate. We will update the measurement and realizability analysis going forward and record the impact from any change in determination in the period of the change.

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

Income tax expense for 2021 reflects the impact of certain tax elections and comparable changes the Company intends to include in its 2021 income tax returns and related statutory filings. To take these actions, the Merger Agreement requires Microsoft's approval (which may not be unreasonably withheld, conditioned, or delayed), subject to certain exceptions. Failure to obtain this approval could have an adverse effect on our income tax expense.

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

	As of December 31,	
	2021	2020
Deferred tax assets:		
Deferred revenue	$ 210	$ 274
Tax attributes carryforwards	143	123
Share-based compensation	46	51
Intangibles	1,458	1,287
Capitalized software development expenses	—	21
Other	141	160
Deferred tax assets	1,998	1,916
Valuation allowance	(278)	(228)
Deferred tax assets, net of valuation allowance	1,720	1,688
Deferred tax liabilities:		
Intangibles	(158)	(147)
Capitalized software development expenses	(10)	—
U.S. deferred taxes on foreign earnings	(603)	(577)
Other	(78)	(63)
Deferred tax liabilities	(849)	(787)
Net deferred tax assets	$ 871	$ 901

As of December 31, 2021, we had gross tax credit carryforwards of $263 million for state purposes. The tax credit carryforwards are included in deferred tax assets net of unrealized tax benefits that would apply upon the realization of uncertain tax positions. In addition, we had foreign net operating loss carryforwards of $11 million at December 31, 2021, most of which carry forward indefinitely.

We evaluate deferred tax assets each period for recoverability. We record a valuation allowance for assets that do not meet the threshold of "more likely than not" to be realized in the future. To make that determination, we evaluate the likelihood of realization based on the weight of all positive and negative evidence available. As of December 31, 2021 and December 31, 2020, we maintained a valuation allowance related to our California research and development credit carryforwards of $118 million and $107 million, respectively. We will reassess this determination quarterly and record a tax benefit if and when future evidence allows for a partial or full release of this valuation allowance.

In addition, we remeasured the U.K. deferred tax asset related to previously transferred intellectual property rights and corresponding U.S. deferred tax liability due to the change in the U.K.'s corporate income tax rate during 2021. As of December 31, 2021, the U.K. deferred tax asset net of valuation allowance is $1.2 billion and the corresponding U.S. deferred tax liability is $989 million.

Activision Blizzard's tax years after 2008 remain open to examination by certain major taxing jurisdictions to which we are subject. The Internal Revenue Service is currently examining our federal tax returns for the 2012 through 2019 tax years. In addition, King's pre-acquisition tax returns remain open in various jurisdictions, primarily as a result of transfer pricing matters. We anticipate resolving King's transfer pricing for both pre- and post-acquisition tax years through a collaborative multilateral process with the tax authorities in the relevant jurisdictions, which include the U.K. and Sweden. While the outcome of this process remains uncertain, it could result in an agreement that changes the allocation of profits and losses between these and other relevant jurisdictions or a failure to reach an agreement that results in unilateral adjustments to the amount and timing of taxable income in the jurisdictions in which King operates.

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

As of December 31, 2021, we had $1.3 billion of gross unrecognized tax benefits, $784 million of which would affect our effective tax rate, if recognized. A reconciliation of total gross unrecognized tax benefits is as follows (amounts in millions):

	For the Years Ended December 31,		
	2021	2020	2019
Unrecognized tax benefits balance at January 1	$ 1,166	$ 1,037	$ 926
Gross increase for tax positions taken during a prior year	98	97	151
Gross decrease for tax positions taken during a prior year	(18)	(1)	(168)
Gross increase for tax positions taken during the current year	52	38	291
Settlement with taxing authorities	(6)	(3)	(163)
Lapse of statute of limitations	(3)	(2)	—
Unrecognized tax benefits balance at December 31	$ 1,289	$ 1,166	$ 1,037

As of December 31, 2021, 2020, and 2019, we had approximately $102 million, $93 million, and $72 million, respectively, of accrued interest and penalties related to uncertain tax positions. For the years ended December 31, 2021, 2020, and 2019, we recorded $11 million, $19 million, and $14 million, respectively, of interest expense related to uncertain tax positions.

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

20. Computation of Basic/Diluted Earnings Per Common Share

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

	For the Years Ended December 31,		
	2021	2020	2019
Numerator:			
Consolidated net income	$ 2,699	$ 2,197	$ 1,503
Denominator:			
Denominator for basic earnings per common share—weighted-average common shares outstanding	777	771	767
Effect of dilutive stock options and awards under the treasury stock method	7	7	4
Denominator for diluted earnings per common share—weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	784	778	771
Basic earnings per common share	$ 3.47	$ 2.85	$ 1.96
Diluted earnings per common share	$ 3.44	$ 2.82	$ 1.95

The vesting of certain of our employee-related restricted stock units is contingent upon the satisfaction of predefined performance measures. The shares underlying these equity awards are included in the weighted-average dilutive common shares only if the performance measures are met as of the end of the reporting period. Additionally, potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive.

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

	For the Years Ended December 31,		
	2021	2020	2019
Restricted stock units with performance measures not yet met	2	2	2
Anti-dilutive employee stock options	2	1	6

21. Capital Transactions

Repurchase Programs

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to $4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. As of December 31, 2021, we had not repurchased any shares under this program and are restricted from making any such repurchases during the period between the execution of the Merger Agreement with Microsoft and the effective time of the Merger Agreement.

Dividends

On February 3, 2022, our Board of Directors declared a cash dividend of $0.47 per common share. Such dividend is payable on May 6, 2022 to shareholders of record at the close of business on April 15, 2022.

On February 4, 2021, our Board of Directors declared a cash dividend of $0.47 per common share. On May 6, 2021, we made an aggregate cash dividend payment of $365 million to shareholders of record at the close of business on April 15, 2021.

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

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

22. Commitments and Contingencies

Commitments and Obligations

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products which may include obtaining rights to intellectual property, and for hosting services to support our games and our administrative functions. Under these agreements, we commit to provide specified payments to a lessor, developer, or hosting provider, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers typically are deemed to be advances and, as such, are recoupable against future royalties earned by the developer based on sales of the related game. Additionally, we also enter into arrangements in which we commit to spend specified amounts for marketing to support and promote our content and services. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2021, are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations (1)				
	Facility and Equipment Leases	Developer and Hosting	Marketing	Long-Term Debt Obligations (2)	Total
For the years ending December 31,					
2022	$ 86	$ 149	$ 167	$ 105	$ 507
2023	81	104	115	105	405
2024	64	12	—	105	181
2025	43	—	—	105	148
2026	21	—	—	955	976
Thereafter	15	—	—	4,102	4,117
Total	$ 310	$ 265	$ 282	$ 5,477	$ 6,334

(1) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of the potential issue resolution of the underlying matters. Specifically, either (a) the underlying positions have not been fully developed under audit to quantify at this time or (b) the years relating to the matters for certain jurisdictions are not currently under audit. At December 31, 2021, we had $483 million of net unrecognized tax benefits included in "Other liabilities," in our consolidated balance sheet.

Additionally, at December 31, 2021, we have a remaining net Transition Tax liability of $142 million associated with the U.S. Tax Reform Act. The remaining Transition Tax liability is payable over the next five years and is not reflected in our Contractual Obligations table above.

(2) Long-term debt obligations represent our obligations related to the contractual principal repayments and interest payments for our outstanding unsecured notes, which are subject to fixed interest rates, as of December 31, 2021. There was no outstanding balance under our Revolver as of December 31, 2021. We have calculated the expected interest obligation based on the outstanding principal balance and interest rate applicable at December 31, 2021. Refer to Note 13 for additional information on our debt obligations.

Legal Proceedings

We are party to routine claims, suits, investigations, audits, and other proceedings arising 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, 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. We are also party to the proceedings set forth below.

Pending EEOC Settlement

In September 2021, we entered into a proposed consent decree with the U.S. Equal Employment Opportunity Commission (the "EEOC") to settle claims regarding certain employment practices. The consent decree is subject to approval by the United States District Court, Central District of California, and, among other things, provides for the creation of an $18 million settlement fund for eligible claimants; upgrading Company policies, practices, and training to further prevent and eliminate harassment and discrimination in its workplaces, including implementing an expanded performance review system with a new equal opportunity focus; and providing ongoing oversight and review of the Company's training programs, investigation policies, disciplinary framework and compliance by appointing a third-party equal opportunity consultant whose findings will be regularly reported to our Board of Directors as well as the EEOC. There can be no assurance that the consent decree will be approved by the court. The California Department of Fair Employment and Housing (the "DFEH") filed a motion to intervene in the matter, seeking to object to the consent decree, including the amount of the settlement fund; that motion was denied. The DFEH filed a notice of appeal of the order denying the DFEH's motion to intervene. The DFEH filed a motion to stay the matter pending appeal; that motion was denied.

Other Pending Employment-Related Matters

On July 20, 2021, the DFEH filed a complaint (the "DFEH Matter") in the Los Angeles County Superior Court of the State of California against Activision Blizzard, Blizzard Entertainment and Activision Publishing (together, the "Defendants") alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act. The DFEH filed a First Amended Complaint in the DFEH Matter on August 23, 2021. The Defendants moved to dismiss the First Amended Complaint; the motion was heard on February 15, 2022. The Defendants' motion was denied in part and granted in part, with the DFEH having leave to further amend with respect to the granted portion. In addition, the Company's Board of Directors recently received notice of an investigation by the DFEH and investigatory subpoenas.

On August 3, 2021, a putative class action was filed in the United States District Court, Central District of California, entitled *Gary Cheng v. Activision Blizzard, Inc., et al.*, Case No. 2:21-cv-06240-PA-JEM. Plaintiffs purport to represent a class of Activision shareholders who purchased stock between February 28, 2017 and November 16, 2021, and assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") against the Company and five current or former officers. Beginning on August 6, 2021, three putative shareholder derivative actions were filed in California Superior Court, County of Los Angeles, and those cases have now been consolidated in an action entitled *York County on Behalf of County of York Retirement Fund v. Robert A. Kotick, et al.*, Case No. 21STCV28949. On November 15, 2021, a putative shareholder derivative action was filed in the United States District Court, Central District of California, entitled *Luke Kahnert v. Robert A. Kotick, et al*., Case No. 2:21-cv-08968-PA-JEM. The putative derivative actions collectively assert claims on the Company's behalf against thirteen current or former officers and directors for breach of fiduciary duty, corporate waste, unjust enrichment, misappropriation, contribution, and alleged violation of Section 14(a) of the Exchange Act based on allegations similar to those in the DFEH Matter and in the securities class action. The Company is named as a nominal defendant. In addition, the plaintiffs in the *Kahnert* action have sought leave to amend their complaint to assert putative class claims for breach of fiduciary duty against the Company's directors in connection with the proposed acquisition by Microsoft, along with an aiding and abetting claim against Microsoft.

The Company is cooperating with an investigation by the U.S. Securities and Exchange Commission (the "SEC") regarding disclosures on employment matters and related issues including responding to subpoenas from the SEC. The SEC has also issued subpoenas to a number of current and former executives and other employees in connection with this matter.

We are unable to predict the impact of the above matters on our business, financial condition, results of operations, or liquidity at this time.

Legal Proceedings Regarding the Merger

On February 24, 2022, one complaint was filed in the United States District Court for the Southern District of New York and one complaint was filed in the United States District Court for the Central District of California, each against the Company and its directors: Stein v. Activision Blizzard, Inc. et al., No. 1:22-cv-01560 (S.D.N.Y.); and Watson v. Activision Blizzard, Inc. et al., No. 2:22-cv-01268 (C.D. Cal.). The complaints each assert violations of Section 14(a) and Section 20(a) of the Exchange Act and allege that the preliminary proxy statement filed in connection with the proposed transaction between the Company and Microsoft omitted certain purportedly material information which rendered the preliminary proxy statement incomplete and misleading. Specifically, the complaints allege that the preliminary proxy statement failed to disclose material information regarding the sales process, the Company's projections and the financial analyses of the Company's financial advisor. Each complaint seeks, among other things, an order to enjoin the transaction unless and until additional disclosures are issued; and, if the transaction closes, damages. It is possible additional lawsuits against the Company, our Board of Directors or the Company's officers may be filed prior to the consummation of the transaction.

Letters of Credit

As described in Note 13, a portion of our Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. At December 31, 2021, we did not have any letters of credit issued or outstanding under the Revolver.

23. Subsequent Events

Merger Agreement

On January 18, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Microsoft and Anchorage Merger Sub Inc. ("Merger Sub"), a wholly owned subsidiary of Microsoft, in which we agreed to be acquired for $95.00 in cash per issued and outstanding share of our common stock, par value $0.000001 per share (the "Shares") in an all-cash transaction. Pursuant to the terms of the Merger Agreement, our acquisition will be accomplished through the merger of Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Microsoft.

Pursuant to the terms of the Merger Agreement, and subject to the terms and conditions set forth therein, at the effective time of the Merger (the "Effective Time"), each Share (other than Shares (1) held by the Company as treasury stock (excluding certain Shares held by a wholly owned subsidiary of the Company, which shares will remain outstanding and unaffected by the Merger), (2) owned by Microsoft or Merger Sub, (3) owned by any direct or indirect wholly owned subsidiary of Microsoft or Merger Sub or (4) held by stockholders who have neither voted in favor of adoption of the Merger Agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such Shares in accordance with Section 262 of the Delaware General Corporation Law, in each case immediately prior to the Effective Time) issued and outstanding immediately prior to the Effective Time will be cancelled and automatically converted into the right to receive $95.00 in cash, without interest. We have agreed to various customary covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time. We do not believe these restrictions will prevent us from meeting our debt service obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023.

The consummation of the Merger is subject to customary closing conditions, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

SCHEDULE II

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Amounts in millions)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions(A)	Col. D Deductions(B)	Col. E Balance at End of Period
At December 31, 2021				
Allowances for sales returns and price protection and other allowances	$ 63	$ 3	$ (49)	$ 17
Valuation allowance for deferred tax assets	$ 228	$ 52	$ (2)	$ 278
At December 31, 2020				
Allowances for sales returns and price protection and other allowances	$ 118	$ (29)	$ (26)	$ 63
Valuation allowance for deferred tax assets	$ 181	$ 49	$ (2)	$ 228
At December 31, 2019				
Allowances for sales returns and price protection and other allowances	$ 186	$ 11	$ (79)	$ 118
Valuation allowance for deferred tax assets	$ 61	$ 127	$ (7)	$ 181

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

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

EXHIBIT INDEX

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

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger, dated as of January 18, 2022, by and among Microsoft Corporation, Anchorage Merger Sub Inc. and Activision Blizzard, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed January 19, 2022).
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	Fifth Amended and Restated Bylaws of Activision Blizzard, Inc., adopted as of January 17, 2022 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed January 19, 2022).
4.1	Indenture, dated as of September 19, 2016, among Activision Blizzard, Inc., the guarantors named therein and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.300% Unsecured Senior Notes due 2021 and the Company's 3.400% Unsecured Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed September 19, 2016).
4.2	Base Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed May 26, 2017).
4.3	First Supplemental Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.600% Unsecured Senior Notes due 2022, the Company's 3.400% Unsecured Senior Notes due September 2027 and the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.4	Second Supplemental Indenture, dated August 10, 2020, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 1.350% Unsecured Senior Notes due 2030, and the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.5	Form of certificate for the Company's 3.400% Unsecured Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed September 19, 2016).
4.6	Form of certificate for the Company's 3.400% Unsecured Senior Notes due 2027 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.7	Form of certificate for the Company's 1.350% Unsecured Senior Notes due 2030 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.8	Form of certificate for the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.9	Form of certificate for the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.10	Description of Securities.
10.1*	Activision Blizzard, Inc. Amended and Restated 2008 Incentive Plan, as amended and restated on June 7, 2012 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed June 12, 2012).
10.2*	Amended and Restated Activision Blizzard, Inc. 2014 Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed May 4, 2017).
10.3*	Activision Blizzard, Inc. KDE Equity Incentive Plan, amended as of November 1, 2016 (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the year ended December 31, 2016).
10.4*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of November 12, 2008) (incorporated by reference to Exhibit 10.44 of the Company's Form 10-K for the year ended December 31, 2008).
10.5*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of March 6, 2013) (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the quarter ended March 31, 2013).

Exhibit Number	Exhibit
10.6*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.7*	Form of Notice of Restricted Share Unit Award for grants to non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.8*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.9*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.10*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 26, 2018) (incorporated by reference to Exhibit 10.21 of the Company's Form 10-K for the year ended December 31, 2018).
10.11*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2019).
10.12*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2019).
10.13*	Form of Notice of Stock Option Awards for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 18, 2020) (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2020).
10.14*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of December 4, 2020) (incorporated by reference to Exhibit 10.25 of the Company's Form 10-K for the year ended December 31, 2020).
10.15*	Form of Notice of Stock Option Awards for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.16*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.17*	Form of Notice of Restricted Share Unit Award for grants to non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.18*	Form of Notice of Performance-Vesting Restricted Share unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.19*	Amended and Restated CEO Recognition Program (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.20*	Activision Blizzard, Inc. Corporate Annual Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2015).
10.21*	Employment Agreement, dated as of October 1, 2016, between Robert A. Kotick and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 25, 2016).
10.22*	Extension Amendment, dated as of April 28, 2021, between Robert A. Kotick and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed April 29, 2021).
10.23*	Form of Notice of 2018 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.27 of the Company's Form 10-K for the year ended December 31, 2018).
10.24*	Form of Notice of 2019 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2019).
10.25*	Corrected Employment Agreement, dated as of April 1, 2021, between Activision Blizzard, Inc. and Armin Zerza (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2021).
10.26*	Employment Agreement, dated as of February 25, 2019, between Dennis Durkin and the Company (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2018).
10.27*	Employment Agreement, dated March 9, 2020, between Activision Blizzard, Inc. and Daniel Alegre (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed March 11, 2020).
10.28*	Employment Agreement, dated as of February 1, 2021, between Activision Blizzard, Inc. and Brian Bulatao.
10.29*	Employment Agreement, dated as of May 17, 2021, between Activision Blizzard, Inc. and Grant Dixton.

Exhibit Number	Exhibit
10.30*	Employment Agreement, dated as of July 24, 2019, between Claudine Naughton and the Company (incorporated by reference to Exhibit 10.33 of the Company's Form 10-K for the year ended December 31, 2019).
10.31*	Separation Agreement with Reaffirmation between Claudine Naughton and Activision Blizzard, Inc. dated September 10, 2021 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed September 14, 2021).
10.32*	Employment Agreement, dated as of November 1, 2016, between Chris B. Walther and the Company (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quartered ended March 31, 2019).
10.33*	Non-Affiliated Director Compensation Program and Stock Ownership Guidelines, as amended and restated as of December 3, 2021.
10.34	Credit Agreement, dated as of October 11, 2013, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, a group of lenders, Bank of America, N.A., as administrative agent and collateral agent for the lenders, J.P. Morgan Securities LLC, as syndication agent, Bank of America Merrill Lynch and J.P. Morgan Securities LLC, as joint lead arrangers and joint bookrunners, and Goldman Sachs & Co., HSBC Securities (USA) Inc., Mitsubishi UFJ Securities (USA), Inc., Mizuho Securities USA Inc., RBC Capital Markets, SunTrust Bank and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed October 18, 2013).
10.35	First Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 3, 2015).
10.36	Second Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 17, 2015).
10.37	Third Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's form 8-K, filed December 14, 2015).
10.38	Fourth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed April 1, 2016).
10.39	Fifth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 24, 2016).
10.40	Sixth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed February 6, 2017).
10.41	Seventh Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 29, 2018).
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
24.1	Power of Attorney of each Executive Officer and Director signing this report (included in the signature page hereto).
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Armin Zerza 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 Armin Zerza pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.

Exhibit Number	Exhibit
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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

SIGNATURES

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

Date: February 25, 2022

ACTIVISION BLIZZARD, INC.

By: /s/ ROBERT A. KOTICK

Robert A. Kotick
Director and Chief Executive Officer of Activision Blizzard, Inc.
(Principal Executive Officer)

POWER OF ATTORNEY

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

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

By: /s/ ROBERT A. KOTICK (Robert A. Kotick)	Director, Chief Executive Officer (Principal Executive Officer)	February 25, 2022
By: /s/ ARMIN ZERZA (Armin Zerza)	Chief Financial Officer (Principal Financial Officer)	February 25, 2022
By: /s/ JESSE YANG (Jesse Yang)	Chief Accounting Officer (Principal Accounting Officer)	February 25, 2022
By: /s/ REVETA BOWERS (Reveta Bowers)	Director	February 25, 2022
By: /s/ ROBERT J. CORTI (Robert J. Corti)	Director	February 25, 2022
By: /s/ HENDRIK J. HARTONG III (Hendrik J. Hartong III)	Director	February 25, 2022
By: /s/ BRIAN G. KELLY (Brian G. Kelly)	Chairman of the Board and Director	February 25, 2022
By: /s/ BARRY MEYER (Barry Meyer)	Director	February 25, 2022
By: /s/ ROBERT J. MORGADO (Robert J. Morgado)	Director	February 25, 2022
By: /s/ PETER NOLAN (Peter Nolan)	Director	February 25, 2022
By: /s/ DAWN OSTROFF (Dawn Ostroff)	Director	February 25, 2022
By: /s/ CASEY WASSERMAN (Casey Wasserman)	Director	February 25, 2022

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

Year Ended December 31, 2021	Net Revenues	Cost of Revenues —Product Sales: Product Costs	Cost of Revenues —Product Sales: Software Royalties and Amortization	Cost of Revenues —In-game/Subs/ Other: Game Operations and Distribution Costs	Cost of Revenues —In-game/Subs/ Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	$ 8,803	$ 649	$ 346	$ 1,215	$ 107	$ 1,337	$ 1,025	$ 788	$ 77	$ 5,544
Share-based compensation[1]	—	—	(17)	(7)	—	(211)	(44)	(229)	—	(508)
Amortization of intangible assets[2]	—	—	—	—	(3)	—	—	(7)	—	(10)
Restructuring and related costs[3]	—	—	—	—	—	—	—	—	(77)	(77)
Non-GAAP Measurement	$ 8,803	$ 649	$ 329	$ 1,208	$ 104	$ 1,126	$ 981	$ 552	$ —	$ 4,949
Net effect of deferred revenues and related cost of revenues[4]	$ (449)	$ (5)	$ (109)	$ 5	$ 7	$ —	$ —	$ —	$ —	$ (102)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 3,259	$ 2,699	$ 3.47	$ 3.44
Share-based compensation[1]	508	508	0.65	0.65
Amortization of intangible assets[2]	10	10	0.01	0.01
Restructuring and related costs[3]	77	77	0.10	0.10
Income tax impacts from items above[5]	—	(98)	(0.13)	(0.13)
Non-GAAP Measurement	$ 3,854	$ 3,196	$ 4.11	$ 4.08
Net effect of deferred revenues and related cost of revenues[4]	$ (347)	$ (280)	$ (0.36)	$ (0.36)

1 Reflects expenses related to share-based compensation, including $194 million for liability awards accounted for under ASC 718. The liability awards primarily relate to recent changes to the Company's compensation payments for 2021 and represent expenses associated with achievement against our fiscal year 2021 performance targets (which will now be settled in shares of our common stock, rather than cash) and additional payments associated with these compensation changes that will be settled via issuance of shares of our common stock. Refer to our Operating Segment tables for further details.

2 Reflects amortization of intangible assets from purchase price accounting.

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

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

5 Reflects the income tax impact associated with the above items. Tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

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

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

Year Ended December 31, 2020	Net Revenues	Cost of Revenues —Product Sales: Product Costs	Cost of Revenues —Product Sales: Software Royalties and Amortization	Cost of Revenues —In-game/Subs/ Other: Game Operations and Distribution Costs	Cost of Revenues —In-game/Subs/ Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	$ 8,086	$ 705	$ 269	$ 1,131	$ 155	$ 1,150	$ 1,064	$ 784	$ 94	$ 5,352
Share-based compensation[1]	—	—	(14)	(1)	—	(42)	(21)	(140)	—	(218)
Amortization of intangible assets[2]	—	—	—	—	(68)	—	—	(11)	—	(79)
Restructuring and related costs[3]	—	—	—	—	—	—	—	—	(94)	(94)
Non-GAAP Measurement	$ 8,086	$ 705	$ 255	$ 1,130	$ 87	$ 1,108	$ 1,043	$ 633	$ —	$ 4,961
Net effect of deferred revenues and related cost of revenues[4]	$ 333	$ (40)	$ 111	$ 13	$ 11	$ —	$ —	$ —	$ —	$ 95

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 2,734	$ 2,197	$ 2.85	$ 2.82
Share-based compensation[1]	218	218	0.28	0.28
Amortization of intangible assets[2]	79	79	0.10	0.10
Restructuring and related costs[3]	94	94	0.12	0.12
Loss on extinguishment of debt[5]	—	31	0.04	0.04
Income tax impacts from items above[6]	—	(123)	(0.16)	(0.16)
Non-GAAP Measurement	$ 3,125	$ 2,496	$ 3.24	$ 3.21
Net effect of deferred revenues and related cost of revenues[4]	$ 238	$ 205	$ 0.26	$ 0.26

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

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

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

Year Ended December 31, 2019	Net Revenues	Cost of Revenues —Product Sales: Product Costs	Cost of Revenues —Product Sales: Software Royalties and Amortization	Cost of Revenues —In-game/Subs/ Other: Game Operations and Distribution Costs	Cost of Revenues —In-game/Subs/ Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	$ 6,489	$ 656	$ 240	$ 965	$ 233	$ 998	$ 926	$ 732	$ 132	$ 4,882
Share-based compensation[1]	—	—	(19)	(1)	(1)	(53)	(10)	(82)	—	(166)
Amortization of intangible assets[2]	—	—	—	—	(196)	—	—	(7)	—	(203)
Restructuring and related costs[3]	—	(5)	—	—	—	—	—	—	(132)	(137)
Discrete tax-related items[4]	—	—	—	(5)	—	(3)	(5)	(4)	—	(17)
Non-GAAP Measurement	$ 6,489	$ 651	$ 221	$ 959	$ 36	$ 942	$ 911	$ 639	$ —	$ 4,359
Net effect of deferred revenues and related cost of revenues[5]	$ (101)	$ (23)	$ (25)	$ (2)	$ 1	$ —	$ —	$ —	$ —	$ (49)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	$ 1,607	$ 1,503	$ 1.96	$ 1.95
Share-based compensation[1]	166	166	0.22	0.22
Amortization of intangible assets[2]	203	203	0.26	0.26
Restructuring and related costs[3]	137	137	0.18	0.18
Income tax impacts from items above[6]	—	(95)	(0.13)	(0.12)
Discrete tax-related items[4]	17	(131)	(0.17)	(0.17)
Non-GAAP Measurement	$ 2,130	$ 1,783	$ 2.33	$ 2.31
Net effect of deferred revenues and related cost of revenues[5]	$ (52)	$ (47)	$ (0.07)	$ (0.06)

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

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

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

Year Ended	December 31, 2021				$ Increase / (Decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Net Revenues								
Net revenues from external customers	$ 3,478	$ 1,733	$ 2,580	$ 7,791	$ (464)	$ (61)	$ 416	$ (109)
Intersegment net revenues[1]	—	94	—	94	—	(17)	—	(17)
Segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 7,885	$ (464)	$ (78)	$ 416	$ (126)
Segment operating income	$ 1,667	$ 698	$ 1,140	$ 3,505	$ (201)	$ 5	$ 283	$ 87
Operating Margin				44.5 %				

	December 31, 2020			
	Activision	Blizzard	King	Total
Segment Net Revenues				
Net revenues from external customers	$ 3,942	$ 1,794	$ 2,164	$ 7,900
Intersegment net revenues[1]	—	111	—	111
Segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 8,011
Segment operating income	$ 1,868	$ 693	$ 857	$ 3,418
Operating Margin				42.7 %

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

Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense (including liability awards accounting for under ASC 718); amortization of intangible assets as a result of purchase price accounting; fees and other expenses (including legal fees, costs, expenses and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring and related costs; and other non-cash charges. **See the following page for the reconciliation tables of segment revenues and operating income to consolidated net revenues and consolidated income before income tax expense.**

The Company has been reviewing its overall compensation structure and philosophy and began implementing changes to its compensation payments for 2021, primarily to enhance equity ownership for employees and bring our employee equity compensation more in line with current industry practice. As an aspect of this change, the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives at no less than target performance without regard to whether target performance was achieved, resulting in a year-end share-based compensation liability of $194 million. The changes in Q4 2021 resulted in $160 million of expense related to achievement against 2021 performance targets that would have otherwise been included in our segment operating income to instead be excluded from our 2021 segment operating income as it is now part of share-based compensation, accounted for as a liability under ASC 718. The changes increased our Activision, Blizzard, King and non-reportable segment operating income by $43 million, $25 million, $65 million, and $27 million, respectively, for the three months and year ended December 31, 2021. In addition, going forward, to the extent certain of our previously cash-based bonus programs are instead issued as time-based equity or settled via equity, such amounts will be recorded as share-based compensation and will be excluded from segment operating income.

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

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

	Year Ended December 31,	
	2021	**2020**
Reconciliation to consolidated net revenues:		
Segment net revenues	$ 7,885	$ 8,011
Revenues from non-reportable segments[1]	563	519
Net effect from recognition (deferral) of deferred net revenues[2]	449	(333)
Elimination of intersegment revenues[3]	(94)	(111)
Consolidated net revenues	$ 8,803	$ 8,086
Reconciliation to consolidated income before income tax expense:		
Segment operating income	$ 3,505	$ 3,418
Operating income (loss) from non-reportable segments[1]	2	(55)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues[2]	347	(238)
Share-based compensation expense[4]	(508)	(218)
Amortization of intangible assets	(10)	(79)
Restructuring and related costs[5]	(77)	(94)
Consolidated operating income	3,259	2,734
Interest and other expense (income), net	95	87
Loss on extinguishment of debt	—	31
Consolidated income before income tax expense (benefit)	$ 3,164	$ 2,616

1 Includes other income and expenses outside of our reportable segments, including our distribution business and unallocated corporate income and expenses.
2 Reflects the net effect from (deferral) of revenues and recognition of deferred revenues, along with related cost of revenues, on certain of our online-enabled products.
3 Intersegment revenues reflect licensing and service fees charged between segments.
4 Reflects expenses related to share-based compensation, including liability awards accounted for under ASC 718.
5 Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY DISTRIBUTION CHANNEL
(Amounts in millions)

	Year Ended					
	December 31, 2021		December 31, 2020		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
Net Revenues by Distribution Channel						
Digital online channels[2]	$ 7,663	87 %	$ 6,658	82 %	$ 1,005	15 %
Retail channels	479	5	741	9	(262)	(35)
Other[3]	661	8	687	8	(26)	(4)
Total consolidated net revenues	$ 8,803	100 %	$ 8,086	100 %	$ 717	9
Change in deferred revenues[4]						
Digital online channels[2]	$ (421)		$ 464			
Retail channels	(42)		(112)			
Other[3]	14		(19)			
Total changes in deferred revenues	$ (449)		$ 333			

1 The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
2 Net revenues from Digital online channels represent revenues from digitally-distributed downloadable content, microtransactions, subscriptions, and products, as well as licensing royalties.
3 Net revenues from Other primarily includes revenues from our distribution business, the Overwatch League, and the Call of Duty League.
4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY PLATFORM
(Amounts in millions)

	Year Ended					
	December 31, 2021		December 31, 2020		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
Net Revenues by Platform						
Console	$ 2,637	30 %	$ 2,784	34 %	$ (147)	(5)%
PC	2,323	26	2,056	25	267	13
Mobile and ancillary[2]	3,182	36	2,559	32	623	24
Other[3]	661	8	687	8	(26)	(4)
Total consolidated net revenues	$ 8,803	100 %	$ 8,086	100 %	$ 717	9
Change in deferred revenues[4]						
Console	$ (254)		$ 132			
PC	(228)		179			
Mobile and ancillary[2]	19		41			
Other[3]	14		(19)			
Total changes in deferred revenues	$ (449)		$ 333			

1 The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
2 Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform specific game related revenues, such as standalone sales of physical merchandise and accessories.
3 Net revenues from Other primarily includes revenues from our distribution business, the Overwatch League, and the Call of Duty League.
4 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
NET REVENUES BY GEOGRAPHIC REGION
(Amounts in millions)

	Year Ended					
	December 31, 2021		December 31, 2020		$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total[1]	Amount	% of Total[1]		
Net Revenues by Geographic Region						
Americas	$ 4,931	56 %	$ 4,434	55 %	$ 497	11 %
EMEA[2]	2,797	32	2,680	33	117	4
Asia Pacific	1,075	12	972	12	103	11
Total consolidated net revenues	$ 8,803	100 %	$ 8,086	100 %	$ 717	9
Change in deferred revenues[3]						
Americas	$ (288)		$ 285			
EMEA[2]	(136)		59			
Asia Pacific	(25)		(11)			
Total changes in deferred revenues	$ (449)		$ 333			

1 The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
2 Net revenues from EMEA consist of the Europe, Middle East, and Africa geographic regions.
3 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

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

	Three Months Ended								
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	Year over Year % Increase (Decrease)
Cash Flow Data									
Operating Cash Flow	$ 148	$ 768	$ 196	$ 1,140	$ 844	$ 388	$ 521	$ 661	(42)%
Capital Expenditures	19	13	24	22	22	14	23	21	(5)
Non-GAAP Free Cash Flow[1]	$ 129	$ 755	$ 172	$ 1,118	$ 822	$ 374	$ 498	$ 640	(43)
Operating Cash Flow - TTM[2]	$ 1,529	$ 2,143	$ 2,030	$ 2,252	$ 2,948	$ 2,568	$ 2,893	$ 2,414	7
Capital Expenditures - TTM[2]	117	103	93	78	81	82	81	80	3
Non-GAAP Free Cash Flow[1] - TTM[2]	$ 1,412	$ 2,040	$ 1,937	$ 2,174	$ 2,867	$ 2,486	$ 2,812	$ 2,334	7%

[1] Non-GAAP free cash flow represents operating cash flow minus capital expenditures.
[2] TTM represents trailing twelve months. Operating Cash Flow for three months ended June 30, 2019, three months ended September 30, 2019, and three months ended December 31, 2019, were $154 million, $309 million, and $918 million, respectively. Capital Expenditures for the three months ended June 30, 2019, three months ended September 30, 2019, and three months ended December 31, 2019, were $27 million, $34 million, and $37 million, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
EBITDA AND ADJUSTED EBITDA
(Amounts in millions)

	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	Trailing Twelve Months Ended December 31, 2021
GAAP Net Income	$ 619	$ 876	$ 639	$ 564	$ 2,699
Interest and other expense (income), net	30	(43)	65	45	95
Provision for income taxes	146	126	120	73	465
Depreciation and amortization	33	28	27	27	116
EBITDA	**828**	**987**	**851**	**709**	**3,375**
Share-based compensation expense[1]	151	43	64	249	508
Restructuring and related costs[2]	30	13	3	30	77
Adjusted EBITDA	**$ 1,009**	**$ 1,043**	**$ 918**	**$ 988**	**$ 3,960**
Change in deferred net revenues and related cost of revenues[3]	$ (132)	$ (276)	$ (154)	$ 215	$ (347)

1 Reflects expenses related to share-based compensation, including liability awards accounted for under ASC 718.
2 Reflects restructuring initiatives, primarily severance and other restructuring-related costs.
3 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online-enabled products.

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

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

Net Bookings[1]

	Year Ended December 31,			
	2021	2020	$ Increase (Decrease)	% Increase (Decrease)
Net bookings[1]	$ 8,354	$ 8,419	$ (65)	(1)%
In-game net bookings[2]	$ 5,100	$ 4,852	$ 248	5%

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

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

Monthly Active Users[3]

	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Activision	128	150	127	119	107
Blizzard	29	27	26	26	24
King	240	258	255	245	240
Total MAUs	397	435	408	390	371

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

Corporate Information

Board of Directors

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Interim Head of School of the Center for Early Education

Robert J. Corti
Retired Chief Financial Officer, Avon Products

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

Brian G. Kelly
Chairman of the Board, Activision Blizzard

Robert A. Kotick
Chief Executive Officer, Activision Blizzard

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

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

Peter Nolan
Senior Advisor, Leonard Green & Partners

Dawn Ostroff
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Chief Executive Officer, Activision Blizzard

Daniel Alegre
President and Chief Operating Officer, Activision Blizzard

Brian Bulatao
Chief Administrative Officer, Activision Blizzard

Grant Dixton
Chief Legal Officer, Activision Blizzard

Armin Zerza,
Chief Financial Officer, Activision Blizzard

Special Advisor

Thomas Tippl
Vice Chairman, Activision Blizzard

Transfer Agent

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Auditor

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IR@activisionblizzard.com

Annual Meeting

June 21, 2022, 9:00 am PDT
To be held via live audio webcast.

Annual Report on Form 10-K

Activision Blizzard's Annual Report on Form 10-K for the year ended December 31, 2021, is available to shareholders without charge, upon request, by calling our Investor Relations department at (310) 255-2000 or by mailing a request to our Corporate Secretary at our corporate headquarters.

Non-incorporation

Portions of the Company's 2021 Form 10-K, as filed with the SEC, are included within this Annual Report. Other than these portions of the Form 10-K, all other portions of this Annual Report are not "filed" with the SEC and shall not be deemed so.

Corporate Headquarters

Activision Blizzard, Inc.
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Santa Monica, CA 90404
(310) 255-2000

Domestic Offices

Albany, NY
Austin, TX
Boulder, CO
Carlsbad, CA
Dallas, TX
Eden Prairie, MN
El Segundo, CA
Foster City, CA
Irvine, CA
Los Angeles, CA
Middleton, WI
New York, NY
Novato, CA
Portland, ME
Redmond, WA
Rogers, AR
Santa Monica, CA
Sherman Oaks, CA
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International Offices

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Berlin, Germany
Birmingham, United Kingdom
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Cork, Ireland
Dublin, Ireland
Guildford, United Kingdom
Krakow, Poland
London, United Kingdom
Malmo, Sweden
Melbourne, Australia
Mexico City, Mexico
Mississauga, Canada
Pyrmont, Australia
Quebec, Canada
Sao Paolo, Brazil
Seoul, Republic of Korea
Shanghai, China
Slough, United Kingdom
St. Julian's, Malta
Stockholm, Sweden
Sydney, Australia
Taipei City, Taiwan
Tokyo, Japan
Toronto, Canada
Vancouver, Canada
Warrington, United Kingdom

Design: Andra Hoffman | andradesignstudio.com
Printer: DG3 | Diversified Global Graphics Group

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King

activisionblizzard.com

PX9012

Q4 2021 Microsoft Corp Earnings Call - Final

FD (Fair Disclosure) Wire

July 27, 2021 Tuesday

Length: 9026 words

Body

Corporate Participants

* Amy E. Hood

Microsoft Corporation - Executive VP & CFO

* Brett Iversen

Microsoft Corporation - General Manager of IR

* Satya Nadella

Microsoft Corporation - Chairman & CEO

Conference Call Participants

* Aleksandr J. Zukin

Wolfe Research, LLC - MD & Head of the Software Group

* Brent Alan Bracelin

Piper Sandler & Co., Research Division - MD & Senior Research Analyst

* Brent John Thill

Jefferies LLC, Research Division - Equity Analyst

* Karl Emil Keirstead

UBS Investment Bank, Research Division - Analyst

Q4 2021 Microsoft Corp Earnings Call - Final

* Keith Weiss

Morgan Stanley, Research Division - Equity Analyst

* Keith Frances Bachman

BMO Capital Markets Equity Research - MD & Senior Research Analyst

* Mark L. Moerdler

Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

* Mark Ronald Murphy

JPMorgan Chase & Co, Research Division - MD

Presentation

OPERATOR: Greetings, and welcome to the Microsoft Fiscal Year 2021 Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Brett Iversen, General Manager of Investor Relations. Thank you. You may begin.

BRETT IVERSEN, GENERAL MANAGER OF IR, MICROSOFT CORPORATION: Good afternoon, and thank you for joining us today. On the call with me are Satya Nadella, Chairman and Chief Executive Officer; Amy Hood, Chief Financial Officer; Alice Jolla, Chief Accounting Officer; and Keith Dolliver, Deputy General Counsel.

On the Microsoft Investor Relations website, you can find our earnings press release and financial summary slide deck, which is intended to supplement our prepared remarks during today's call and provides the reconciliation of differences between GAAP and non-GAAP financial measures. Unless otherwise specified, we will refer to the non-GAAP metrics on the call. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP. They are included as additional clarifying items to aid investors in further understanding the company's fourth quarter performance in addition to the impact these items and events have on the financial results.

All growth comparisons we make on the call today relate to the corresponding period of last year, unless otherwise noted. We will also provide growth rates in constant currency when available as a framework for assessing how our underlying businesses performed, excluding the effect of foreign currency rate fluctuations. Where the growth rates are the same in constant currency, we will refer to the growth rate only.

We will post our prepared remarks to our website immediately following the call until the complete transcript is available. Today's call is being webcast live and recorded. If you ask a question, it will be included in our live transmission, in the transcript and in any future use of the recording. You can replay the call and view the transcript on the Microsoft Investor Relations website.

Q4 2021 Microsoft Corp Earnings Call - Final

During this call, we will make forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release, in the comments made during this conference call and in the Risk Factors section of our Form 10-K, Forms 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

And with that, I'll turn the call over to Satya.

SATYA NADELLA, CHAIRMAN & CEO, MICROSOFT CORPORATION: Thanks much, Brett. We had a very strong close to our fiscal year. Our commercial cloud surpassed $69 billion in annual revenue, up 34%. We're seeing revenue growth across industries, customer segments and geographies, with over 50% of sales coming from outside the United States. We continue to grow new franchises for Microsoft in large and growing markets. In the past 3 years alone, gaming, security and now LinkedIn have all surpassed $10 billion in annual revenue.

Now I'll highlight our innovation and our expanding opportunity across the tech stack, starting with infrastructure. Moving forward, every organization will need more ubiquitous and decentralized computing. We're the only cloud provider with the capabilities to support every organization's multi-cloud hybrid and edge needs. Over the past year, we have added new data center regions in 15 countries across 5 continents, delivering faster access to cloud services and addressing data residency requirements. And now we're taking cloud compute to the edge with 5G deployments. Our new Azure Edge services help operators and enterprises deliver ultra-low latency compute fabric. And we're also helping operators run their networks in the cloud. AT&T chose Azure to power its 5G core network, making it the first Tier 1 operator to move its existing customer traffic to the public cloud.

We're also expanding our opportunity in hybrid. Today, over 75% of the Fortune 500 use our hybrid offerings. Azure Arc extends the Azure control plane across on-premise, multi-cloud and the edge. With Arc, customers like EY and Telstra can manage their Kubernetes deployments anywhere and deploy Azure SQL databases and run Azure application services on any infrastructure. As the digital and physical worlds converge, we are leading in a new layer of the infrastructure stack, the enterprise metaverse.

AB InBev is using our solutions, including Azure Digital Twins and Azure IoT, to optimize operations from the barley field to the warehouse to distribution. Customers also continue to choose our infrastructure to run mission-critical SAP solutions. Thousands of enterprises have migrated their ERP workloads to Azure, including Campbell Soup, L'Oreal, Mondelez International, ServiceNow and even SAP. All this innovation is driving larger and more strategic Azure commitments from industry leaders, including Maz in consumer goods, Morgan Stanley in financial services and NEC in IT.

Now on to data. Data is the most strategic asset for every business. We're the only cloud provider that helps organizations build sovereignty over their data by bringing together hyperscale, OLTP, analytics and governance workloads. Cosmos DB has become the go-to database, powering the world's most demanding mission-critical workloads. New capabilities help organizations like Albertsons, ASOS, DHL, LaLiga, Maersk, Swiss Re optimize

cost and boost performance. Walmart is using Cosmos DB to handle billions of online requests daily and to ensure millions of customers receive the items they want when they need them.

Azure Synapse brings together data integration, big data and data warehouses into a single service. From ABN AMRO in finance and AmerisourceBergen in pharma to Walgreens in retail and WPP in advertising, organizations are using Synapse to generate insights from massive amounts of structured and unstructured data. Queries performed using Synapse increased 146% over the last quarter alone.

Now on to developers. GitHub is used by 72% of the Fortune 50 to build, ship and maintain software. Organizations like Ford, NASA and Shopify are using new project planning capabilities to help developers better manage projects directly within their workflow. And Epic Games, Motorola Solutions and Volkswagen Software Group all chose GitHub Advanced Security this quarter to help secure their code.

We're also leading in enterprise AI. Our new Azure Applied AI Services help organizations like Dow, Lufthansa and Samsung apply AI to common business scenarios. And live captions in Twitter Spaces are being powered by our speech services. Finally, we are bringing the power of our partnership with OpenAI to both professional developers and domain experts. With GitHub Copilot, professional developers can write code faster with less work and using the world's most powerful language model, GPT-3, domain experts can build apps using natural language with Power Platform.

Power Platform has become the leading business process automation and productivity suite for domain experts across all functions. Power BI is the leader in business intelligence in the cloud. Organizations in every industry, including Bayer, Cerner, Rolls-Royce are choosing the platform to foster a data-driven culture. The number of organizations using Power Apps has more than doubled year-over-year. BASF chose Power Apps to give 122,000 employees the capability to build low-code/no-code apps. And the Toyota Fusion teams of pro developers and domain experts are using Power Apps and Azure Pass services to improve quality control. All up, Power Platform revenue increased 83% over the past year.

And now on to Dynamics 365. Every business function, including marketing, sales, customer support and supply chain will need to be reimagined for an AI-first and collaboration-first world. And the silos between communications, collaboration and business process have to be broken down. With Dynamics 365, we are building a new generation of business applications to help organizations adapt to this new reality. We continue to gain share. Dynamics 365 revenue accelerated for the third consecutive quarter, up 49% year-over-year. We are helping businesses to become digitally sovereign over their customer interactions with our Customer Insights product with organizations like Columbia Sportswear, GNC and LA Clippers all choosing to unify customer profiles and deliver more personalized experiences.

We are empowering employees for hybrid work by creating a new category of collaborative applications, bringing business process directly into the flow of work. New integrations between Dynamics 365 and Teams enable anyone in an organization to seamlessly view and collaborate on customer records within Teams without having to purchase multiple licenses. Customers want this and no other vendor is doing this today. And we are helping

organizations reimagine their core business process with new apps built for an age of omnichannel communications. With Dynamics 365, customer service organizations like Coca-Cola, Renault and Xiaomi have a single comprehensive solution to deliver consistent and personalized support across all channels.

Now on to industry solutions. Over the past year, we have introduced industry clouds for financial services, health care, manufacturing, nonprofits and retail. And this quarter, we announced our new Microsoft Cloud for Sustainability, bringing together capabilities across our stack to create an entirely new business process category to help every organization address this very urgent need.

Now on to LinkedIn. LinkedIn's revenue surpassed $10 billion for the first time this fiscal year, up 27%, a testament to how mission-critical the platform has become to help people connect, learn, grow and get hired over the course of their careers. In the past 5 years since our acquisition, revenue has nearly tripled and growth has accelerated. LinkedIn has become a leader across multiple secular growth areas spanning B2B advertising, professional hiring, corporate learning and sales intelligence.

And from LinkedIn Profiles within Office to LinkedIn Learning courses within Microsoft Viva and LinkedIn Sales Navigator leads within Microsoft Dynamics 365, we have brought together the power of LinkedIn and Microsoft to transform how people learn, sell and connect. LinkedIn has more than 774 million members who are more engaged than ever. Sessions were up 30% this quarter compared to a year ago. And LinkedIn's advertising business surpassed $1 billion in revenue this quarter for the first time, up 97% year-over-year, growing 3x faster than the category.

Now to Microsoft 365 and Teams. Hybrid work represents the biggest change to the way we work in a generation and will require a new operating model spanning people, places and processes. We're the only cloud that supports everything an organization needs to successfully make the shift. Microsoft Teams is the new front end. It's where people meet, chat, call, collaborate and automate business processes all within the flow of work.

Teams usage has never been higher. We are nearly 250 million monthly active users as people use Teams each day to communicate, collaborate and call out their content across work, life and learning. We are leading in the new and growing enterprise phone category. Just like video meetings, chat and business processes happen in Teams, calls happen in Teams, creating a huge new opportunity. We have nearly 80 million monthly active Teams phone users, with total calls surpassing 1 billion in a single month this quarter and we're just getting started.

Teams is also at the center of orchestrating collaboration across the entire SaaS estate, from HR to marketing to finance. Leading third-party SaaS vendors, including Adobe, Atlassian, Salesforce, SAP, ServiceNow and Workday have now built apps that deeply integrate with Teams, bringing every business process and function directly into the flow of work. And we are bringing Teams to consumers so people can connect and collaborate with family and friends across desktop, mobile and the web.

All this innovation is driving growth. 124 organizations now have more than 100,000 users of Teams, and nearly 3,000 have more than 10,000 users. More broadly, across Microsoft 365, we are seeing double-digit year-over-year

seat growth in every segment, from frontline and small business to enterprise. Leading companies like Bayer, Siemens, Vodafone all chose our premium [EFI] offerings for advanced security, compliance, voice and analytics.

Now on to employee experience cloud. Having a digital employee experience platform is critical for every organization. With Microsoft Viva, we are creating an entirely new category, bringing together communications, learning, well-being and knowledge directly into the flow of work. New capabilities empower leaders to build human capital, nurture well-being and focus on employee results. We are seeing strong interest and early adoption in every industry from American Express and Barclays to AT&T and Mars. Humana chose Viva to help 26,000 employees make the shift to hybrid work, gaining insights on everything from collaboration trends to manager effectiveness.

Now on to Windows. Windows 11 is the biggest update to our operating system in a decade. We are reimagining everything from the Windows platform to the Store to help people and organizations be more productive and secure and build a more open ecosystem for developers and creators. We are delighted by early feedback. More people have downloaded our early builds than any other Windows release or update in the history of our Insider Program. And along with our OEM ecosystem, we are excited to bring Windows 11 to new PCs beginning this holiday.

And with Windows 365, we are creating a new category, the Cloud PC. Just like applications move to the cloud with SaaS, we are now bringing the operating system to the cloud, enabling organizations to stream the full Windows experience to any employee's personal or corporate device.

Now on to security. With the cybersecurity landscape more complex than ever, it's never been clearer that every organization will need to deploy and maintain a zero trust security architecture. This is driving accelerated demand for our integrated end-to-end solutions spanning identity, security, compliance and device management across all clouds and all platforms.

No other vendor is recognized by analysts as the leader in as many categories. This is reflected in our share gains with nearly 600,000 organizations, including FedEx, Nestlé, NTT and Volkswagen using our security offerings across Azure and Microsoft 365. We saw a 70% increase in the number of small and medium business customers. And it's reflected in our sales growth, with annual revenue continuing to increase 40% year-over-year. We're going further to protect organizations and our recent acquisitions of CloudKnox, ReFirm Labs and RiskIQ bolster our security capabilities in key areas, including identity management, IoT and threat intelligence.

Now on to gaming. Gaming is the largest category in the entertainment industry, and we are expanding our opportunity to reach the world's 3 billion gamers wherever and whenever they play. We are all in on games. At E3 last month, we unveiled our biggest games lineup ever, announcing 27 new titles which will all be available to Game Pass subscribers. Game Pass is growing rapidly and it's transforming how people discover, connect and play games. Subscribers play approximately 40% more games and spend 50% more than nonmembers.

We continue to lead in the fast-growing cloud gaming market with last month -- just last month, we made Xbox Cloud Gaming available on PCs as well as Apple phones and tablets via the browser in 22 countries with more to come. Millions have already streamed games to their desktops, tablets and phones. And the Xbox Series S and X are our fastest-selling consoles ever, with more consoles sold live to date than any previous generation.

Finally, we continue to grow our opportunity in the creator economy, adding new ways for players to build and monetize their creations in many of our most popular games, including Flight Simulator and Minecraft. Creators earned more than double what they did a year ago across our titles.

In closing, going forward, every person and every organization will require more digital technology to be more resilient and to transform. We are innovating across the entire tech stack to ensure our customers succeed in this new era.

With that, I'll hand it over to Amy.

AMY E. HOOD, EXECUTIVE VP & CFO, MICROSOFT CORPORATION: Thank you, Satya, and good afternoon, everyone. This quarter, revenue was $46.2 billion, up 21% and 17% in constant currency. Earnings per share was $2.17, increasing 49% and 42% in constant currency. In our largest quarter of the year, focused execution by our sales and partner teams, along with broad-based strength across geographical markets and customer segments, drove another very strong quarter of tough and bottom line growth.

In our Commercial business, healthy demand for our differentiated hybrid and cloud offerings as well as increased long-term commitments to our platform drove significant growth in the number of $10 million-plus Azure and Microsoft 365 contracts. Customer reliance on the Microsoft Cloud drove sequential increases in usage across Teams, Power Platform and our Advanced Security and identity offerings, which are empowering organizations to shift to hybrid work and modernize business processes.

And in LinkedIn's Talent Solutions business, an improving job market drove strength in annual contracts and job postings. In our on-premises business, strong annuity performance across Office, Server and Windows also benefited from a greater mix of contracts with higher in-period revenue recognition under ASC 606.

In our Consumer business, Windows OEM and Surface were impacted by the ongoing constraints in the supply chain. Search and LinkedIn benefited from an improved advertising market. And in Gaming, we again saw strong engagement across our platform while demand for Xbox Series X and S consoles continued to exceed supply.

As a reminder, Q4 was the first full quarter impacted by COVID-19 a year ago across revenue and operating expense. This quarter, even with a declining exploration base, Commercial bookings grew 30% and 25% in constant currency, significantly ahead of expectations, driven by strong execution across our core annuity sales motions and an increase in the number of larger long-term Azure contracts. As a result, Commercial remaining performance obligation increased 32% and 31% in constant currency to $141 billion. Roughly 45% will be recognized in revenue in the next 12 months, up 25% year-over-year. The remaining portion, which will be recognized beyond the next 12 months, increased 38% year-over-year, highlighting the growing long-term commitment to our Microsoft Cloud. And our annuity mix increased 1 point year-over-year to 95%.

Commercial cloud revenue, also better than expected, was $19.5 billion as growth accelerated to 36% and 31% in constant currency. Commercial cloud gross margin percentage expanded 4 points year-over-year to 70%, with roughly 1 point from the change in accounting estimate for the useful life of server and network equipment assets.

Excluding this impact, commercial cloud gross margin percentage increased despite revenue mix shift to Azure driven by improvement across all our cloud services on a prior year comparable impacted by strategic investments we made to support significant customer engagement and usage in remote work scenarios, including free trials, flexible financing options and capacity for cloud infrastructure usage.

With the weaker U.S. dollar, FX increased growth by approximately 4 points, about 1 point more favorable than anticipated. FX increased COGS growth by approximately 1 point and operating expense growth by approximately 2 points, both in line with expectations. Gross margin dollars increased 25% and 20% in constant currency. Gross margin percentage was 70%, up 2 points year-over-year, with roughly 1 point of favorable impact from the change in accounting estimate. Excluding this impact, company gross margin percentage increased despite sales mix shift to the cloud driven by commercial cloud gross margin percentage improvement noted earlier.

Operating expense grew 6% and 4% in constant currency, in line with expectations on a prior year comparable that included roughly 4 points of impact from the realignment of our retail store strategy and 2 points of impact from an increase in bad debt expense. Overall, company headcount grew again this quarter, up 12% year-over-year as we continue to invest across key areas like cloud engineering, sales and customer deployment.

Operating income increased 42% and 35% in constant currency, and operating margins expanded 6 points year-over-year to 41%, including roughly 2 points of impact from the retail stores charge and increase in bad debt expense in the prior year and nearly 1 point of favorable impact from the change in accounting estimate.

Now to our segment results. Revenue from Productivity and Business Processes was $14.7 billion and grew 25% and 21% in constant currency with better-than-expected performance across all businesses. Office Commercial revenue grew 20% and 15% in constant currency. Office 365 Commercial revenue grew 25% and 20% in constant currency, again driven by installed base expansion across all workloads and customer segments as well as higher ARPU. Paid Office 365 Commercial seats increased 17% year-over-year, with continued recovery driving acceleration in our small and medium business and frontline worker offerings.

Demand for Microsoft 365, particularly for security, compliance and voice drove strong E5 momentum again this quarter. E5 now accounts for 8% of our Office 365 Commercial installed base. And on a low prior year comparable impacted by a slowdown in transactional purchasing, Office Commercial licensing was ahead of expectations, down 8% and 11% in constant currency, also benefiting from higher in-period revenue recognition noted earlier.

In Office Consumer, revenue grew 18% and 15% in constant currency driven by continued momentum in Microsoft 365 subscriptions, which grew to 51.9 million, up 22% year-over-year. Dynamics revenue grew 33% and 26% in constant currency, better than expected. Dynamics 365 revenue growth was 49% and 42% in constant currency with strong momentum in Power Apps and Power Automate, reflecting growing demand for our modern solutions to build apps and automate workflows. Dynamics 365 now accounts for over 70% of total Dynamics revenue.

LinkedIn revenue increased 46% and 42% in constant currency, ahead of expectations against the comparable impacted by the advertising and job markets of a year ago. Segment gross margin dollars increased 33% and 27% in constant currency, and gross margin percentage was up 5 points year-over-year, primarily driven by

improvement in our cloud services against a low prior year comparable impacted mostly by increased usage. The change in accounting estimate drove roughly 1 point of favorable impact. Operating expense increased 8% and 6% in constant currency, and operating income increased 62% and 53% in constant currency, including 4 points due to the change in accounting estimate.

Next, the Intelligent Cloud segment. Revenue was $17.4 billion, increasing 30% and 26% in constant currency. We exceeded expectations across our consumption and per-user Azure businesses as well as in our on-premises server products business. Overall, server products and cloud services revenue increased 34% and 29% in constant currency. Azure revenue grew 51% and 45% in constant currency driven by strong performance across our core and premium consumption-based services.

In our per user business, the enterprise mobility and security installed base increased 29% to over 190 million seats. Our on-premise server business increased 16% and 12% in constant currency driven by strong annuity performance and benefiting roughly 4 points from the higher in-period revenue recognition noted earlier, particularly in some of our largest deals in the quarter.

Enterprise Services revenue grew 12% and 9% in constant currency, driven by growth in premier support services and Microsoft consulting services. Segment gross margin dollars increased 32% and 27% in constant currency. Gross margin percentage increased 1 point year-over-year with roughly 1 point of favorable impact from the change in accounting estimate. Operating expense increased 14% and 12% in constant currency, and operating income grew 46% and 39% in constant currency, including 3 points due to the change in accounting estimate.

Now to More Personal Computing. Revenue was $14.1 billion, increasing 9% and 6% in constant currency, with better-than-expected performance in Windows Commercial, Gaming and Search offsetting OEM and Surface weakness from supply chain constraints. OEM revenue declined 3% and Surface declined 20% and 23% in constant currency as both were impacted by the significant supply chain constraints noted earlier in a good demand environment.

Windows Commercial products and cloud services revenue grew 20% and 14% in constant currency driven by demand for Microsoft 365, with some benefit from the higher in-period revenue recognition noted earlier. Search revenue ex TAC increased 53% and 49% in constant currency, benefiting from the improved advertising market. And in Gaming, revenue increased 11% and 7% in constant currency. Xbox hardware revenue grew 172% and 163% in constant currency driven by demand for our new consoles.

Xbox content and services revenue declined 4% and 7% in constant currency against a high prior year comparable. Segment gross margin dollars increased 8% and 4% in constant currency. Gross margin percentage decreased roughly 1 point year-over-year driven by sales mix shift to gaming hardware. Operating expense decreased 6% and 7% in constant currency, including approximately 13 points of impact from the retail stores charge in the prior year. And operating income grew 19% and 13% in constant currency.

Now back to our total company results. Capital expenditures, including finance leases, were $7.3 billion, in line with expectations, driven by ongoing investment to support growing global demand and usage of our cloud services.

Cash paid for PP&E was $6.5 billion. Cash flow from operations was $22.7 billion, increasing 22% year-over-year, driven by strong cloud billings and collections.

Free cash flow was $16.3 billion, up 17%, reflecting higher capital expenditures in support of our growing cloud business. For FY '21, we generated over $76 billion in operating cash flow, up 26% year-over-year, and over $56 billion in free cash flow, up 24% year-over-year. This quarter, other income and expense was $310 million, higher than anticipated, primarily driven by net gains on investments. As a reminder, we are required to recognize mark-to-market gains or losses on our equity portfolio. Our effective tax rate was approximately 15%. And finally, we returned $10.4 billion to shareholders through share repurchases and dividends, bringing our total cash returned to shareholders to over $39 billion for the full fiscal year.

Now before we turn to our outlook, I'd like to provide a few reminders for next fiscal year. Revenue growth rates across all segments will reflect the impact from COVID-19 a year ago, though the impacts do shift as we move through the year. Also, our FY '21 operating income and margin benefited from 2 factors that will be headwinds in FY '22. First, the change in accounting estimate for the useful life of server and network equipment resulted in $2.7 billion of depreciation expense, shifting from FY '21 to future periods. And second, we saved nearly $1.2 billion in operating expense from COVID-19-related restrictions, which will also moderate in FY '22 as geographies reopen globally.

With those reminders in place, let's move to our next quarter outlook. Accelerating digital transformation and consistent strong execution should drive another quarter of growing commitment to our Microsoft Cloud. In Commercial bookings, our core annuity sales motions should drive healthy growth on a growing expiry base even against a strong prior year comparable. As always, quarterly volatility in bookings can be driven by an increasing mix of larger long-term Azure contracts, which are more unpredictable in their timing.

Commercial cloud gross margin percentage should decrease roughly 1 point year-over-year, with roughly 4 points of negative impact from the change in accounting estimate previously discussed. Excluding the accounting change, Q1 gross margin percentage will increase despite revenue mix shift to Azure driven by continued improvement across our cloud services on a prior year comparable impacted by the strategic investments we mentioned earlier. Longer term, which excludes the impact of the accounting change, Commercial cloud gross margin percentage will continue to be impacted by the same 3 things we often discuss: revenue mix shift to Azure, increased usage of our cloud services and ongoing strategic investments to support our customers' success. In capital expenditures, we expect a sequential increase on a dollar basis as we continue to invest to meet global demand for our cloud services.

Now to FX. Based on current rates, we expect FX to increase revenue growth of the total company and all individual segment levels by approximately 2 points and total operating expense and COGS growth by approximately 1 point.

Now to segment guidance. In Productivity and Business Processes, we expect revenue between $14.5 billion and $14.75 billion. In Office Commercial, revenue growth will again be driven by Office 365 with healthy seat growth

across segments and continued momentum in E5. In our on-premises business, we expect revenue to decline approximately 20%, consistent with the ongoing customer shift to the cloud. In Office Consumer, against a strong prior year comparable, we expect high single-digit revenue growth with continued momentum in Microsoft 365 consumer subscriptions.

For LinkedIn, continued strong engagement on the platform and improvements in the advertising and job markets should drive revenue growth in the high-30% range. And in Dynamics, we expect continued strength in Dynamics 365, which includes our significant momentum in Power Apps to drive revenue growth in the high 20s. For Intelligent Cloud, we expect revenue between $16.4 billion and $16.65 billion.

In Azure, revenue will be driven by continued strong growth in our consumption-based business. And our per user business should continue to benefit from Microsoft 365 suite momentum, though we expect some moderation in growth rate given the size of the installed base. Therefore, in constant currency, Azure revenue growth should remain relatively stable on a sequential basis.

In our on-premises server business, we expect revenue growth in the high single digits driven by continued demand for our hybrid and premium annuity offerings against a low prior year comparable. And in Enterprise Services, we expect revenue to be in the high single digits. In More Personal Computing, we have estimated the Q1 impact of the required Windows 11 revenue deferral that will shift to Q2 to be approximately $300 million. Therefore, our segment revenue outlook is $12.4 billion to $12.8 billion. Given the 10-point estimated negative impact from the deferral, OEM revenue should decline mid- to high single digits in Q1.

In Surface, on a strong prior year comparable, we expect revenue to decline in the low teens as we continue to work through the supply chain challenges. In Windows Commercial products and cloud services, continued demand for Microsoft 365 and our Advanced Security solutions should drive healthy double-digit growth. In Search ex TAC, we expect revenue growth in the high 30s driven by improvements in the advertising market. In Gaming, we expect revenue growth in the low double digits. Console growth will again be constrained by supply. And on a strong prior year comparable, Xbox content and services revenue should grow low single digits.

Now back to company guidance. We expect COGS of $13.55 billion to $13.75 billion and operating expense of $11.6 billion to $11.7 billion. In other income and expense, interest income and expense should offset each other. And finally, we expect our Q1 tax rate to be approximately 16%, lower than our expected full year rate given the volume of equity vest in our first quarter.

In closing, we remain focused on driving revenue growth as we invest boldly against the strategic high-growth opportunities ahead that will deliver significant value to our customers worldwide. Our outlook for FY '22 reflects this: with healthy double-digit revenue and operating income growth. Together, that results in expanded operating margins in FY '22 after excluding the headwinds from the useful life change noted earlier. Together with our customers and partners, we look forward to FY '22.

Now Brett, let's go to Q&A.

BRETT IVERSEN: Thanks, Amy. We'll now move to Q&A. (Operator Instructions) Operator, can you please repeat your instructions?

Questions and Answers

OPERATOR: (Operator Instructions) Our first question is coming from the line of Keith Weiss with Morgan Stanley.

KEITH WEISS, EQUITY ANALYST, MORGAN STANLEY, RESEARCH DIVISION: Congratulations on a great FY '21 and a great end to the fiscal year. Satya, last year at this time, you made a comment that, I think, really defined the conversation in software over the past year. When you're talking about an acceleration in digital transformation you saw coming out of COVID, and I think that's evident in the results that we see here with 25% growth in your Commercial bookings growth, what I want to ask you is the durability of that growth on a going-forward basis. Was that acceleration a pull forward of demand and, at some point, we're going to have that hard comp? Or do you see durability in this acceleration on a go-forward basis? Is there a lot more to come?

And then, Amy, to you, a similar kind of question but more on sort of the margin side of the equation. I think your entire tenure at Microsoft has really been defined by good operational controls and ability to grow gross profit dollars well ahead of OpEx. Is that durable longer term? Is there still enough sort of efficiency gains at Microsoft to be able to keep that up over the medium term, if you will?

SATYA NADELLA: Thanks so much, Keith, for the question. I mean the way we see the results today reflect that but, more importantly, on a secular basis, as I think about -- I always go back to that number, which is 5% of the world GDP is tech spend, it's projected to double. I think that doubling will happen in a more accelerated pace. And we feel well positioned because of the innovation across the stack because, if you think about it, what's going to happen is every business, whether you're a retailer or a manufacturer, in the service sector, public sector or private sector, digital adoption is the way you're going to be both resilient as well as transform the core business processes.

And the strength we have is that entirety of the Microsoft cloud stack, right? So it's not just about infrastructure or any application, it's the entirety of what we do. And so I think it is durable. Quarter-to-quarter, depending on what happened during the pandemic, depending on the segments that were impacted, for example, the consumer segments that were impacted that are coming back and then they'll normalize whereas, in our case, we do -- in fact, one of the things I love about sort of our exposure is both it's a worldwide exposure and it has got the right balance between the consumer segments and the enterprise business-to-business segment. So it's a very durable long-term growth prospect that we have tough competition, we need to keep innovating, which is what we'll stay focused on.

AMY E. HOOD: And maybe turning to your margin question. And while I am obviously proud of the work we've done, Keith, that you referenced as a team on margins and returns, I would say, in general, our focus remains, and has been for the duration of really Satya and I's work together along with the rest of the SLT, on consistently moving our resources and talent to our highest growth and most differentiated places. When you do that in expansive total addressable markets in the way that I believe we're focused on as an organization, you do see the

type of operating leverage that you're referring to in margins. And that along, as you see sort of mathematically, with a shift in our revenue to higher overall gross margin segments, you do get the results we've seen. So I feel very good about the work we've done. And as you heard, I'm quite optimistic about the opportunities we have to invest leading into FY '22 as well.

OPERATOR: Our next question comes from the line of Mark Moerdler with Bernstein Research.

MARK L. MOERDLER, SENIOR RESEARCH ANALYST, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: And again also, congrats on the quarter. And Amy, thanks for the detail and color, especially in the guidance. So I want to ask about seasonality in Azure. Traditionally, we've seen seasonality in the Azure numbers in Q4. And obviously, last year, we didn't see it because of COVID, but we also didn't see it this year. Has something changed that has changed the seasonality of the business? And does that continue going forward? And then as a follow-up question, Keith asked about OpEx efficiency overall, but I'd like to ask specifically on the cloud. Is there any reason that cloud OpEx shouldn't continue to grow slower than revenue, obviously, on an annual basis, not a quarterly basis?

AMY E. HOOD: Thanks, Mark, for the question. Let me cover your first one, which is the seasonality in the Azure business. In some ways, Mark, some of that seasonality, frankly, was because Azure has 2 fundamental components. It's got a consumption model as well as a per-user model. The per-user model which, as you well know, is far more aligned to our sort of end of year and can be a lot more aligned to our end-of-year rhythms, it also can have more quarterly volatility in terms of accounting, in terms of revenue recognition, the same topic we often talk about when it comes to Microsoft 365 in terms of more in-quarter recognition, what you've seen is that did historically represent a larger component of Azure, so added volatility to Q4.

As we've seen our consumption businesses grow and grow consistently, and thus far becoming a larger percentage of Azure, you do have more stability, Mark. And so you start seeing less of that volatility that we've historically seen from Q3 to Q4. We still have some of it, as we talked about, but I think it's an interesting observation and it's a very good question. In terms of your comment on cloud revenue and OpEx, yes, I do believe that's durable. We get a lot of focus. We'll continue to invest. There's lots of opportunity there, but the market certainly warrants it.

OPERATOR: Our next question is coming from the line of Brent Thill with Jefferies.

BRENT JOHN THILL, EQUITY ANALYST, JEFFERIES LLC, RESEARCH DIVISION: Amy, a lot of questions on margins. I'm curious if you think there is the ceiling in the near term on margins. Or do you feel that you've got an elevated flight level, if you will, and we shouldn't have to be worrying about that level of margins? Can you just give us any more color as it relates to how you're thinking about that?

AMY E. HOOD: Well, I think for FY '22 on operating margins, which is really where I focus most of my thoughts, as I said, when you exclude the useful life change, I feel very good about margin improvement in FY '22. But what sits behind that, Keith -- I mean, sorry, Brent -- is this focus on the first thing I said, which is with every operating expense dollar we invest, are we continuing to invest in the highest growth places? If you continue to invest in high-

growth places with differentiation that customers care about and you add value, you continue to see improvements in this area.

From time to time, I'm sure there'll be quarters where that isn't the case, if we have some mix shift in hardware, et cetera. But in general, over a longer period of time, you've seen us focus on this. And so if you remove a little of the noise and some of the useful life changes and look back a few years, I do think you'd see the biggest needle-mover being where we invest the dollars as opposed to the overall amount of them, which should grow based on the opportunity.

OPERATOR: Our next question comes from the line of Karl Keirstead with UBS.

KARL EMIL KEIRSTEAD, ANALYST, UBS INVESTMENT BANK, RESEARCH DIVISION: Amy, thank you for giving more formal Azure guidance for the next quarter. That's very helpful. So if Azure is going to remain stable in constant currency, I guess at 45%, and you had indicated that EMS growth should moderate, effectively, you're saying that the consumption piece of Azure might accelerate in the September quarter. So I'm wondering if you could unpack that a little bit. Is this as simple as prior period commitments ramping at an accelerated pace? I'd love to hear your thoughts.

AMY E. HOOD: Thanks, Karl. I think in general, you've got the right trajectory. And I do think it's both things. You've heard me say, it's both some of our core as well as premium SKUs. We've seen some nice execution. And I think Satya mentioned some of these differentiated places in the Azure stack where I think we also can see some growth. Data services is a very good point where I feel like we've made a lot of progress, have a real differentiation, have seen some acceleration in the past couple of quarters.

OPERATOR: Our next question is coming from Mark Murphy with JPMorgan.

MARK RONALD MURPHY, MD, JPMORGAN CHASE & CO, RESEARCH DIVISION: Satya, at the Ignite Conference a few months ago, you commented that cloud architectures have reached peak centralization. I'm wondering what developments are you seeing that inform your viewpoint. And Amy, do you sense uplift in some of those intelligent edge products, such as Azure Stack or others, contributing to the improvement in server products growth that we saw this quarter?

SATYA NADELLA: Thanks so much for that question. A couple of things that are happening. One is that all up, even what we consider the cloud infrastructure, is getting increasingly distributed. If you think about the approach we took to our data center architecture, the fact that we have more regions, is to meet, I would say, both the real-world needs for the computing architecture side but also the regulatory and data residency requirements. So we feel we picked the right approach, and that's paying dividends today just even in terms of our geographic coverage, our coverage of all of the regulatory requirements.

Then the second piece, of course, is distributed computing will remain distributed. And what we are seeing with edge is going to be the case where we will see more of both the old workloads with hybrid benefits and hybrid deployments as well as new workloads, right? So if you take the AB InBev Digital Twin meets IoT type of scenario,

that's going to require a lot more compute close to their factories. And so to me, those new scenarios -- or 5G, I mean, think about what AT&T is planning to do, which is a hybrid deployment in a completely new space where there is going to be compute that's located to be able to take core network traffic and use cloud economics. So that's what we think of going forward, which is really compute will remain distributed, both because of their needs across geographies, regulation and the very nature of compute architecture.

AMY E. HOOD: And to the question you asked on how to think about the edge and where to see that in results, really, it shows up. This is one where I would focus on the overall server products and cloud services number, which I think, Mark, was at the heart of your question because through our purchasing vehicles, the most effective way to purchase for flexibility across the edge in the cloud is sometimes some of the on-prem licensing with hybrid, right? So you do see that both in our Azure results but also depending on how it's purchased and server KPI.

OPERATOR: Our next question comes from Brent Bracelin with Piper Sandler.

BRENT ALAN BRACELIN, MD & SENIOR RESEARCH ANALYST, PIPER SANDLER & CO., RESEARCH DIVISION: A question for you really around $10 million-plus contracts. You called out momentum this quarter and last quarter. My question is around the drivers of these larger enterprise commitments. Is this driven by just the larger scope of deals? Or are you seeing kind of broader attach rate across the whole breadth of Microsoft cloud products?

AMY E. HOOD: Thanks, Brent. Maybe, Satya, I'll take this one first and if you want to add anything. Brent, unfortunately, I'm going to answer it's everything. And let me talk about why I say that. When you see the size of the contracts increase, it's about the entire scope of what's offered under the Microsoft cloud. We're seeing both really strong renewals of our core contracts, really strong additions across Dynamics, Power Apps, Power Automate, M365, premium SKUs, security, compliance, voice, which, of course, increases those commitment sizes. And you're seeing the addition of Azure commitments, which we often talk about as these multiyear, longer-term contracts. And so then you do, of course, see them just have longer duration on, especially in the case of Azure. So in many ways, what we focus on are the components that make up the larger contracts is each component being additive to selling the value that's present across all of our pieces of the Microsoft cloud.

This was a good execution quarter for us. You see it in the bookings number even more. When you have a declining expiry base and then bookings growth that's that high, you have to do all those things well. And that's, I think, really what's reflected ultimately and transactionally, meaning those larger $10 million-plus contracts being done.

OPERATOR: Our next question comes from Alex Zukin with Wolfe Research.

ALEKSANDR J. ZUKIN, MD & HEAD OF THE SOFTWARE GROUP, WOLFE RESEARCH, LLC: I guess my main question maybe for Satya, you've taken -- you've noted the future of work having changed and you talked about the fusion of Teams into both the application stack, the operating system stack and really amongst the entire Microsoft portfolio. Is that driving -- given the acceleration you're seeing in Dynamics, can you talk to the fact, is that driving

larger deals, new bites at the apple? Or how is that changing the landscape? And how do you think about that versus what your competitors are doing?

SATYA NADELLA: Yes, that's a great question. Thanks for that. Multiple things happening. And both -- some of them are independent secular growth trends and they do reinforce each other. Let's just take Dynamics. Probably one of the most exciting things we are seeing is that coming out of this pandemic, there is an absolute new chapter for a complete new suite all the way from whether it's sales, to customer service, to marketing, to supply chain or digital manufacturing, that's all going to be reimplemented. So there's going to be a complete new cycle of business process automation that is going to be AI-first and collaboration-first. And that second part is where that intersection between Teams and Business Process or Dynamics comes through because you do not want to have a system of record for anything, whether it is a customer or a part or a forecast that you don't want to collaborate on, that you don't want to communicate on. And by the way, the communications and the collaboration artifacts are part of the record. And that's what I think that this new generation of software will enable.

And so you see it in 2 fronts. One is Teams has become a platform not just for Dynamics, even for Salesforce, for SAP, for Adobe, for ServiceNow, they're all building great integrations into Teams and we'll foster that. And Dynamics itself, of course, will integrate deeply with Teams and embed Teams or Azure Communication Services. So when you think about our omnichannel customer service module, it doesn't look like anything from 2 years ago. It's a completely rebuilt omnichannel customer service system, which has all the communication functionality built in. So it's a pretty exciting space. And it also speaks to a lot of the questions around where is the margin, how is it going to sort of evolve. I think tracking what's happening with Power Platform, Dynamics and Teams, I think, probably -- and its intersection to even some of our data layers in Azure is perhaps the best indication of some of our competitive differentiation at scale already.

OPERATOR: Our final question comes from the line of Keith Bachman with Bank of Montreal.

KEITH FRANCES BACHMAN, MD & SENIOR RESEARCH ANALYST, BMO CAPITAL MARKETS EQUITY RESEARCH: Amy, I wanted to direct this to you and go back to margins for a second. Is there any comments or color that you could provide? I know you said you focused on the operating margin side, but on the trends that you anticipate this year in '22 around gross margins with or without the depreciation schedules. Part B is on the last quarter call, you indicated that operating expenses might grow kind of mid-teens -- or low teens, I should say, in '22. I was wondering if you would want to update the comments on how we should be thinking about operating expense trends as we look at FY '22.

AMY E. HOOD: Thanks, Keith. When I think about your operating expense comments, no, I don't have any update to that. I think if you think about our headcount growth at 12%, plus through the year, continuing to invest in some of the places where we saw savings through the year on COVID, I would expect that, that is still a good placeholder for people as we work through the year. I mean with the opportunity we see in the market, I think it supports that level. And given our execution, when we do invest, which leads me to margin, I feel very good about that.

At the gross margin level, we'll continue to focus really on the same things we've always focused on, which is continuing across our cloud services to see improving margins. You'll continue to see a mix shift to Azure given the growth we expect there. And we'll continue to see gross margin improvements across individual services that make up many of our components across the company. So in general, I feel like the gross margin trends are quite healthy heading into '22.

BRETT IVERSEN: Thanks, Keith. So that wraps up the Q&A portion of today's earnings call. Thank you for joining us today, and we look forward to speaking with all of you soon.

AMY E. HOOD: Thank you, everyone.

SATYA NADELLA: Thank you.

OPERATOR: Ladies and gentlemen, this concludes today's conference. We thank you for your participation, and you may disconnect your lines at this time.

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Company: MICROSOFT CORP (96%); JEFFERIES LLC (72%); UBS INVESTMENT BANK (72%); SANFORD C BERNSTEIN & CO LLP (70%); PIPER SANDLER COS (58%); MORGAN STANLEY (57%)

Ticker: MSFT (NASDAQ) (96%); PIPR (NYSE) (58%); MS (NYSE) (57%)

Industry: NAICS511210 SOFTWARE PUBLISHERS (96%); SIC7372 PREPACKAGED SOFTWARE (96%); SIC6211 SECURITY BROKERS, DEALERS, & FLOTATION COMPANIES (72%); NAICS523920 PORTFOLIO MANAGEMENT (72%); NAICS523110 INVESTMENT BANKING & SECURITIES DEALING (72%); NAICS523991 TRUST, FIDUCIARY & CUSTODY ACTIVITIES (72%); SIC6289 SERVICES ALLIED WITH THE EXCHANGE OF SECURITIES OR COMMODITIES, NEC (72%); NAICS523930 INVESTMENT ADVICE (70%); NAICS525920 TRUSTS, ESTATES & AGENCY ACCOUNTS (70%); NAICS525110 PENSION FUNDS (70%); NAICS523120 SECURITIES BROKERAGE (58%); SIC6282 INVESTMENT ADVICE (58%); SECURITIES & OTHER INVESTMENTS (92%); COMPUTER SOFTWARE (91%); EQUITY RESEARCH (91%); INVESTMENT BANKING (91%); BANKING & FINANCE (90%); CONFERENCE CALLS (90%); INDUSTRY ANALYSTS (90%); INVESTMENT ADVISERS (90%); INVESTMENT MANAGEMENT (90%); INVESTOR RELATIONS (90%); NEW ISSUES (90%); SOFTWARE MAKERS (90%); SECURITIES BROKERS (88%); WEBCASTS (77%); FOREIGN EXCHANGE MARKETS (76%); EXCHANGE RATES (75%); CURRENCIES (60%); LAWYERS (50%)

Person: SATYA NADELLA (90%)

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PUBLIC

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EUROPEAN COMMISSION
DG Competition

Case M.10001 - MICROSOFT / ZENIMAX

Only the English text is available and authentic.

REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 05/03/2021

In electronic form on the EUR-Lex website under document number 32021M10001

EUROPEAN COMMISSION

Brussels, 05.03.2021
C(2021) 1607 final

PUBLIC VERSION

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

Microsoft Corporation
One Microsoft Way 8/2284
Redmond WA 98052
United States of America

Subject: **Case M.10001 – Microsoft/Zenimax**
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004[1, 2] and Article 57 of the Agreement on the European Economic Area[3]

Dear Sir or Madam,

(1) Following a referral pursuant to Article 4(5) of the Merger Regulation, the European Commission received on 29 January 2021 notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Microsoft Corporation

1 OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union (the 'TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

2 For the purpose of this Decision, although the United Kingdom withdrew from the European Union as of 1 February 2020, according to Article 92 of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (OJ L 29, 31.1.2020, p. 7), the Commission continues to be competent to apply Union law as regards the United Kingdom for administrative procedures which were initiated before the end of the transition period.

3 OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').

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("Microsoft", USA) intends to acquire sole control of ZeniMax Media Inc. ("ZeniMax", USA) within the meaning of Article 3(1)(b) of the Merger Regulation (the "Transaction").[4] Microsoft and ZeniMax will together be referred to as the "Parties" and Microsoft will be referred to as the "Notifying Party".

1. THE PARTIES

(2) **Microsoft** is a global technology company, which offers products and services to its customers through the following segments: (i) Productivity and Business Processes; (ii) Intelligent Cloud; and (iii) More Personal Computing ("MPC"). As part of the MPC operating segment, Microsoft develops, publishes and distributes games for personal computers ("PCs"), video game consoles and mobile devices. Microsoft also offers the Xbox gaming console and related services, such as the Xbox Live online gaming service and the Xbox Game Pass gaming subscription service.

(3) **ZeniMax** is a privately held company that develops and publishes games for PCs, consoles and mobile devices. As part of its broad portfolio of games, ZeniMax develops and publishes video game franchises such as "The Elder Scrolls" and "Fallout".

2. THE OPERATION AND CONCENTRATION

(4) The Transaction will be implemented by means of an Agreement and Plan of Merger (the "APM") entered into on 19 September 2020 between Microsoft, Vault Merger Sub, Inc. ("Vault") and ZeniMax. Under the APM, Vault, a newly created Microsoft subsidiary, will be merged with, and into, ZeniMax. Following this merger, Vault will cease to exist, and ZeniMax will be a wholly owned subsidiary of Microsoft.

(5) Following the Transaction, Microsoft will exercise sole control over ZeniMax. The Transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

3. UNION DIMENSION

(6) The Transaction does not have a Union dimension within the meaning of Articles 1(2) or 1(3) of the Merger Regulation, because ZeniMax's total Union turnover does not exceed EUR 250 million (ZeniMax: [100-150 million], Microsoft: [10.000-50.000 million]) and ZeniMax's aggregate turnover is not more than EUR 25 million in each of at least three Member States.

(7) Following the Notifying Party's reasoned submission pursuant to Article 4(5) of the Merger Regulation that the concentration should be examined by the Commission, the Commission has transmitted this submission to all Member States. No Member State has expressed its disagreement within a period of 15 working days. The Transaction meets the legal requirements set out in Article 4(5) of the Merger Regulation: (i) it is a concentration within the meaning of Article 3 of the Merger Regulation; and (ii) it is capable of being reviewed under the national competition

[4] Publication in the Official Journal of the European Union No C 40, 5.2.2021, p. 21.

laws of at least three Member States, which are (i) Austria, (ii) Cyprus, and (iii) Germany. The Commission informed the Notifying Party on 18 December 2020 that the case was deemed to have a Union dimension.

4. RELEVANT MARKETS

(8) The Transaction leads to competitively relevant links with regard to the development, publishing, and distribution of video games. Video games are electronic games played by manipulating images on a video display or television screen. Video games are developed for PCs, gaming consoles, and mobile devices (such as smartphones). In particular, the competitively relevant links between the Parties concern the following two levels within the video-gaming value chain:

(a) Game software development and publishing: the development (including design, art, programming, and testing, usually taking place in a development studio) and the making available to the public of a video game. Microsoft and ZeniMax are active in the development and publishing of console games in both physical (discs) and digital form; and

(b) Game distribution: the distribution of games to the public in either physical or digital form, through (i) physical retail (online and "brick-and-mortar" retailers) and (ii) online download/streaming, via digital storefronts[5], app stores and subscription services). Microsoft is active in the operation of digital storefronts selling console games in digital form.[6]

4.1. Game software development and publishing

(9) Game software development and publishing refers to the development (including design, art, programming, and testing, usually in a development studio) and the making available to the public, for sale or free of charge, of a video game. In the present decision, video game software development and publishing will be analysed together (hereafter "video games publishing").

4.1.1. Relevant product market

4.1.1.1. The Commission's previous practice

(10) In *Activision Blizzard/King*, the Commission concluded that there were indications that the market for game software publishing could be segmented by hardware,

5 Video games, associated content and related services may be distributed through digital storefronts. These storefronts are usually accessible to players at any time and from anywhere as apps and/or websites that offer video games for PCs or console. For example, players using consoles can purchase games through the console-specific storefront (which enables automatic download onto consoles linked to storefront accounts). Microsoft operates the Microsoft Store, an app store on Windows PCs, and the Xbox Store (since late 2017 also rebranded as the Microsoft Store), an Xbox console user-facing storefront, which can be accessed via Xbox consoles or a web browser.

6 ZeniMax also owns and operates a digital storefront, Bethesda net, where it offers ZeniMax PC content for download. However, ZeniMax does not sell third-party games on its digital storefront. Similarly, ZeniMax provides game subscriptions for ZeniMax content, *i.e.*, The Elder Scrolls Online ("ESO") and Fallout 76, but not for third-party content. In this decision, reference to game distribution means distribution of first- and third-party content unless specified otherwise.

namely (i) PC games, (ii) console games, and (iii) mobile games.[7] The Commission found indications that mobile games in particular constitute a distinct market, given their nature, technical features, different pricing structure, different production costs, and different distribution channels (native mobile games being largely distributed through app stores).[8] Overall, however, the Commission argued that the *"lines between different platforms are blurring, because games are often released on several platforms, there is substantial substitutability between games"*.[9]

(11) The Commission further considered a segmentation by reference to the type of gamer (*e.g.*, casual, midcore or hardcore[10]) or genre (*e.g.*, action, adventure, role-playing games, sport strategy, resource management, etc.[11]). However, the Commission considered that from a supply-side perspective, the same company can create games of many different types. From a demand-side perspective, distinctions between game type or genre were not followed by players and could therefore not be made accurately.[12] The Commission reached the same conclusion in *Vivendi/Activision*, where it noted that "*from a demand-side perspective, most gamers appear to buy games across several game genres*" and "*from a supply-side perspective, publishers appear generally to publish games across multiple genres*".[13] Further, the Commission added that a distinction by genre was "*subjective*", as there were "*games with multi-types of gaming activity inside the same game*".[14]

(12) The Commission ultimately left the product market definition open.[15]

4.1.1.2. The Notifying Party's views

(13) The Notifying Party submits that video games developed for PCs and consoles are increasingly substitutable, while native mobile games remain distinct.[16] The Notifying Party argues that games developed for PCs and consoles require greater investment in money, time, and resources (*i.e.*, marketing).[17] Moreover, the

7 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 26.

8 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 20.

9 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 22. The Commission has also considered in its decisions concerning antitrust cases *AT.40413 - Focus Home, AT.40414 - Koch Media, AT.40420 – ZeniMax, AT.40422 – Bandai Namco and AT.40424 – Capcom* (decisions of 20 January 2021, paragraphs 62-66 and 77-79; a public version of the decision is not yet available) […].

10 Commission decision of 12 February 2016 in case M.7866 – *Activision Blizzard/King*, Table 1. Casual, midcore and hardcore games describe different types of gamers considered in this case, with increasing differences in terms of difficulty, strategic thinking and time commitment. Casual games include simple game mechanics (*i.e.*, puzzle games), engaging the player in shorter yet more frequent periods of time, with no special skills required. Midcore games are more engaging game concepts, requiring strategic thinking. Hardcore games are very engaging game concepts that retain players, usually requiring prior gaming experience.

11 Commission decision of 12 February 2016 in case M.7866 – *Activision Blizzard/King*, paragraph 16. Action, adventure, role-playing, sport, strategy, and resource management games describe possible segmentations according to different game genres considered in this case.

12 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 24.

13 Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 23.

14 Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 23.

15 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraphs 26-27 and Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 25.

16 Form CO, paragraph 189.

17 Form CO, paragraph 191.

Notifying Party submits that the difference between games for PCs and consoles will continue to diminish, as the majority of games published by the Parties and other independent game publishers are launched for both PCs and consoles. Lastly, the Notifying Party argues that the introduction of subscription services will continue to erode the differences between games published for PCs and consoles.[18]

(14) The Notifying Party also argues that a distinction by game type or genre would not properly reflect the dynamics of the industry. It indicates that distinctions by genre or type are not followed by players, and therefore cannot be accurately made. In the Notifying Party's view, most players buy games across several game genres (as well as multiple games within the same genre) and a significant number of players would switch to other genres of games in response to a significant price rise. In addition, from a supply-side perspective, a publishing studio can create many different types of games. Lastly, the Notifying Party submits that it is inherently difficult to classify games into discrete genres and types.[19]

(15) The Notifying Party argues that the exact scope of the relevant product market can be left open, given that the Transaction would not raise concerns as to its compatibility with the internal market under any of the plausible alternative market definitions assessed for the purpose of this decision.[20]

4.1.1.3. The Commission's assessment

(16) The results of the market investigation are inconclusive regarding a possible segmentation of the video game publishing product market by platform (PC, console, and mobile). In particular, the market investigation produced no clear support for segmenting the relevant market according to the three platforms or for considering mobile games as distinct from games published for PCs and consoles.[21]

(17) In light of these results, the exact market delineation can be left open. For the purpose of the present decision, video games publishing (i) for PCs, (ii) for consoles, and (iii) for mobile devices, as well as (iv) for a broader market for video games publishing regardless of the platform will be considered to constitute four potential relevant product markets.

(18) The results of the market investigation are also inconclusive regarding a possible distinction between different genres of video games. Amongst video game publishers and distributors (including both physical and digital distributors), there is no clear majority supporting either a segmentation according to genres or supporting that, despite different genres, one single relevant product market exists.[22]

(19) Therefore, for the purpose of this decision, the exact definition of the relevant product market will be left open. The effects of the Transaction will be assessed both

18 Form CO, paragraphs 192-193.
19 Form CO, paragraph 194.
20 Form CO, paragraph 200.
21 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 9.
22 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 10.

under the assumption that video game genres[23] may constitute possible distinct market segments, or that they form one overall video games publishing market.

(20) Further, the results of the market investigation are inconclusive regarding a possible segmentation of publishing by game type.[24] Therefore, for the purpose of this decision, the exact definition of the relevant product market will be left open. The effects of the Transaction will be assessed under the assumption that the video game types identified by the Notifying Party (AAA, casual, stand-alone, browser, free-to-play, freemium, and social network[25]) may constitute potential distinct market segments, or that they form one overall video games publishing market.

(21) In any event, the exact delineation of the relevant product market can be left open for the purpose of this decision, as the Transaction does not raise serious doubts as to its compatibility with the internal market or the functioning of the EEA Agreement under any of the plausible product market definitions considered.

4.1.2. Relevant geographic market

4.1.2.1. The Commission's previous practice

(22) As regards the geographic scope of any of the plausible product market definitions considered in section 4.1.1.3, in previous decisions, the Commission has considered the market to be at least EEA-wide, if not worldwide, but ultimately left the geographic market definition open.[26]

4.1.2.2. The Notifying Party's views

(23) The Notifying Party submits that the relevant markets are at least EEA-wide, if not worldwide, since (i) there are no material price differences across the EEA, (ii) the

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23 According to the Notifying Party, games may be categorised by genre into strategy, simulation (such as sports, driving, construction, life, and social simulation), action (including fighting and shooter), adventure, role-playing, music and dance. However, genre-based categorisation is bound to be imprecise, due to the blurred nature of genre categories and the subjectivity involved (the Parties and industry experts do not always agree on genre categorisations). For completeness, the Parties do not consider that there are specific "children/kids" genres. See footnote 11.

24 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 11.

25 According to the Notifying Party, games may be categorised by type into AAA, casual, stand-alone and browser games, free-to-play and freemium games, as well as social network games. AAA games are developed by large development studios requiring significant budgets over extended periods. Casual games target a mass audience, are relatively simple, and less costly to develop. Stand-alone games are installed as separate applications on gaming device, and may be played without connecting to the internet. Browser games run directly in the web browser, using standard technologies for interactive multimedia. Free-to-play games are free for the player to acquire, and generally advertising-funded. Freemium games offer basic game-play that is free, but certain aspects of play may require purchases. Social network games use capabilities of social network services, are generally casual games and may be played individually or as multi-player.

26 Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 29 and Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraphs 31-32. In its decisions in the antitrust cases *AT.40413 - Focus Home, AT.40414 - Koch Media, AT.40420 – ZeniMax, AT.40422 – Bandai Namco and AT.40424 – Capcom* (decisions of 20 January 2021, paragraphs 7-76 and 77; published public version of the decision is not yet available) […].

same publishers compete across the EEA, and (iii) digital distribution channels are available across all EEA jurisdictions.[27]

(24) The Notifying Party argues that the exact scope of the relevant geographic markets can be left open, given that the Transaction would not raise concerns as to its compatibility with the internal market under any of the plausible market definitions assessed for the purpose of this decision.[28]

4.1.2.3. The Commission's assessment

(25) The market investigation has confirmed that the geographic scope of any of the plausible product market definitions considered in section 4.1.1.3 is at least EEA-wide, possibly worldwide.

(26) A majority of distributors consider that the overall market for video games publishing should be worldwide in scope because, in particular, there are no significant price differences, and many publishers typically produce one version of a video game for distribution worldwide. This is confirmed by a majority of publishers who indicated that they develop video games for distribution in all geographies, which are then (possibly) localised for specific regions.[29] However, only a minority of game publishers responded that the relevant geographic market should be worldwide. These diverging views between publishers and distributors also remain if the replies are broken down by platform (mobile games, PC games, and console games).[30]

(27) On this basis, the Commission considers that, for the purpose of this decision, it is appropriate to consider both an EEA-wide relevant geographic scope and a worldwide relevant geographic scope for any of the plausible product market definitions considered in section 4.1.1.3.

(28) In any event, the exact delineation of the relevant geographic market can be left open for the purpose of this decision, as the Transaction would not raise serious doubts as to its compatibility with the internal market or the functioning of the EEA Agreement under any of the plausible geographic market definitions considered.

4.2. Game distribution

(29) Game distribution refers to the distribution of games to the public in either physical or digital form. In the case of physical distribution, games are distributed on physical media like cartridges and compact discs, and sold online (*e.g.*, via the Microsoft Store, Apple App Store, and Google Play Store) or in brick-and-mortar stores. In the case of digital distribution, games are distributed through online download and/or streaming, *e.g.*, as concerns Microsoft, accessed via the Microsoft Store (on Windows PCs), Xbox Store (now known as the Microsoft Store, on the Xbox Console), Xbox Game Pass (Ultimate), and Xbox Live.

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27 Form CO, paragraph 199.

28 Form CO, paragraph 200.

29 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 14-14.1.

30 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 13.

4.2.1. Relevant product market

4.2.1.1. The Commission's previous practice

(30) In its decision in the case *Vivendi/Activision*, the Commission considered a possible relevant product market for physical wholesale game distribution.[31]

4.2.1.2. The Notifying Party's views

(31) The Notifying Party considers that the Commission's decisional practice in relation to video games distribution does not provide clear indications as to the definition of the relevant market. Instead, it relies on the decisional practice in the area of physical and digital distribution of recorded music. The Notifying Party considers that these decisions are instructive for the distribution of video games, because, in their view, game distribution is undergoing the early stages of a transformation similar to that seen in the music and video industries, *i.e.*, a shift from physical sales towards digital distribution, and within digital, from download to streaming.[32] On this basis, the Notifying Party submits the following arguments.

(32) The Notifying Party refers to *Universal Music Group/EMI Music*, *Sony/BMG and Access/PLG*, explaining that, like for music, physical and digital games distribution could fall into distinct relevant product markets, given the differences in pricing and characteristics.[33] The Notifying Party also notes that in *Vivendi/Activision*, the Commission pointed to the different pricing mechanisms for online games (monthly subscription fees) as opposed to offline games (buy-to-play).[34]

(33) The Notifying Party further submits that, in contrast to the physical distribution of games, digital distribution provides players with immediate access to games, which cannot be lost or destroyed.[35] In terms of characteristics, the Notifying Party also points to the accessibility and storage of physical buy-to-play games (similar to books) as opposed to digital games.[36] Lastly, the Notifying Party points to the difference in the supply chain of physical and digital distribution, highlighting that a shorter supply chain for digital distribution, makes the cost of digital distribution lower.[37] The Notifying Party concludes that, given the differences in pricing and characteristics, physical and digital distribution fall into two distinct product markets.[38]

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31 Commission decision of 16 April 2008 in case M.5008 - Vivendi/Activision, paragraphs 39-40. The Commission has also considered the aspect of PC video game distribution in its decisions concerning antitrust cases *AT.40413 - Focus Home, AT.40414 - Koch Media, AT.40420 – ZeniMax, AT.40422 – Bandai Namco, and AT.40424 – Capcom* (decisions of 20 January 2021, paragraphs 67-71; a published public version of the decision is not yet available). […].

32 Form CO, paragraph 232.

33 Form CO, paragraph 234. Commission decision of 3 October 2007 in case M.3333 - *Sony/BMG*, recital 27, Commission decision of 21 September 2012 in case M.6458 - *Universal Music Group/EMI Music*, recital 128 and Commission decision of 14 May 2013 in case M.6884 - *Access/PLG*, paragraph 13.

34 Form CO, paragraph 243. Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 12.

35 Form CO, paragraph 258.

36 Form CO, paragraph 260.

37 Form CO, paragraph 261.

38 Form CO, paragraph 257.

(34) Regarding digital distribution, the Notifying Party submits that digital storefronts and app stores through which PC and console video games are distributed, all fall into the same relevant product market.[39] As native mobile games are distributed through mobile application stores, the Notifying Party submits that mobile app stores fall into a distinct relevant product market.[40] Lastly, the Notifying Party submits that a segmentation of digital distribution with reference to the payment model (purchase or subscription), or between download and streaming of games is not warranted. [41]

(35) Overall, the Notifying Party submits that the distribution of games in physical and digital form could likely fall into two separate product markets, with no further segmentation.[42]

(36) The Notifying Party argues that, in any case, the exact scope of the relevant product market can be left open, given that the Transaction would not raise concerns as to its compatibility with the internal market under any of the plausible market definitions assessed for the purpose of this decision.[43]

4.2.1.3. The Commission's assessment

(37) The market investigation has provided inconclusive results with respect to a possible segmentation of video game distribution by physical and digital distribution.[44] While a majority of publishers indicate that a game developer can easily switch between developing video games for physical and digital distribution channels, this is not supported by the distributors' replies to the market investigation.[45]

(38) On this basis, the Commission considers that, for the purpose of this decision, it will conduct its competitive assessment on both (i) a potential single distribution market, and (ii) two hypothetically separate markets for physical distribution (online and "brick-and-mortar" retailers) and digital distribution (online download/streaming via digital storefronts, app stores and subscription services).

(39) As regards a possible segmentation of digital distribution by platforms for which games are developed (PC, console, and mobile devices), the market investigation has also provided inconclusive results, as there is no majority amongst neither publishers nor distributors supporting or rejecting such a segmentation.[46]

(40) On this basis, for the purpose of this decision, the exact definition of the relevant product market will be left open. The effects of the Transaction will therefore be assessed under the assumption that the platforms for which games are developed may constitute potential distinct markets, as well as under the assumption of the existence of an overall distribution market.

39 Form CO, paragraph 264.
40 Form CO, paragraph 266.
41 Form CO, paragraphs 273 and 284.
42 Form CO, paragraph 257.
43 Form CO, paragraph 287.
44 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 15.
45 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 16.
46 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 17.

(41) As regards a possible segmentation of a hypothetical digital distribution market based on the payment model (upfront payment *vs.* subscription), the results of the market investigation indicate that such a segmentation is not warranted, in particular because digital payment models to a large extent are interchangeable.[47] Similarly, the results of the market investigation do not support segmenting the hypothetical digital distribution market by types of players' access (download *vs.* streaming). A large majority of respondents in the market investigation indicated that such a segmentation is not appropriate in particular because different access does not influence the players' purchasing behaviour and choices.[48] On this basis, for the purpose of this decision, the Commission will not distinguish different segments in the digital distribution market, based on the payment model and on the types of access.

(42) In any event, the exact delineation of the relevant product market can be left open for the purpose of this decision, as the Transaction would not raise serious doubts as to its compatibility with the internal market or the functioning of the EEA Agreement under any of the plausible product market definitions considered.

4.2.2. Relevant geographic market

4.2.2.1. The Commission's previous practice

(43) As regards the potential market for physical game distribution, in *Vivendi/Activision*, the Commission stated that, considering the results of the market investigation in that case, "*the markets for wholesale game distribution and logistic services tend to be national in scope*".[49]

(44) In the market investigation in *Activision Blizzard/King* (which did not focus on the distribution markets), a respondent indicated that gaming became a worldwide industry with the advent of digital content distribution.[50]

4.2.2.2. The Notifying Party's views

(45) In relation to the market for physical game distribution, the Notifying Party submits that, similarly to the Commission's findings in the music industry in *Apple/Shazam*,[51] the market should be at least national.[52]

(46) In relation to the market for digital game distribution, the Notifying Party considers that the market is at least EEA-wide, if not worldwide in scope. It argues that there are no material price differences within the EEA, that the same game publishers

47 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 18-18.1.

48 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 19-19.1.

49 Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 42.

50 Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 30. In its decisions concerning antitrust cases *AT.40413 - Focus Home, AT.40414 - Koch Media, AT.40420 – ZeniMax, AT.40422 – Bandai Namco, and AT.40424 – Capcom* (decisions of 20 January 2021, paragraphs 72-79; a public version of the decision is not yet available) […].

51 Commission decision of 6 September 2018 in case M.8788 - *Apple/Shazam*, paragraph 19.

52 Form CO, paragraph 285.

compete across the EEA, and that the same digital distribution channels are available anywhere in the world without cross-border restrictions.[53]

(47) In any event, the Notifying Party considers that the exact scope of the geographic market can be left open given that the Transaction would not raise competition concerns under any of the alternative market definitions.[54]

4.2.2.3. The Commission's assessment

(48) The market investigation confirmed that the geographic scope of physical and digital game distribution is at least EEA-wide.

(49) Both (i) game publishers and (ii) distributors that participated in the market investigation indicated that the relevant geographic market, including both physical and digital distribution, should be at least EEA-wide in scope. Only a small number of respondents indicated that the relevant geographic market should be national. Distributors even supported defining a possible worldwide market, in particular concerning digital distribution.[55]

(50) On this basis, the Commission considers that for the purpose of this decision, it is appropriate to consider both an EEA-wide and a worldwide relevant geographic for the overall market for video games distribution, as well as any possible market definitions as outlined in section 4.2.1.3.

(51) In any event, the exact delineation of the relevant geographic market can be left open for the purpose of this decision, as the Transaction would not raise serious doubts as to its compatibility with the internal market or the functioning of the EEA Agreement under any of the plausible geographic market definitions considered.

5. COMPETITIVE ASSESSMENT

5.1. Analytical framework

(52) Article 2 of the Merger Regulation requires the Commission to examine whether notified concentrations are compatible with the internal market, by assessing whether they would significantly impede effective competition in the internal market or in a substantial part of it, in particular through the creation or strengthening of a dominant position**.**[56]

(53) Vertical relationships involve companies operating at different levels of the supply chain. There are two main ways in which vertical mergers may significantly impede effective competition: input foreclosure and customer foreclosure.[57]

53 Form CO, paragraph 286.

54 Form CO, paragraph 287.

55 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 21.

56 With regard to the application of the Merger Regulation in the EEA, see Annex XIV to the EEA Agreement.

57 Guidelines on the assessment of non-horizontal mergers under the Council Regulation on the control of concentrations between undertakings ("Non-Horizontal Merger Guidelines"), OJ C 265, 18.10.2008.

(54) Input foreclosure may raise competition problems only if it concerns an important input for the downstream market, and if the combined entity has a significant degree of market power upstream.[58] In assessing the likelihood of an anticompetitive input foreclosure strategy, the Commission examines: (i) whether the combined entity would have the ability to substantially foreclose access to inputs; (ii) whether it would have the incentive to do so; and (iii) whether a foreclosure strategy would have a significant detrimental effect on competition downstream.

(55) For a transaction to raise customer foreclosure competition concerns, the combined entity must be an important customer with a significant degree of market power in the downstream market.[59] In assessing the likelihood of an anticompetitive customer foreclosure strategy, the Commission examines: (i) whether the combined entity would have the ability to foreclose access to downstream markets by reducing its purchases from upstream rivals; (ii) whether it would have the incentive to do so; and (iii) whether a foreclosure strategy would have a significant detrimental effect on consumers in the downstream market.

5.2. Identification of affected markets

(56) Microsoft and ZeniMax are active in the market(s) for game software publishing for PCs, consoles and mobile devices, across video game genres and types. Further, Microsoft is also active in the market(s) for physical and digital video game distribution for PCs and consoles.[60] As set out in paragraph (8) above, and taking into account all plausible product market definitions in sections 4.1.1.3 and 4.2.1.3, the Transaction gives rise to one affected market, namely the operation of digital storefronts selling console games in digital form, where Microsoft is active (see paragraph (59) below).

(57) First, the Transaction does not give rise to any affected conglomerate relationships, given the Parties' generally limited market shares. Furthermore, ZeniMax is not active in a market "closely related" to the operation of digital storefronts selling console games in digital form, where Microsoft holds a market share in excess of 30%.

(58) Second, the Transaction involves no horizontally affected markets. While both Microsoft and ZeniMax are active as game publishers and licensors of rights for game-related merchandising, the Parties' combined shares in all markets where both Parties are active are limited, and in any event below 20% under any product and geographic delineation considered.

(59) Third, the Transaction gives rise to a vertical relationship, which involves an affected market at the downstream level. The identified vertical relationship consists of: (i) upstream: the publishing of console games in digital form[61] in the EEA (Microsoft: [0-5]%, ZeniMax: [0-5]%, in 2019); and (ii) downstream: the operation of digital storefronts selling console games in digital form in the EEA (Microsoft:

58 Non-Horizontal Merger Guidelines, paragraphs 34-35.

59 Non-Horizontal Merger Guidelines, paragraph 58.

60 For ZeniMax's distribution activities, see footnote 6 above.

61 Although we consider that there may be a wider video game publishing market regardless of whether these games are in digital or physical form (see paragraph (21) above), the present competitive assessment will focus on digital games given that physical games are irrelevant for the identified vertical relationship.

[30-40]%, in 2019).[62] There are no vertically affected markets under any other possible market definition.

(60) The Commission notes that console storefronts (digital storefronts and subscription services) are exclusively available to users of the hardware through which they are accessible. Therefore, the assessment will focus on whether the combined entity would have the ability or incentive to foreclose rival consoles.

5.2.1. *Market shares*

(61) The table below presents the Parties' market shares in game software publishing for console games and the distribution of console games in digital form via digital storefronts EEA-wide.

Table 1: Game software publishing, and digital distribution of console games via digital storefronts (EEA)

Game software publishing, and distribution of games in digital form via digital storefronts					
Vertical relationship			**EEA market shares**		
			2017	**2018**	**2019**
Console games	Upstream	Publishing of console games in digital form	Combined: [5-10]% (Microsoft: [0-5]%, ZeniMax: [0-5]%)	Combined: [0-5]% (Microsoft: [0-5]%, ZeniMax: [0-5]%)	Combined: [0-5]% (Microsoft: [0-5]%, ZeniMax: [0-5]%)
	Downstream	Operating digital console storefronts selling console games in digital form	Microsoft: [30-40]%	Microsoft: [30-40]%	Microsoft: [30-40]%

Source: Parties' internal estimates. Microsoft shares are based on Microsoft sales data.

5.2.2. *Foreclosure of rival publishers of console video games by foreclosing access to the Microsoft console-specific digital storefronts (customer foreclosure)*

(62) The combined entity's EEA-wide market share in the downstream market for the digital distribution of PC, console and mobile games (including digital storefronts, subscription services, and app stores) is significantly below 30% ([5-10]%, in 2019).[63] The combined entity's global market share in an overall distribution market for PC, console and mobile games is even lower, at [0-5]% (2019).[64] However, the combined entity holds [30-40]% (2019) of the potential market for the digital distribution of console video games via digital storefronts in the EEA.

(63) The Commission has therefore assessed the risk of (i) total foreclosure of rival publishers of console video games through Microsoft's refusal to carry competing

62 Form CO, paragraph 289 and for further detail Annex 10 of the Form CO. Microsoft sales data reports the gross revenue generated by Microsoft's game publishing business and digital storefronts by country, platform and sales channel.

63 Form CO, Annex 12.

64 Parties' reply to RFI of 8.2.2021, Table 6.

digital console video games on its downstream console platform, *i.e.*, the Microsoft and Xbox Store; and (ii) partial foreclosure of rival publishers of console video games through for instance, an increase in distribution fees or a degradation of the terms and conditions under which Microsoft is willing to sell these rival games on its console platform.

5.2.2.1. Ability to engage in customer foreclosure

(A) The Notifying Parties' views

(64) The Notifying Party submits that post-Transaction, Microsoft will not have the ability to prevent rival game publishers from selling through the Microsoft console-specific digital storefronts.

(65) First, the combined entity's share of game publishing (however defined) will be very small. At the same time, most prominent new releases of video games are third-party games, and a console needs to offer such games in order to attract gamers. Therefore, Microsoft will need to continue to rely on third-party games to provide the vast majority of its Xbox content.[65]

(66) Second, the Notifying Party argues that third-party publishers have [console platform's negotiation with publishers] leverage during negotiations with console platforms. Rival consoles compete intensely to bring newly released games to their consoles first, as doing so makes their console more attractive to players. In addition, the emergence of new gaming platforms from large firms such as Google, Amazon, and Facebook are only increasing the publishers' negotiating power, as they can look to many other platform providers for more attractive terms.

(67) In particular, the Notifying Party considers that, [forecast of Xbox's performance]. If Microsoft were to try and restrict access or worsen terms with third-party publishers, these publishers could fully or partially switch to rival consoles, rendering the strategy self-defeating.[66]

(68) Therefore, the combined entity would not have the ability to foreclose rival game publishers from selling through the Microsoft console-specific storefronts.

(B) The Commission's assessment

(69) While Microsoft could technically implement a customer foreclosure strategy, the Commission considers that the combined entity will not have the ability to engage in a successful customer foreclosure strategy since there appear to be sufficient economic alternatives in the downstream market for upstream rivals to sell their output.

(70) Market shares indicate that Microsoft, through the Xbox console platform, is an important distributor of console video games in the EEA with [30-40]% (for 2019, see **Table 1** above) of the digital console video game distribution market (digital storefronts only). Microsoft's main competitors in the digital distribution of console video games in the EEA (limited to digital storefronts) are Sony ([50-60]%, in 2019)

65 Form CO, paragraph 440.

66 Form CO, paragraph 440.

via the PlayStation console platform and Nintendo ([5-10]%, in 2019) via the Switch console platform.[67] However, despite the importance of Microsoft as a distributor of console video games, the Commission concludes that Microsoft would not have the ability to foreclose rival publishers by ceasing to distribute third-party content and exclusively relying on the content of ZeniMax post-transaction or deteriorating the conditions under which Microsoft would distribute third-party console titles.

(71) First, as also addressed in paragraph (93) below, ZeniMax has a very limited market position in the EEA (2019) with regards to the publishing of digital console video games ([0-5]% market share) and the Parties together do not have more than [0-5]% (see **Table 1**). It will therefore not be possible for Microsoft to exclusively rely on the combination of ZeniMax's console video game content and its own content for distribution in the EEA.

(72) This was confirmed by several video game publishers and distributors who emphasized the size of the video game publishing market and the strength of Microsoft and ZeniMax's rival game publishers' intellectual property, which represents attractive content for game distributors.[68]

(73) Second, the results of the market investigation indicate that the majority of video game publishers considered that there are other (strong) players to which they could license their content as an alternative to the Parties in the event that Microsoft would cease acquiring their video game content or otherwise degrade the terms on which it acquires their content. Further, publishers confirmed that it is normal business practice to develop games across all possible distribution channels and platforms.[69] No respondents considered that there are no alternative licensors for their content.[70] [Microsoft's negotiation strategy with publishers].[71] [72]

(74) Furthermore, the majority of publishers confirmed that the Transaction would not affect their bargaining power in negotiations with Microsoft to sell console games via the Microsoft console platform.[73] Only two third-party publishers considered that Microsoft's bargaining power would increase post-Transaction, however one of these respondents clarified that "*the sole acquisition of ZeniMax would be insufficient to tip Microsoft's bargaining power to levels raising concern.*"

(75) Third, as set out in paragraph (119), a material proportion of console video game players multi-home and own multiple consoles or play games on both PC and

67 Form CO, Table 32.

68 For example, see also Commission decision of 12 February 2016 in case M.7866 - *Activision Blizzard/King*, paragraph 53 in which respondents point to "*a very large number of publishers capable of developing and marketing games whose success will depend on the quality of their games*".

69 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 30.

70 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 29.

71 Form CO, paragraphs 484-485: for a game developer/publisher to distribute a game on any console, they must negotiate the distribution terms with the relevant console platform. The console platform pays a revenue share to the third-party developer/publishers.

72 Form CO, paragraph 486 and Memorandum of 3.2.2021.

73 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 32.

console[74] which further underlines the fact that console video game publishers have multiple distribution options.

(76) Overall, video game publishers that responded to the market investigation have not raised concerns regarding Microsoft ceasing to acquire content from them or otherwise degrading the terms on which it does so. Third parties did not consider that ZeniMax video games were significant enough for a (partial) customer foreclosure strategy to be profitable.[75]

(77) Therefore, for the reasons set out above, the Commission concludes that the combined entity would not have the ability to foreclose rival console video game publishers by engaging in a total or partial customer foreclosure strategy.

5.2.2.2. Incentive to engage in customer foreclosure

(A) The Notifying Parties' views

(78) The Notifying Party submits that post-Transaction, Microsoft will not have the incentive to prevent rival game publishers from selling through the Microsoft console-specific digital storefronts.

(79) The Notifying Party argues that it would be self-defeating for any console manufacturer to limit or restrict rival game publishers from selling through Microsoft console-specific digital storefronts. It explains that having a broad range of attractive games is the single most important factor for driving the success of a console, such that any policy undermining the availability of third-party games would be commercially irrational.[76]

(80) According to the Notifying Party, the imperative to attract third-party content is underlined by the outcome of the last two console generations. [Microsoft's performance]. Industry experts have also confirmed the correlation between a console's performance and the amount of attractive gaming content it can offer compared to its rivals.[77] Therefore, any strategy restricting third-party publishers' access to the Xbox would only push publishers to spend less time developing games for the Xbox, and more time developing exclusive content for other devices. This in turn would reduce Xbox's appeal to players and publishers. Therefore, Microsoft is highly incentivised to continue to rely on third-party games to provide content.[78]

(81) Therefore, the combined entity would not have the incentive to foreclose rival game publishers from selling through the Microsoft console-specific storefronts.

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74 Form CO, paragraph 500, Figure 11 and Q1 – Questionnaire to market participants in the video gaming industry, replies to question 26.

75 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 38.

76 Form CO, paragraph 440.

77 Segmentnext.com, *PS4 has officially won this console generation*, 26.4.2019.

78 Form CO, paragraph 440.

(B) The Commission's assessment

(82) The Commission considers that Microsoft would not have the incentive to foreclose access to downstream markets by reducing purchases or purchasing at inferior conditions from upstream competing rivals for the following reasons.

(83) As the Notifying Party argues, rich and differentiated content is key to a console's ability to attract, engage and retain players.[79]

(84) Several internal documents and industry reports confirm this premise. A recent IDG Consulting annual whitepaper (2020) thus notes that "*[c]ontent in gaming remains the paramount success factor. Without great differentiated content, a game platform cannot survive.*"[80] The paper further points out that the most popular game titles (such as "GTA V", "Assasin's Creed", "Zelda", "Final Fantasy", "Pokemon", "FIFA", etc.) also attract a certain amount of brand loyalty, *i.e.*, "*these brands exert a significant amount of influence over consumer behaviour and loyalty over time*".[81] These top console and PC franchises do not include ZeniMax titles (see also paragraph (104) below). A Microsoft presentation to the Board (2020) further states that, [Xbox's business strategy].[82]

(85) The majority of respondents to the market investigation confirmed that Microsoft would not have the incentive to prevent rival publishers from selling through the Microsoft console platform.[83] None of the respondents considered that Microsoft would have the incentive to engage in a partial or total customer foreclosure strategy as "[t]*here is no interest for Microsoft to restrict access to its platform for third party publishers. Quite the opposite actually*".[84]

(86) Instead, a large majority of respondents, including rival console platforms Sony and Nintendo, confirmed that holding a broad range of (differentiated) content constitutes one of the drivers of success of a digital distribution channel.[85] For instance, a video game distributor explained that "[…] *the content is very important for the consumer to decide for a platform or console. The platform with the most and best games (for a reasonable price) will be the market leader*".[86]

(87) Accordingly, as noted above, the Commission considers that the combined entity will continue to have an incentive to carry a broad range of the most attractive content on its platform.

(88) Therefore, for the reasons set out above, the Commission concludes that the combined entity would not have the incentive to foreclose rival console video game publishers by engaging in a total or partial customer foreclosure strategy.

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79 Commission decision of 16 April 2008 in case M.5008 - *Vivendi/Activision*, paragraph 67.

80 Form CO, Annex 9, IDG Consulting, State of the games industry 2020 Annual White Paper, 13.4. 2020, slide 28.

81 Form CO, Annex 9, IDG Consulting, State of the games industry 2020 Annual White Paper, 13.4. 2020, slide 28.

82 Form CO, Annex 3, Microsoft Presentation to the Board of Microsoft, August 2020, slide 2.

83 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 28.

84 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 28.

85 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 24.

86 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 24.

(C) Impact on effective competition

(89) Given the existence of multiple alternatives to Microsoft, to which video game publishers can supply their content, rival console video game publishers would not likely be deprived of an essential customer, and could still rely on multiple alternative distribution channels.

(90) This conclusion is consistent with the results of the market investigation. The large majority of participants considered that the Transaction's impact on the publishing market would be neutral. One respondent clarified that "*[t]here is a high level of competition in the market for game development and publishing with numerous competitors active on the market. […] [L]arge publishers typically take a broad approach whilst others may be more specialised in the types of games they publish, and many publishers are active across different devices, publishing games, which are interchangeable from the consumer perspective. All games compete for available consumer funds and consumers can readily switch between mobile, PC and console games.*"[87]

(91) In light of the above, the Commission finds that a potential (partial or total) customer foreclosure strategy would not have a material effect on competition in the EEA.

5.2.2.3. Conclusion

(92) In light of the above, the Commission concludes that the Transaction does not raise serious doubts as to the compatibility with the internal market under any of the considered alternative product markets for game distribution, either at the EEA- or worldwide levels.

5.2.3. Foreclosure of rival console video game distributors by foreclosing access to ZeniMax digital console video games (input foreclosure)

(93) The combined entity's market share in the upstream market for the publishing of console games in digital form is very limited, amounting to [0-5]% in the EEA in 2019.[88] Worldwide, the combined entity's market share in the overall console game publishing market in the same year is [0-5]%.[89] Downstream, the combined entity has a market share of [30-40]% (2019) in the market segment of digital distribution of console video games via digital storefronts in the EEA.

(94) Despite the combined entity's limited market shares upstream, the Commission notes that ZeniMax, as specified below, publishes some game franchises that are popular among players. The Commission further notes that content plays a prominent role in the video gaming industry. The Commission has therefore assessed the risk of: (i) total foreclosure of rival console video game distributors by foreclosing access to some or all of ZeniMax digital console video games; and (ii) partial foreclosure of rival console video game distributors through a degradation of the terms and conditions under which ZeniMax digital console video games are made available for rival consoles.

87 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 38.

88 See **Table 1** above.

89 Form CO, Table 13.

5.2.3.1. Ability to engage in input foreclosure

(A) The Notifying Parties' views

(95) The Notifying Party submits that it is implausible that ZeniMax's content would enable Microsoft to foreclose rival console storefronts or other rival console distribution channels, as ZeniMax's content and market share are not significant enough.[90]

(96) First, the Notifying Party considers that both ZeniMax and Microsoft have a very modest combined market share in the publishing market in the EEA, indicating that the Parties lack the upstream market power to implement a foreclosure strategy.[91] In particular, ZeniMax's market share in the EEA was less than [0-5]% in 2019. The Notifying Party considers that, even if they were to engage in an exclusivity strategy concerning ZeniMax games *vis-à-vis* other consoles, this would not raise any competition concerns, as ZeniMax's content is not sufficiently strong to tip downstream markets in favour of Microsoft.

(97) Second, rival consoles (and console storefronts) such as Sony and Nintendo have access to a very large array of popular games.[92] Sony and Nintendo also have many blockbuster exclusive console games, some of which rank among the top-selling console games in Europe.[93] In this regard, the Notifying Party notes that no ZeniMax games feature among the bestselling console games in Europe in 2018.

(98) Third, the Notifying Party argues that Sony and Nintendo consoles (and their respective storefronts) are differentiated and have stronger market positions than Microsoft's Xbox, both at EEA and national levels. Moreover, Sony consoles in particular have accumulated significant brand loyalty.

(99) Fourth, the Notifying Party argues that Sony and Nintendo have surpassed Microsoft in the old console generation.[94] [Microsoft's performance].[95] The Notifying Party concludes that ZeniMax games, even if exclusively available for the Xbox, could not weaken rival consoles sufficiently to result in foreclosure.[96] Therefore, in the Notifying Party's view, Microsoft would not have the ability to successfully engage in an input foreclosure strategy.

(B) The Commission's assessment

(100) While Microsoft could have the technical ability to implement an exclusivity strategy with regard to ZeniMax games *vis-à-vis* rival consoles, the Commission

90 Form CO, paragraphs 445–455.

91 Form CO, paragraph 452.

92 Form CO, paragraph 381.

93 Form CO, paragraphs 446 – 447. Key Sony exclusives include blockbuster titles such as "God of War, "Spider Man", "The Last of Us" and "Uncharted". Key Nintendo exclusives on the other hand include several major game franchises, such as the "Super Mario", "Zelda" and "Pokèmon" franchises.

94 Form CO, Tables 18 and 20. In 2019, Microsoft's market share by revenues in the sale of console hardware was [10-20]% and [10-20]% globally and in the EU respectively. In the same year, global market shares of Nintendo and Sony were [30-40]% and [50-60]% respectively, while their EU market shares were [30-40]% and [50-60]% respectively.

95 [Xbox's performance].

96 Form CO, paragraph 449.

considers that the combined entity will not have the ability to engage in a successful input foreclosure strategy. In this regard, as mentioned above, the Commission has carried out such analysis under both scenarios of total and partial foreclosure.

(101) Console-specific storefronts are available exclusively to users of the respective console, because the console manufacturer runs the storefronts through which players can purchase the related console games. This dynamic was confirmed by a publisher, which indicated that once video game players buy a certain console, they essentially become locked-in to that console's ecosystem. Exclusive video games could therefore encourage the purchase of the relevant consoles.

(102) ZeniMax publishes popular game franchises (such as "The Elder Scrolls" and "Fallout"), which enjoy recognition by players. However, despite the commercial success of these titles, Microsoft would not have the ability to foreclose rival console distributors by refusing to make ZeniMax games available on rival consoles or degrading the terms under which these games are made available.

(103) First, market shares indicate that ZeniMax's content represents a very limited position in the upstream market in the EEA, with a lower than [0-5]% share of the digital video games publishing market (2019). Furthermore, the Parties combined represent a market share of [0-5]% (2019) in the EEA (see **Table 1**). The Commission therefore considers that the combined entity cannot be considered to hold a significant degree of market power in the video games publishing market.

(104) Second, almost all respondents to the market investigation confirmed that, despite the commercial success of a number of ZeniMax games,[97] the upstream publishing market is highly competitive.[98] The Parties face strong competition from many rival third-party publishers owning well-known game franchises, which represent attractive content for game distributors. These competitors include large developers such as Electronic Arts ("Fifa", "Need for Speed"), Nintendo ("Super Mario", "Zelda"), Activision Blizzard ("Call of Duty"), Take Two ("GTA V") and Ubisoft ("Assasin's Creed"). For instance, 2018 data shows that no ZeniMax games feature among the 15 bestselling console games in Europe.[99]

(105) Third, exclusivity strategies are not uncommon and have already been adopted by rival consoles, with video games that performed better than ZeniMax titles.[100] Such exclusive games have contributed to drive the success of Nintendo and Sony consoles,[101] which have a stronger market position compared to Microsoft's Xbox.[102] In this regard, almost all respondents to the market investigation consider that Microsoft currently holds the least attractive exclusive content compared to Sony

97 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 33.

98 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 22.

99 Form CO, Figure 8.

100 Form CO, Figure 8. PlayStation exclusives "God of War" and "Spider Man" ranked as the 6th and 3rd highest selling games in 2018 respectively. See also paragraph (97) and footnote 93 and above.

101 Form CO, paragraph 440 and Parties' reply to the RFI 2 of 14.1.2021, question 8. See also *PS4 has officially won this console generation*, 26.4.2019 (link available here); techradar.com: *Nintendo's Switch success shows that gaming is about more than graphics*, 5.3.2018 (link available here); and mynintendonews.com: "15 Nintendo Switch exclusives in the Top 40 this weeks" 11.1.2021 (link available here).

102 See footnote 94 above.

and Nintendo consoles.[103] Exclusive games might influence the choice of a console especially at the stage of the initial console purchase. However, once the choice has been made, players tend to remain loyal to their console, as also indicated in paragraph (120) below. In this regard, a slight majority of respondents to the market investigation pointed to the presence of some degree of player loyalty to the console brand.[104] Publishers generally indicated that players tend to remain loyal to a brand once they choose it. Only a few respondents indicated that players are neutral or not loyal. Therefore, it is unlikely that a significant number of current PlayStation and Nintendo console users would switch to the Xbox console as a result of an exclusivity strategy in relation to ZeniMax's games. The Commission considers that these reasons further limit the combined entity's ability to weaken the position of rival console distributors.

(106) Therefore, for the reasons set out above, the Commission concludes that the combined entity would not have the ability to foreclose rival console video game distributors by engaging in a total or partial input foreclosure strategy.

5.2.3.2. Incentive to engage in input foreclosure

(A) The Notifying Parties' view

(107) The Notifying Party submits that Microsoft has strong incentives to continue making ZeniMax games available for rival consoles (and their related storefronts).[105]

(108) The Notifying Party explains that the profitability of a strategy to make ZeniMax games exclusive to the Xbox console would depend on a trade-off between: (i) the value of attracting new players to the Xbox ecosystem; and (ii) the lost income from the sale of ZeniMax games for rival consoles (through the related storefronts). In this regard, the Notifying Party forecasts that a significant share of ZeniMax games sales will occur on rival consoles over the life cycle of the newly released console generation.[106] Based on such a trade-off, the Notifying Party submits that a hypothetical console exclusivity strategy would be profitable only if it led to an increase in the number of Xbox users [forecast million] over the next five years, corresponding to an increase in Xbox shipments [forecast percentage] above the forecast level.[107]

(109) In the Notifying Party's view, it is implausible that Microsoft would achieve such results. Firstly, the Notifying Party considers that such a strategy is likely to be successful if service differentiation is weak and the content at issue is extremely

103 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 36.

104 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 27.

105 Form CO, paragraphs 456–466.

106 In Annex 14 to the Form CO, the Parties provided two estimates, one based on previous sales and one based on data provided by IDG Consulting. According to such estimates, Microsoft's loss from not distributing ZeniMax games for rival consoles would range from [forecast million] over the period 2021 – 2028, corresponding to a percentage of ZeniMax sales on PlayStation and Nintendo Switch [forecast percentage].

107 Form CO, paragraph 463 and Annex 14. The Parties have calculated such switching rate by comparing the projected losses from lost sales of ZeniMax games for Sony and Nintendo's consoles with the projected gains from new players buying an Xbox to keep playing ZeniMax games.

valuable.[108] However, rival consoles are significantly differentiated, and have accumulated brand loyalty.

(110) Secondly, a high switching rate by players is implausible due to the considerable switching costs between consoles, and the relative value of ZeniMax games compared to the gaming landscape.[109]

(111) Thirdly, the Notifying Party considers that the players' switching rates indicated above are conservative, as they would have to increase further if more realistic switching patterns were taken into account. In particular, the Notifying Party submits that multi-homing across consoles may further reduce the incentives for a foreclosure strategy.[110] Players loyal to Nintendo or Sony consoles with a strong desire to play ZeniMax games can respond to a console exclusivity strategy by buying an Xbox to play ZeniMax games, while keeping most of their gaming activity and expenditure on their preferred console.[111]

(112) In this regard, the Notifying Party submits that cross-platform console ownership reduces the value of an incremental switcher, because players who buy an Xbox as a second console would not bring their entire game purchasing activity to the Xbox. [details about the profit, value and ownership of the Xbox and the profit made from the sale of ZeniMax games].[112] [113]

(113) [Microsoft's strategy regarding ZeniMax games].[114]

(114) Therefore, according to the Notifying Party, Microsoft would not have the incentive to cease or limit making ZeniMax games available for purchase on rival consoles.

(B) The Commission's assessment

(115) The combined entity's incentive to foreclose rival console game distributors depends on the balance between: (i) the losses from not distributing ZeniMax games broadly on other consoles; and (ii) the higher profits obtained from the increased sales of Xbox consoles (and the related games and services) to new end-users interested in playing ZeniMax games. In light of this trade-off, the Commission concludes that the combined entity would not have the incentive to engage in an input foreclosure strategy by refusing to make ZeniMax games available on rival consoles or degrading the terms under which these games are made available.

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108 Weeds, Helen: "TV wars: Exclusive content and platform competition in pay TV", The Economic Journal 126.594 (2016).

109 Form CO, paragraph 463.

110 Form CO, paragraph 464 and Parties' reply to the RFI 2 of 14.1.2021, question 9.

111 Data provided by Microsoft shows that in the US in 2019, [30-40]% of PlayStation 4 owners and [40-50]% of Nintendo Switch owners also owned an Xbox One.

112 Parties' reply to the RFI 2 of 14.1.2021, question 9. In Annex 14 to the Form CO of 29.1.2021, the Parties have provided data showing that the average Consumer Lifetime Value (i.e., the average gross margin that each additional Xbox user is worth to Microsoft over a console's life cycle) amounts to [USD 50-100]. The value of an additional consumer is the highest when the latter purchases an Xbox console [details about consumer value]. Consequently, the value of an additional Xbox consumer [details about consumer value].

113 Form CO, paragraph 464 and Parties' reply to the RFI 2 of 14.1.2021, question 9.

114 Form CO, paragraph 465.

(116) The Commission notes that an input foreclosure strategy would only be economically viable if ZeniMax games were able to attract a sufficiently high number of new players to the Xbox console ecosystem, and if Microsoft could profit enough from their game purchasing activity.[115] However, such an outcome is unlikely.

(117) First, both the Notifying Party and the market investigation indicate that players may consider switching to another console especially at the launch of a new console generation, an event that occurs approximately every eight years (the current console generation was launched in 2020 and is projected to be discontinued in 2028).[116] This is because, in addition to the purchase of a console, players' subsequent purchasing activities will concern games and related services that are not portable to another console and are exclusively available within that console ecosystem. Therefore, due to these combined costs, players are likely to retain a console throughout its entire life cycle.

(118) In this regard, while a number of the respondents to the market investigation considered that players would switch to another console to enjoy exclusive content,[117] such a scenario does not appear probable in the case at hand. While exclusive games are relevant for stimulating demand, high switching rates are unlikely and depend on several additional factors. First, distributors specified that players' choices are influenced by consoles' design, services, functionalities and the console brand used by peers. Second, such switching would only occur if particular circumstances are met. For instance, a publisher specified that content must be "*extremely high quality […], otherwise players will tend to stick to the console they are used to*". Third, respondents explained that there exists large amounts of significantly differentiated content competing across platforms.

(119) Second, the Commission considers, in line with the Notifying Party's explanation, that rival console users could also purchase an Xbox as a second console, in addition to the one they already own, in order to play ZeniMax games. As regards console multi-homing, according to an NPD Group survey,[118] 30.6% of PlayStation 4 console owners also own a Microsoft Xbox 1 and 28.6% also own a Nintendo Switch. In this regard, several respondents to the market investigation confirmed that between 20% and 40% of console owners use more than one console brand.[119] As a result, any purchase activity for the Xbox console focused solely on ZeniMax games, as explained in paragraph (112) above, would not likely offset the losses incurred from the sale of the console to the new player.[120]

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115 See paragraph (108) above. The Parties provided the relevant calculations in Annex 14 to the Form CO.

116 Form CO, Figure 4. The life cycle of the last console generation lasted 8 years, whereas older console generations had a longer duration, exceeding ten years. As regards the current generation, Microsoft and Sony expect to discontinue the sale of the respective consoles during the course of 2028, as indicated in Annex 14 to the Form CO, footnote 15.

116 Form CO, Annex 3.

117 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 25.

118 Form CO, paragraph 500, data from NPD Group Presentation, *Annual Video Game Presentation*, 3 March 2020.

119 Q1 – Questionnaire to market participants in the video gaming industry, replies to question 26.

120 Form CO, paragraph 464 and Parties' reply to the RFI 2 of 14.1.2021, question 9.

(120) Third, more generally, the Commission also notes that Sony and Nintendo consoles are differentiated products, due to the availability of several exclusive games, some of which, as detailed above,[121] are highly attractive to players. Rival consoles have built a strong reputation and enjoy a degree of brand loyalty by players, as demonstrated by a Best SEO Companies' survey.[122] Therefore, on top of the considerations set out above, it is implausible that a sufficiently significant number of players would switch to the Xbox driven by the desire to play ZeniMax games, abandoning other ecosystems with a richer game library.[123]

(121) In addition, respondents to the market investigation confirmed the absence of an incentive for Microsoft to engage in input foreclosure. The majority of respondents indicated that Microsoft would not have the incentive to prevent rival console game distributors from selling ZeniMax games.[124]

(122) Furthermore, the Commission notes that the above considerations are consistent with the Notifying Party's declared strategy in relation to the Transaction. [Microsoft's future strategy regarding ZeniMax games].[125] [126] [127]

(123) [Microsoft's future strategy regarding ZeniMax games].[128]

(124) Therefore, for the reasons set out above, the Commission concludes that the combined entity would not have the incentive to foreclose rival console video game distributors by engaging in a total or partial input foreclosure strategy.

(C) Impact on effective competition

(125) Even if the combined entity was to engage in a (total or partial) input foreclosure strategy, the Commission considers that such a strategy would not have a material impact on competition in the EEA. Rival consoles would not be deprived of an essential input, and could still rely on a large array of valuable video game content to attract players.

(126) This conclusion is consistent with the results of the market investigation. The majority of distributors considered that the Transaction, in general, would have a neutral impact on their company, and no respondent believed that the impact would be negative.[129] The majority of distributors also indicated, more specifically, that the impact of a possible exclusivity strategy with regard to ZeniMax games would be neutral on the distribution market.[130]

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[121] See paragraphs (104) and (105) above.

[122] Form CO, paragraph 499, Figure 11. The Best SEO Companies' survey *Generational Brand Loyalty*, 13.11.2019, shows that approximately 40% of players are loyal users of Sony's consoles, while approximately 31% of players are loyal to Microsoft's consoles and 30% to Nintendo's consoles.

[123] gamespot.com, *PlayStation 4 command over exclusives leads to promising start for PlayStation 5*, 10.12.2020 (link available here). See also paragraph (80) above.

[124] Q1 – Questionnaire to market participants in the video gaming industry, replies to question 34.

[125] Form CO, paragraphs 7 – 17.

[126] Form CO, paragraphs 7–17 and 446.

[127] Parties' reply to the RFI 1 of 6.11.2020, question 1.

[128] Form CO, Annex 3.

[129] Q1 – Questionnaire to market participants in the video gaming industry, replies to question 37.

[130] Q1 – Questionnaire to market participants in the video gaming industry, replies to question 35.

(127) In light of the above, the Commission finds that a potential (partial or total) input foreclosure strategy would not have a material effect on competition in the EEA.

5.2.3.3. Conclusion

(128) In light of the above, the Commission concludes that the Transaction does not raise serious doubts as to the compatibility with the internal market with respect to possible input foreclosure practices under all the alternative product markets for game publishing, whether at EEA or at worldwide level.

6. CONCLUSION

(129) For the above reasons, the European Commission has decided not to oppose the notified concentration and to declare it compatible with the internal market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

For the Commission

(Signed)
Margrethe VESTAGER
Executive Vice-President

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Modern Toss on console wars

by Keza MacDonald |

PS vs XBox. Composite: Guardian

Sat 7 Nov 2020 05.00 EST

It is an exciting time in video game world: two new consoles, the Xbox Series X and PlayStation 5, are arriving this month. With a long, lonely Covid winter ahead, it is tempting to splash out. New machines bring with them the promise of new worlds, as leaps in technology unlock creative possibilities for game developers. Throughout the 1980s, 90s and 00s, there was a transformational shift every five or so years, blowing apart people's expectations of what you could do in a game, how big a virtual world could be and how you could explore it.

It is not quite like that any more. The pace of change has slowed and this time around the advances are less immediate and more subtle, more like tinkering under the | bonnet: better resolution, higher frame rates, shorter loading times, smoother online features. Look at a PS5 game next to one from its predecessor, the PS4, and - unless you have a giant expensive TV and sound system - you might not immediately see the | difference. It will take a few years for the creatives behind blockbuster games to unlock these machines' full capabilities. But whoever gains early ground in the console war gets a bigger say in the future of gaming.

bi of all whi e ... he new PlayS a ion 5. Pho og aph: DecaS ock/ lamy

The Xbox Series X (£449) resembles a futuristic computer: a s uat, blac obelis of technology. When you turn it on, though, it loo s just li e its predecessor, the Xbox One: same menus, same Windows-esque design. Even the controller is almost identical. It is when you start playing that you feel the difference: games are prettier and play more smoothly, and you only have to wait half as long for them to load. A smaller and less powerful version, the Xbox Series S (£249), has no disk drive and won't look quite as good on a 4K TV, but both consoles come with the option of Xbox Game Pass, a monthly subscription that lets you play hundreds of games from Microsoft's expanding library of partners.

The PlayStation 5 (also £449) is more of a design statement, a black-and-white, enormous spaceship of a thing. Its controller has futuristic features such as haptic feedback (super-precise rumble tech) and triggers that offer variable resistance depending on gameplay. Its revamped menus and home screen are slick and soothing. It has pretty much the same technical advantages as the Xbox but more personality. A £359 model comes without a disk drive, if you would rather download your games. It will work out as more pricey than the Xbox in the long run, though, as there is no Game Pass equivalent for new games: Sony's subscription service, PlayStation Now, only includes games from the PS4 and earlier.

These two impressive bits of kit are the latest in a long line of rival video game consoles. The competitors have changed over the years - from Nintendo and Sega to Sony and Microsoft - but the console wars have been a constant in video game history, driving innovation as well as *a lot* of spending from players. Things really got going in the early 90s, when Sega hired Mattel's former chief executive, Tom Kalinske, to take on Nintendo in North America, where Mario's makers had 90% of the market. Aggressive ad campaigns followed ("Sega does what Nintendon't!") and a conscious

effort to paint Sega as the cool older brother's choice of console saw its Genesis win over millions of players.

But gaming rivalries had divided playgrounds even before Sonic v Mario. In 80s Britain, kids were split between the plucky-underdog ZX Spectrum, with its rubber keyboard and one-channel sound, or the fancier and much more expensive Commodore 64. You can *still* see men in their late 40s sniping at each other in comments threads over the pair's relative merits. |

Pretty, reen Halo Infinite's Master Chief

In part, c ns le tribalism is a rm sunk c st allacy. Few pe ple can aff rd t wn two or more games machines, and if you have just spent a lot of money on something, you are going to convince yourself the one you've bought is the best option. But that is only part of the story. Like record labels or car manufacturers, games consoles have cultural associations. They create and curate their own different libraries of games, and for fans, the games they play correspond to the kind of person they perceive

themselves to be.

For a while, Xbox had a reputation as the jock's console, best for shooting and racing, while the PlayStation positioned itself as an extension of club culture, something for twentysomethings to play together after a night out. If you liked Japanese culture, you had to go for a Sega Dreamcast. If you loved Nintendo, it was because its games were approachable and colourful.

Ask people what drew them to their particular console subculture and you'll get answers that probe every corner of the psychology of fandom and brand loyalty. Sooz Kempner is a comedian who has performed several shows that revolve around her Sega childhood and her obsession with its "edgy" mascot, Sonic the Hedgehog. "I thought Sonic was incredibly cool, zany and anti-establishment, whereas I decided Mario was staid and tepid, like John Major," she says.

"Sonic and Sega gave me licence to sass people, [arguing that] Sega's consoles were sleek and black whereas Nintendo's were grey and blocky, Sega's game soundtracks were edgy and guitar-led whereas Nintendo's were plodding and childish. None of this was true, of course, but as a kid this was what I'd decided. I used to go around saying SNES controllers hurt my hands when I'd barely held one. I would draw cartoons of Mario getting his arse kicked by Sonic. Mean Machines, the very grown-up games magazine I sometimes bought, told me that Mortal Kombat on the Mega Drive had the gore effects but the SNES version did *not*. I crowed about this at school for a week." |

Dino aur for junior ... Super Mario World. P otograp : Alamy

Despite Nintendo and Sega's jostling, the next entrant in the console wars - Son 's PlayStation in 1994 - blew both out of the water. By the end of the decade, Nintendo's N64 was on the back foot while the Dreamcast flopped so badly that Sega stopped making consoles altogether. Since the debut of the original Xbox in 2001, it has been

Microsoft and Sony at the forefront of the console wars, releasing competing devices within months of each other: first with the Xbox 360 and PlayStation 3 in the 00s, then with the Xbox One and PlayStation 4 in 2013, and now with the Xbox Series X and PlayStation 5. Nintendo, meanwhile, decided that warring over the cutting edge of entertainment was for suckers, and instead put out a series of comparatively underpowered consoles, most recently the Nintendo Switch, that cheerfully sold hundreds of millions of units.

"You can distinguish each firm's strategy by looking at their DNA," explains Joost van Dreunen, a professor at NYU Stern School of Business and the author of One Up: | Creativity, Competition, and the Global Business of Video Games. "Nintendo is a toy company, Sony makes consumer electronics and Microsoft is a software firm. Nintendo has always excelled at accessible content. Sony has historically emphasised high-end spectacle that showcases the capabilities of its consoles, TV and audio systems. And | Microsoft has dedicated itself to making games available to the largest possible | audience on PCs, consoles and phones."

on ole your elf ... Sony' original PlayStation. Photograph: Finnbarr

Enormous sums of money await the victor in these battles. The best seller by far in the most recent console wars was the PS4: between 2013 and 2020, Sony sold 113m PlayStation 4s and more than 1bn games. Add in online gaming subscriptions and the amount of profit generated by that is ... well, let's just say that Sony's games division is | by far the most successful part of the entire company. The PlayStation's biggest rival can't match those numbers: estimates put the Xbox One's total sales at around 50m, and Microsoft stopped

Webster/Alamy

the Xbox One's total sales at around 50m, and Microsoft stopped reporting them years ago.

"Despite having been in the shadow of Sony, Microsoft's second place has still allowed it to be hugely successful," says Van Dreunen. "Bear in mind that Microsoft only relies on its gaming activity for about 10% of its overall revenue, compared to 27% for Sony. That makes Sony much more vulnerable to, and therefore motivated to invest in, its success in gaming."

The stakes are high: video games are expensive to make and expensive to buy, and as Sega proved with the Dreamcast, failure can nearly wipe out a company. And, like music and film before it, the industry is facing huge changes to the way it does business. We have already seen some games become so big that they transcend the | console wars entirely: think Fortnite or Minecraft, which people can play for years on | end on whichever PC, console or even phone they have to hand. Instead of buying new games, plenty of players are just buying endless new content for the same games they already enjoy. |

Apocalypse: wþw ... Ellie in The Last of Us Part II. |

The real disruptive force, however, is Netflix-style game streaming, which could eliminate buying individual games entirely; instead, you'll have to pay a subscription, | like the Xbox Game Pass. It is telling that Microsoft has been on a huge spending spree

in he pas few years o build up a s oc of emp ing i les. Mos recen ly, i bough he Elder Scrolls, Doom and Fallout publisher Bethesda, for an eye-watering $7.5bn (£5.8bn).

Google and Amazon have also been sniffing around the industry, buying up studios and launching subscription services of their own. This is not necessarily good news; these are giant companies known for barging in and undercutting everyone else, and if they upend the economics of the games industry then it is bound to have an effect on its creative output. Still, so far, they have not been successful. Google Stadia, which lets you stream games in high-end PC quality to any Chrome browser or TV, has been met with a big “meh” by consumers, and despite investing tens of millions in development, Amazon’s only game so far - competitive shooter Crucible - was such a failure that it was pulled just weeks after its release this May. The video game business is not for the faint-hearted, and throwing money around has historically rarely worked.

The thing is, despite all the fuss that surrounds the launch of new consoles, video games are not just about the hardware. They are about the entertainment that the technology enables. A console can have as many teraflops as it wants but without fun, envelope-pushing games to play on it nobody cares. Outside of the early adopters, most gamers are not that techy. We don’t buy a console because it has better specs; we buy it because it has the games we want to play. This is why Nintendo’s consoles sell like gangbusters despite their relative lack of power, and why millions more people play games on phones and ageing laptops than on cutting-edge machines.

Pent-up excitement will drive millions of sales of the PS5 and Xbox Series X in the coming months, but as history has proven several times over, in the end their success or failure will always come down to what you can play on them.

How the consoles compare

XBox Series S/X

Price £249/£449.

Models The cheaper Series S has reduced performance and no disk drive. The Series X is the pick for those with a 4K TV.

Technical stuff 4/12 teraflops.

Standout games Shooter sequel Halo Infinite, realistic racer Forza Motorsport, mysterious fantasy Everwild.

Buy it for The Xbox Game Pass, offering access to hundreds of games for £10.99 a month.

UK release date 10 November. |

PlayStation 5

Price £359/£449.

Models A standard edition, and a cheaper digital edition with no disk drive.

Technical stuff 10.28 teraflops.

Standout games Dark fantasy Demon's Souls, giant adventure Horizon: Forbidden West, Spider-Man: Miles Morales.

Buy it for Exclusives: the creators of The Last of Us, God of War and more are making games only for the PS5.

UK release date 19 November. |

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

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

For the Fiscal Year Ended December 31, 2021

OR

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

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4803544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2701 Olympic Boulevard Building B Santa Monica, CA	**90404**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

None

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 30, 2021 (based on the closing sale price as reported on the Nasdaq) was $73,721,746,854.

The number of shares of the registrant's Common Stock outstanding at February 18, 2022 was 779,234,888.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the 2022 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K to the extent stated herein. The 2022 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2021.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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PART I

CAUTIONARY STATEMENT

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

We caution that a number of important factors, many of which are beyond our control, could cause our actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Some of the risk factors that could cause our actual results to differ from those stated in the forward-looking statements can be found in "Risk Factors" included in Part I, Item 1A of this Annual Report on Form 10-K. The forward-looking statements contained herein are based on information available to Activision Blizzard, Inc. as of the date of this filing, and we assume no obligation to update any such forward-looking statements. Actual events or results may differ from those expressed in forward-looking statements. As such, you should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, prospects, strategy, and financial needs. These statements are not guarantees of our future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

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

Item 1. BUSINESS

Overview

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

Merger Agreement

On January 18, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Microsoft Corporation ("Microsoft") and Anchorage Merger Sub Inc. ("Merger Sub"), a wholly owned subsidiary of Microsoft. Subject to the terms and conditions of the Merger Agreement, Microsoft agreed to acquire the Company for $95.00 per issued and outstanding share of our common stock, par value $0.000001 per share (the "Shares"), in an all-cash transaction. Pursuant to the Merger Agreement, following consummation of the merger of Merger Sub with and into the Company (the "Merger"), the Company will be a wholly-owned subsidiary of Microsoft. As a result of the Merger, we will cease to be a publicly traded company. We have agreed to various customary covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger (the "Effective Time"). We do not believe these restrictions will prevent us from meeting our debt service obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023. The consummation of the Merger remains subject to customary closing conditions, including satisfaction of certain regulatory approvals, approval by our stockholders and other customary closing conditions. The Merger is currently expected to close in Microsoft's fiscal year ending June 30, 2023.

For additional information related to the Merger Agreement, please refer to the preliminary proxy statement previously filed with the SEC and other relevant materials in connection with the transaction that we will file with the SEC and that will contain important information about the Company and the Merger.

Our Strategy and Vision

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

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

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

Increasing player investment. The connected, online nature of our network enables us to offer content and player investment opportunities directly to our consumers on a year-round basis. In addition to purchasing full games or subscriptions, players can invest in our franchises by purchasing incremental in-game content. These digital revenue streams tend to be more recurring and have relatively higher profit margins. In addition, we generate revenue through offering advertising within certain of our franchises, and we believe there are opportunities to grow new forms of player investment through esports and consumer products. We are still in the early stages of developing these new revenue streams.

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

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

Other

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

Impacts of the Global COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") emerged and has since extensively impacted global health and the economic environment. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In an effort to contain the spread of COVID-19, domestic and international governments around the world enacted various measures, including orders to close all businesses not deemed "essential," quarantine orders for individuals to stay in their homes or places of residence, and to practice social distancing when engaging in essential activities.

During the early stages of the COVID-19 pandemic, our business experienced an increase in demand for certain of our products and services as a result of the stay-at-home orders enacted in various regions as players had more time to engage with our games. We have, however, seen a moderation in these trends from when the stay-at-home orders were originally enacted early in 2020 and at this time stay-at-home orders have largely been lifted in most regions. It is uncertain how our business could be impacted in the current state of the pandemic as stay-at-home orders in certain regions are reduced, lifted, or at times, fully or partially reinstated, as new cases and variants of COVID-19 arise and evolve.

In an effort to protect the health and safety of our employees, the majority of our workforce continues to work from home, and we have placed restrictions on non-essential business travel. During 2022 we expect that our workforce will return to our offices in some capacity while also having the option to continue to work from home depending on business requirements and health and safety concerns. Additionally, thus far, the pandemic has caused minimal disruption to our game titles' published release dates. Please see "Management's Overview of Business Trends" section included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

As the COVID-19 pandemic continues to be present and evolve, the impact on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, and stock price will depend on numerous evolving factors that we are not able to fully predict at this time, including the duration and spread of the pandemic and associated macroeconomic impacts including labor shortages and supply chain disruption, the speed and effectiveness of regional and worldwide containment and vaccination efforts including vaccine mandates, and the impact of these and other factors on our employees, customers, and partners. We will continue to actively monitor the developments of the COVID-19 pandemic and may take further actions that could alter our business operations as may be required by federal, state, local, or foreign authorities, or that we determine are in the best interests of our employees, customers, partners, and shareholders.

Refer to Part I, Item 1A "Risk Factors" of this Annual Report on Form 10-K for additional details on risks and uncertainties regarding the impacts of the global COVID-19 pandemic on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, and stock price.

Products

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

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

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

Product Development and Support

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

We develop and produce our titles using a model in which individual game studios have responsibility for the entire development and production process, including the supervision and coordination of internal and, where appropriate, external resources. We believe this model allows us to deploy the best resources for a given task, including by supplementing our internal expertise with top-quality external resources on an as-needed basis.

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

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

Marketing, Sales, and Distribution

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

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

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

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

Manufacturing

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

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

Significant Customers and Top Franchises

Customers

While the Company does sell directly to end consumers in certain instances, such as sales through Battle.net, in other instances our customers are platform providers, such as Sony, Microsoft, Google, and Apple, or retailers, such as Walmart, Target, Best Buy, and GameStop, who act as distributors of our content to end consumers.

The percentage of our consolidated net revenues by our most significant customers were as follows:

	For the Years Ended		
	December 31, 2021	**December 31, 2020**	**December 31, 2019**
Apple	17 %	15 %	17 %
Google	17 %	14 %	13 %
	15 %	17 %	11 %
Microsoft	*	11 %	*

* Customer did not account for 10% or more of our consolidated net revenues for the noted period.

No other customer accounted for 10% or more of our net revenues in the periods above. We had two customers—Microsoft and Sony—who accounted for 20% and 22%, respectively, of consolidated gross receivables at December 31, 2021, and 28% and 21%, respectively, at December 31, 2020. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

Top Franchises

For the years ended December 31, 2021, 2020, and 2019, our top three franchises—Call of Duty, Candy Crush, and Warcraft—collectively accounted for 82%, 79%, and 72%, respectively, of our net revenues. No other franchise comprised 10% or more of our net revenues in those periods.

Competition

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

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

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

As our teams have contributed to transforming gaming into social experiences, enabling players to find purpose and meaning through games, we believe connecting these communities together is the next step in our industry. This can be seen by established and emerging competitors seeing opportunity for virtual worlds filled with professionally produced content, user generated content and rich social connections. As investments in cloud computing, artificial intelligence and machine learning, data analytics, and user interface and experience capabilities are becoming more competitive, we believe that our recently announced merger and partnership with Microsoft will better enable our ambitions in this dynamic and highly competitive environment.

Intellectual Property

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

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

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

Our People

We are committed to becoming the most welcoming, inclusive company in our industry. Genuinely embodying this mission and responsibility to our communities is a powerful lever to attract and retain the very best talent. Our continued success and growth are directly related to our ability to attract, recruit, enable, retain, and develop diverse and innovative talent.

During 2021, the Company has worked to address concerns raised regarding our workplace and related matters. These concerns have been set forth in, among other contexts, various legal actions against the Company, as described in Part I, Item 1A "Risk Factors" and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K. The leadership of the Company has committed to take action to produce meaningful change and provide employees the resources and support to succeed in our collective aspiration to be the model workplace in our industry.

Steps we have taken to improve our workplace and address concerns include:

- In November 2021, the Board of Directors formed a "Workplace Responsibility Committee" (the "Committee"), initially comprised of two independent directors, to oversee the Company's progress in successfully implementing its workplace policies, procedures, and commitments. The Committee will require management to develop key performance indicators and/or other means to measure progress and ensure accountability, with executive management providing frequent progress reports to the Committee, which will regularly brief the full Board of Directors.

- For any Activision Blizzard employee who chooses not to arbitrate an individual claim of sexual harassment, unlawful discrimination, or related retaliation arising from events after October 2021, the Company will waive any obligation to do so.

- We have investigated–and will continue to investigate–complaints of harassment, discrimination and retaliation raised through various reporting channels. In October 2021, we combined our investigations groups into one centralized "investigations unit" within the Ethics & Compliance team. This centralized unit with expanded resources increases our ability to conduct prompt investigations and maintain and measure consistency throughout investigations of all types and across the Company.

- Our Way to Play Heroes–who are volunteers who help other employees understand reporting options, champion speaking up, and provide feedback and advise on how to strengthen our overall ethics and compliance program– are receiving additional resources and recognition through an overall expansion of the program.

- We are committed to continuing to grow our investment in anti-harassment and anti-discrimination training resources.
- We released our U.S. Pay Equity Review 2020 in October 2021. We also released our 2021 Representation Data report in December 2021, based on data in Company records as of November 30, 2021. We believe transparency with our stakeholders is an important part of our mission.
- In October 2021, we announced the launch of a new zero-tolerance harassment policy Company-wide.
- We launched Upward Feedback in December 2021, an annual process where employees share constructive, actionable feedback to their managers through an anonymous survey, enabling awareness regarding managers' inclusive behaviors and commitment to living our values.
- We announced a global drug and alcohol policy for Company-sponsored events and zero tolerance for alcohol consumption in the workplace in November 2021.
- We removed content in our games that we believe to be inappropriate.

While some of these initiatives will have an immediate impact, others may take time to be felt across the Company and will continue to evolve as we gather further feedback from our employees. Additionally, our employees in the U.S. are not covered by collective bargaining agreements. At Raven Software, one of our studios, the Communications Workers of America has filed a petition to represent a unit of employees, and the National Labor Relations Board will oversee the election process, including a determination of the appropriate set of employees who would be included in any bargaining unit (and thus participate in the election on potential unionization). We deeply respect the rights of all employees to make their own decisions about whether or not to join a union and exercise all other National Labor Relations Act rights. Across the Company, we believe that a direct relationship between managers and team members allows us to quickly respond and deliver the strongest results and opportunities for employees. As discussed in Part I, Item 1A under "Risk Factors" of this Annual Report on Form 10-K, while the Merger Agreement is in effect, we are also subject to certain interim covenants with respect to various matters (including, among other things, with respect to collective bargaining agreements and employee benefit plans) concerning the operation of our business during the pendency of the Merger.

Other important aspects and areas of focus for the Company to attract, recruit, enable, retain, and develop diverse and innovative talent are set out below:

Overview: As of December 31, 2021, Activision Blizzard had approximately 9,800 full-time and part-time employees, with approximately 68% in North America, approximately 25% in the Europe, Middle East, and Africa ("EMEA") region, and approximately 7% in the Asia Pacific region. Of these employees, approximately 68% either work directly on, or support, our game and technology development, which represents an approximate seven percentage point increase from 2020.

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

Our Corporate Governance Principles and Policies demonstrate our commitment to diversity at the Board of Directors level, providing that the initial list from which any new independent director nominee is chosen includes qualified female and racially/ethnically diverse candidates and, similarly, if we conduct an external search for a new CEO, that the initial list of external candidates includes qualified female and racially/ethnically diverse candidates. As of December 31, 2021, 20% of the members of our Board of Directors are women, and 20% are members of underrepresented communities. Under current California law, we were required to add an additional female director to our Board of Directors by the end of 2021. To meet this requirement and improve the diversity of our Board of Directors, the Company retained a search firm and began interviewing potential additional female directors in 2021. However, since the Company's current directors would cease to continue to serve on our Board of Directors upon consummation of our proposed transaction with Microsoft, we were unable to conclude the process in 2021. We will be continuing our efforts to appoint a new female director.

Additionally, since 2016, the number of women in our game development leadership roles has more than doubled. As of November 30, 2021, approximately 24% of our global employee population identifies as women or non-binary, and in 2021, we committed to increase the percentage of women and non-binary employees in our workforce by 50% over the next five years to achieve over one-third representation. Further, upon joining the Company, and again every two years, every employee is required to take our bespoke online Equality & Diversity Training, which underscores our commitment to creating a respectful workplace culture.

Our overall goal in hiring is to provide an objective and equitable process that helps us recruit the very best creative and technical talent in the world and explore an array of resources to increase the share of women, underrepresented ethnic groups ("UEGs"), and other forms of diversity in our workforce.

In 2021 we launched a new tool that tracks–for every single hire–data on the representation and presence of women and UEG candidates at applicant, interview, and hiring stages of our recruiting process. This tool will enable us to provide transparency on our diversity progress as well as helping to reinforce our objective of having diverse candidate slates for open positions.

We also recognize that formal tools and mechanisms around our candidate slates alone will not create the change we strive for in our organization or our industry, which is why we have also prioritized and taken meaningful action on a broad portfolio of initiatives–from expanding opportunities in the gaming and technology space for underrepresented communities to mentorship and sponsorship programs for our current teammates and future leaders. As part of these efforts, we have committed to invest $250 million over the next 10 years in initiatives that foster expanded opportunities in gaming and technology for under-represented communities. Additionally, our work to support the Call of Duty Endowment in 2021 resulted in 16,138 veteran job placements and more than $1 billion in positive economic impact for the veteran community.

Compensation and Benefits: The main objective of our compensation program is to provide a compensation package that attracts, retains, motivates, and rewards employees that operate in a highly competitive and technologically challenging environment. We seek to do this by linking compensation (including annual changes in compensation) to overall Company and business unit/franchise performance, as well as each individual's contribution to the results achieved. The emphasis on overall Company performance is intended to align our employees' financial interests with the interests of our shareholders. We continue to make efforts across our global organization to promote equal pay practices. For example, our U.S. analysis showed that women at the Company on average earned slightly more than men for comparable work in 2020. Further, we have announced improved benefits provided to a large portion of our employees, such as increased holiday, sick, and vacation time off. We also have increased our overall investment in development and operations by announcing the conversion of approximately 500 temporary workers to full-time employees at our Activision studios.

We are committed to providing comprehensive benefit options, and it is our intention to offer benefits that allow our employees and their families to live healthier and more secure lives. Some examples of our wide-ranging benefits offered are: 401(k) with matching Company contributions; a comprehensive well-being program; paid leave programs; medical insurance; prescription drug benefits; dental insurance; vision insurance; accidental death and dismemberment insurance; critical illness insurance; life insurance; disability insurance; health savings accounts; flexible spending accounts; and benefits to support current and hopeful parents. We frequently upgrade our benefit portfolio by seeking out pioneer partners that give our employees modern benefit experiences. As an example, at the onset of the COVID-19 pandemic when traditional medical services became under huge demand, in order to help ensure that our employees and their families had access to medical advice, we created an enterprise-wide global network of physicians.

Further, the Company has been reviewing our overall compensation structure and philosophy and began implementing changes to our compensation payments for 2021, primarily to enhance employee equity ownership and bring our employee equity compensation in line with current industry practice. As a result of this review, the Company made changes to our 2021 bonus and equity structure so that all eligible employees will receive incentives in the form of Company equity for 2021 in an amount equal to or greater than 2021 target Company performance without regard to whether target performance was achieved.

Developing Careers and Growing Leaders: Recognizing that ours is a rapidly changing industry with constant innovation, developing our diverse and innovative talent base is vital to our business. Our talent processes are focused on performance management, strategic talent assessment and succession planning, and career and leadership development opportunities through promotion and internal mobility. We intend for our employees to have a clear understanding of their strengths and development opportunities, while fostering a collaborative and productive relationship between employees and their managers. Our performance management process begins with the establishment of goals, followed by encouraged regular check-ins on progress and performance so that employees have an understanding of their strengths, areas for improvement, and how they are contributing to the Company. We assess employee contributions to our Company results and culture so that we can recognize and reward their contributions. Additionally, on an annual basis, we conduct an organizational and performance review process with our CEO and all segment, business unit, and function leaders, focusing on our high-performing and high-potential talent, diversity and inclusion, and the performance and succession for our most critical roles.

Engaging Employees: Employees across the Company have the opportunity to join and contribute to one of our nine Employee Networks. These groups enrich our employees' experiences, our culture, and our business by driving inclusion, cultural awareness, professional development, networking, and community involvement. Employee engagement also plays a critical role in how we identify and improve the way we work. We capture and act on the voice of our employees through multiple means including pulse surveys, listening sessions and newly added upward feedback. We emphasize to employees that this is their chance to "provide honest, candid feedback about their experience working for the Company." Our employee feedback is dynamic and relevant to our employees' immediate needs.

Sustainability

We understand that we have a responsibility to operate sustainably. Our ongoing conversion to a more digital business is enabling us to set and achieve important sustainability goals. As a result of this transition, during 2021 we have made significant progress in reducing packaging waste for which, using 2019 as a baseline, we have achieved a 60% reduction, surpassing our original goal of a 50% reduction by 2024. We are also in the process of establishing baselines and setting quantitative interim targets to measure progress towards our goal of achieving net zero greenhouse gas emissions by 2050.

Information about our Executive Officers

Our executive officers and their biographical summaries are provided below:

Name	Age	Position
Robert A. Kotick	58	Chief Executive Officer of Activision Blizzard
Daniel Alegre	53	President and Chief Operating Officer of Activision Blizzard
Armin Zerza	52	Chief Financial Officer of Activision Blizzard
Grant Dixton	48	Chief Legal Officer of Activision Blizzard
Brian Bulatao	57	Chief Administrative Officer of Activision Blizzard

Robert A. Kotick, Chief Executive Officer of Activision Blizzard

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

Daniel Alegre, President and Chief Operating Officer of Activision Blizzard

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

Armin Zerza, Chief Financial Officer of Activision Blizzard

Armin Zerza has served as our Chief Financial Officer since April 2021. Prior to that, he served as the Company's Chief Commercial Officer from 2019 to 2021, as the Chief Operating Officer of Blizzard from 2017 to 2019, and as Chief Financial Officer of Blizzard from 2015 to 2017. Mr. Zerza joined Activision Blizzard in August 2015 with more than 20 years of senior leadership experience at Procter & Gamble, serving in North America, Europe, Asia, and Latin America. Mr. Zerza has held a number of senior roles across multi-billion dollar businesses at Procter & Gamble, including as Director of Procter & Gamble's global M&A team and CFO of the European Baby Care and Latin America divisions. Mr. Zerza also served as a board member of the Italy Procter & Gamble-Fater and Spain Procter & Gamble-Arbora & Ausonia joint ventures. Mr. Zerza holds a degree from Vienna University.

Grant Dixton, Chief Legal Officer of Activision Blizzard

Grant Dixton has served as our Chief Legal Officer since June 2021. From 2006 to 2021, Mr. Dixton held a number of positions of increasing responsibility within the legal department of The Boeing Company, an aerospace company and leading manufacturer in space and security systems, most recently as Senior Vice President, General Counsel, and Corporate Secretary, in addition to serving as a member of the company's Executive Council. Prior to joining The Boeing Company, Mr. Dixton served in the White House as Associate Counsel to the President. Earlier in his career, Mr. Dixton practiced law at Kirkland & Ellis in Washington, D.C. He served as a law clerk for the Honorable Anthony M. Kennedy at the Supreme Court of the United States and for the Honorable J. Michael Luttig at the United States Court of Appeals for the Fourth Circuit. Mr. Dixton holds an A.B. degree in history from Harvard University and a J.D. from Harvard Law School.

Brian Bulatao, Chief Administrative Officer of Activision Blizzard

Brian Bulatao has served as Chief Administrative Officer of Activision Blizzard since March 2021. Prior to joining the Company, Mr. Bulatao served as the Under Secretary of State for Management from 2018 to 2021, directly responsible for the budget, security, IT infrastructure, consular affairs and global talent management of the U.S. State Department's 70,000 plus workforce based in 190 countries around the world. Prior to that, Mr. Bulatao served as Chief Operating Officer at the Central Intelligence Agency from 2017 to 2018, where he also led diversity and inclusion initiatives. Before joining the CIA, Mr. Bulatao held a number of leadership positions in private equity and investment companies, having served as Senior Advisor at Highlander Partners from 2016 to 2017 and Managing Director at Pallas Capital Partners from 2015 to 2017, helping companies grow organically and through acquisitions and creating transformational value through strategic positioning. Prior to that, Mr. Bulatao held executive and CEO roles at The Nefab Group, co-founded Thayer Aerospace with fellow West Point graduates, and served as a consultant with McKinsey & Company. Mr. Bulatao is a retired Infantry Captain and a distinguished graduate of the US Army Ranger School. Mr. Bulatao holds a BS degree in Engineering Management from the United States Military Academy at West Point and an MBA degree from Harvard Business School.

Additional Financial Information

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

Available Information

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

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

Risk Factors Summary

Below is a summary of the principal risks associated with an investment in the Company. This summary should not be relied upon as an exhaustive list of the material risks facing our business.

- the Merger, the pendency of the Merger Agreement, or our failure to complete the Merger;
- the impact of the global COVID-19 pandemic;
- our ability to deliver popular, high-quality content in a timely manner;
- the level of demand for our games and products;
- our ability to meet customer expectations with respect to our brands, games, services, and/or business practices;
- negative impacts on our business resulting from concerns regarding our workplace, including associated legal proceedings;
- our ability to attract, retain, and motivate skilled personnel;
- competition;
- our reliance on a relatively small number of franchises for a significant portion of our revenues and profits;
- negative impacts from unionization or attempts to unionize by our workforce;
- our ability to adapt to rapid technological change and allocate our resources accordingly;
- the increasing importance of digital sales and the risks of that business model;
- our ability to effectively manage the scope and complexity of our business;
- our reliance on third-party platforms, which are also our competitors, for the distribution of products;
- our dependence on the success and availability of video game consoles manufactured by third parties and our ability to develop commercially successful products for these consoles;
- the increasing importance of free-to-play games and the risks of that business model;
- the risks and uncertainties of conducting business outside the U.S., including the need for regulatory approval to operate, the relatively weaker protection for our intellectual property rights, and the impact of cultural differences on consumer preferences;
- the importance of retail sales to our business and the risks of that business model;
- our ability to realize the expected benefits of our recent restructuring actions;
- any difficulties in integrating acquired businesses or realizing the anticipated benefits of strategic transactions;
- seasonality in the sale of our products;
- fluctuation in our recurring business;
- the risk of distributors, retailers, development, and licensing partners or other third parties being unable to honor their commitments or otherwise putting our brand at risk;
- our reliance on tools and technologies owned by third parties;
- our use of open source software;
- risks associated with undisclosed content or features in our games;
- impact of objectionable consumer- or other third-party-created content on our operating results or reputation;
- outages, disruptions, or degradations in our services, products, and/or technological infrastructure;
- any cybersecurity-related attack, significant data breach, fraudulent activity, or disruption of our information technology systems or networks;
- significant disruption during our live events;
- catastrophic events;
- climate change;
- provisions in our corporate documents and Delaware state law that could delay or prevent a change of control;
- ongoing legal proceedings, related to workplace concerns and otherwise;
- increasing regulation in key territories over our business, products, and distribution;
- changes in government regulation relating to the Internet;

- our compliance with evolving data privacy laws and regulations;
- scrutiny regarding the appropriateness of the content in our games and our ability to receive target ratings for certain titles;
- changes in tax rates and/or tax laws and exposure to additional tax liabilities;
- fluctuations in currency exchange rates;
- changes in financial accounting standards or the application of existing or future standards as our business evolves;
- insolvency or business failure of any of our business partners; and
- declines in general economic conditions and related discretionary spending on our products and services.

The following are detailed descriptions of our Risk Factors summarized above.

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

Risks Related to the Merger

While the Merger Agreement is in effect, we are subject to certain interim covenants.

On January 18, 2022, we entered into the Merger Agreement with Microsoft and Merger Sub, a wholly owned subsidiary of Microsoft, pursuant to which Microsoft agreed to acquire the Company in an all-cash transaction for $95.00 per share of our issued and outstanding common stock.

The Merger Agreement generally requires us to operate our business in the ordinary course, subject to certain exceptions, including as required by applicable law, pending consummation of the Merger, and subjects us to customary interim operating covenants that restrict us, without Microsoft's approval (such approval not to be unreasonably conditioned, withheld or delayed), from taking certain specified actions until the Merger is completed or the Merger Agreement is terminated in accordance with its terms. These restrictions could prevent us from pursuing certain business opportunities that may arise prior to the consummation of the Merger and may affect our ability to execute our business strategies and attain financial and other goals and may impact our financial condition, results of operations and cash flows.

The announcement and pendency of the Merger may result in disruptions to our business, and the Merger could divert management's attention, disrupt our relationships with third parties and employees, and result in negative publicity or legal proceedings, any of which could negatively impact our operating results and ongoing business.

In connection with the pending Merger, our current and prospective employees may experience uncertainty about their future roles with us following the Merger, which may materially adversely affect our ability to attract and retain key personnel and other employees while the Merger is pending. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the Merger, and may depart prior to the consummation of the Merger. Accordingly, no assurance can be given that we will be able to attract and retain key employees to the same extent that we have been able to in the past.

The proposed Merger could cause disruptions to our business or business relationships with our existing and potential customers, suppliers, vendors, landlords, and other business partners, and this could have an adverse impact on our results of operations. Parties with which we have business relationships may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties, or seek to negotiate changes or alter their present business relationships with us. Parties with whom we otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The pursuit of the Merger may place a significant burden on management and internal resources, which may have a negative impact on our ongoing business. It may also divert management's time and attention from the day-to-day operation of our remaining businesses and the execution of our other strategic initiatives. This could adversely affect our financial results. In addition, we have incurred and will continue to incur other significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed Merger, and many of these fees and costs are payable regardless of whether or not the pending Merger is consummated.

Any of the foregoing, individually or in combination, could materially and adversely affect our business, our financial condition and our results of operations and prospects.

The Merger may not be completed within the expected timeframe, or at all, for a variety of reasons, including the possibility that the Merger Agreement is terminated prior to the consummation of the Merger, and the failure to complete the Merger could adversely affect our business, results of operations, financial condition, and the market price of our common stock.

There can be no assurance that the Merger will be completed in the expected timeframe, or at all. The Merger Agreement contains a number of customary closing conditions that must be satisfied or waived prior to the completion of the Merger, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

There can be no assurance that all required approvals will be obtained or that all closing conditions will otherwise be satisfied (or waived, if applicable), and, if all required approvals are obtained and all closing conditions are satisfied (or waived, if applicable), we can provide no assurance as to the terms, conditions and timing of such approvals or that the Merger will be completed in a timely manner or at all. Many of the conditions to completion of the Merger are not within our or Microsoft's control, and we cannot predict when or if these conditions will be satisfied (or waived, as applicable). Even if regulatory approval is obtained, it is possible conditions will be imposed that could result in a material delay in, or the abandonment of, the Merger or otherwise have an adverse effect on us.

The Merger Agreement contains customary mutual termination rights for us and Microsoft, which could prevent the consummation of the Merger, including if the Merger is not completed by January 18, 2023 (subject to automatic extension first to April 18, 2023, then to July 18, 2023, in each case, to the extent the regulatory closing conditions are the only conditions that remain outstanding).

The Merger Agreement also contains customary termination rights for the benefit of each party, including if the other party breaches its representations, warranties, or covenants under the Merger Agreement in a way that would result in a failure of the other party's condition to closing being satisfied (subject to certain procedures and cure periods). Additionally, the Merger Agreement provides termination rights, if certain conditions are met, including (1) for Microsoft, if our Board of Directors changes its recommendation in favor of the Merger, and (2) for us, if our Board of Directors authorizes entry into a definitive agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger.

If the Merger is not completed within the expected timeframe or at all, we may be subject to a number of material risks, including:

- the market price of our common stock may decline to the extent that current market prices reflect a market assumption that the Merger will be completed;
- if the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee, including that we will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, and Microsoft will be required to pay us a reverse termination fee ranging from $2.0 billion to $3.0 billion under specified circumstances;

- some costs related to the Merger must be paid whether or not the Merger is completed, and we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed transaction, as well as the diversion of management and resources towards the Merger, for which we will have received little or no benefit if completion of the Merger does not occur; and
- we may experience negative publicity and/or reactions from our investors, customers, partners, suppliers, vendors, landlords, other business partners and employees

Stockholder litigation could prevent or delay the closing of the pending Merger or otherwise negatively impact our business, operating results and financial condition.

We may incur additional costs in connection with the defense or settlement of stockholder litigation in connection with the pending Merger. Such litigation may adversely affect our ability to complete the pending Merger. We could incur significant costs in connection with such litigation, including costs associated with the indemnification obligations to our directors and officers. Such litigation may be distracting to management and may require us to incur additional, significant costs. Such litigation could result in the Merger being delayed and/or enjoined by a court of competent jurisdiction, which could prevent the Merger from becoming effective. See Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a description of complaints filed on February 24, 2022 with respect to the pending Merger.

Business and Industry Risks

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

Since COVID-19 emerged in December 2019 and was declared a pandemic in March 2020, it has extensively impacted global health and the economic environment. The full extent to which the global COVID-19 pandemic and its aftermath impacts our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price continues to depend on numerous evolving factors that we are not able to fully predict, including: the duration and severity of the pandemic and the prevalence and severity of new COVID variants; the impact of the pandemic on the global economy and consumer habits; the impact of governmental, business, and individual actions that have been and will continue to be taken in response to the pandemic; unintended consequences of actions we take, or have taken, in response to the pandemic; the impact of the pandemic on the health or productivity of our employees and external developers, including the ability to develop high-quality and well-received interactive software products and entertainment content and/or to release our products and content in a timely manner with effective quality control; the longer-term impact of substantially-increased remote access to our networks and systems on our ability to prevent, detect, and remedy cyber-attacks or information security incidents while our workforce remains dispersed; the effects on the health, finances and discretionary spending patterns of our consumers, including the ability of our consumers to pay for our products and content; our ability to sell products at assumed prices; the financial impact, supply chain constraints and other strains on the retail customers and distributors on whom we rely to sell our physical products to consumers; the financial impact and strain on platform providers for whose video game consoles and/or on whose networks certain of our products are exclusively available; the financial impact and strain on third-party mobile and web platforms that provide significant online distribution for, and/or provide other services critical for the operation of, a number of our games; the effects on our suppliers who manufacture our physical products and on other third parties with which we partner (e.g., to market or ship our products), including from supply chain disruptions; the effects on our lenders and financial counterparties; the effects on regulatory agencies around the world on which we rely; our ability to continue to develop our emerging businesses, such as advertising; increased volatility in foreign currency exchange rates; the impact of recent and potential upcoming or ongoing large-scale actions by local and federal governments and agencies or similar governing bodies in the U.S. and around the world, the U.S. Federal Reserve, and other central banks around the world, including the impact of any of these actions on the U.S. or world economy or global financial markets; and any other factor which results in disruptions or increased costs associated with the development, production, post-production, marketing and distribution of our products, and/or the digital advertising offered within our content. If adverse effects in these areas from the ongoing global COVID-19 pandemic continue or worsen, our business may be negatively impacted. Further, we cannot predict the emergence of new variants, the rise and fall of case rates, or the associated reducing, lifting, and reenacting of stay-at-home orders and other, similar measures to mitigate the spread of COVID-19. As in the case of COVID-19, the occurrence of other epidemics, medical emergencies, and other public health crises outside of our control could have a negative impact on our business. Additionally, stay-at-home orders, the curtailment of certain other forms of entertainment, and other pandemic-related factors that make consumers more inclined to spend time at home may increase demand for our products, and such increase may not be sustained if pandemic-related restrictions and behaviors change. These trends may continue to evolve, and prior trends for revenues, net income, and other financial results and operating metrics, may not be indicative of results for future periods, particularly as pandemic-related factors become less significant.

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

If we do not consistently deliver popular, high-quality content in a timely manner, our business may be negatively impacted.

Consumer preferences for games are usually cyclical and difficult to predict. Even the most successful games can lose consumer audiences over time, and remaining popular is increasingly dependent on the games being refreshed with new content or other enhancements. In order to remain competitive and maximize the chances that consumers select our products as opposed to the various entertainment options available to them and with which we compete, we must continuously develop new products or new content for, or other enhancements to, our existing products. These products or enhancements may not be well-received by consumers, even if well-reviewed and of high quality.

Additionally, consumer expectations regarding the quality, performance, and integrity of our products and services are high. Consumers may be critical of our brands, games, services, and/or business practices for a wide variety of reasons, and such negative reactions may not be foreseeable or within our control to manage effectively. For example, we are subject to legal proceedings regarding workplace concerns, as described in Note 22 of the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, and could become subject to additional, similar legal proceedings in the future. These legal proceedings have negatively impacted our public reputation and, as a result, some consumers have elected not to continue subscribing to one of our games, and existing and potential players may decide not to play our games in the future. Some existing sponsors, partners, and advertisers have also elected not to be associated with our brand due to this impact on our reputation, and others may so elect in the future. As another example, if we fail to create fun, fair, and safe playing environments, consumers may engage less with our games. All of this may negatively impact, and in the case of those legal proceedings is negatively impacting, our business.

Our products and services are complex software programs. We have quality controls in place to detect defects, “bugs,” or other errors in our products and services before they are released. Nonetheless, these quality controls are subject to human error, overriding, and resource or technical constraints. As such, these quality controls and preventative measures may not be effective, and at times have not been successful, in detecting all defects, bugs, or errors in our products and services before they have been released into the marketplace. Our games with online features are frequently updated, increasing the risk that a game may contain errors. If any of these issues occur, consumers may stop playing the game and may be less likely to return to the game as often in the future, which may negatively impact our business. If our games or services, such as our proprietary online gaming platform, do not function as consumers expect, whether because they fail to function as advertised or otherwise, our sales may suffer. The risk that this may occur is particularly pronounced with respect to our games with online features because they involve ongoing consumer expectations, which we may not be able to consistently satisfy.

Negative reactions to our products and services may not be foreseeable. We also may not effectively manage or respond to these negative perceptions for reasons within or outside of our control. We expect to continue to expend resources to address concerns with our products and services. Negative perceptions could arise despite our efforts, though, and may result in loss of engagement with our products and services, increased scrutiny from government bodies and consumer groups, and/or litigation, any of which could negatively impact our business.

Further, delays in product releases or disruptions following the commercial release of one or more new products have negatively impacted, and could in the future negatively impact, our business and reputation and could cause our results of operations to be materially different from expectations. Our ability to meet development schedules depends on numerous factors, some of which are outside of our control, including our ability to attract and retain qualified personnel, the time-intensive nature of creative processes, the coordination of large and often dispersed development teams, the complexity of our products and the platforms for which they are developed, and third-party approvals. If we fail to release our products in a timely manner, or if we are unable to continue to extend the life of existing games by adding features and functionality that will encourage continued engagement with the game, our business may be negatively impacted. For example, we are now planning for a later launch for our Overwatch 2 and Diablo IV titles than originally expected, which will delay the uplift to our results that we usually experience following the release of new titles. Any negative impact which occurs during key selling periods, particularly in the fourth quarter of the year, could be especially pronounced.

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

We are experiencing adverse effects related to concerns raised about our workplace.

As described below under "We are subject to legal proceedings regarding workplace concerns that have negatively affected our reputation" and in Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, we are subject to legal proceedings regarding workplace concerns. The outcome of these matters remains uncertain, though such matters could be decided unfavorably to the Company and could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

We are taking actions to address the concerns of employees and other key stakeholders and the adverse consequences to our business. We are experiencing, and are likely to continue to experience, adverse publicity regarding our Company and executives related to these matters. These matters are having a negative effect on the Company's business and reputation. If we experience significantly reduced productivity, significant worker protests or strikes in regards to these matters, significant continued loss of sponsors, advertisers or players, or other negative consequences relating to these matters, our business could be materially adversely impacted. We cannot predict the duration and severity of these impacts, and we are continuing to carefully monitor all aspects of our business for such impacts and to take actions to address such concerns.

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

Our success depends significantly on our ability to identify, attract, hire, retain, motivate, and utilize the abilities of qualified personnel which includes both our direct employees and talent from other employers such as consultants, agencies, and external developers. This particularly pertains to personnel with the specialized skills needed to create and deliver high-quality, well-received content upon which our business is substantially dependent, as well as to ensure business continuity in areas such as risk management, information security, human resources, and compliance. Our industry is generally characterized by a high level of employee mobility, competitive compensation programs, and aggressive recruiting among competitors for employees with technical, marketing, sales, engineering, product development, creative, and/or management skills, all of which is magnified for us because of our leading position within the industry. We have observed labor shortages, increasing competition for talent, and increasing attrition. We are experiencing increased difficulty in attracting and retaining skilled personnel. For example, we observed a significantly higher turnover rate of our human resources function in 2021. Additionally, recent litigation involving the Company relating to workplace and employee concerns, as further discussed in this Part I, Item 1A "Risk Factors" and Note 22 of the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, and related media attention can be expected to have an adverse effect on our ability to attract and retain employees and has resulted in work stoppages. If we are unable to attract additional qualified personnel or retain and utilize the services of key personnel, we can expect this would adversely affect our business.

If consumers prefer products from our competitors, our business may be negatively impacted.

Our competitors include very large corporations with significantly greater financial, marketing, and product development resources than we have—increasingly including technology companies entering, or expanding their investment in, interactive entertainment. Our larger competitors may be able to leverage their greater financial, technical, personnel, and other resources to provide larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties, as well as adopt more aggressive pricing policies to develop more commercially successful video game products than we do. The proliferation of companies developing for mobile platforms creates similar risks.

Competitors may develop content that imitates or competes with our best-selling games, potentially reducing our sales or our ability to charge the same prices we have historically charged for our products. These competing products may take a larger share of consumer spending than anticipated, which could cause product sales to fall below expectations. If we do not continue to develop consistently high-quality and well-received games or new content for or enhancements to those games, if our marketing fails to resonate with our consumers, or if consumers lose interest in a genre of games we produce, our revenues and profit margins could decline. In addition, our own best-selling products could compete with our other games, reducing sales for those other games. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well-received, could potentially result in additional expenditures to respond to consumer demands, harm our reputation, and increase the likelihood that our future products will not be well-received. The increased importance of add-on content to our business amplifies these risks, as add-on content for poorly-received games typically generates lower-than-expected sales. The increased demand for consistent new content releases for, and enhancements to, our products also requires a greater allocation of financial resources to those products.

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

We follow a franchise model, and a significant portion of our revenues has historically been derived from products based on a relatively small number of popular franchises. These products are also responsible for a disproportionately high percentage of our profits. For example, in 2021, revenues associated with the Call of Duty, Candy Crush, and Warcraft franchises, collectively, accounted for approximately 82% of our net revenues—and a significantly higher percentage of our operating income. We expect that a relatively limited number of popular franchises will continue to produce a disproportionately high percentage of our revenues and profits. Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could negatively impact our business. Additionally, if the popularity of a franchise declines, as has happened in the past with other popular franchises, we may have to write off the unrecovered portion of the underlying intellectual property assets, which could negatively impact our business.

We may be impacted by unionization or attempts to unionize by our workforce.

Our personnel may attempt, successfully or unsuccessfully, to form one or more unions. For example, at Raven Software, one of our studios, the Communications Workers of America has filed a petition to represent a unit of employees, and the National Labor Relations Board will oversee the election process, including a determination of the appropriate set of employees who would be included in any bargaining unit (and thus participate in the election on potential unionization). Work stoppages or strikes could occur within a unionized workforce. While none of our employees are currently unionized, several of our employees have engaged in a strike for one or more days, leading to a business impact. Further disruptions to our workforce could negatively impact our business and lead to delayed product and content releases as well as a potential impact on product quality.

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

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

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

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

The proportion of our revenues derived from digital distribution channels, as compared to traditional retail sales, continues to increase. The increased importance of digital online channels in our industry increases our potential competition, as the minimum capital needed to produce and publish a digitally delivered game, particularly a game for a mobile platform, may be significantly less than that needed to produce and publish one that is purchased through retail distribution and is played on a game console or PC. Further, some of the providers of the platforms through which we digitally distribute content are also publishers of their own content distributed on those platforms, and, therefore, a platform provider may give priority to its own products or those of our competitors.

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

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

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

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

Sony and Microsoft are also platform providers which control the networks over which consumers purchase digital products and services for their platforms and through which we provide online game capabilities for our products. The control that these platform providers have over consumer access to our games, the fee structures and/or retail pricing for products and services for their platforms and online networks and the terms and conditions under which we do business with them could impact the availability of our products or the volume of purchases of our products made over their networks and our profitability. The networks provided by these platform providers are the exclusive means of selling and distributing our content on these platforms. Further, increased competition for limited premium “digital shelf space” has placed the platform providers in an increasingly better position to negotiate favorable terms of sale. If the platform provider establishes terms that restrict our offerings on its platform, significantly alters the financial terms on which these products or services are offered, or does not approve the inclusion of content on its platform, our business could be negatively impacted. We also derive significant revenues from distribution on third-party mobile and web platforms, such as the Apple App Store, the Google Play Store, and Facebook, which are also our direct competitors, and in some cases the exclusive means through which our content reaches gamers on those platforms, and most of the virtual currency we sell is purchased using these platform providers’ payment processing systems. These platforms also serve as significant online distribution platforms for, and/or provide other services critical for the operation of, a number of our games. If these platforms deny access to our games, modify their current discovery mechanisms, communication channels available to developers, operating systems, terms of service, or other policies (including fees), our business could be negatively impacted. Additionally, if these platform providers change how they label a game’s business model, such as free-to-play, change how they apply content ratings to a game, or change how the personal information of consumers is made available to developers, our business could be negatively impacted. These platform providers or their services may be unavailable or may not function as intended or may experience issues with their in-app purchasing functionality. As has sometimes happened in the past, if any of these events occurs on a prolonged, or even short-term, basis or other similar issues arise that impact players’ ability to access our games, access social features, or make purchases, it may result in lost revenues and otherwise negatively impact our business.

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

We derive a substantial portion of our revenues from the sale of products for play on video game consoles manufactured by third parties, such as Sony’s PS4 and PS5, Microsoft’s Xbox One and Series X, and Nintendo’s Switch. Sales of products for consoles accounted for 30% of our consolidated net revenues in 2021. The success of our console business is driven in large part by our ability to accurately predict which consoles will be successful in the marketplace and our ability to develop commercially successful products for these consoles. We also rely on the availability of an adequate supply of these video game consoles (which has been negatively impacted by supply chain issues) and the continued support for these consoles by their manufacturers, including our ability to reach consumers via the online networks operated by these console manufacturers. If increased costs are not offset by higher revenues and other cost efficiencies, our business could be negatively impacted. If the consoles for which we develop new software products or modify existing products do not attain significant consumer acceptance, we may not be able to recover our development costs, which could be significant.

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

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

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

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

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

A deterioration in relations between either us or the U.S. and any country in which we have significant operations or sales, or the implementation of government regulations in the U.S. or such a country, could result in the adoption or expansion of trade restrictions, including economic sanctions or absolute prohibitions, that could have a negative impact on our business. For instance, to operate in China, all games must have regulatory approval. A decision by the Chinese government to revoke its approval for any of our games or to decline to approve any products we desire to sell in China in the future could have a negative impact on our business, as could delays in the approval process. Additionally, in the past, legislation has been implemented in China that has required modifications to our products and our business model to satisfy regulatory requirements, such as Chinese regulations that limit the number of hours per week children under the age of 18 can play video games. The future implementation of similar or new laws or regulations in China or any other country in which we have operations or sales may restrict or prohibit the sale of our products or may require engineering modifications to our products and our business model that are not cost-effective, if even feasible at all, or could degrade the consumer experience to the point where consumers cease to purchase such products. Changes in Chinese game approval procedures in 2018 have resulted in reduced rates of approval for games and unclear approval timeframes, making it uncertain as to if and when our new products will be approved for release in China. Further, the continued enforcement of regulations relating to mobile and other games with an online element in China could have a negative impact on our business in China.

The laws of some countries either do not protect our products, brands, and intellectual property to the same extent as the laws of the U.S. or are inconsistently enforced. Legal protection of our rights may be ineffective in countries with weaker intellectual property enforcement mechanisms. In addition, certain third parties have registered our intellectual property rights without authorization in foreign countries. Successfully registering such intellectual property rights could limit or restrict our ability to offer products and services based on such rights in those countries. Although we take steps to enforce and police our rights, our practices and methodologies may not be effective against all eventualities.

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

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

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

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

We may not realize the expected benefits of our recent restructuring actions.

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. While we believe this plan enables us to provide better opportunities for talent, and greater expertise and scale over the long term, our ability to achieve the desired and anticipated benefits from the plan is subject to many estimates and assumptions. These estimates and assumptions are also subject to significant economic, competitive, and other uncertainties, some of which are beyond our control.

Additionally, there can be no assurance that our business will be more efficient or effective than prior to implementation of the plan, and we do not expect to realize significant net savings as a result of the plan as cost reductions in our selling, general and administrative activities are expected to be offset by increased investment in product development. Any of these consequences could negatively impact our business. In addition, there can be no assurance that additional plans will not be required or implemented in the future.

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

As part of our business strategy, from time to time, we acquire, make investments in, or enter into strategic alliances and joint ventures with, complementary businesses. These transactions may involve significant risks and uncertainties, including: (1) in the case of an acquisition, (i) the potential for the acquired business to underperform relative to our expectations and the acquisition price, (ii) the potential for the acquired business to cause our financial results to differ from expectations in any given period, or over the longer-term, (iii) unexpected tax consequences from the acquisition, or the tax treatment of the acquired business's operations going forward, giving rise to incremental tax liabilities that are difficult to predict, (iv) difficulty in integrating the acquired business, its operations, and its employees in an efficient and effective manner, (v) any unknown liabilities or internal control deficiencies assumed as part of the acquisition, and (vi) the potential loss of key employees of the acquired businesses; and (2) in the case of an investment, alliance, or joint venture, (i) our ability to cooperate with our partner, (ii) our partner having economic, business, or legal interests or goals that are inconsistent with ours, and (iii) the potential that our partner may be unable to meet its economic or other obligations, which may require us to fulfill those obligations alone.

Further, any such transaction may involve the risk that our senior management's attention will be excessively diverted from our other operations, the risk that our industry does not evolve as anticipated, and that any intellectual property or personnel skills acquired do not prove to be those needed for our future success, and the risk that our strategic objectives, cost savings or other anticipated benefits are otherwise not achieved.

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

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

Our recurring business is subject to fluctuation, and we could see a decline in that portion of our business.

Our business model includes recurring revenue we deem recurring in nature, such as revenue from subscriptions for *World of Warcraft*. There is no guarantee that demand for this service will remain at current levels. Consumer demand has declined and fluctuated in the past, and could do so in the future. If consumers lose interest in our services; if we fail to adapt our services to changing markets, distribution channels, and business models; if we discontinue our services; if we, or third parties we rely on, experience network disruptions or outages; if our competitors offer more attractive services; if our advertising and marketing of our service fails; or if there is a general downturn in the market, revenues generated by this service may decline, which could negatively impact our business.

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

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

In developing our games, we rely on tools and technologies owned by third parties.

In developing our games, we often use tools and technologies owned by third parties. If entities that own tools and technologies we use are acquired by our competitors we may lose access to such resources. Further, third party tools and technologies we use might be "sunsetted" or modified in such a way that would require us to engineer a workaround. Such events could cause delays in our production schedule and we may incur time and cost as we acquire or develop alternative assets.

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

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

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

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

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

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

Certain of our games and esports broadcasts support collaborative online features that allow consumers to communicate with one another and post narrative comments, in real time, that are visible to other consumers. Additionally, certain of our games allow consumers to create and share "user-generated content" that is visible to other consumers. From time to time, objectionable and offensive consumer content may be distributed within our games and on our broadcasts through these features or to gaming websites or other sites or forums with online chat features or that otherwise allow consumers to post comments. Although we expend resources, and expect to continue to expend resources, to promote positive play, our efforts may not be successful due to scale, limitations of existing technologies, or other factors. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content.

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

We may experience outages, disruptions, or degradations in our services, products, and/or technological infrastructure.

The reliable performance of our products and services depends on the continuing operation and availability of our information technology systems and those of our external service providers, including third-party "cloud" computing services. Our games and services are complex software products, and maintaining the sophisticated internal and external technological infrastructure required to reliably deliver these games and services is expensive and complex. The reliable delivery and stability of our products and services has been, and could in the future be, adversely impacted by outages, disruptions, failures, or degradations in our network and related infrastructure, as well as in the online platforms or services of key business partners that offer, support or host our products and services. The reliability and stability of our products and services has been affected by events outside of our control as well as by events within our control, such as the migration of data among data centers and to third-party hosted environments, the performance of upgrades and maintenance on our systems, and online demand for our products and services that exceeds the capabilities of our technological infrastructure.

If we or our external business partners were to experience an event that caused a significant system outage, disruption, or degradation or if a transition among data centers or service providers or an upgrade or maintenance session encountered unexpected interruptions, unforeseen complexity, or unplanned disruptions, our products and services may not be available to consumers or may not be delivered reliably and stably. As a result, our reputation and brand may be harmed, consumer engagement with our products and services may be reduced, and our revenue and profitability could be negatively impacted. We do not have redundancy for all our systems and many of our critical applications reside in only one of our data centers, which may make such an event more damaging to us.

As our digital business grows, we will require an increasing amount of internal and external technical infrastructure, including network capacity and computing power to continue to satisfy the needs of our players. We are investing, and expect to continue to invest, in our own technology, hardware, and software and the technology, hardware, and software of external service providers to support our business. It is possible that we may fail to scale effectively and grow this technical infrastructure to accommodate increased demands, which may adversely affect the reliable and stable performance of our games and services, therefore negatively impact our business.

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

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

Additionally, many of our games include virtual economies, comprising virtual currencies and assets, which are subject to fraud, exploitation, and abuse. In-game exploits and the use of automated or other fraudulent practices to generate virtual currency or assets illegitimately can detract from players' enjoyment of our games and can cause loss of revenue and harm to our reputation. Further, the measures we take to remedy abuse and protect against future fraudulent actions can be costly and time-consuming and may negatively impact our operations and financial outlook.

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

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

Catastrophic events may disrupt our business.

Our corporate headquarters and our primary corporate data center are located in the Los Angeles, California area, which is near a major earthquake fault. A major earthquake or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems, impacts the health and safety of our employees or the employees of third-party affiliates and the regulatory agencies we rely on, or otherwise prevents us from conducting our normal business operations, could require significant expenditures to resume operations and negatively impact our business. While we maintain insurance coverage for some of these events, the potential liabilities associated with such events could exceed the insurance coverage we maintain. Further, our system redundancy may be ineffective or inadequate to protect us against such events. Any such event could also limit the ability of retailers, distributors, or our other customers to sell or distribute our products.

Climate change may have an impact on our business.

Risks related to climate change are increasing in both impact and type. We do not expect significant near-term impacts to our operations as a result of climate change, but long-term impacts remain unknown. There may be business or operational risk due to the significant impacts that climate change could pose to our employees' lives, consumers' lives, our supply chain, or other operational disruptions from climate change-related weather events. In addition, rapidly changing customer and regulatory requirements, along with stakeholder expectations, to reduce carbon emissions and otherwise to reduce our environmental footprint could increase our costs of operations to comply or present a risk of loss of business if we are not able to meet those requirements.

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

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

Regulatory and Legal Risks

We are subject to legal proceedings regarding workplace concerns that have negatively affected our reputation.

As described in Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, in July 2021, the California Department of Fair Employment and Housing (the "DFEH") filed a complaint against Activision Blizzard, Blizzard Entertainment, and Activision Publishing alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act. The Company is separately awaiting court approval of a consent decree with the EEOC settling claims against the Company regarding certain employment practices, while the DFEH has objected to the consent decree. The Company has also been named as a defendant in a shareholder class action and a nominal defendant in shareholder derivative actions involving allegations similar to those alleged in the foregoing matters and is cooperating in an investigation with the SEC with respect to its disclosures on employment matters and related issues. The outcome of these matters remains uncertain, and we could become subject to additional, similar legal proceedings in the future. If such matters are decided unfavorably to the Company, they could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

These legal proceedings have negatively impacted our public reputation and, as a result, some consumers have elected not to continue subscribing to one or more of our games, and existing and potential players may decide not to play our games in the future. Some existing sponsors, partners, and advertisers have also elected not to be associated with our brand due to this impact on our reputation, and others may so elect in the future. The outcome of these matters remains uncertain, though such matters could be decided unfavorably to the Company and could have a material adverse effect on our business, reputation, financial condition, results of operations, income, revenue, profitability, cash flows, liquidity, or stock price.

We are involved in legal proceedings that can have a negative impact on our business.

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

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

There is also inherent uncertainty in determining reserves for these matters. Significant judgment is required in the analysis of these matters, including assessing the probability of potential outcomes and determining whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Further, it may take time to develop factors on which reasonable judgments and estimates can be based.

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

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

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

For example, many foreign countries have laws that permit governmental entities to restrict or prohibit marketing or distribution of interactive entertainment software products because of the content therein (and similar legislation has been introduced at one time or another at the federal and state levels in the U.S., including legislation that attempts to impose additional taxes based on content). In addition, certain jurisdictions have laws that restrict or prohibit marketing or distribution of interactive entertainment software products with random digital item mechanics, which some of our online games and services include, or subject such products to additional regulation and oversight, such as reporting to regulators, mandatory disclosure to consumers of item drop rates, and higher age ratings for products that contain such mechanics.

We are also subject to laws in a number of jurisdictions concerning the operation and offering of tournaments and games, many of which are still evolving and could be interpreted in ways that could harm our business. Certain jurisdictions also have laws that restrict or prohibit certain types of esports tournament structures. These laws may have an impact on our ability to offer certain esports competitions and/or to offer consumers of our online and casual games various types of contests and promotional opportunities.

Further, the growth and development of electronic commerce, virtual items, and currency may prompt calls for more stringent consumer protection laws that may impose additional burdens or limitations on operations of companies such as ours conducting business through the Internet and mobile devices, including related to screen time. Also, existing laws or new laws regarding the marketing of in-app purchases, regulation of currency, banking institutions, unclaimed property, and money laundering may be interpreted to cover virtual currency or goods. Additionally, laws may limit or prevent the auto-renewal of contracts and subscriptions. Further, the European Commission has recently imposed a large antitrust fine on a number of other game publishers who had been geoblocking certain EU countries. In addition, in 2019 the World Health Organization included “gaming disorder” in the 11th Revision of the International Classification of Diseases (ICD-11), leading some countries to consider legislation and policies aimed at addressing this issue. Moreover, the public dialogue concerning interactive entertainment may have an adverse impact on our reputation and consumers’ willingness to purchase our products.

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

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

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

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

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

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

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

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

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

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

Financial and Economic Risks

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

Our income tax liability and effective tax rate could be adversely affected by a variety of factors, including changes in our business, the mix of earnings in countries with differing statutory tax rates, changes in tax laws or tax rulings, changes in interpretations of existing laws, or developments in tax examinations or investigations. Any of these factors could have a negative impact on our business or require us to change the manner in which we operate our business. The tax regimes we are subject to, or operate under, are unsettled and may be subject to significant change. Furthermore, tax authorities may choose to examine or investigate our tax reporting or tax liability, including under transfer pricing or permanent establishment theories. These proceedings may lead to adjustments or proposed adjustments to our income taxes or provisions for uncertain tax positions. Additionally, a number of countries, including the U.S., have been pursuing fundamental changes to the tax laws applicable to multinational companies like us, including changing the U.S. taxation of non-U.S. income, developing new global OECD guidelines, and enacting revenue-based taxes on digital services. If these developments lead to enacted policy changes, it may have an adverse impact on our income tax expense and could negatively impact our business.

Fluctuations in currency exchange rates could negatively impact our business.

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

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

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information and Holders

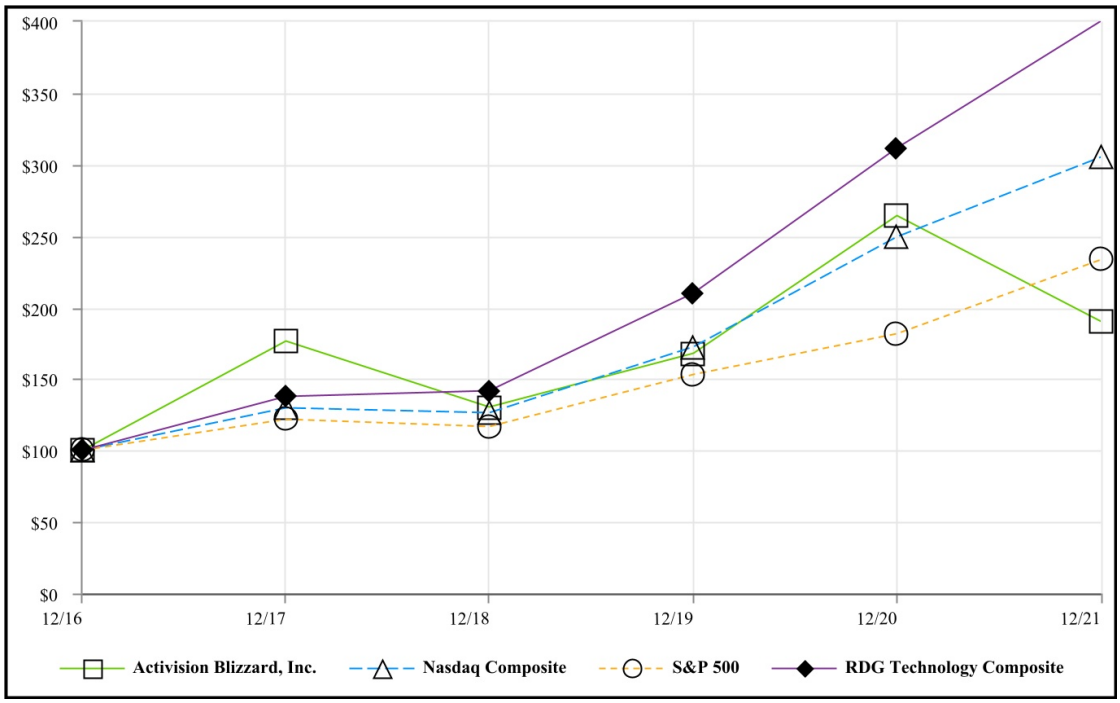
Our common stock is quoted on the Nasdaq National Market under the symbol "ATVI". At February 18, 2022, there were 1,482 holders of record of our common stock.

Stock Performance Graph

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

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

The following graph and table compare the cumulative total stockholder return on our common stock, the Nasdaq Composite Index, the S&P 500 Index, and the RDG Technology Composite Index. The graph and table assume that $100 was invested on December 31, 2016, and that dividends were reinvested daily. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Fiscal year ending December 31:	12/16	12/17	12/18	12/19	12/20	12/21
Activision Blizzard, Inc.	$ 100.00	$ 176.41	$ 130.41	$ 167.75	$ 263.83	$ 189.96
Nasdaq Composite	100.00	129.64	125.96	172.17	249.51	304.85
S&P 500	100.00	121.83	116.49	153.17	181.35	233.41
RDG Technology Composite	100.00	137.44	141.58	210.04	311.64	400.39

Cash Dividends

We have paid a dividend annually since 2010. Below is a summary of cash dividends paid over the past three fiscal years, along with the dividend most recently declared by the Board of Directors that will be paid in May 2022:

Year	Per Share Amount	Record Date	Dividend Payment Date
2022	$0.47	4/15/2022	5/6/2022
2021	$0.47	4/15/2021	5/6/2021
2020	$0.41	4/15/2020	5/6/2020
2019	$0.37	3/28/2019	5/9/2019

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

Under the Merger Agreement, we may declare and pay one regular cash dividend not to exceed $0.47 per common share and consistent with the declaration, record, and payment date of our dividend from our most recent fiscal year. On February 3, 2022, our Board of Directors declared the regular cash dividend of $0.47 per common share permitted under the terms of the Merger Agreement, payable on May 6, 2022, to shareholders of record at the close of business on April 15, 2022. We may not declare, set aside, authorize, establish a record date for, or pay any further dividend or other distribution (whether in cash, shares, or property or any combination thereof) in respect of any shares of capital stock or other equity or voting interest, or make any other actual, constructive, or deemed distribution in respect of the shares of capital stock or other equity or voting interest, without obtaining Microsoft's approval (which may not be unreasonably withheld, conditioned, or delayed).

Issuer Purchase of Equity Securities

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to $4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. To date, we have not repurchased any shares under this program and are restricted from making any repurchases during the period between the execution of the Merger Agreement and the effective time of the Merger without obtaining Microsoft’s approval (which may not be unreasonably withheld, conditioned, or delayed).

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

Item 6. [RESERVED]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

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

Merger Agreement

On January 18, 2022, we entered into the Merger Agreement with Microsoft and Merger Sub, in which we agreed to be acquired for $95.00 in cash per Share. Pursuant to the terms of the Merger Agreement, our acquisition will be accomplished through the merger of Merger Sub with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Microsoft.

Pursuant to the terms of the Merger Agreement, and subject to the terms and conditions set forth therein, at the Effective Time, each Share (other than Shares (1) held by the Company as treasury stock (excluding certain Shares held by a wholly owned subsidiary of the Company, which shares will remain outstanding and unaffected by the Merger), (2) owned by Microsoft or Merger Sub, (3) owned by any direct or indirect wholly owned subsidiary of Microsoft or Merger Sub or (4) held by stockholders who have neither voted in favor of adoption of the Merger Agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such Shares in accordance with Section 262 of the Delaware General Corporation Law, in each case, immediately prior to the Effective Time) issued and outstanding immediately prior to the Effective Time will be cancelled and automatically converted into the right to receive $95.00 in cash, without interest.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination fee. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023.

The consummation of the Merger is subject to customary closing conditions, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

Employment Matters

We are subject to legal proceedings regarding our workplace and are experiencing adverse effects related to these proceedings and to concerns raised about our workplace. For information about these matters, see Part I, Item 1A "Risk Factors" and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

King delivers content through free-to-play offerings and primarily generates revenue from in-game sales and in-game advertising on mobile platforms. King's key product franchise is Candy Crush™, a "match three" franchise.

Other

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

2021 financial highlights included:

- consolidated net revenues increased 9% to $8.8 billion and consolidated operating income increased 19% to $3.3 billion, as compared to consolidated net revenues of $8.1 billion and consolidated operating income of $2.7 billion in 2020;
- diluted earnings per common share increased 22% to $3.44, as compared to $2.82 in 2020; and
- cash flows from operating activities were approximately $2.4 billion, an increase of 7%, as compared to $2.3 billion in 2020.

Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. Net revenues and operating income for the year ended December 31, 2021, include a net effect of $449 million and $347 million, respectively, from the recognition of deferred net revenues and related cost of revenues.

The percentage of our consolidated net revenues that are recognized from revenue sources that are recognized at a “point-in-time” and from sources that are recognized “over-time and other” were as follows:

	For the Years Ended December 31,	
	2021	**2020**
Point-in-time (1)	14 %	16 %
Over-time and other (2)	86 %	84 %

(1) Revenue recognized at a “point-in-time” is primarily comprised of the portion of revenue from software products that is recognized when the customer takes control of the product (i.e., upon delivery of the software product) and revenues from our Distribution business.

(2) Revenue recognized “over-time and other revenue” is primarily comprised of revenue associated with the online functionality of our games, in-game purchases, and subscriptions.

2021 Content Release and Event Highlights

Throughout the year we regularly release new content through seasonal and live services updates within our franchises, including Call of Duty, Candy Crush, and Warcraft. In addition to these updates, notable game releases during 2021 included:

- Activision's *Call of Duty: Vanguard*;
- Activision's *Call of Duty: Warzone Pacific*;
- Blizzard's *World of Warcraft: Burning Crusade Classic*™;
- Blizzard's *Hearthstone: Mercenaries*; and
- Blizzard's *Diablo II: Resurrected*™, a remastered version of the original action role-playing game title *Diablo II.*

Summary of Title Release Dates

Below is a summary of release dates for titles that are discussed throughout our analysis for our operating metrics, our consolidated results, and operating segment results.

Title	Release Date
Call of Duty: Vanguard	November 2021, and when referred to herein, is inclusive of *Call of Duty: Warzone* from the release of *Call of Duty: Vanguard* Season 1 content and *Call of Duty: Warzone Pacific* on December 8, 2021.
Call of Duty: Black Ops Cold War	November 2020, and when referred to herein, is inclusive of *Call of Duty: Warzone* from the release of *Call of Duty: Black Ops Cold War* Season 1 content on December 16, 2020 through December 8, 2021.
Crash Bandicoot™ 4: It's About Time	October 2020.
Tony Hawk's™ Pro Skater™ 1 + 2	September 2020.
Call of Duty: Modern Warfare	October 2019, and when referred to herein, is inclusive of *Call of Duty: Warzone* from its release in March 2020 through December 16, 2020.
Call of Duty: Mobile	October 2019.
Crash™ Team Racing Nitro-Fueled	June 2019.
Call of Duty: Black Ops 4	October 2018.
Diablo II: Resurrected	September 2021.
World of Warcraft: Burning Crusade Classic	June 2021.
World of Warcraft: Shadowlands	November 2020.

International Sales

International sales are a fundamental part of our business. An important element of our international strategy is to develop content that is specifically directed toward local cultures and customs. Net revenues from international sales accounted for approximately 51%, 52%, and 54% of our total consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. The majority of our net revenues from foreign countries are generated by consumers in Australia, Canada, China, France, Germany, Italy, Japan, South Korea, and the U.K. Our international business is subject to risks typical of an international business, including, but not limited to, foreign currency exchange rate volatility and changes in local economies. Accordingly, our future results could be materially and adversely affected by changes in foreign currency exchange rates and changes in local economies.

Operating Metrics

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

Net bookings and in-game net bookings

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

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

	For the Years Ended December 31,		Increase (Decrease)
	2021	2020	
Net bookings	$ 8,354	$ 8,419	$ (65)
In-game net bookings	$ 5,100	$ 4,852	$ 248

Net bookings

The decrease in net bookings for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to:

- a $464 million decrease in Activision net bookings, driven by lower net bookings from (1) *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*, (2) *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*, (3) *Tony Hawk's Pro Skater 1 + 2*, and (4) *Crash Bandicoot 4: It's About Time*, partially offset by higher net bookings from *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4* and *Call of Duty: Mobile*; and

- a $78 million decrease in Blizzard net bookings, driven by lower net bookings from *World of Warcraft*, partially offset by higher net bookings from *Diablo II: Resurrected*.

The decrease in net bookings was partially offset by a $416 million increase in King net bookings, driven by higher net bookings from in-game player purchases and advertising, primarily in the Candy Crush franchise.

In-game net bookings

The increase in in-game net bookings for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $265 million increase in King in-game net bookings, driven by the Candy Crush franchise.

This increase was partially offset by a $18 million decrease in Activision in-game net bookings, with lower in-game net bookings from (1) *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare*, and (2) *Call of Duty: Vanguard*, as compared to *Call of Duty: Black Ops Cold War*, being largely offset by higher in-game net bookings from *Call of Duty: Mobile* and *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*.

Monthly Active Users

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

The number of MAUs for a given period can be significantly impacted by the timing of new content releases, since new releases may cause a temporary surge in MAUs. Accordingly, although we believe that overall trends 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):

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Activision	107	119	127	150	128
Blizzard	24	26	26	27	29
King	240	245	255	258	240
Total	371	390	408	435	397

Average MAUs decreased by 19 million, or 5%, for the three months ended December 31, 2021, as compared to the three months ended September 30, 2021. The decrease was primarily due to lower average MAUs for Activision, primarily driven by the Call of Duty franchise.

Average MAUs decreased by 26 million or 7% for the three months ended December 31, 2021 as compared to the three months ended December 31, 2020. The decrease was primarily due to lower average MAUs for Activision, primarily driven by the Call of Duty franchise.

Management's Overview of Business Trends

Impacts of the Global COVID-19 Pandemic

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

Interactive Entertainment Growth

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate, based on consumer spending, that the total industry has grown, on average, 10% annually from 2018 to 2021. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more commonplace across age groups and as more developing regions gain access to this form of entertainment.

Mobile Gaming and Free-to-Play Games

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

In addition, the free-to-play business model, which allows players to try a new game with no upfront cost, has begun to receive broader acceptance on PC and console platforms. This provides opportunities for us to increase the reach of our franchises through free-to-play offerings, which, in turn, provides opportunities to further drive player investment, as was seen with our *Call of Duty: Warzone* release in March 2020, and continuous content updates including the release of a completely new map with the launch of *Call of Duty: Warzone Pacific.*

Concentration of Sales Among the Most Popular Franchises

The top titles in the industry are also becoming more consistent as players and revenues concentrate more heavily in established franchises.

A significant portion of our revenues historically has been derived from video games based on a few popular franchises, and these video games have also been responsible for a disproportionately higher percentage of our profits. For example, in 2021, the Call of Duty, Candy Crush, and Warcraft franchises, collectively, accounted for 82% of our consolidated net revenues—and a significantly higher percentage of our operating income.

In addition to investing in new content for our top franchises, with the aim of releasing such content more frequently, we are continually exploring additional ways to expand those franchises, such as our release of Activision's *Call of Duty: Warzone*. Additionally, we have been increasing our development efforts to focus on expanding our franchises to mobile platforms, as demonstrated by the release of *Call of Duty: Mobile* and our recent release of *Crash Bandicoot: On the Run!* in March 2021, as well as our plans for *Diablo Immortal*™ , which is currently in development.

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

Recurring Revenue Business Models

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

Opportunities to Expand Franchises Outside of Games

Our fans spend significant time engaging in our franchises and investing through purchases of our game content, including full games and in-game content. Given the passion our players have for our franchises, we believe there are emerging opportunities to drive additional engagement and investment in our franchises through adding non-gaming experiences within games or by adding ways to engage outside of games, such as with our Overwatch and Call of Duty esports leagues. Our efforts to build these adjacent opportunities are still relatively nascent and have experienced negative impacts from COVID-19 on their growth.

Increased Competition for Talent

We believe that our continued success and growth is directly related to our ability to attract, retain, and develop top talent. We have seen increased competition in the market for talent and expect the competitive environment to continue at least in the short term. We have experienced challenges in both the retention of our existing talent and attraction of new talent, with our average voluntary turnover rates being higher in the current year as compared to the prior year in many parts of our Company. This competition, voluntary turnover and recruiting difficulty, has negatively impacted our ability to deliver future game releases, and if they persist, could continue to negatively impact our ability to deliver content in a cadence that will be optimal for our business.

Additionally, refer to the "Our People" section under Part I, Item 1 "Business" for discussion on Activision Blizzard's initiatives and focus on our employees, including anticipated future investments to achieve our diversity aspirations. See also Part I, Item 1A "Risk Factors" and Note 22 to the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a discussion of recent employment matters affecting the Company.

Upcoming Content Releases

As previously announced, we are now planning for a later launch for our *Overwatch 2* and *Diablo IV* titles than originally expected in order to provide the development teams the extra time they need to deliver the experiences that their communities deserve, and to set the franchises up for success over a multi-year period. As a result, we will not have the financial uplift that we had expected in 2022 from the release of these two titles. Additionally, as previously announced, Blizzard's mobile title based on the Diablo franchise, *Diablo Immortal*, is now anticipated to release in 2022 and recently completed public testing in February 2022. In the second half of 2022, we also plan to release the next premium title in our Call of Duty franchise. In addition, throughout the year we expect to deliver ongoing content for our various franchises, including continued in-game content for *Call of Duty: Vanguard*, which includes seasonal content updates for *Call of Duty: Warzone*, seasonal content updates for *Call of Duty: Mobile*, substantial new content for key Blizzard franchises, and continued releases of content, features, and services across King's portfolio with an ongoing focus on the Candy Crush franchise. We will also continue to invest in opportunities that we think have the potential to drive our growth over the long-term, including continuing to build on our advertising initiatives and investments in mobile titles.

Consolidated Statements of Operations Data

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

	For the Years Ended December 31,			
	2021		2020	
Net revenues				
Product sales	$ 2,311	26 %	$ 2,350	29 %
In-game, subscription, and other revenues	6,492	74	5,736	71
Total net revenues	8,803	100	8,086	100
Costs and expenses				
Cost of revenues—product sales:				
Product costs	649	28	705	30
Software royalties, amortization, and intellectual property licenses	346	15	269	11
Cost of revenues—in-game, subscription, and other:				
Game operations and distribution costs	1,215	19	1,131	20
Software royalties, amortization, and intellectual property licenses	107	2	155	3
Product development	1,337	15	1,150	14
Sales and marketing	1,025	12	1,064	13
General and administrative	788	9	784	10
Restructuring and related costs	77	1	94	1
Total costs and expenses	5,544	63	5,352	66
Operating income	3,259	37	2,734	34
Interest and other expense (income), net	95	1	87	1
Loss on extinguishment of debt (1)	—	—	31	—
Income before income tax expense	3,164	36	2,616	32
Income tax expense	465	5	419	5
Net income	$ 2,699	31 %	$ 2,197	27 %

(1) Represents the loss on extinguishment of debt we recognized in connection with our debt financing activities during the year ended December 31, 2020.

Consolidated Net Revenues

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

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

	For the Years Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Consolidated net revenues	$ 8,803	$ 8,086	$ 717	9 %
In-game net revenues (1)	$ 5,266	$ 4,571	$ 695	15 %

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

Consolidated net revenues

The increase in consolidated net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily driven by an increase in revenues of $1.3 billion due to higher revenues from:

- the Candy Crush franchise;
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*;
- *Call of Duty: Mobile*;
- *Diablo II: Resurrected*; and
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*.

This increase was partially offset by a decrease in revenues of $331 million due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time*.

The remaining net decrease in revenues of $288 million was driven by various other franchises and titles.

In-game net revenues

The increase in in-game net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily driven by an increase in in-game net revenues of $924 million due to higher in-game net revenues from:

- *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*;
- the Candy Crush franchise;
- *Call of Duty: Mobile*; and
- *World of Warcraft.*

This increase was partially offset by a decrease in in-game net revenues of $120 million due to lower in-game net revenues from *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare.*

The remaining net decrease in in-game net revenues of $109 million was driven by various other franchises and titles.

Operating Segment Results

We have three reportable segments—Activision, Blizzard, and King. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense (including liability awards accounted for under ASC 718); 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.

The Company has been reviewing its overall compensation structure and philosophy and began implementing changes to its compensation payments for 2021, primarily to enhance equity ownership for employees and bring our employee equity compensation more in line with the current industry practice. As an aspect of this change, the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved, resulting in a year-end share-based compensation liability of $194 million. The changes during the three months ended December 31, 2021 resulted in $160 million of expense related to achievement against 2021 performance targets that would have otherwise been included in our reportable segment operating income to instead be excluded from our 2021 operating income as it is now part of share-based compensation, accounted for as a liability under ASC 718. The changes increased our Activision, Blizzard, King and non-reportable segment operating income by $43 million, $25 million, $65 million, and $27 million, respectively, for the three months and year ended December 31, 2021. In addition, going forward, to the extent certain of our previously cash-based bonus programs are instead issued as time-based equity or settled via equity, such amounts will be recorded as share-based compensation and will be excluded from segment operating income.

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

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

	For the Year Ended December 31, 2021				Increase / (decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Revenues								
Net revenues from external customers	$ 3,478	$ 1,733	$ 2,580	$ 7,791	$ (464)	$ (61)	$ 416	$ (109)
Intersegment net revenues (1)	—	94	—	94	—	(17)	—	(17)
Segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 7,885	$ (464)	$ (78)	$ 416	$ (126)
Segment operating income	$ 1,667	$ 698	$ 1,140	$ 3,505	$ (201)	$ 5	$ 283	$ 87

	For the Year Ended December 31, 2020			
	Activision	Blizzard	King	Total
Segment Revenues				
Net revenues from external customers	$ 3,942	$ 1,794	$ 2,164	$ 7,900
Intersegment net revenues (1)	—	111	—	111
Segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 8,011
Segment operating income	$ 1,868	$ 693	$ 857	$ 3,418

(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 Year Ended December 31,	
	2021	2020
Reconciliation to consolidated net revenues:		
Segment net revenues	$ 7,885	$ 8,011
Revenues from non-reportable segments (1)	563	519
Net effect from recognition (deferral) of deferred net revenues (2)	449	(333)
Elimination of intersegment revenues (3)	(94)	(111)
Consolidated net revenues	$ 8,803	$ 8,086
Reconciliation to consolidated income before income tax expense:		
Segment operating income	$ 3,505	$ 3,418
Operating income (loss) from non-reportable segments (1)	2	(55)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	347	(238)
Share-based compensation expense (4)	(508)	(218)
Amortization of intangible assets	(10)	(79)
Restructuring and related costs (Note 17)	(77)	(94)
Consolidated operating income	3,259	2,734
Interest and other expense (income), net	95	87
Loss on extinguishment of debt	—	31
Consolidated income before income tax expense	$ 3,164	$ 2,616

(1) Includes other income and expenses outside of our reportable segments, including our Distribution business and 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) Expenses related to share-based compensation, including liability awards accounted for under ASC 718. Refer to Note 16.

Segment Results

Activision

The decrease in Activision's segment net revenues and operating income for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time*.

This decrease in segment net revenues was partially offset by higher revenues from:

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

The decrease in Activision's segment operating income, driven by the overall decrease in segment net revenues, was partially offset by:

- lower cost of revenues, driven by lower software amortization and royalties for *Call of Duty: Vanguard*, as compared to *Call of Duty: Black Ops Cold War*, as well as for *Tony Hawk's Pro Skater 1 + 2* and *Crash Bandicoot 4: It's About Time*;
- lower sales and marketing costs, primarily for the Call of Duty franchise and *Crash Bandicoot 4: It's About Time*; and
- lower product development costs driven by lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation.

Blizzard

The decrease in Blizzard's segment net revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from *World of Warcraft*; partially offset by higher revenues from *Diablo II: Resurrected*.

Blizzard's segment operating income was comparable to 2020, as the impact of lower segment net revenues and higher product development costs to support game development efforts were offset by:

- lower cost of revenues, driven by lower software amortization and royalties for *World of Warcraft: Shadowlands*, partially offset by higher software amortization and royalties for *Diablo II: Resurrected*;
- lower marketing costs, driven by lower marketing costs for *World of Warcraft* and *Hearthstone*, partially offset by higher marketing costs for *Diablo II: Resurrected;* and
- lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation.

King

The increase in King's segment net revenues and operating income for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from in-game player purchases and advertising, primarily in the Candy Crush franchise.

In addition, the increase in King's segment operating income was driven by:

- lower personnel costs due to changes made to our compensation payments for 2021, as previously noted above, resulting in the costs for certain 2021 personnel bonuses being excluded from 2021 operating income, as they are now part of share-based compensation; and
- higher insurance claim proceeds primarily relating to a network outage which occurred in 2018 from changes made by a third-party partner which inadvertently impacted some users' ability to play and spend money in King games.

These increases in King's segment operating income were partially offset by:

- higher sales and marketing costs, primarily for the Candy Crush franchise; and
- higher service provider fees, primarily digital storefront fees, driven by the higher revenues from in-game player purchases.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $100 million and $61 million on Activision Blizzard's segment net revenues for the years ended December 31, 2021 and 2020, respectively, in each case as compared to 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 Year Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Net revenues by distribution channel:				
Digital online channels (1)	$ 7,663	$ 6,658	$ 1,005	15 %
Retail channels	479	741	(262)	(35)
Other (2)	661	687	(26)	(4)
Total consolidated net revenues	$ 8,803	$ 8,086	$ 717	9

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

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

Digital Online Channel Net Revenues

The increase in net revenues from digital online channels for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- in-game player purchases and advertising in the Candy Crush franchise;
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*;
- *Call of Duty: Mobile*;
- *Diablo II: Resurrected*; and
- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*.

Retail Channel Net Revenues

The decrease in net revenues from retail channels for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare*;
- *Crash Bandicoot 4: It's About Time*;
- *Crash Team Racing Nitro-Fueled*; and
- *Tony Hawk's Pro Skater 1 + 2.*

Net Revenues by Platform

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

	For the Year Ended December 31,			
	2021	2020	Increase/ (decrease)	% Change
Net revenues by platform:				
Console	$ 2,637	$ 2,784	$ (147)	(5)%
PC	2,323	2,056	267	13
Mobile and ancillary (1)	3,182	2,559	623	24
Other (2)	661	687	(26)	(4)
Total consolidated net revenues	$ 8,803	$ 8,086	$ 717	9

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

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

Console

The decrease in net revenues from the console platform for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to lower revenues from:

- *Call of Duty: Black Ops Cold War* as compared to *Call of Duty: Modern Warfare;*
- *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*;
- *Tony Hawk's Pro Skater 1 + 2*; and
- *Crash Bandicoot 4: It's About Time.*

The decrease was partially offset by higher revenues from *Call of Duty: Modern Warfare*, as compared to *Call of Duty: Black Ops 4*.

PC

The increase in net revenues from the PC platform for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- *World of Warcraft*, which includes the release of *World of Warcraft: Shadowlands* and *World of Warcraft: Burning Crusade Classic*;
- *Diablo II: Resurrected*; and
- *Call of Duty: Modern Warfare* as compared to *Call of Duty: Black Ops 4*.

Mobile and Ancillary

The increase in net revenues from mobile and ancillary for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher revenues from:

- in-game player purchases and advertising in the Candy Crush franchise; and
- *Call of Duty: Mobile*.

Costs and Expenses

Cost of Revenues

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

	Year Ended December 31, 2021	% of associated net revenues	Year Ended December 31, 2020	% of associated net revenues	Increase (Decrease)
Cost of revenues—product sales:					
Product costs	$ 649	28 %	$ 705	30 %	$ (56)
Software royalties, amortization, and intellectual property licenses	346	15	269	11	77
Cost of revenues—in-game, subscription, and other:					
Game operations and distribution costs	1,215	19	1,131	20	84
Software royalties, amortization, and intellectual property licenses	107	2	155	3	(48)
Total cost of revenues	$ 2,317	26 %	$ 2,260	28 %	$ 57

Cost of Revenues—Product Sales:

The decrease in product costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was driven by a $51 million decrease in product costs from Activision, as a result of lower retail channel revenues.

The increase in software royalties, amortization, and intellectual property licenses related to product sales for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $123 million increase in software amortization and royalties from Blizzard, driven by higher software amortization and royalties from (1) *World of Warcraft*, following the release of *World of Warcraft: Shadowlands*, with no comparable amortization in the prior year, and (2) *Diablo II: Resurrected*.

This increase was partially offset by a $46 million decrease in software amortization and royalties from Activision, driven by lower software amortization and royalties from (1) *Tony Hawk's Pro Skater 1 + 2*, (2) *Crash Bandicoot 4: It's About Time*, and (3) *Call of Duty: Vanguard* as compared to *Call of Duty: Black Ops Cold War*, partially offset by higher software amortization and royalties from *Call of Duty: Black Ops Cold War*, as compared to *Call of Duty: Modern Warfare*.

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

The increase in game operations and distribution costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a $114 million increase in service provider fees, such as digital storefront fees (e.g., fees retained by Apple and Google for our sales on their platforms) and payment processor fees, as a result of higher revenues.

The decrease in software royalties, amortization, and intellectual property licenses related to in-game, subscription, and other revenues for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a decrease of $61 million in amortization of internally-developed franchise and developed software intangible assets acquired as part of our 2016 acquisition of King. The decrease was partially offset by an increase in software amortization and royalties from Activision of $23 million, driven by *Call of Duty: Mobile*.

Product Development (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Product development	$ 1,337	15 %	$ 1,150	14 %	$ 187

The increase in product development costs for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to higher development spending of $275 million, driven by increased personnel costs and outside developer fees to support our franchises. The increase was partially offset by an $89 million increase in capitalization of development costs driven by the timing of Activision's game development cycles.

Sales and Marketing (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Sales and marketing	$ 1,025	12 %	$ 1,064	13 %	$ (39)

The decrease in sales and marketing expenses for the year ended December 31, 2021, as compared to the year ended December 31, 2020, was primarily due to a decrease of $24 million in costs for marketing personnel and support services. Marketing spending for the year ended December 31, 2021 was comparable to the year ended December 31, 2020, primarily due to lower spending for the Call of Duty franchise being offset by higher spending for the Candy Crush franchise.

General and Administrative (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
General and administrative	$ 788	9 %	$ 784	10 %	$ 4

General and administrative expenses for the year ended December 31, 2021 were comparable to the year ended December 31, 2020.

Restructuring and related costs (amounts in millions)

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Restructuring and related costs	$ 77	1 %	$ 94	1 %	$ (17)

During 2019, we began implementing a plan aimed at refocusing our resources on our largest opportunities and removing unnecessary levels of complexity and duplication from certain parts of our business. Since then, we have been focusing on these goals as we execute against our plan for which, at the end of 2021, we had substantially completed the actions contemplated under our plan. The restructuring and related costs incurred during 2021 relate primarily to severance costs. We do not expect to realize significant net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general and administrative activities are expected to be offset by increased investment in product development. Refer to Note 17 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion.

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

	December 31, 2021	% of consolidated net revenues	December 31, 2020	% of consolidated net revenues	Increase (Decrease)
Interest and other expense (income), net	$ 95	1 %	$ 87	1 %	$ 8

Interest and other expense (income), net, for the year ended December 31, 2021, was comparable to the year ended December 31, 2020 with a $24 million increase in gains on equity investments being offset by a $16 million decrease in interest income as a result of lower interest rates.

Income Tax Expense (amounts in millions)

	December 31, 2021	% of Pretax income	December 31, 2020	% of Pretax income	Increase (Decrease)
Income tax expense	$ 465	15 %	$ 419	16 %	$ 46

The income tax expense of $465 million for the year ended December 31, 2021 reflects an effective tax rate of 15%, which is lower than the effective tax rate of 16% for the year ended December 31, 2020. The decrease is primarily due to a benefit resulting from deferred tax asset remeasurements.

The effective tax rate of 15% for the year ended December 31, 2021, is lower than the U.S. statutory rate of 21%, primarily due to foreign earnings taxed at lower rates, research and development credits and a benefit resulting from a deferred tax asset remeasurement.

The overall effective income tax rate in future periods will depend on a variety of factors, such as changes in pre-tax income or loss by jurisdiction, applicable accounting rules, applicable tax laws and regulations, and rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss.

Further analysis of the differences between the U.S. federal statutory rate and the consolidated effective tax rate, as well as other information about our income taxes, is provided in Note 19 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Foreign Exchange Impact

Changes in foreign exchange rates had a positive impact of $107 million and $62 million on our consolidated net revenues in 2021 and 2020, respectively, as compared to the same periods in the previous year.

Changes in foreign exchange rates had a positive impact of $30 million and $35 million on our consolidated operating income in 2021 and 2020, respectively, as compared to the same periods in the previous year.

Comparison of 2020 to 2019

For the comparison of 2020 to 2019, refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2020.

Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. Despite the impacts of the COVID-19 pandemic on the global economy, in the near term, we expect our business and financial condition to remain strong and to continue to generate significant operating cash flows, which, we believe, in combination with our existing balance of cash and cash equivalents and short-term investments of $10.6 billion, our access to debt and equity 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 and beyond. Our primary sources of liquidity include our cash and cash equivalents, short-term investments, and cash flows provided by operating activities. Our material cash requirements include operating expenses, potential dividend payments and share repurchases, scheduled debt maturities (the next of which is in 2026), capital expenditures and other commitments, as discussed below.

As of December 31, 2021, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was $3.9 billion, as compared to $2.5 billion as of December 31, 2020. 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 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, dividends, share repurchases, and other structural changes, with certain of the foregoing actions, if we were to move forward with them, requiring Microsoft's approval under the Merger Agreement (which may not be unreasonably withheld, conditioned, or delayed), subject to certain exceptions. These transactions may result in future cash proceeds or payments.

Sources of Liquidity (amounts in millions)

	December 31, 2021	December 31, 2020	Increase (Decrease)
Cash and cash equivalents	$ 10,423	$ 8,647	$ 1,776
Short-term investments	195	170	25
	$ 10,618	$ 8,817	$ 1,801
Percentage of total assets	42 %	38 %	

	For the Year Ended December 31,		
	2021	2020	Increase (Decrease)
Net cash provided by operating activities	$ 2,414	$ 2,252	$ 162
Net cash used in investing activities	(59)	(178)	119
Net cash (used in) provided by financing activities	(521)	711	(1,232)
Effect of foreign exchange rate changes	(48)	69	(117)
Net increase in cash and cash equivalents and restricted cash	$ 1,786	$ 2,854	$ (1,068)

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities for the year ended December 31, 2021, was $2.4 billion, as compared to $2.3 billion for the year ended December 31, 2020. The increase was primarily due to higher net income and lower tax payments in the current year, as the prior-year period included payments for a tax settlement in France with no comparable activity in 2021, partially offset by changes in our working capital resulting from the timing of collections and payments.

Net Cash Used in Investing Activities

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

Net cash used in investing activities for the year ended December 31, 2021, was $59 million, as compared to $178 million for the year ended December 31, 2020. The decrease in cash used in investing activities was primarily due to net proceeds from the sale and maturities of available-for-sale investments of $32 million for the year ended December 31, 2021, as compared to net purchases of available-for-sale investments of $100 million for the year ended December 31, 2020.

Net Cash Used in Financing Activities

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

Net cash used in financing activities for the year ended December 31, 2021, was $521 million, as compared to net cash provided by financing activities of $711 million for the year ended December 31, 2020. The increase in cash used in financing activities was primarily due to:

- net debt proceeds of $896 million received for the year ended December 31, 2020, resulting from the issuance of an aggregate principal amount of $2.0 billion of new notes and the early redemption of $1.05 billion of our previously outstanding notes, with no comparable activity for the year ended December 31, 2021;
- higher tax payments made for net share settlements on restricted stock units, driven by a higher volume of share releases, at higher market values, resulting in $246 million of payments during the year ended December 31, 2021, as compared to $39 million during the year ended December 31, 2020; and
- lower proceeds on issuance of stock to employees, with $90 million received during the year ended December 31, 2021, as compared to $170 million during the year ended December 31, 2020.

Effect of Foreign Exchange Rate Changes

Changes in foreign exchange rates had a negative impact of $48 million and a positive impact of $69 million on our cash and cash equivalents for the years ended December 31, 2021 and December 31, 2020, respectively. The change was primarily due to changes in the value of the U.S. dollar relative to the euro and the British pound.

Debt

At both December 31, 2021 and December 31, 2020, our total gross unsecured senior notes outstanding was $3.7 billion, bearing interest at a weighted average rate of 2.87%.

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

	At December 31, 2021	At December 31, 2020
2026 Notes	$ 850	$ 850
2027 Notes	400	400
2030 Notes	500	500
2047 Notes	400	400
2050 Notes	1,500	1,500
Total gross long-term debt	$ 3,650	$ 3,650
Unamortized discount and deferred financing costs	(42)	(45)
Total net carrying amount	$ 3,608	$ 3,605

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

Dividends

On February 3, 2022, our Board of Directors declared a cash dividend of $0.47 per common share, payable on May 6, 2022, to shareholders of record at the close of business on April 15, 2022.

On February 4, 2021, our Board of Directors declared a cash dividend of $0.47 per common share. On May 6, 2021, we made an aggregate cash dividend payment of $365 million to shareholders of record at the close of business on April 15, 2021.

Capital Expenditures

We made capital expenditures of $80 million in 2021, as compared to $78 million in 2020. In 2022, we anticipate total capital expenditures of approximately $100 million, primarily for computer hardware, leasehold improvements, and software purchases.

Commitments

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

Comparison of 2020 to 2019

For the comparison of 2020 to 2019, refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2020, under the subheading “Liquidity and Capital Resources.”

Off-balance Sheet Arrangements

At each of December 31, 2021 and December 31, 2020, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

We determine revenue recognition by:

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

Certain products are sold to customers with a "street date" (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

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

Product Sales

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

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

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer’s national circular advertisement, are recorded as “Sales and marketing” expense when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the good or service.

Products with Online Functionality

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

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

Online Hosted Software Arrangements

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

In-game, Subscription, and Other Revenues

In-game Revenues

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

Subscription Revenues

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

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

Other Revenues

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

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

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

Revenues from advertising arise primarily from contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers to display advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. Our advertising arrangements are primarily impression-based and we recognize revenue from these in the contracted period in which the impressions are delivered. Impressions are considered delivered when an advertisement is displayed to users. The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order. The transaction price in advertising arrangements governed by a master contract is generally based on a revenue share percentage stated in the contract. The transaction price in advertising arrangements governed by an insertion order is generally the product of the number of advertising units delivered (e.g., impressions, videos viewed) and the contractually agreed upon price per advertising unit.

Significant Judgment around Revenue Arrangements with Multiple Deliverables

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

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

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with our content for a period of time. We also consider known online trends such as the cadence of content delivery in our games, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires significant management judgment. The estimated service periods for players of our current games are less than 12 months.

Historically, we have not observed significant variability in our estimated service period as the online content for our games has generally been comparable to previously released titles resulting in similar usage patterns. Future usage patterns could change from historical patterns as a result of various factors, including but not limited to, changes in our online content, frequency of content delivery, competitor's offerings, and other changes that impact player's engagement that we may not be able to reasonable predict at the time of deriving our estimate. If future usage patterns were to change significantly from historical patterns, in the future our estimated service period could change and materially impact our future consolidated net revenues and operating income.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and

- which party has discretion in establishing the price for the specified good or service.

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

Income Taxes

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

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to tax expense in the period such determination is made.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC Topic 740 and complex tax laws. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our business and results of operations in an interim period in which the uncertainties are ultimately resolved.

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

We are also subject to the continuous examination of our income tax returns by the IRS and are regularly subject to audit by other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition. For the year ended December 31, 2021, one percentage point increase in our effective tax rate would have resulted in an increase in our income tax expense of approximately $32 million.

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

Software Development Costs

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

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

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

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

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

Recently Issued Accounting Pronouncements

For a detailed discussion of all relevant recently issued accounting pronouncements, see Note 3 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

We transact business in many different foreign currencies and may be exposed to financial market risk resulting from fluctuations in foreign currency exchange rates, with a heightened risk for volatility in the future due to potential impacts of COVID-19 on global financial markets. Revenues and related expenses generated from our international operations are generally denominated in their respective local currencies. Primary currencies include euros, British pounds, Australian dollars, South Korean won, Chinese yuan, and Swedish krona. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions will result in reduced revenues, operating expenses, net income, and cash flows from our international operations. Similarly, our revenues, operating expenses, net income, and cash flows will increase for our international operations if the U.S. dollar weakens against foreign currencies. Since we have significant international sales but incur the majority of our costs in the U.S., 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") and Foreign Currency Forward Contracts Not Designated as Hedges

Refer to Note 10 of the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for disclosures regarding our foreign currency forward contracts.

In the absence of hedging activities for the year ended December 31, 2021, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately $184 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in this manner, and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio, as our outstanding debt is all at fixed rates. Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents, or short-term securities is more subject to market fluctuations than a portfolio of longer-term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer-term securities. At December 31, 2021, our cash and cash equivalents were comprised primarily of money market funds.

As of December 31, 2021, based on the composition of our investment portfolio, we anticipate investment yields may remain low, which would continue to negatively impact our future interest income. Such impact is not expected to be material to the Company's liquidity.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Definition and Limitations of Disclosure Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2021, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized, and reported on a timely basis, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness, as of December 31, 2021, of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

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

The effectiveness of our internal control over financial reporting as of December 31, 2021, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2021. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2021, 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.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item, other than the information regarding executive officers, which is included in Item 1 of this report, is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Proposal 1—Election of Directors," "Corporate Governance Matters—Board Committees," "Corporate Governance Matters—Governance Documents—Code of Conduct," and, if applicable, "Beneficial Ownership Matters—Delinquent Section 16(a) Reports" to be filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Executive Compensation" and "Director Compensation" to be filed with the SEC.

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

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled "Beneficial Ownership Matters," "Equity Compensation Plan Information," and "Corporate Governance Matters—Board Committees," to be filed with the SEC.

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

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled “Corporate Governance Matters—Director Independence”, “Corporate Governance Matters—Board Committees” and “Certain Relationships and Related Person Transactions” to be filed with the SEC.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections of our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders entitled “Audit-Related Matters” to be filed with the SEC.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1 *Financial Statements* See Item 8.—Consolidated Financial Statements and Supplementary Data for index to Financial Statements and Financial Statement Schedule on page 65 herein.

2 *Financial Statement Schedule* The following financial statement schedule of Activision Blizzard for the years ended December 31, 2021, 2020, and 2019 is filed as part of this report on page F-52 and should be read in conjunction with the consolidated financial statements of Activision Blizzard:

Schedule II—Valuation and Qualifying Accounts

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

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

Item 16. FORM 10-K SUMMARY

None.

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Activision Blizzard, Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

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

Revenue Recognition – Determination of Estimated Service Period

As described in Note 2 to the consolidated financial statements, a portion of the Company's $8.8 billion of total net revenues for the year ended December 31, 2021, is recognized ratably over an estimated service period, which for players of the Company's current games is less than twelve months. Management considers a variety of data points when determining the estimated service periods for players of the Company's games, including the weighted-average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with the games' content for a period of time. Management also considers known online trends such as the cadence of content delivery in the Company's games, the service period of previously released games, and, to the extent publicly available, the service period of competitors' games that are similar in nature. Determining the estimated service period is subjective and requires management's judgment.

The principal considerations for our determination that performing procedures relating to revenue recognition - determination of estimated service period is a critical audit matter are the significant judgment by management when determining the estimated service period, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to the data used by management in determining the estimated service period, such as the player data for historical or comparable titles to determine the weighted-average number of days between players' unique purchase or first day played online and the time at which players become inactive and cease engaging with the games' content for a period of time, and qualitative factors utilized by management, such as analysis of competitor information.

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

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2022

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

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

	At December 31, 2021	At December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 10,423	$ 8,647
Accounts receivable, net of allowances of $36 and $83, at December 31, 2021 and December 31, 2020, respectively	972	1,052
Software development	449	352
Other current assets	712	514
Total current assets	12,556	10,565
Software development	211	160
Property and equipment, net	169	209
Deferred income taxes, net	1,377	1,318
Other assets	497	641
Intangible assets, net	447	451
Goodwill	9,799	9,765
Total assets	$ 25,056	$ 23,109
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 285	$ 295
Deferred revenues	1,118	1,689
Accrued expenses and other liabilities	1,008	1,116
Total current liabilities	2,411	3,100
Long-term debt, net	3,608	3,605
Deferred income taxes, net	506	418
Other liabilities	932	949
Total liabilities	7,457	8,072
Commitments and contingencies (Note 22)		
Shareholders' equity:		
Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,207,729,623 and 1,202,906,087 shares issued at December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	11,715	11,531
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2021 and December 31, 2020	(5,563)	(5,563)
Retained earnings	12,025	9,691
Accumulated other comprehensive loss	(578)	(622)
Total shareholders' equity	17,599	15,037
Total liabilities and shareholders' equity	$ 25,056	$ 23,109

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

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Net revenues			
Product sales	$ 2,311	$ 2,350	$ 1,975
In-game, subscription, and other revenues	6,492	5,736	4,514
Total net revenues	8,803	8,086	6,489
Costs and expenses			
Cost of revenues—product sales:			
Product costs	649	705	656
Software royalties, amortization, and intellectual property licenses	346	269	240
Cost of revenues—in-game, subscription, and other:			
Game operations and distribution costs	1,215	1,131	965
Software royalties, amortization, and intellectual property licenses	107	155	233
Product development	1,337	1,150	998
Sales and marketing	1,025	1,064	926
General and administrative	788	784	732
Restructuring and related costs	77	94	132
Total costs and expenses	5,544	5,352	4,882
Operating income	3,259	2,734	1,607
Interest and other expense (income), net (Note 18)	95	87	(26)
Loss on extinguishment of debt	—	31	—
Income before income tax expense	3,164	2,616	1,633
Income tax expense	465	419	130
Net income	$ 2,699	$ 2,197	$ 1,503
Earnings per common share			
Basic	$ 3.47	$ 2.85	$ 1.96
Diluted	$ 3.44	$ 2.82	$ 1.95
Weighted-average number of shares outstanding			
Basic	777	771	767
Diluted	784	778	771

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

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Net income	$ 2,699	$ 2,197	$ 1,503
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	(17)	35	5
Unrealized gains (losses) on forward contracts designated as hedges, net of tax	53	(36)	(15)
Unrealized gains (losses) on available-for-sale securities, net of tax	8	(2)	(8)
Total other comprehensive income (loss)	$ 44	$ (3)	$ (18)
Comprehensive income	$ 2,743	$ 2,194	$ 1,485

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

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Cash flows from operating activities:			
Net income	$ 2,699	$ 2,197	$ 1,503
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	7	(94)	(352)
Non-cash operating lease cost	65	65	64
Depreciation and amortization	116	197	328
Amortization of capitalized software development costs and intellectual property licenses (1)	324	249	225
Share-based compensation expense (Note 16) (2)	508	218	166
Realized and unrealized gain on equity investment (Note 10)	(28)	(3)	(38)
Other	2	31	42
Changes in operating assets and liabilities:			
Accounts receivable, net	71	(194)	182
Software development and intellectual property licenses	(426)	(378)	(275)
Other assets	(114)	(88)	186
Deferred revenues	(537)	216	(154)
Accounts payable	(7)	(10)	31
Accrued expenses and other liabilities	(266)	(154)	(77)
Net cash provided by operating activities	2,414	2,252	1,831
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	214	121	153
Proceeds from sale of available-for-sale investments	66	—	—
Purchases of available-for-sale investments	(248)	(221)	(65)
Capital expenditures	(80)	(78)	(116)
Other investing activities	(11)	—	6
Net cash used in investing activities	(59)	(178)	(22)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	90	170	105
Tax payment related to net share settlements on restricted stock units	(246)	(39)	(59)
Dividends paid	(365)	(316)	(283)
Proceeds from debt issuances, net of discounts	—	1,994	—
Repayment of long-term debt	—	(1,050)	—
Payment of financing costs	—	(20)	—
Premium payment for early redemption of note	—	(28)	—
Net cash (used in) provided by financing activities	(521)	711	(237)
Effect of foreign exchange rate changes on cash and cash equivalents	(48)	69	(3)
Net increase (decrease) in cash and cash equivalents and restricted cash	1,786	2,854	1,569
Cash and cash equivalents and restricted cash at beginning of period	8,652	5,798	4,229
Cash and cash equivalents and restricted cash at end of period	$ 10,438	$ 8,652	$ 5,798
Supplemental cash flow information:			
Cash paid for income taxes, net of refunds	$ 468	$ 806	$ 319
Cash paid for interest	109	82	86

(1) Excludes deferral and amortization of share-based compensation expense, including liability awards accounted for under ASC 718.
(2) Includes the net effects of capitalization, deferral, and amortization of share-based compensation expense, including liability awards accounted for under ASC 718.

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2021, 2020, and 2019
(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	—	—	—	—	—	1,503	—	1,503
Other comprehensive income (loss)	—	—	—	—	—	—	(18)	(18)
Issuance of common stock pursuant to employee stock options	4	—	—	—	105	—	—	105
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(58)	—	—	(58)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	164	—	—	164
Dividends ($0.37 per common share)	—	—	—	—	—	(283)	—	(283)
Balance at December 31, 2019	**1,197**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,174**	**$ 7,813**	**$ (619)**	**$ 12,805**
Cumulative impact from adoption of new credit loss standard	—	—	—	—	—	(3)	—	(3)
Components of comprehensive income:								
Net income	—	—	—	—	—	2,197	—	2,197
Other comprehensive income (loss)	—	—	—	—	—	—	(3)	(3)
Issuance of common stock pursuant to employee stock options	5	—	—	—	171	—	—	171
Issuance of common stock pursuant to restricted stock units	1	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	—	—	—	—	(40)	—	—	(40)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	226	—	—	226
Dividends ($0.41 per common share)	—	—	—	—	—	(316)	—	(316)
Balance at December 31, 2020	**1,203**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,531**	**$ 9,691**	**$ (622)**	**$ 15,037**
Components of comprehensive income:								
Net income	—	—	—	—	—	2,699	—	2,699
Other comprehensive income (loss)	—	—	—	—	—	—	44	44
Issuance of common stock pursuant to employee stock options	2	—	—	—	90	—	—	90
Issuance of common stock pursuant to restricted stock units	6	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(3)	—	—	—	(245)	—	—	(245)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	339	—	—	339
Dividends ($0.47 per common share)	—	—	—	—	—	(365)	—	(365)
Balance at December 31, 2021	**1,208**	**$ —**	**(429)**	**$ (5,563)**	**$ 11,715**	**$ 12,025**	**$ (578)**	**$ 17,599**

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Description of Business

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

Our Segments

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

(i) Activision Publishing, Inc.

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

(ii) Blizzard Entertainment, Inc.

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

(iii) King Digital Entertainment

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

Other

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

2. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

Cash and Cash Equivalents

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

Investment Securities

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

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

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

Investments in equity securities which are not accounted for under the equity method and for which there is not a readily determinable fair value are carried at cost, less impairment, and adjusted for changes resulting from observable price changes in orderly transactions for identical or similar investment of the same issuer. Investments in equity securities with a readily determinable fair value are measured at fair value each reporting period, with unrealized gains and losses recorded within "Interest and other expense (income)" in our consolidated statements of operations.

Financial Instruments

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

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

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

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

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

Concentration of Credit Risk

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

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

Our customer base includes first party digital storefronts, retailers and distributors, including mass-market retailers, consumer electronics stores, discount warehouses, and game specialty stores in the U.S. and other countries worldwide. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. We generally do not require collateral or other security from our customers.

The percentage of our consolidated net revenues by our most significant customers were as follows:

	For the Years Ended		
	December 31, 2021	**December 31, 2020**	**December 31, 2019**
Apple Inc.	17 %	15 %	17 %
Google Inc.	17 %	14 %	13 %
Sony Interactive Entertainment Inc.	15 %	17 %	11 %
Microsoft Corporation	*	11 %	*

* Customer did not account for 10% or more of our consolidated net revenues for the noted period.

No other customer accounted for 10% or more of our net revenues in the periods above. We had two customers—Microsoft Corporation ("Microsoft") and Sony Interactive Entertainment Inc. ("Sony")—who accounted for 20% and 22%, respectively, of consolidated gross receivables at December 31, 2021, and 28% and 21%, respectively, at December 31, 2020. No other customer accounted for 10% or more of our consolidated gross receivables in those periods.

Software Development Costs and Intellectual Property Licenses

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

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

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

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

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

Assets Recognized from Costs to Obtain a Contract with a Customer

We apply the practical expedient to expense, as incurred, costs to obtain a contract with a customer when the amortization period would have been one year or less for certain similar contracts in which commissions are paid to internal personnel or third parties. We believe application of the practical expedient has a limited effect on the amount and timing of cost recognition. Total capitalized costs to obtain a contract were immaterial as of December 31, 2021 and 2020.

Long-Lived Assets

Property and Equipment.

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

Goodwill and Other Indefinite-Lived Assets.

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

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Our annual goodwill impairment test is performed at the reporting unit level. As of December 31, 2021 and 2020, our reporting units were the same as our operating segments. We generally test goodwill for possible impairment first by performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If a qualitative assessment is not used, or if the qualitative assessment is not conclusive, a quantitative impairment test is performed. If a quantitative test is performed, we determine the fair value of the related reporting unit and compare this value to the recorded net assets of the reporting unit, including goodwill. The fair value of our reporting units is determined using an income approach based on discounted cash flow models. In the event the recorded net assets of the reporting unit exceed the estimated fair value of such assets, an impairment charge is recorded for this amount under revised accounting guidance we adopted during the year ended December 31, 2020, and is applicable for future periods. Based on our annual impairment assessment, no impairments of goodwill were identified for the years ended December 31, 2021, 2020, and 2019.

We test our acquired trade names for possible impairment by applying the same process as for goodwill. In the instance when a qualitative test is not performed or is inconclusive, a quantitative test is performed by using a discounted cash flow model to estimate fair value of our acquired trade names. Based on our annual impairment assessment, no impairments of our acquired trade names were identified for the years ended December 31, 2021, 2020, and 2019.

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

Amortizable Intangible and Other Long-lived Assets.

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

We evaluate the recoverability of our definite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. We consider certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. We did not record an impairment charge to our definite-lived intangible assets for the years ended December 31, 2021, 2020, and 2019.

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 are payments based on an index or rate known at the commencement date of the lease. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. The operating lease right-of-use ("ROU") asset also includes any lease payments made prior to the lease commencement date, initial direct costs incurred, and lease incentives received. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate in determining the present value of future payments. The incremental borrowing rate represents an approximation of the rate that would be charged to borrow funds to purchase the leased asset over a similar term, and is based on the information available at the commencement date of the lease. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets.

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

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

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

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

Revenue Recognition

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

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

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

We determine revenue recognition by:

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

Certain products are sold to customers with a “street date” (which is the earliest date these products may be sold by retailers). For these products, we recognize revenues on the later of the street date and the date the product is sold to our customer. For digital full-game downloads sold to customers, we recognize revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

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

Product Sales

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

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

Sales incentives and other consideration given by us to our customers, such as rebates and product placement fees, are considered adjustments of the transaction price of our products and are reflected as reductions to revenues. Sales incentives and other consideration that represent costs incurred by us for distinct goods or services received, such as the appearance of our products in a customer’s national circular advertisement, are recorded as “Sales and marketing” expense when the benefit from the sales incentive is separable from sales to the same customer and we can reasonably estimate the fair value of the good or service.

Products with Online Functionality

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

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

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Online Hosted Software Arrangements

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

In-game, Subscription, and Other Revenues

In-game Revenues

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

Subscription Revenues

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

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

Other Revenues

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

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

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

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Revenues from advertising arise primarily from contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers to display advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. Our advertising arrangements are primarily impression-based and we recognize revenue from these in the contracted period in which the impressions are delivered. Impressions are considered delivered when an advertisement is displayed to users. The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order. The transaction price in advertising arrangements governed by a master contract is generally based on a revenue share percentage stated in the contract. The transaction price in advertising arrangements governed by an insertion order is generally the product of the number of advertising units delivered (e.g., impressions, videos viewed) and the contractually agreed upon price per advertising unit.

Significant Judgment around Revenue Arrangements with Multiple Deliverables

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

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

Estimated Service Period

We consider a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with our content for a period of time. We also consider known online trends such as the cadence of content delivery in our games, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to our customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires significant management judgment. The estimated service periods for players of our current games are less than 12 months.

Historically, we have not observed significant variability in our estimated service period as the online content for our games has generally been comparable to previously released titles resulting in similar usage patterns. Future usage patterns could change from historical patterns as a result of various factors, including but not limited to, changes in our online content, frequency of content delivery, competitor's offerings, and other changes that impact player's engagement that we may not be able to reasonable predict at the time of deriving our estimate. If future usage patterns were to change significantly from historical patterns, in the future our estimated service period could change and materially impact our future consolidated net revenues and operating income.

Principal Agent Considerations

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

- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and

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- which party has discretion in establishing the price for the specified good or service.

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

Allowances for Returns and Price Protection

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

Management uses judgment in estimates made with respect to potential future product returns and price protection related to current period product revenues and when establishing the allowance for returns and price protection. We estimate the amount of future returns and price protection for current period product revenues utilizing historical experience and information regarding inventory levels and the demand and acceptance of our products by the end consumer, and record revenue for the transferred products in the amount of consideration to which we expect to be entitled.

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

Contract Balances

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

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

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

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

Shipping and Handling

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

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Cost of Revenues

Our cost of revenues consist of the following:

Cost of revenues—product sales:

(1) "Product costs"—includes the manufacturing costs of goods produced and sold. These generally include product costs, manufacturing royalties (net of volume discounts), personnel-related costs, warehousing, and distribution costs. We generally recognize volume discounts when they are earned (typically in connection with the achievement of unit-based milestones).

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to product sales revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to product sales revenues.

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

(1) "Game operations and distribution costs"—includes costs to operate our games, such as customer service, Internet bandwidth and server costs, platform provider fees, and payment provider fees, along with costs to associated with our esports activities.

(2) "Software royalties, amortization, and intellectual property licenses"—includes the amortization of capitalized software costs and royalties attributable to in-game, subscription, and other revenues. These are costs capitalized on the balance sheet until the respective games are released, at which time the capitalized costs are amortized. Also included is amortization of intangible assets recognized in purchase accounting attributable to in-game, subscription, and other revenues.

Advertising Expenses

We expense advertising as incurred, except for production costs associated with media advertising, which are deferred and charged to expense when the related advertisement is run for the first time. Advertising expenses for the years ended December 31, 2021, 2020, and 2019 were $736 million, $746 million, and $587 million, respectively, and are included in "Sales and marketing" in the consolidated statements of operations.

Income Taxes

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

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

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

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

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Foreign Currency Translation

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

Earnings (Loss) Per Common Share

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

Share-Based Payments

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

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

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

For share-based compensation grants that are liability classified, if any, we update our grant date valuation at each reporting period and recognize a cumulative catch-up adjustment for changes in the value related to the requisite service already rendered. Additionally, any obligations that are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, and are to be settled with a variable number of shares of our common stock, are liability classified with expense recognized ratably over the vesting period. Liability classified awards are subsequently reclassified to equity upon settlement in shares of our common stock.

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Loss Contingencies

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

3. Recently Issued Accounting Pronouncements

Recently adopted accounting pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued new guidance, which is intended to simplify various aspects associated with the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 for recognizing deferred taxes for investments, performing an intra-period allocation, and calculating income taxes in interim periods. The amendment also clarifies and amends certain areas of existing guidance to reduce complexity and improve consistency in the application of Topic 740. Generally, the guidance must be applied prospectively upon adoption, with the exception of certain topics, which are required to be applied on a retrospective or modified retrospective basis. On January 1, 2021, we adopted this new accounting standard and applied the topics in the manner required by the standard. The adoption of this standard did not have a material impact on our consolidated financial statements.

4. Cash and Cash Equivalents

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

	At December 31,	
	2021	**2020**
Cash	$ 354	$ 268
Foreign government treasury bills	34	34
Money market funds	10,035	8,345
Cash and cash equivalents	$ 10,423	$ 8,647

5. Software Development and Intellectual Property Licenses

Our total capitalized software development costs of $660 million and $512 million, as of December 31, 2021 and December 31, 2020, respectively, primarily relate to internal development costs. As of both December 31, 2021 and December 31, 2020, capitalized intellectual property licenses were not material.

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Amortization of capitalized software development costs and intellectual property licenses	$ 341	$ 263	$ 241

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

6. Property and Equipment, Net

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

	At December 31,	
	2021	**2020**
Land	$ 1	$ 1
Buildings	4	4
Leasehold improvements	227	246
Computer equipment	703	704
Office furniture and other equipment	90	95
Total cost of property and equipment	1,025	1,050
Less accumulated depreciation	(856)	(841)
Property and equipment, net	$ 169	$ 209

Depreciation expense for the years ended December 31, 2021, 2020, and 2019 was $105 million, $117 million, and $124 million, respectively.

7. Intangible Assets, Net

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

		At December 31, 2021		
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	$ 1,154	$ (1,154)	$ —
Trade names and other	1 - 10 years	80	(66)	14
Total definite-lived intangible assets (1)		$ 1,234	$ (1,220)	$ 14
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433
Total intangible assets, net				$ 447

(1) Beginning with the first quarter of 2021, the balances of the developed software intangible assets have been removed as such amounts were fully amortized in the prior year.

		At December 31, 2020		
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3 - 11 years	$ 1,154	$ (1,151)	$ 3
Developed software	2 - 5 years	601	(601)	—
Trade names and other	1 - 10 years	73	(58)	15
Total definite-lived intangible assets		$ 1,828	$ (1,810)	$ 18
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			$ 386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433
Total intangible assets, net				$ 451

Amortization expense of our intangible assets was $11 million, $80 million, and $204 million for the years ended December 31, 2021, 2020, and 2019, respectively.

8. Goodwill

The carrying amount of goodwill by reportable segment at both December 31, 2021 and December 31, 2020, was as follows (amounts in millions):

	Activision	Blizzard	King	Total
Balance at December 31, 2019	$ 6,898	$ 190	$ 2,676	$ 9,764
Other	1	—	—	1
Balance at December 31, 2020	$ 6,899	$ 190	$ 2,676	$ 9,765
Additions through acquisition (1)	34	—	—	34
Balance at December 31, 2021	$ 6,933	$ 190	$ 2,676	$ 9,799

(1) On October 28, 2021 we acquired a mobile game developer, Digital Legends, that will operate as a studio under our Activision segment. The total net assets acquired were not material.

9. Other Assets and Liabilities

Included in "Accrued expenses and other liabilities" in our consolidated balance sheets are accrued payroll-related costs of $364 million and $406 million at December 31, 2021 and 2020, respectively, and the current portion of income taxes payable of $144 million and $100 million at December 31, 2021 and 2020, respectively.

10. Fair Value Measurements

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

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

Fair Value Measurements on a Recurring Basis

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

		Fair Value Measurements at December 31, 2021 Using			
	As of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 10,035	$ 10,035	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	130	130	—	—	Other current assets
Equity securities	50	50	—	—	Other current assets
Foreign currency forward contracts designated as hedges	20	—	20	—	Other current assets
Total	$ 10,269	$ 10,249	$ 20	$ —	

		Fair Value Measurements at December 31, 2020 Using			
	As of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:					
Recurring fair value measurements:					
Money market funds	$ 8,345	$ 8,345	$ —	$ —	Cash and cash equivalents
Foreign government treasury bills	34	34	—	—	Cash and cash equivalents
U.S. treasuries and government agency securities	164	164	—	—	Other current assets
Total	$ 8,543	$ 8,543	$ —	$ —	
Financial Liabilities:					
Foreign currency forward contracts not designated as hedges	$ (2)	$ —	$ (2)	$ —	Accrued expenses and other liabilities
Foreign currency forward contracts designated as hedges	(24)	—	(24)	—	Accrued expenses and other liabilities
Total	$ (26)	$ —	$ (26)	$ —	

Foreign Currency Forward Contracts

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

The total gross notional amounts and fair values of our Cash Flow Hedges, all of which had remaining maturities of 12 months or less as of December 31, 2021, are as follows (amounts in millions):

	As of December 31, 2021		As of December 31, 2020	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell EUR	$ 382	$ 20	$ 542	$ (24)

For the years ended December 31, 2021, 2020, and 2019, 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 were not material.

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 December 31, 2021		As of December 31, 2020	
	Notional amount	Fair value gain (loss)	Notional amount	Fair value gain (loss)
Foreign Currency:				
Buy USD, Sell GBP	$ —	$ —	$ 116	$ (2)

For the years ended December 31, 2021, 2020, and 2019, pre-tax net gains (losses) associated with these forward contracts were recorded in "General and administrative expenses" and were not material.

Equity Securities Fair Value Measurement

At December 31, 2020, we held an investment in equity securities with a carrying value of $45 million. The investment did not have a readily-determinable fair value and was carried at cost, less impairment, and adjusted for changes resulting from observable price changes in orderly transactions for identical or similar investments in the same issuer. During June 2021, the investee completed a merger with a special purpose acquisition company ("SPAC") and, as a result, our investment was converted into common shares of the publicly traded company.

In connection with the SPAC transaction, we sold a portion of our investment for $22 million and recognized a realized gain of $16 million during the three months ended June 30, 2021. Our remaining investment is now measured at fair value at the end of each reporting period. As of December 31, 2021, the carrying value of the investment was $50 million and was classified within "Other current assets" in our consolidated balance sheets. The realized and unrealized gains were recorded within "Interest and other expense (income), net" in our consolidated statement of operations (refer to Note 18) for the year ended December 31, 2021.

11. Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of the fulfillment of our associated performance obligations. The aggregate of the current and non-current balances of deferred revenues as of December 31, 2021 and December 31, 2020, were $1.1 billion and $1.7 billion, respectively. For the year ended December 31, 2021, 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, all of which were in the ordinary course of business. During the years ended December 31, 2021, December 31, 2020, and December 31, 2019, $1.7 billion, $1.3 billion, and $1.5 billion of revenues, respectively, were recognized that were included in the deferred revenues balance at beginning of the period.

As of December 31, 2021, the aggregate amount of contracted revenues allocated to our unsatisfied performance obligations was $1.6 billion, which included our deferred revenues balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately $1.3 billion over the next 12 months, $0.1 billion in the subsequent 12-month period, and the remainder thereafter. This balance did not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee or any estimated amounts of variable consideration that are subject to constraint in accordance with the revenue accounting standard.

12. Leases

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating leases			
Operating lease costs	$ 78	$ 75	$ 75
Variable lease costs	18	20	20

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Supplemental Operating Cash Flows Information			
Cash paid for amounts included in the measurement of lease liabilities	$ 75	$ 77	$ 80
ROU assets obtained in exchange for new lease obligations	64	80	65

	At December 31, 2021	At December 31, 2020
Weighted Average Lease terms and discount rates		
Remaining lease term	4.10 years	4.48 years
Discount rate	3.01 %	3.40 %

Future undiscounted lease payments for our operating lease liabilities, and a reconciliation of these payments to our operating lease liabilities at December 31, 2021, are as follows (amounts in millions):

For the years ending December 31,	
2022	$ 84
2023	81
2024	63
2025	43
2026	21
Thereafter	15
Total future lease payments	$ 307
Less imputed interest	(18)
Total lease liabilities	$ 289

Operating lease ROU assets and liabilities recorded on our consolidated balance sheet as of December 31, 2021 and December 31, 2020, were as follows (amounts in millions):

	At December 31, 2021	At December 31, 2020	Balance Sheet Classification
ROU assets	$ 237	$ 243	Other assets
Current lease liabilities	$ 77	$ 66	Accrued expenses and other current liabilities
Non-current lease liabilities	212	224	Other liabilities
	$ 289	$ 290	Total lease liabilities

13. Debt

Credit Facilities

As of December 31, 2021 and December 31, 2020, we had $1.5 billion available under a revolving credit facility (the "Revolver") pursuant to a credit agreement entered into on October 11, 2013 (as amended thereafter and from time to time, the "Credit Agreement"). To date, we have not drawn on the Revolver.

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

Under the Credit Agreement, we are subject to a financial covenant requiring the Company's Consolidated Total Net Debt Ratio (as defined in the Credit Agreement) not to exceed 3.75:1.00 (or, at the Company's option and for a limited period of time upon the consummation of a Qualifying Acquisition (as defined in the Credit Agreement), 4.25:1.00). The Credit Agreement contains covenants customary for transactions of this type for issuers with similar credit ratings. These include those restricting liens, debt of non-guarantor subsidiaries and certain fundamental changes, in each case with exceptions, including exceptions for secured debt and debt of non-guarantor subsidiaries of the Company, in each case up to an amount not exceeding 7.5% of Total Assets (as defined in the Credit Agreement). We were in compliance with the terms of the Credit Agreement as of December 31, 2021.

Unsecured Senior Notes

As of December 31, 2021 and December 31, 2020, we had $3.7 billion of gross unsecured senior notes outstanding. A summary of our outstanding unsecured senior notes is as follows (amounts in millions):

				At December 31, 2021		At December 31, 2020	
Unsecured Senior Notes	Interest Rate	Semi-Annual Interest Payments Due On	Maturity	Principal	Fair Value (Level 2)	Principal	Fair Value (Level 2)
2026 Notes	3.40%	Mar. 15 & Sept. 15	Sept. 2026	$ 850	$ 912	$ 850	$ 970
2027 Notes	3.40%	Jun. 15 & Dec. 15	Jun. 2027	400	430	400	454
2030 Notes	1.35%	Mar. 15 & Sept. 15	Sept. 2030	500	463	500	490
2047 Notes	4.50%	Jun. 15 & Dec. 15	Jun. 2047	400	480	400	525
2050 Notes	2.50%	Mar. 15 & Sept. 15	Sept. 2050	1,500	1,320	1,500	1,462
Total gross long-term debt				$ 3,650		$ 3,650	
Unamortized discount and deferred financing costs				(42)		(45)	
Total net carrying amount				$ 3,608		$ 3,605	

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

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

The outstanding notes are general senior obligations of the Company and rank pari passu in right of payment to all of the Company's existing and future senior indebtedness, including the Revolver described above. The notes are not secured and are effectively junior to any of the Company's existing and future indebtedness that is secured to the extent of the value of the collateral securing such indebtedness. The notes contain customary covenants that place restrictions in certain circumstances on, among other things, the incurrence of secured debt, entry into sale or leaseback transactions, and certain merger or consolidation transactions. We were in compliance with the terms of the notes outstanding as of December 31, 2021.

As of December 31, 2021, with the exception of our 2026 Notes, which are scheduled to mature in September 2026, no other contractual principal repayments of our long-term debt were due within the next five years.

14. Accumulated Other Comprehensive Income (Loss)

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

	For the Year Ended December 31, 2021			
	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on forward contracts	Total
Balance at December 31, 2020	$ (589)	$ (5)	$ (28)	$ (622)
Other comprehensive income (loss) before reclassifications	(17)	(2)	44	25
Amounts reclassified from accumulated other comprehensive income (loss) into earnings	—	10	9	19
Balance at December 31, 2021	$ (606)	$ 3	$ 25	$ (578)

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

15. Operating Segments and Geographic Regions

We have three reportable segments—Activision, Blizzard, and King. Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense (including liability awards accounted for under ASC 718); 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.

The Company has been reviewing its overall compensation structure and philosophy and began implementing changes to its compensation payments for 2021, primarily to enhance equity ownership for employees and bring our employee equity compensation more in line with the current industry practice. As an aspect of this change, the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved, resulting in a year-end share-based compensation liability of $194 million. In addition, going forward, to the extent certain of our previously cash-based bonus programs are instead issued as time-based equity or settled via equity, such amounts will be recorded as share-based compensation and will be excluded from segment operating income.

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 are presented below (amounts in millions):

	Year Ended December 31, 2021			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 3,478	$ 1,733	$ 2,580	$ 7,791
Intersegment net revenues (1)	—	94	—	94
Segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 7,885
Segment operating income	$ 1,667	$ 698	$ 1,140	$ 3,505

	Year Ended December 31, 2020			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 3,942	$ 1,794	$ 2,164	$ 7,900
Intersegment net revenues (1)	—	111	—	111
Segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 8,011
Segment operating income	$ 1,868	$ 693	$ 857	$ 3,418

	Year Ended December 31, 2019			
	Activision	**Blizzard**	**King**	**Total**
Segment Revenues				
Net revenues from external customers	$ 2,219	$ 1,676	$ 2,031	$ 5,926
Intersegment net revenues (1)	—	43	—	43
Segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 5,969
Segment operating income	$ 850	$ 464	$ 740	$ 2,054

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

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

	Years Ended December 31,		
	2021	2020	2019
Reconciliation to consolidated net revenues:			
Segment net revenues	$ 7,885	$ 8,011	$ 5,969
Revenues from non-reportable segments (1)	563	519	462
Net effect from recognition (deferral) of deferred net revenues (2)	449	(333)	101
Elimination of intersegment revenues (3)	(94)	(111)	(43)
Consolidated net revenues	$ 8,803	$ 8,086	$ 6,489
Reconciliation to consolidated income before income tax expense:			
Segment operating income	$ 3,505	$ 3,418	$ 2,054
Operating income (loss) from non-reportable segments (1)	2	(55)	24
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues (2)	347	(238)	52
Share-based compensation expense (4)	(508)	(218)	(166)
Amortization of intangible assets	(10)	(79)	(203)
Restructuring and related costs (Note 17)	(77)	(94)	(137)
Discrete tax-related items (5)	—	—	(17)
Consolidated operating income	3,259	2,734	1,607
Interest and other expense (income), net	95	87	(26)
Loss on extinguishment of debt	—	31	—
Consolidated income before income tax expense	$ 3,164	$ 2,616	$ 1,633

(1) Includes other income and expenses outside of our reportable segments, including our Distribution business and 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) Expenses related to share-based compensation, including liability awards accounted for under ASC 718. Refer to Note 16.

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

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by distribution channel:						
Digital online channels (1)	$ 3,287	$ 1,873	$ 2,597	$ —	$ (94)	$ 7,663
Retail channels	449	30	—	—	—	479
Other (2)	40	72	—	549	—	661
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Digital online channels (1)	$ (264)	$ (140)	$ (17)	$ —	$ —	$ (421)
Retail channels	(34)	(8)	—	—	—	(42)
Other (2)	—	—	—	14	—	14
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Digital online channels (1)	$ 3,023	$ 1,733	$ 2,580	$ —	$ (94)	$ 7,242
Retail channels	415	22	—	—	—	437
Other (2)	40	72	—	563	—	675
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

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

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

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

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

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

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 2,446	$ 876	$ 1,664	$ —	$ (55)	$ 4,931
EMEA (1)	976	638	665	549	(31)	2,797
Asia Pacific	354	461	268	—	(8)	1,075
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Americas	$ (198)	$ (79)	$ (11)	$ —	$ —	$ (288)
EMEA (1)	(80)	(65)	(5)	14	—	(136)
Asia Pacific	(20)	(4)	(1)	—	—	(25)
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Americas	$ 2,248	$ 797	$ 1,653	$ —	$ (55)	$ 4,643
EMEA (1)	896	573	660	563	(31)	2,661
Asia Pacific	334	457	267	—	(8)	1,050
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

	Year Ended December 31, 2020					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 2,316	$ 794	$ 1,384	$ —	$ (60)	$ 4,434
EMEA (1)	1,061	550	568	538	(37)	2,680
Asia Pacific	312	459	215	—	(14)	972
Total consolidated net revenues	$ 3,689	$ 1,803	$ 2,167	$ 538	$ (111)	$ 8,086
Change in deferred revenues:						
Americas	$ 228	$ 58	$ (1)	$ —	$ —	$ 285
EMEA (1)	36	43	(1)	(19)	—	59
Asia Pacific	(11)	1	(1)	—	—	(11)
Total change in deferred revenues	$ 253	$ 102	$ (3)	$ (19)	$ —	$ 333
Segment net revenues:						
Americas	$ 2,544	$ 852	$ 1,383	$ —	$ (60)	$ 4,719
EMEA (1)	1,097	593	567	519	(37)	2,739
Asia Pacific	301	460	214	—	(14)	961
Total segment net revenues	$ 3,942	$ 1,905	$ 2,164	$ 519	$ (111)	$ 8,419

	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (2)	Total
Net revenues by geographic region:						
Americas	$ 1,286	$ 822	$ 1,254	$ —	$ (21)	$ 3,341
EMEA (1)	691	543	557	464	(16)	2,239
Asia Pacific	210	487	218	—	(6)	909
Total consolidated net revenues	$ 2,187	$ 1,852	$ 2,029	$ 464	$ (43)	$ 6,489
Change in deferred revenues:						
Americas	$ 16	$ (62)	$ 2	$ —	$ —	$ (44)
EMEA (1)	12	(57)	—	(2)	—	(47)
Asia Pacific	4	(14)	—	—	—	(10)
Total change in deferred revenues	$ 32	$ (133)	$ 2	$ (2)	$ —	$ (101)
Segment net revenues:						
Americas	$ 1,302	$ 760	$ 1,256	$ —	$ (21)	$ 3,297
EMEA (1)	703	486	557	462	(16)	2,192
Asia Pacific	214	473	218	—	(6)	899
Total segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 462	$ (43)	$ 6,388

(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%, 48%, and 46% of consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. The Company’s net revenues in the United Kingdom (“U.K.”) were 11%, 12%, and 12% of consolidated net revenues for the years ended December 31, 2021, 2020, and 2019, respectively. No other country’s net revenues exceeded 10% of consolidated net revenues for the years ended December 31, 2021, 2020, or 2019.

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

	Year Ended December 31, 2021					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	$ 2,502	$ 135	$ —	$ —	$ —	$ 2,637
PC	660	1,673	84	—	(94)	2,323
Mobile and ancillary (1)	574	95	2,513	—	—	3,182
Other (2)	40	72	—	549	—	661
Total consolidated net revenues	$ 3,776	$ 1,975	$ 2,597	$ 549	$ (94)	$ 8,803
Change in deferred revenues:						
Console	$ (248)	$ (6)	$ —	$ —	$ —	$ (254)
PC	(82)	(145)	(1)	—	—	(228)
Mobile and ancillary (1)	32	3	(16)	—	—	19
Other (2)	—	—	—	14	—	14
Total change in deferred revenues	$ (298)	$ (148)	$ (17)	$ 14	$ —	$ (449)
Segment net revenues:						
Console	$ 2,254	$ 129	$ —	$ —	$ —	$ 2,383
PC	578	1,528	83	—	(94)	2,095
Mobile and ancillary (1)	606	98	2,497	—	—	3,201
Other (2)	40	72	—	563	—	675
Total segment net revenues	$ 3,478	$ 1,827	$ 2,580	$ 563	$ (94)	$ 8,354

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

	Year Ended December 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues (3)	Total
Net revenues by platform:						
Console	$ 1,783	$ 137	$ —	$ —	$ —	$ 1,920
PC	298	1,346	117	—	(43)	1,718
Mobile and ancillary (1)	103	188	1,912	—	—	2,203
Other (2)	3	181	—	464	—	648
Total consolidated net revenues	$ 2,187	$ 1,852	$ 2,029	$ 464	$ (43)	$ 6,489
Change in deferred revenues:						
Console	$ (36)	$ (18)	$ —	$ —	$ —	$ (54)
PC	57	(110)	—	—	—	(53)
Mobile and ancillary (1)	11	(5)	2	—	—	8
Other (2)	—	—	—	(2)	—	(2)
Total change in deferred revenues	$ 32	$ (133)	$ 2	$ (2)	$ —	$ (101)
Segment net revenues:						
Console	$ 1,747	$ 119	$ —	$ —	$ —	$ 1,866
PC	355	1,236	117	—	(43)	1,665
Mobile and ancillary (1)	114	183	1,914	—	—	2,211
Other (2)	3	181	—	462	—	646
Total segment net revenues	$ 2,219	$ 1,719	$ 2,031	$ 462	$ (43)	$ 6,388

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

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

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

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

	At December 31,		
	2021	2020	2019
Long-lived assets* by geographic region:			
Americas	$ 264	$ 270	$ 322
EMEA	122	166	142
Asia Pacific	20	17	21
Total long-lived assets by geographic region	$ 406	$ 453	$ 485

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

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

16. Share-Based Payments

Activision Blizzard Equity Incentive Plans

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

While the Compensation Committee has broad discretion to create equity incentives, our current share-based compensation program generally utilizes a combination of options and restricted stock units. The majority of our options have time-based vesting schedules, generally vesting annually over a period of three years to five years, and expire 10 years from the grant date. In addition, under the terms of the 2014 Plan, the exercise price for the options must be equal to or greater than the closing price per share of our common stock on the date the award is granted, as reported on Nasdaq. Restricted stock units have time-based vesting schedules, generally vesting in their entirety on an anniversary of the date of grant, or vest annually over a period of three years to five years, and may also be contingent on the achievement of specified performance measures, including those which are market-based. Achievement against such performance measures typically results in vesting of amounts that are different than the target shares at grant based on over- or under-achievement against the performance targets. Typically, performance-based RSUs provide for vesting up to 125% of the grant date target shares if performance targets are sufficiently overachieved (and will be cancelled without the vesting of any shares if the threshold level of performance measures is not met), but in certain instances some of our unvested performance-based RSUs can vest up to 250% of the grant date target amount based on achievement against the performance targets.

As of the date it was approved by our shareholders, there were 46 million shares available for issuance under the 2014 Plan. The number of shares of our common stock reserved for issuance under the 2014 Plan has been, and may be further, increased from time to time by: (1) the number of shares relating to awards outstanding under any Prior Plan that: (i) expire, or are forfeited, terminated or canceled, without the issuance of shares; (ii) are settled in cash in lieu of shares; or (iii) are exchanged, prior to the issuance of shares of our common stock, for awards not involving our common stock; (2) if the exercise price of any option outstanding under any Prior Plans is, or the tax withholding requirements with respect to any award outstanding under any Prior Plans are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to the Company of shares already owned, the number of shares equal to the withheld or transferred shares; and (3) if a share appreciation right is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred. As of December 31, 2021, we had approximately 13 million shares of our common stock reserved for future issuance under the 2014 Plan. Shares issued in connection with awards made under the 2014 Plan are generally issued as new stock issuances.

Fair Value Valuation Assumptions

Valuation of Stock Options

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

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

	Employee Stock Options For the Years Ended December 31,		
	2021	**2020**	**2019**
Expected life (in years)	7.61	7.70	7.85
Volatility	31.06 %	30.89 %	30.00 %
Risk free interest rate	1.29 %	0.70 %	1.90 %
Dividend yield	0.51 %	0.53 %	0.76 %
Weighted-average grant date fair value	$ 30.65	$ 25.93	$ 17.12
Stock price volatility range:			
Low	31.00 %	30.00 %	30.00 %
High	35.00 %	39.00 %	38.17 %

Expected life

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

Volatility

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

Risk-free interest rate

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

Dividend yield

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

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

Valuation of Restricted Stock Units ("RSUs")

The fair value of the Company's RSU awards granted are generally based upon the closing price of the Company's common stock on the date of grant reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We also grant market-based RSU awards, from time to time, the fair value of which is determined using a Monte Carlo simulation. Such market-based RSU awards include performance conditions based on our own stock price and may also include performance conditions that compare our stock price performance to an index, such as the S&P 500 Total Shareholder Return index. The valuation assumptions utilized in the Monte Carlo model are generally consistent with the inputs discussed in the valuation of stock options above. The weighted average risk free interest rate, volatility, and dividend yield utilized in the Monte Carlo model for market-based RSU awards in 2020 were 0.11%, 37.39%, and 0.47%, respectively.

On December 14, 2021, we granted approximately 1.6 million RSU awards which were valued at approximately $70.00 per share rather than the closing share price on the date of grant of $59.52. None of these awards were granted to named executive officers of the Company. While these grants were not made in contemplation of the Company's recent announcement of the merger agreement (see Note 23) entered into with Microsoft, in light of the proximity to when the Company became aware of a potential merger, and date of the merger agreement, the Company has determined the fair value for these awards should consider potential subsequent value appreciation that would be expected from the market upon announcement of the merger. In determining the adjustment to the closing share price to estimate the fair value of these awards, the Company considered various factors such as, observable share prices before and after announcement of a merger in recent transactions, the offer price range known at time of the grants being made, the final merger per share consideration, the actual increase in share price seen after announcement of the merger, industry practices in applying liquidity discounts and probability of the merger being entered into. The awards vest over their requisite service period and do not provide for any accelerated vesting or other features as a result of entering into or upon closing of the merger.

Accuracy of Fair Value Estimates

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

Stock Option Activity

Stock option activity is as follows:

	Number of shares (in thousands)	Weighted-average exercise price per stock option	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding stock options at December 31, 2020	11,297	$ 53.84		
Granted	754	92.56		
Exercised	(1,954)	45.84		
Forfeited	(866)	65.23		
Expired	(98)	45.15		
Outstanding stock options at December 31, 2021	9,133	$ 57.77	7.04	$ 125
Vested and expected to vest at December 31, 2021	8,798	$ 56.96	6.98	$ 124
Exercisable at December 31, 2021	5,711	$ 48.90	6.26	$ 107

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the last trading day of the period and the exercise price, times the number of shares for options where the closing stock price is greater than the exercise price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the market value of our stock. The total intrinsic value of options actually exercised was $88 million, $174 million, and $80 million for the years ended December 31, 2021, 2020, and 2019, respectively. The total grant date fair value of options that vested during the years ended December 31, 2021, 2020, and 2019 was $57 million, $62 million, and $94 million, respectively.

At December 31, 2021, $32 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.14 years.

RSU Activity

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

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

	Number of shares	Weighted-average grant date fair value per RSU
Unvested RSUs at December 31, 2020	7,102	$ 82.50
Granted	10,856	77.17
Vested	(3,187)	96.58
Forfeited	(1,513)	75.73
Unvested RSUs at December 31, 2021	13,258	$ 75.51

Certain of our performance-based RSUs did not have an accounting grant date as of December 31, 2021, as for each such grant there is not a mutual understanding between the Company and the employee of the performance terms. Generally, these performance terms relate to operating income performance for future years, the goals for which have yet to be set. As of December 31, 2021, based on the target potential shares that could be earned, there were 2.0 million performance-based RSUs outstanding for which the accounting grant date had not been set, of which 1.3 million were 2021 grants. Accordingly, no grant date fair value was established and the weighted average grant date fair values calculated above excludes these RSUs.

At December 31, 2021, approximately $505 million of total unrecognized compensation cost was related to RSUs and is expected to be recognized over a weighted-average period of 1.79 years. Of the total unrecognized compensation cost, $62 million was related to performance-based RSUs, which is expected to be recognized over a weighted-average period of 1.00 year. The total grant date fair value of RSUs that vested during the years ended December 31, 2021, 2020, and 2019 was $306 million, $82 million, and $147 million, respectively.

The income tax benefit from stock option exercises and RSU vestings was $70 million, $61 million, and $47 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Share-Based Compensation Expense

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Cost of revenues—product sales: Software royalties, amortization, and intellectual property licenses	$ 17	$ 14	$ 19
Cost of revenues—in-game, subscription, and other: Game Operations and Distribution Costs	7	1	1
Cost of revenues—in-game, subscription, and other: Software royalties, amortization, and intellectual property licenses	—	—	1
Product development	211	42	53
Sales and marketing	44	21	10
General and administrative	229	140	82
Share-based compensation expense before income taxes	508	218	166
Income tax benefit	(36)	(28)	(29)
Total share-based compensation expense, net of income tax benefit	$ 472	$ 190	$ 137

Share-based compensation expense for the year ended December 31, 2021 includes $194 million, inclusive of $20 million of expense that was capitalized as part of software development, for liability awards accounted for under ASC 718. The liability awards primarily relate to recent changes to the Company's compensation payments for 2021 for which the Company determined to settle amounts not yet paid as of December 31, 2021 under its annual performance plans in stock as opposed to cash and further to provide such incentives, to eligible employees, at no less than target performance without regard to whether target performance was achieved.

17. Restructuring

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

- increasing our investment in development for our largest, internally-owned franchises—across upfront releases, in-game content, mobile, and geographic expansion;
- reducing certain non-development and administrative-related costs across our business; and
- integrating our global and regional sales and "go-to-market," partnerships, and sponsorship 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.

We have substantially completed all actions under our plan and have accrued for these costs accordingly. The remaining activity under the plan is primarily related to cash outlays to be made to impacted personnel.

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

	Severance and employee related costs	Facilities and related costs	Other costs	Total
Balance at December 31, 2019	$ 32	$ —	$ 3	$ 35
Costs charged to expense	76	6	5	87
Cash payments	(20)	—	(5)	(25)
Non-cash charge adjustment (1)	—	(6)	—	(6)
Balance at December 31, 2020	$ 88	$ —	$ 3	$ 91
Costs charged to expense	36	16	27	79
Cash payments	(55)	—	(6)	(61)
Non-cash charge adjustment (1)	(5)	(16)	(3)	(24)
Balance at December 31, 2021	$ 64	$ —	$ 21	$ 85
Cumulative charges incurred through December 31, 2021	$ 188	$ 51	$ 59	$ 298

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

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

	Years Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Activision	$ 2	$ 13	$ 19
Blizzard	70	71	68
King	1	(1)	20
Other segments (1)	6	4	25
Total	$ 79	$ 87	$ 132

(1) Includes charges outside of our reportable segments, including charges for our corporate and administrative functions.

During the years ended December 31, 2021 and 2020, we incurred additional restructuring charges and adjustments that are not included in the plan discussed above. Such amounts were not material.

We have substantially completed our accruals for all actions under the plan. The charges associated with the plan primarily relate to severance and employee-related costs (approximately 62% of the aggregate charge), facilities and related costs (approximately 17% of the aggregate charge), and other costs (approximately 21% of the aggregate charge), including charges for restructuring-related fees and the write-down of assets. A substantial majority (approximately 77%) of the total pre-tax charge associated with the restructuring is expected to be paid in cash using amounts on hand, and such cash outlays are largely expected to be completed within the next 12 months. We do not expect to realize significant net savings in our total operating expenses as a result of our plan, as cost reductions in our selling, general, and administrative activities are expected to be offset by increased investment in product development.

The total charges incurred through December 31, 2021, which represent our total expected pre-tax restructuring charges related to the plan, by segment, inclusive of amounts already incurred and inclusive of certain inventory write-downs in prior years, are presented below (amounts in millions):

	Total charges incurred through December 31, 2021
Activision	$ 34
Blizzard	214
King	21
Other segments (1)	34
Total	$ 303

(1) Includes charges outside of our reportable segments, including charges for our corporate and administrative functions.

18. Interest and Other Expense (Income), Net

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

	For the Years Ended December 31,		
	2021	2020	2019
Interest income	$ (5)	$ (21)	$ (79)
Interest expense from debt and amortization of debt discount and deferred financing costs	108	99	90
Realized and unrealized loss (gain) on equity investment (Note 10)	(28)	(3)	(38)
Other expense (income), net	20	12	1
Interest and other expense (income), net	$ 95	$ 87	$ (26)

19. Income Taxes

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

	For the Years Ended December 31,		
	2021	2020	2019
Income before income tax expense:			
Domestic	$ 1,451	$ 1,160	$ 328
Foreign	1,713	1,456	1,305
	$ 3,164	$ 2,616	$ 1,633
Income tax expense (benefit):			
Current:			
Federal	$ 189	$ 206	$ 136
State	35	92	24
Foreign	229	218	323
Total current	453	516	483
Deferred:			
Federal	73	(84)	781
State	12	(10)	(16)
Foreign	(73)	(3)	(1,118)
Total deferred	12	(97)	(353)
Income tax expense	$ 465	$ 419	$ 130

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

	For the Years Ended December 31,					
	2021		2020		2019	
Federal income tax provision at statutory rate	$ 664	21 %	$ 549	21 %	$ 343	21 %
State taxes, net of federal benefit	67	2	43	2	21	1
Research and development credits	(81)	(2)	(70)	(3)	(38)	(2)
Foreign earnings taxed at different rates	(120)	(4)	(93)	(4)	(118)	(7)
Foreign-derived intangible income	(50)	(1)	(40)	(2)	(1)	—
Change in tax reserves	43	1	60	2	96	6
Audit settlements	—	—	—	—	54	3
Change in Tax Legislation	(53)	(2)	(23)	(1)	—	—
Change in valuation allowance	11	—	35	2	11	—
Intra-entity IP Transfer	—	—	(31)	(1)	(230)	(14)
Other	(16)	—	(11)	—	(8)	—
Income tax expense	$ 465	15 %	$ 419	16 %	$ 130	8 %

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

In October 2019, we completed an intra-entity transfer of certain intellectual property rights to one of our subsidiaries in the U.K., aligning the ownership of these rights with our evolving business. The transfer did not result in a taxable gain; however, our U.K. subsidiary received a step-up in tax basis based on the fair value of the transferred intellectual property rights. Such fair value was determined based on our expectations of future cash flows, long-term growth rates, and discount rates. We recorded a one-time benefit of $230 million in the quarter ended December 31, 2019 for the recognition of a $1.1 billion deferred tax asset in the U.K. related to the amortizable tax basis in the transferred intellectual property, net of uncertain tax positions and a valuation allowance, partially offset by a related $920 million deferred tax liability for U.S. taxes on foreign earnings. The U.K. amortizable tax basis will be recovered over a period of three years to 25 years and the related deferred tax asset was measured using the enacted U.K. corporate tax rates for the years in which the amortization will be realized. We recorded a valuation allowance of $110 million in 2019 for the portion of the deferred tax asset for which it is more-likely-than-not that a benefit will not be realized. During the year ended December 31, 2021, we recognized a one-time net benefit of $53 million from remeasuring this deferred tax asset due to the enactment of a change in the UK corporate tax rate. We will update the measurement and realizability analysis going forward and record the impact from any change in determination in the period of the change.

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

Income tax expense for 2021 reflects the impact of certain tax elections and comparable changes the Company intends to include in its 2021 income tax returns and related statutory filings. To take these actions, the Merger Agreement requires Microsoft's approval (which may not be unreasonably withheld, conditioned, or delayed), subject to certain exceptions. Failure to obtain this approval could have an adverse effect on our income tax expense.

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

	As of December 31,	
	2021	2020
Deferred tax assets:		
Deferred revenue	$ 210	$ 274
Tax attributes carryforwards	143	123
Share-based compensation	46	51
Intangibles	1,458	1,287
Capitalized software development expenses	—	21
Other	141	160
Deferred tax assets	1,998	1,916
Valuation allowance	(278)	(228)
Deferred tax assets, net of valuation allowance	1,720	1,688
Deferred tax liabilities:		
Intangibles	(158)	(147)
Capitalized software development expenses	(10)	—
U.S. deferred taxes on foreign earnings	(603)	(577)
Other	(78)	(63)
Deferred tax liabilities	(849)	(787)
Net deferred tax assets	$ 871	$ 901

As of December 31, 2021, we had gross tax credit carryforwards of $263 million for state purposes. The tax credit carryforwards are included in deferred tax assets net of unrealized tax benefits that would apply upon the realization of uncertain tax positions. In addition, we had foreign net operating loss carryforwards of $11 million at December 31, 2021, most of which carry forward indefinitely.

We evaluate deferred tax assets each period for recoverability. We record a valuation allowance for assets that do not meet the threshold of “more likely than not” to be realized in the future. To make that determination, we evaluate the likelihood of realization based on the weight of all positive and negative evidence available. As of December 31, 2021 and December 31, 2020, we maintained a valuation allowance related to our California research and development credit carryforwards of $118 million and $107 million, respectively. We will reassess this determination quarterly and record a tax benefit if and when future evidence allows for a partial or full release of this valuation allowance.

In addition, we remeasured the U.K. deferred tax asset related to previously transferred intellectual property rights and corresponding U.S. deferred tax liability due to the change in the U.K.'s corporate income tax rate during 2021. As of December 31, 2021, the U.K. deferred tax asset net of valuation allowance is $1.2 billion and the corresponding U.S. deferred tax liability is $989 million.

Activision Blizzard’s tax years after 2008 remain open to examination by certain major taxing jurisdictions to which we are subject. The Internal Revenue Service is currently examining our federal tax returns for the 2012 through 2019 tax years. In addition, King’s pre-acquisition tax returns remain open in various jurisdictions, primarily as a result of transfer pricing matters. We anticipate resolving King’s transfer pricing for both pre- and post-acquisition tax years through a collaborative multilateral process with the tax authorities in the relevant jurisdictions, which include the U.K. and Sweden. While the outcome of this process remains uncertain, it could result in an agreement that changes the allocation of profits and losses between these and other relevant jurisdictions or a failure to reach an agreement that results in unilateral adjustments to the amount and timing of taxable income in the jurisdictions in which King operates.

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

As of December 31, 2021, we had $1.3 billion of gross unrecognized tax benefits, $784 million of which would affect our effective tax rate, if recognized. A reconciliation of total gross unrecognized tax benefits is as follows (amounts in millions):

	For the Years Ended December 31,		
	2021	2020	2019
Unrecognized tax benefits balance at January 1	$ 1,166	$ 1,037	$ 926
Gross increase for tax positions taken during a prior year	98	97	151
Gross decrease for tax positions taken during a prior year	(18)	(1)	(168)
Gross increase for tax positions taken during the current year	52	38	291
Settlement with taxing authorities	(6)	(3)	(163)
Lapse of statute of limitations	(3)	(2)	—
Unrecognized tax benefits balance at December 31	$ 1,289	$ 1,166	$ 1,037

As of December 31, 2021, 2020, and 2019, we had approximately $102 million, $93 million, and $72 million, respectively, of accrued interest and penalties related to uncertain tax positions. For the years ended December 31, 2021, 2020, and 2019, we recorded $11 million, $19 million, and $14 million, respectively, of interest expense related to uncertain tax positions.

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

20. Computation of Basic/Diluted Earnings Per Common Share

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

	For the Years Ended December 31,		
	2021	**2020**	**2019**
Numerator:			
Consolidated net income	$ 2,699	$ 2,197	$ 1,503
Denominator:			
Denominator for basic earnings per common share—weighted-average common shares outstanding	777	771	767
Effect of dilutive stock options and awards under the treasury stock method	7	7	4
Denominator for diluted earnings per common share—weighted-average common shares outstanding plus dilutive common shares under the treasury stock method	784	778	771
Basic earnings per common share	$ 3.47	$ 2.85	$ 1.96
Diluted earnings per common share	$ 3.44	$ 2.82	$ 1.95

The vesting of certain of our employee-related restricted stock units is contingent upon the satisfaction of predefined performance measures. The shares underlying these equity awards are included in the weighted-average dilutive common shares only if the performance measures are met as of the end of the reporting period. Additionally, potential common shares are not included in the denominator of the diluted earnings per common share calculation when the inclusion of such shares would be anti-dilutive.

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

	For the For the Years Ended December 31,		
	2021	**2020**	**2019**
Restricted stock units with performance measures not yet met	2	2	2
Anti-dilutive employee stock options	2	1	6

21. Capital Transactions

Repurchase Programs

On January 27, 2021, our Board of Directors authorized a stock repurchase program under which we are authorized to repurchase up to $4 billion of our common stock during the two-year period from February 14, 2021 until the earlier of February 13, 2023 and a determination by the Board of Directors to discontinue the repurchase program. As of December 31, 2021, we had not repurchased any shares under this program and are restricted from making any such repurchases during the period between the execution of the Merger Agreement with Microsoft and the effective time of the Merger Agreement.

Dividends

On February 3, 2022, our Board of Directors declared a cash dividend of $0.47 per common share. Such dividend is payable on May 6, 2022 to shareholders of record at the close of business on April 15, 2022.

On February 4, 2021, our Board of Directors declared a cash dividend of $0.47 per common share. On May 6, 2021, we made an aggregate cash dividend payment of $365 million to shareholders of record at the close of business on April 15, 2021.

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

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

22. Commitments and Contingencies

Commitments and Obligations

In the normal course of business, we enter into contractual arrangements with third parties for non-cancelable operating lease agreements for our offices, for the development of products which may include obtaining rights to intellectual property, and for hosting services to support our games and our administrative functions. Under these agreements, we commit to provide specified payments to a lessor, developer, or hosting provider, as the case may be, based upon contractual arrangements. The payments to third-party developers are generally conditioned upon the achievement by the developers of contractually specified development milestones. Further, these payments to third-party developers typically are deemed to be advances and, as such, are recoupable against future royalties earned by the developer based on sales of the related game. Additionally, we also enter into arrangements in which we commit to spend specified amounts for marketing to support and promote our content and services. Assuming all contractual provisions are met, the total future minimum commitments for these and other contractual arrangements in place at December 31, 2021, are scheduled to be paid as follows (amounts in millions):

	Contractual Obligations (1)				
	Facility and Equipment Leases	Developer and Hosting	Marketing	Long-Term Debt Obligations (2)	Total
For the years ending December 31,					
2022	$ 86	$ 149	$ 167	$ 105	$ 507
2023	81	104	115	105	405
2024	64	12	—	105	181
2025	43	—	—	105	148
2026	21	—	—	955	976
Thereafter	15	—	—	4,102	4,117
Total	$ 310	$ 265	$ 282	$ 5,477	$ 6,334

(1) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of the potential issue resolution of the underlying matters. Specifically, either (a) the underlying positions have not been fully developed under audit to quantify at this time or (b) the years relating to the matters for certain jurisdictions are not currently under audit. At December 31, 2021, we had $483 million of net unrecognized tax benefits included in “Other liabilities,” in our consolidated balance sheet.

Additionally, at December 31, 2021, we have a remaining net Transition Tax liability of $142 million associated with the U.S. Tax Reform Act. The remaining Transition Tax liability is payable over the next five years and is not reflected in our Contractual Obligations table above.

(2) Long-term debt obligations represent our obligations related to the contractual principal repayments and interest payments for our outstanding unsecured notes, which are subject to fixed interest rates, as of December 31, 2021. There was no outstanding balance under our Revolver as of December 31, 2021. We have calculated the expected interest obligation based on the outstanding principal balance and interest rate applicable at December 31, 2021. Refer to Note 13 for additional information on our debt obligations.

Legal Proceedings

We are party to routine claims, suits, investigations, audits, and other proceedings arising 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, 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. We are also party to the proceedings set forth below.

Pending EEOC Settlement

In September 2021, we entered into a proposed consent decree with the U.S. Equal Employment Opportunity Commission (the "EEOC") to settle claims regarding certain employment practices. The consent decree is subject to approval by the United States District Court, Central District of California, and, among other things, provides for the creation of an $18 million settlement fund for eligible claimants; upgrading Company policies, practices, and training to further prevent and eliminate harassment and discrimination in its workplaces, including implementing an expanded performance review system with a new equal opportunity focus; and providing ongoing oversight and review of the Company's training programs, investigation policies, disciplinary framework and compliance by appointing a third-party equal opportunity consultant whose findings will be regularly reported to our Board of Directors as well as the EEOC. There can be no assurance that the consent decree will be approved by the court. The California Department of Fair Employment and Housing (the "DFEH") filed a motion to intervene in the matter, seeking to object to the consent decree, including the amount of the settlement fund; that motion was denied. The DFEH filed a notice of appeal of the order denying the DFEH's motion to intervene. The DFEH filed a motion to stay the matter pending appeal; that motion was denied.

Other Pending Employment-Related Matters

On July 20, 2021, the DFEH filed a complaint (the "DFEH Matter") in the Los Angeles County Superior Court of the State of California against Activision Blizzard, Blizzard Entertainment and Activision Publishing (together, the "Defendants") alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act. The DFEH filed a First Amended Complaint in the DFEH Matter on August 23, 2021. The Defendants moved to dismiss the First Amended Complaint; the motion was heard on February 15, 2022. The Defendants' motion was denied in part and granted in part, with the DFEH having leave to further amend with respect to the granted portion. In addition, the Company's Board of Directors recently received notice of an investigation by the DFEH and investigatory subpoenas.

On August 3, 2021, a putative class action was filed in the United States District Court, Central District of California, entitled *Gary Cheng v. Activision Blizzard, Inc., et al.*, Case No. 2:21-cv-06240-PA-JEM. Plaintiffs purport to represent a class of Activision shareholders who purchased stock between February 28, 2017 and November 16, 2021, and assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") against the Company and five current or former officers. Beginning on August 6, 2021, three putative shareholder derivative actions were filed in California Superior Court, County of Los Angeles, and those cases have now been consolidated in an action entitled *York County on Behalf of County of York Retirement Fund v. Robert A. Kotick, et al.*, Case No. 21STCV28949. On November 15, 2021, a putative shareholder derivative action was filed in the United States District Court, Central District of California, entitled *Luke Kahnert v. Robert A. Kotick, et al*., Case No. 2:21-cv-08968-PA-JEM. The putative derivative actions collectively assert claims on the Company's behalf against thirteen current or former officers and directors for breach of fiduciary duty, corporate waste, unjust enrichment, misappropriation, contribution, and alleged violation of Section 14(a) of the Exchange Act based on allegations similar to those in the DFEH Matter and in the securities class action. The Company is named as a nominal defendant. In addition, the plaintiffs in the *Kahnert* action have sought leave to amend their complaint to assert putative class claims for breach of fiduciary duty against the Company's directors in connection with the proposed acquisition by Microsoft, along with an aiding and abetting claim against Microsoft.

The Company is cooperating with an investigation by the U.S. Securities and Exchange Commission (the "SEC") regarding disclosures on employment matters and related issues including responding to subpoenas from the SEC. The SEC has also issued subpoenas to a number of current and former executives and other employees in connection with this matter.

We are unable to predict the impact of the above matters on our business, financial condition, results of operations, or liquidity at this time.

Legal Proceedings Regarding the Merger

On February 24, 2022, one complaint was filed in the United States District Court for the Southern District of New York and one complaint was filed in the United States District Court for the Central District of California, each against the Company and its directors: Stein v. Activision Blizzard, Inc. et al., No. 1:22-cv-01560 (S.D.N.Y.); and Watson v. Activision Blizzard, Inc. et al., No. 2:22-cv-01268 (C.D. Cal.). The complaints each assert violations of Section 14(a) and Section 20(a) of the Exchange Act and allege that the preliminary proxy statement filed in connection with the proposed transaction between the Company and Microsoft omitted certain purportedly material information which rendered the preliminary proxy statement incomplete and misleading. Specifically, the complaints allege that the preliminary proxy statement failed to disclose material information regarding the sales process, the Company's projections and the financial analyses of the Company's financial advisor. Each complaint seeks, among other things, an order to enjoin the transaction unless and until additional disclosures are issued; and, if the transaction closes, damages. It is possible additional lawsuits against the Company, our Board of Directors or the Company's officers may be filed prior to the consummation of the transaction.

Letters of Credit

As described in Note 13, a portion of our Revolver can be used to issue letters of credit of up to $50 million, subject to the availability of the Revolver. At December 31, 2021, we did not have any letters of credit issued or outstanding under the Revolver.

23. Subsequent Events

Merger Agreement

On January 18, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Microsoft and Anchorage Merger Sub Inc. ("Merger Sub"), a wholly owned subsidiary of Microsoft, in which we agreed to be acquired for $95.00 in cash per issued and outstanding share of our common stock, par value $0.000001 per share (the "Shares") in an all-cash transaction. Pursuant to the terms of the Merger Agreement, our acquisition will be accomplished through the merger of Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Microsoft.

Pursuant to the terms of the Merger Agreement, and subject to the terms and conditions set forth therein, at the effective time of the Merger (the "Effective Time"), each Share (other than Shares (1) held by the Company as treasury stock (excluding certain Shares held by a wholly owned subsidiary of the Company, which shares will remain outstanding and unaffected by the Merger), (2) owned by Microsoft or Merger Sub, (3) owned by any direct or indirect wholly owned subsidiary of Microsoft or Merger Sub or (4) held by stockholders who have neither voted in favor of adoption of the Merger Agreement nor consented thereto in writing and who have properly and validly exercised their statutory rights of appraisal in respect of such Shares in accordance with Section 262 of the Delaware General Corporation Law, in each case immediately prior to the Effective Time) issued and outstanding immediately prior to the Effective Time will be cancelled and automatically converted into the right to receive $95.00 in cash, without interest. We have agreed to various customary covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time. We do not believe these restrictions will prevent us from meeting our debt service obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

If the Merger Agreement is terminated under certain specified circumstances, we or Microsoft will be required to pay a termination. We will be required to pay Microsoft a termination fee of approximately $2.27 billion under specified circumstances, including termination of the Merger Agreement in connection with our entry into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) prior to us receiving stockholder approval of the Merger, or termination by Microsoft upon a Company Board Recommendation Change (as defined in the Merger Agreement), in each case, if certain other conditions are met. Microsoft will be required to pay us a reverse termination fee under specified circumstances, including termination of the Merger Agreement due to a permanent injunction arising from Antitrust Laws (as defined in the Merger Agreement) when we are not then in material breach of any provision of the Merger Agreement and if certain other conditions are met, in an amount equal to (1) $2.0 billion if the termination notice is provided prior to January 18, 2023, (2) $2.5 billion if the termination notice is provided after January 18, 2023, and prior to April 18, 2023, or (3) $3.0 billion if the termination notice is provided at any time after April 18, 2023.

The consummation of the Merger is subject to customary closing conditions, including, among others, (1) the approval and adoption of the Merger Agreement by our stockholders, (2) the absence of any court order or law prohibiting (or seeking to prohibit) the consummation of the Merger, (3) the termination or expiration of any applicable waiting period or periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and specified approvals under certain other antitrust and foreign investment laws, subject to certain limitations, (4) compliance by us and Microsoft in all material respects with our respective obligations under the Merger Agreement, and (5) subject to specified exceptions and qualifications for materiality, the accuracy of representations and warranties made by us and Microsoft, respectively, as of the signing date and the closing date.

SCHEDULE II

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Amounts in millions)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions(A)	Col. D Deductions(B)	Col. E Balance at End of Period
At December 31, 2021				
Allowances for sales returns and price protection and other allowances	$ 63	$ 3	$ (49)	$ 17
Valuation allowance for deferred tax assets	$ 228	$ 52	$ (2)	$ 278
At December 31, 2020				
Allowances for sales returns and price protection and other allowances	$ 118	$ (29)	$ (26)	$ 63
Valuation allowance for deferred tax assets	$ 181	$ 49	$ (2)	$ 228
At December 31, 2019				
Allowances for sales returns and price protection and other allowances	$ 186	$ 11	$ (79)	$ 118
Valuation allowance for deferred tax assets	$ 61	$ 127	$ (7)	$ 181

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

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

EXHIBIT INDEX

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

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger, dated as of January 18, 2022, by and among Microsoft Corporation, Anchorage Merger Sub Inc. and Activision Blizzard, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, filed January 19, 2022).
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	Fifth Amended and Restated Bylaws of Activision Blizzard, Inc., adopted as of January 17, 2022 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K, filed January 19, 2022).
4.1	Indenture, dated as of September 19, 2016, among Activision Blizzard, Inc., the guarantors named therein and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.300% Unsecured Senior Notes due 2021 and the Company's 3.400% Unsecured Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed September 19, 2016).
4.2	Base Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed May 26, 2017).
4.3	First Supplemental Indenture, dated as of May 26, 2017, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 2.600% Unsecured Senior Notes due 2022, the Company's 3.400% Unsecured Senior Notes due September 2027 and the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.4	Second Supplemental Indenture, dated August 10, 2020, between Activision Blizzard, Inc. and Wells Fargo Bank, National Association, as trustee, with respect to the Company's 1.350% Unsecured Senior Notes due 2030, and the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.5	Form of certificate for the Company's 3.400% Unsecured Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed September 19, 2016).
4.6	Form of certificate for the Company's 3.400% Unsecured Senior Notes due 2027 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.7	Form of certificate for the Company's 1.350% Unsecured Senior Notes due 2030 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.8	Form of certificate for the Company's 4.500% Unsecured Senior Notes due 2047 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed May 26, 2017).
4.9	Form of certificate for the Company's 2.500% Unsecured Senior Notes Due 2050 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K, filed August 10, 2020).
4.10	Description of Securities.
10.1*	Activision Blizzard, Inc. Amended and Restated 2008 Incentive Plan, as amended and restated on June 7, 2012 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed June 12, 2012).
10.2*	Amended and Restated Activision Blizzard, Inc. 2014 Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed May 4, 2017).
10.3*	Activision Blizzard, Inc. KDE Equity Incentive Plan, amended as of November 1, 2016 (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the year ended December 31, 2016).
10.4*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of November 12, 2008) (incorporated by reference to Exhibit 10.44 of the Company's Form 10-K for the year ended December 31, 2008).
10.5*	Form of Notice of Stock Option Award for grants to unaffiliated directors pursuant to the Activision Blizzard, Inc. 2008 Incentive Plan (effective as of March 6, 2013) (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the quarter ended March 31, 2013).

Exhibit Number	Exhibit
10.6*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.7*	Form of Notice of Restricted Share Unit Award for grants to non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of July 29, 2014) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended September 30, 2014).
10.8*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.9*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of March 2, 2017) (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended March 31, 2017).
10.10*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 26, 2018) (incorporated by reference to Exhibit 10.21 of the Company's Form 10-K for the year ended December 31, 2018).
10.11*	Form of Notice of Stock Option Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2019).
10.12*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 4, 2019) (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2019).
10.13*	Form of Notice of Stock Option Awards for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of November 18, 2020) (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2020).
10.14*	Form of Notice of Performance-Vesting Restricted Share Unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of December 4, 2020) (incorporated by reference to Exhibit 10.25 of the Company's Form 10-K for the year ended December 31, 2020).
10.15*	Form of Notice of Stock Option Awards for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.16*	Form of Notice of Restricted Share Unit Award for grants to persons other than non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.17*	Form of Notice of Restricted Share Unit Award for grants to non-affiliated directors pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.18*	Form of Notice of Performance-Vesting Restricted Share unit Award for grants pursuant to the Activision Blizzard, Inc. 2014 Incentive Plan (effective as of October 29, 2021).
10.19*	Amended and Restated CEO Recognition Program (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the quarter ended June 30, 2014).
10.20*	Activision Blizzard, Inc. Corporate Annual Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2015).
10.21*	Employment Agreement, dated as of October 1, 2016, between Robert A. Kotick and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 25, 2016).
10.22*	Extension Amendment, dated as of April 28, 2021, between Robert A. Kotick and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed April 29, 2021).
10.23*	Form of Notice of 2018 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.27 of the Company's Form 10-K for the year ended December 31, 2018).
10.24*	Form of Notice of 2019 Stock Option Award to Robert A. Kotick (incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2019).
10.25*	Corrected Employment Agreement, dated as of April 1, 2021, between Activision Blizzard, Inc. and Armin Zerza (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 2021).
10.26*	Employment Agreement, dated as of February 25, 2019, between Dennis Durkin and the Company (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2018).
10.27*	Employment Agreement, dated March 9, 2020, between Activision Blizzard, Inc. and Daniel Alegre (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed March 11, 2020).
10.28*	Employment Agreement, dated as of February 1, 2021, between Activision Blizzard, Inc. and Brian Bulatao.
10.29*	Employment Agreement, dated as of May 17, 2021, between Activision Blizzard, Inc. and Grant Dixton.

Exhibit Number	Exhibit
10.30*	Employment Agreement, dated as of July 24, 2019, between Claudine Naughton and the Company (incorporated by reference to Exhibit 10.33 of the Company's Form 10-K for the year ended December 31, 2019).
10.31*	Separation Agreement with Reaffirmation between Claudine Naughton and Activision Blizzard, Inc. dated September 10, 2021 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed September 14, 2021).
10.32*	Employment Agreement, dated as of November 1, 2016, between Chris B. Walther and the Company (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quartered ended March 31, 2019).
10.33*	Non-Affiliated Director Compensation Program and Stock Ownership Guidelines, as amended and restated as of December 3, 2021.
10.34	Credit Agreement, dated as of October 11, 2013, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, a group of lenders, Bank of America, N.A., as administrative agent and collateral agent for the lenders, J.P. Morgan Securities LLC, as syndication agent, Bank of America Merrill Lynch and J.P. Morgan Securities LLC, as joint lead arrangers and joint bookrunners, and Goldman Sachs & Co., HSBC Securities (USA) Inc., Mitsubishi UFJ Securities (USA), Inc., Mizuho Securities USA Inc., RBC Capital Markets, SunTrust Bank and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed October 18, 2013).
10.35	First Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 3, 2015).
10.36	Second Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 17, 2015).
10.37	Third Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's form 8-K, filed December 14, 2015).
10.38	Fourth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed April 1, 2016).
10.39	Fifth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 24, 2016).
10.40	Sixth Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed February 6, 2017).
10.41	Seventh Amendment to the Credit Agreement, dated as of October 11, 2013, by and among Activision Blizzard, Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent and collateral agent, and the several other agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed August 29, 2018).
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
24.1	Power of Attorney of each Executive Officer and Director signing this report (included in the signature page hereto).
31.1	Certification of Robert A. Kotick pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Armin Zerza 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 Armin Zerza pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.

Exhibit Number	Exhibit
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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

SIGNATURES

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

Date: February 25, 2022

ACTIVISION BLIZZARD, INC.

By: /s/ ROBERT A. KOTICK

Robert A. Kotick
Director and Chief Executive Officer of Activision Blizzard, Inc.
(Principal Executive Officer)

POWER OF ATTORNEY

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

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

By:	/s/ ROBERT A. KOTICK (Robert A. Kotick)	Director, Chief Executive Officer (Principal Executive Officer)	February 25, 2
By:	/s/ ARMIN ZERZA (Armin Zerza)	Chief Financial Officer (Principal Financial Officer)	February 25, 2
By:	/s/ JESSE YANG (Jesse Yang)	Chief Accounting Officer (Principal Accounting Officer)	February 25, 2
By:	/s/ REVETA BOWERS (Reveta Bowers)	Director	February 25, 2
By:	/s/ ROBERT J. CORTI (Robert J. Corti)	Director	February 25, 2
By:	/s/ HENDRIK J. HARTONG III (Hendrik J. Hartong III)	Director	February 25, 2
By:	/s/ BRIAN G. KELLY (Brian G. Kelly)	Chairman of the Board and Director	February 25, 2
By:	/s/ BARRY MEYER (Barry Meyer)	Director	February 25, 2
By:	/s/ ROBERT J. MORGADO (Robert J. Morgado)	Director	February 25, 2
By:	/s/ PETER NOLAN (Peter Nolan)	Director	February 25, 2
By:	/s/ DAWN OSTROFF (Dawn Ostroff)	Director	February 25, 2
By:	/s/ CASEY WASSERMAN (Casey Wasserman)	Director	February 25, 2

Exhibit 4.10

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

DESCRIPTION OF CAPITAL STOCK

The following description of the capital stock of Activision Blizzard, Inc. (the "Company," "us," "we," or "our") is a summary and does not purport to be complete. It is subject to, and qualified in its entirety by, reference to our Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") and our Amended and Restated Bylaws ("Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part.

Authorized Shares

Under our Certificate of Incorporation, our authorized capital stock consists of 2,405,000,000 shares of capital stock, consisting of 2,400,000,000 shares of common stock, par value $0.000001 per share, and 5,000,000 shares of preferred stock, par value $0.000001 per share. The number of authorized shares of any class or classes of our capital stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of our outstanding capital stock entitled to vote thereon, irrespective of the provisions of Section 242(b)(2) of the Delaware General Corporation Law (the "DGCL"). We may not authorize the issuance of any class, or series thereof, of nonvoting equity shares. Our common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Voting Rights

Holders of our common stock are entitled to one vote per share on all matters voted on by the stockholders, including in connection with the election of directors, as provided by law. Holders of our common stock do not have cumulative voting rights. Except as otherwise required by the DGCL or our Certificate of Incorporation and Bylaws, action requiring stockholder approval may be taken by a vote of the holders of a majority of the voting power of the shares of stock of the Company present in person or by proxy and entitled to vote on the relevant matter at a meeting at which a quorum is present.

Dividend Rights

After satisfaction of any dividend rights of holders of preferred stock and subject to applicable law, holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors in its discretion.

Liquidation and Other Rights

Upon our voluntary or involuntary liquidation, distribution or winding up, the holders of our common stock will be entitled to receive ratably all of our remaining assets that are legally available for distribution, if any, after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock.

Holders of our common stock have no preemptive, subscription, redemption, conversion or exchange rights and no sinking fund provisions.

All outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable. Additional shares of common stock may be issued, as authorized by our Board from time to time, without stockholder approval, except for any stockholder approval required by The Nasdaq Global Select Market.

The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

Our board of directors has been authorized to provide for the issuance of up to 5,000,000 shares of our preferred stock from time to time in one or more series without the approval of stockholders. With respect to each series of our preferred stock, our board of directors has the authority to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, and the liquidation preferences of any wholly unissued class or series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them.

Anti-Takeover Effects of Provisions of our Certificate of Incorporation and Bylaws

Some provisions of Delaware law, our Certificate of Incorporation and our Bylaws could delay or discourage some transactions involving an actual or potential change in control of us or our management and may limit the ability of our stockholders to remove current management or approve transactions that our stockholders may deem to be in their best interests. These provisions:

- allow our board of directors to issue any authorized but unissued shares of common stock without approval of stockholders;
- authorize our board of directors to establish one or more series of preferred stock, the terms of which can be determined by our board of directors at the time of issuance;
- provide an advanced written notice procedure with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors, subject to the rights of stockholders to request inclusion of proposals in our proxy statement pursuant to Rule 14a-8 under the Exchange Act (or any successor provision of law);
- state that special meetings of our stockholders may be called only by the Chairman of our board of directors, our Chief Executive Officer, our President, or at the written request of a majority of our board of directors;
- allow our directors, and not our stockholders, to fill vacancies on our board of directors, including vacancies resulting from removal or enlargement of our board of directors; and
- grant our board of directors the authority to alter, amend, change, add to, repeal, rescind or make new Bylaws without a stockholder assent or vote; provided, however, that such authority of our board of directors is subject to the power of the stockholders to alter, amend, change, add to, repeal, rescind or make new Bylaws by the affirmative vote of the holders of at least a majority of the voting power of the outstanding shares entitled to vote thereon.

Delaware Anti-takeover Law

The Company is subject to Section 203 of the DGCL, which is an anti-takeover law. ln general, Section 203 prevents a publicly-held Delaware corporation from engaging in a "business combination" with any "interested stockholder" for a period of three years following the date that the person became an interested stockholder unless (1) our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, (2) at least two-thirds of the outstanding shares not owned by that interested stockholder approve the business combination, or (3) upon becoming an interested stockholder, that stockholder owned at least 85% of the outstanding shares, excluding those held by officers, directors and some employee stock plans. In general, a "business combination" includes, among other things, a merger or consolidation involving us and the "interested stockholder" and the sale of more than 10% of our assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

A Delaware corporation may "opt out" of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions.

Exclusive Forum Provision

Unless the Company consents in writing to the selection of an alternative forum, the sole and exclusive forum for certain legal actions involving the Company will be the Court of Chancery of the State of Delaware. If the Court of Chancery of the State of Delaware lacks subject matter jurisdiction over such action or proceeding, the sole and exclusive forum for such action or proceeding shall be another state or federal court located within the State of Delaware or, if no court of the State of Delaware has jurisdiction, then the United States District Court for the District of Delaware. Unless the Company consents in writing to the selection of an alternative forum, the federal district courts of the United States of America will be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder.

Exhibit 10.15

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

NOTICE OF STOCK OPTION AWARD

You have been awarded an option to purchase Common Shares of Activision Blizzard, Inc. (the "Company"), as follows:

- Your name: **[ ]**
- Total number of Shares purchasable upon exercise of the Stock Option awarded: **[ ]**
- Exercise Price: US$**[_____]** per Share
- Date of Grant: **[ ]**
- Expiration Date: **[ ]**
- Grant ID: **[ ]**
- Your Award of the Stock Option is governed by the terms and conditions set forth in:
  - this Notice of Stock Option Award;
  - the Stock Option Award Terms attached hereto as Exhibit A;
  - the Appendix attached hereto as Exhibit B, which may include special terms and conditions relating to your country of work and/or residence (the "Appendix"); and
  - the Company's 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting*: Except as otherwise provided pursuant to the Stock Option Award Terms attached hereto as Exhibit A, as supplemented, modified, or replaced by the special terms and conditions, if any, set forth under your country of work and/or residence in the Appendix attached hereto as Exhibit B (together, the "Award Terms"), the Stock Option awarded to you shall vest and become exercisable as follows, provided you remain continuously employed by the Company or one of its Subsidiaries through the applicable vesting date:

Date of Vesting	**No. of Shares Vesting at Vesting Date**
[ ]	**[_____]**
[ ]	**[_____]**
[ ]	**[_____]**

- ***Please sign and return to the Company this Notice of Stock Option Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.***

- ***Please return the signed Notice of Stock Option Award to the Company at:***

  Activision Blizzard, Inc.
  3100 Ocean Park Boulevard
  Santa Monica, CA 90405
  Attn: Stock Plan Administration

- The Stock Option is not intended to be an "incentive stock option," as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended from time to time.
- Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.
- ***By accepting the Award, you agree that the definition of "Cause" set forth in the Award Terms and, if the Appendix for the United States of America is applicable to you and/or your Award, the definition of "Employment Violation" set forth therein, shall supersede any such definitions in the award terms applicable to any other outstanding equity awards granted to you by the Company and shall apply to such awards as if set forth in those award terms.***
- ***By accepting the Award, you agree to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Stock Option Award and the Award Terms. If you do not accept the Award by the first scheduled vesting date and you do not indicate your intention to decline the Award, your Award will be automatically accepted on your behalf and you will be deemed to have accepted the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Stock Option Award and the Award Terms.***

You should retain the enclosed duplicate copy of this Notice of Stock Option Award for your records.

ACTIVISION BLIZZARD, INC.

_____
Julie Hodges
Chief People Officer

Date: _____

ACCEPTED AND AGREED:

_____
[Name of Holder]

Date: _____

EXHIBIT A

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

STOCK OPTION AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

"Award" means the award described on the Grant Notice.

"Cause" (i) shall have the meaning given to such term in any employment agreement, service contract or offer letter between the Holder and any entity in the Company Group in effect at the time of the determination or (ii) if the Holder is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of "cause," shall mean a good faith determination by the Company that the Holder (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other conduct that causes, or has the potential to cause, harm to any entity in the Company Group, including its business reputation or financial condition; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, service contract, proprietary information agreement or confidentiality agreement with any entity in the Company Group; (E) was convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (F) breached his or her fiduciary duties to the Company Group. Without limiting the generality of the foregoing, "cause" under clauses (i) and (ii) of the preceding sentence shall also mean a good faith belief by the Company, after investigation, that the Holder has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Common Shares" means the shares of common stock, par value $0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 9 hereof.

"Company" means Activision Blizzard, Inc. and any successor thereto.

"Company Group" means the Company and its Subsidiaries.

"Company-Sponsored Equity Account" means an account that is created with the Equity Account Administrator in connection with the administration of the Company's equity plans and programs, including the Plan.

"Date of Grant" means the Date of Grant of the Award set forth on the Grant Notice.

"Disability" shall mean (i) the Holder is receiving benefits under any long-term disability plan of the Company Group then in effect or (ii) if the Holder is an employee who works and/or resides in the U.S. and is then party to an agreement or offer letter with any entity in the Company Group which contains a definition of "disability" or otherwise provides a method for determining whether the Holder is disabled, shall have the meaning given to such term in, or otherwise be determined in accordance with, such employment agreement or offer letter.

"Employer" means the Subsidiary of the Company which employs the Holder.

"Equity Account Administrator" means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company's equity plans and programs, including the Plan.

"Exercise Price" means the Exercise Price set forth on the Grant Notice.

"Exercise Rules and Regulations" means (i) (A) for employees who work and/or reside in the U.S., the Securities Act or any comparable U.S. federal securities law and all applicable state securities laws, and (B) for employees who work and/or reside outside the U.S., any laws applicable to the Holder which subject him or her to insider trading restrictions and/or market abuse laws or otherwise affect his or her ability to accept, acquire, sell, attempt to sell or otherwise dispose of Common Shares, rights to Common Shares (*e.g.*, Stock Options) or rights linked to the value of Common Shares during such times as he or she is considered to have "inside information" regarding the Company, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (iv) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction.

"Expiration Date" means the Expiration Date set forth on the Grant Notice.

"Grant Notice" means the Notice of Stock Option Award to which the Award Terms are attached.

"Holder" means the recipient of the Award named on the Grant Notice.

"Option" means the Stock Option to purchase Common Shares awarded to the Holder on the terms and conditions described in the Grant Notice and these Award Terms.

"Plan" means the Activision Blizzard, Inc. 2014 Incentive Plan, as amended from time to time.

"Section 409A" means Section 409A of the Code and the guidance and regulations promulgated thereunder.

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Shares" means the Common Shares purchasable upon exercise of the Stock Option.

"U.S." means the United States of America.

"Withholding Taxes" means any taxes, including, but not limited to, income tax, social insurance (*e.g.*, U.S. social security and Medicare), payroll tax, state and local income taxes, fringe benefits tax, and payment on account, required or permitted under any applicable law to be withheld from amounts otherwise payable to the Holder.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Expiration. The Stock Option shall expire on the Expiration Date and, after such expiration, shall no longer be exercisable.

3. Vesting and Exercise.

(a) Vesting Schedule. Except as otherwise set forth in these Award Terms, the Stock Option shall vest, and thereupon become exercisable, in accordance with the "Schedule for Vesting" set forth on the Grant Notice.

(b) Exercisable Only by the Holder. Except as otherwise permitted under the Plan or Section 11 hereof, the Stock Option may be exercised during the Holder's lifetime only by the Holder or, in the event of the Holder's legal incapacity to do so, by the Holder's guardian or legal representative acting on behalf of the Holder in a fiduciary capacity under court supervision and/or applicable law.

(c) Procedure for Exercise. The Stock Option may be exercised by the Holder as to all or any of the Shares as to which the Stock Option has vested (i) by following the procedures for exercise established by the Equity Account Administrator and posted on the Equity Account Administrator's website from time to time or (ii) with the Company's consent, by giving the Company written notice of exercise, in such form as may be prescribed by the Company from time to time, specifying the number of Shares to be purchased.

(d) Payment of Exercise Price. To be valid, any exercise of the Stock Option must be accompanied by full payment of the aggregate Exercise Price of the Shares being purchased. The Company shall determine the method or methods the Holder may use to make such payment, which may include any of the following: (i) by bank check or certified check or wire transfer of immediately available funds, (ii) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate Exercise Price of the Shares being purchased, (iii) through the withholding of Shares otherwise deliverable upon exercise, (iv) for U.S. taxpayers only, by tendering previously owned Common Shares (valued at their Market Value per Share as of the date of tender), or (v) any combination of (i), (ii), (iii) or (for U.S. employees only) (iv) above or any other manner permitted pursuant to the Plan.

(e) No Fractional Shares. In no event may the Stock Option be exercised for a fraction of a Share.

(f) No Adjustment for Dividends or Other Rights. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date as of which the issuance or transfer of Shares to the person entitled thereto has been evidenced on the books and records of the Company pursuant to clause (ii) of Section 3(g) hereof following exercise of the Stock Option.

(g) Issuance and Delivery of Shares. As soon as practicable (and, in any event, within 30 days) after the valid exercise of the Stock Option, the Company shall (i) effect the issuance or transfer of the Shares purchased upon such exercise, (ii) cause the issuance or transfer of such Shares to be evidenced on the books and records of the Company, and (iii) cause such Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Shares are subject to a legend as set forth in Section 14 hereof, the Company shall instead cause a certificate evidencing such Shares and bearing such legend to be delivered to the person entitled thereto.

(h) Partial Exercise. If the Stock Option shall have been exercised with respect to less than all of the Shares purchasable upon exercise of the Stock Option, the Company shall make a notation in its books and records to reflect the partial exercise of the Stock Option and the number of Shares that thereafter remain available for purchase upon exercise of the Stock Option.

4. Termination of Employment.

(a) Cause. Unless the Committee determines otherwise, in the event that (a) the Holder's employment is terminated by any entity in the Company Group for Cause or (b) if the Holder terminates his or her employment with the Company Group in breach of an employment agreement with any entity in the Company Group, as of the date of such termination of employment the Stock Option shall (i) cease to vest, if not then fully vested, (ii) no longer be exercisable, whether or not vested, and (iii) be immediately cancelled.

(b) Death or Disability. Unless the Committee determines otherwise, in the event that the Holder dies while employed by any entity in the Company Group or the Holder's employment with any entity in the Company Group is terminated due to the Holder's Disability, the Stock Option shall (i) cease to vest as of the date of the Holder's death or the first date of the Holder's Disability (as determined by the Committee), as the case may be, and (ii) to the extent vested as of the date of the Holder's death or the first date of the Holder's Disability, as the case may be, remain exercisable in accordance with these Award Terms until the earlier of (A) the first anniversary of the date of the Holder's death or termination of employment, as the case may be, and (B) the Expiration Date, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled. To the extent not vested as of the date of the Holder's death or the first date of the Holder's Disability, as the case may be, the Stock Option shall be immediately cancelled and shall no longer be exercisable.

(c) Other. Unless the Committee determines otherwise, in the event that the Holder's employment is terminated for any reason not addressed by Section 4(a) or 4(b) hereof, the Stock Option shall (i) cease to vest as of the date of such termination of employment and (ii) to the extent vested as of the date of such termination of employment, be exercisable in accordance with these Award Terms until the earlier of (A) (i) in the case of a termination by the Holder, the 30th day after the date of such termination of employment or (ii) in the case of a termination by the Company Group, the 90th day after the date of such termination of employment (or, in either case, if the Holder is prohibited from exercising the Stock Option during some or all of the 30-day or 90-day period, as the case may be, following such termination date because such exercise would not be in compliance with the Exercise Rules and Regulations, whatever later date may be determined in accordance with a Committee-approved policy) and (B) the Expiration Date, after which the Stock Option shall no longer be exercisable and shall be immediately cancelled. To the extent not vested as of the date of such termination of service, the Stock Option shall be immediately cancelled and shall no longer be exercisable.

5. Tax Withholding.

(a) Regardless of any action the Company or the Employer takes with respect to any Withholding Taxes related to the Holder's participation in the Plan and legally applicable to the Holder, the Holder acknowledges that the ultimate liability for all Withholding Taxes is and remains the Holder's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. The Holder further acknowledges that the Company and/or the Employer (A) make no representations or undertakings regarding the treatment of any Withholding Taxes in connection with any aspect of the Stock Option, including, without limitation, the grant, vesting or exercise of the Stock Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (B) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Stock Option to reduce or eliminate the Holder's liability for Withholding Taxes or achieve any particular tax result. Further, if the Holder is or becomes subject to tax in more than one jurisdiction, the Holder acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Withholding Taxes in more than one jurisdiction. The Company shall have no obligation to deliver any Shares upon exercise of the Stock Option unless and until all Withholding Taxes contemplated by this Section 5 have been satisfied.

(b) Prior to any relevant taxable or tax withholding event, as applicable, the Holder agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Withholding Taxes resulting from the exercise (in whole or in part) of the Stock Option, the issuance or transfer of any Shares upon exercise of the Stock Option or otherwise in connection with the Award at the time such Withholding Taxes become due. In this regard, the Holder authorizes the Company and/or the Employer, or their respective agents, to satisfy any applicable withholding obligations with regard to all Withholding Taxes by one or a combination of the following: (i) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (ii) if securities of the Company of the same class as the Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the person exercising the Stock Option) to sell some or all of the Shares being purchased upon such exercise and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate amount of such Withholding Taxes; (iii) through the withholding of Shares otherwise deliverable upon exercise; or (iv) by any combination of (i), (ii) or (iii) above. Further, any entity in the Company Group shall have the right to require the Holder to satisfy any Withholding Taxes contemplated by this Section 5 by any of the aforementioned methods or by withholding from the Holder's wages or other cash compensation.

(c) The Company Group may withhold or account for Withholding Taxes contemplated by this Section 5 by reference to applicable withholding rates, including minimum or maximum applicable statutory rates in the Holder's jurisdiction(s) of employment and/or residency, and if the Company Group withholds more than the amount necessary to satisfy the liability, the Holder may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the Company Group withholds less than the amount necessary to satisfy the liability, the Holder may be required to pay any additional Withholding Taxes directly to the applicable tax authority or to the Company and/or the Employer. If the obligation for Withholding Taxes is satisfied by withholding in Shares, for tax purposes the Holder will be deemed to have been issued the full number of Shares, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Withholding Taxes. No fractional Shares will be withheld or issued pursuant to the exercise of the Stock Option and the issuance of Withholding Taxes thereunder.

6. Deemed Agreement. **By accepting the Award, the Holder is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.**

7. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon exercise of the Stock Option such number of Common Shares as shall be required for issuance or delivery upon exercise thereof.

8. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of the Holder taken as a whole without the Holder's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 9 hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to Section 409A.

9. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of the Holder that otherwise would result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

10. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Stock Option may not be exercised, and the Stock Option and Shares purchasable upon exercise of the Stock Option may not be purchased, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of the Stock Option or Shares with the U.S. Securities and Exchange Commission, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. The Holder shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act, relating to the Stock Option or Shares, to issue or transfer the Stock Option or Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or resale of the Stock Option or Shares under the Securities Act or any comparable federal securities law or applicable state securities law.

11. Transferability. Subject to the terms of the Plan, and only with the Company's consent, the Holder may transfer all or part of the Stock Option for estate planning purposes or pursuant to a domestic relations order (or a comparable order under applicable local law); provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided further that the Holder will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms. Except as otherwise permitted under the Plan or this Section 11, the Stock Option shall not be transferable by the Holder other than by will or the laws of descent and distribution.

12. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) The Holder is responsible for complying with (i) any federal, state, and local tax, social insurance, national insurance contributions, payroll tax, payment on account or other tax liabilities applicable to the Holder in connection with the Award and (ii) all Exercise Rules and Regulations.

(b) The Award is subject to the terms and conditions of any policy requiring or permitting the Company to recover any gains realized by the Holder in connection with the Award, including, without limitation, the Policy on Recoupment of Performance-Based Compensation Related to Certain Financial Restatements.

(c) If and when the Holder is an "executive officer" of the Company within the meaning of the Executive Stock Ownership Guidelines, the Award will be subject to the terms and conditions of the Executive Stock Ownership Guidelines and the limitations contained therein on the ability of the Holder to transfer any Vested Shares.

13. Section 409A. As the Exercise Price is equal to the fair market value of a Share on the Date of Grant, payments contemplated with respect to the Award are intended to be exempt from Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (a) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (b) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on the Holder or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of the Holder, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 13 does not create an obligation on the part of the Committee or the Company to make any such modification, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by the Holder pursuant to Section 409A.

14. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Shares to bear a legend substantially as follows:

"THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE 'ACT'), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT."

15. No Right to Employment. Nothing contained in the Grant Notice or these Award Terms shall create a right to employment or be interpreted as forming and employment or service

contract with the Company, the Employer or any other entity in the Company Group and shall not interfere with the ability of the Employer to retire, request the resignation of or terminate the Holder's employment or service relationship at any time.

16. No Rights as Stockholder. No holder of the Stock Option shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth, in the Plan, the Grant Notice or these Award Terms.

17. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

18. Venue and Governing Law.

(a) For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the grant of the Stock Option or these Award Terms, the parties submit and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Los Angeles County, California, or the federal courts of the United States for the Central District of California and no other courts, regardless of where the grant of the Stock Option is made and/or to be performed; provided, however, that if the parties have entered into another agreement providing for a different venue or forum (e.g., a dispute resolution agreement), then the terms of such agreement will control for purposes of this provision.

(b) To the extent that U.S. federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

19. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Holder and, to the extent applicable, the Holder's permitted assigns under Section 3(b) hereof and the Holder's estate or beneficiaries as determined by will or the laws of descent and distribution.

20. Delivery of Notices and Other Documents.

(a) Any notice or other document which the Holder may be required or permitted to deliver to the Company pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A., Attn: Stock Plan Administration, or such other address as the Company by notice to the Holder may designate in writing from time to time. Notices shall be effective upon delivery.

(b) Any notice or other document which the Company may be required or permitted to deliver to the Holder pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Holder at the address shown on any employment agreement, service contract or offer letter between the Holder and any entity in the Company Group in effect at the time, or such other address as the Holder by notice to the Company may designate in writing from time to time. The Company may also, in its sole discretion, deliver any such document to the Holder electronically via an e-mail to the Holder at his or her Company-

provided email address or through a notice delivered to such e-mail address that such document is available on a website established and maintained on behalf of the Company or a third party designated by the Company, including, without limitation, the Equity Account Administrator. Notices shall be effective upon delivery.

21. Conflict with Plan. In the event of any conflict between the terms the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

22. Appendix. Notwithstanding anything to the contrary contained herein, the Stock Option shall be subject to any additional terms and conditions set forth in the Appendix for the Holder's country of work and/or residence, which constitute a part of these Award Terms. Moreover, if the Holder relocates his or her work and/or residence to one of the countries included in the Appendix, the additional terms and conditions for such country will apply to the Holder, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Holder's participation in the Plan, on the Stock Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan, and to require the Holder to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. Waiver. The Holder acknowledges that a waiver by the Company of a breach of any provision of these Award Terms shall not operate or be construed as a waiver of any other provision of these Award Terms, or of any subsequent breach by the Holder or any other holder of an equity award from the Company.

EXHIBIT B

APPENDIX

TO

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

STOCK OPTION AWARD TERMS

ADDITIONAL TERMS AND CONDITIONS BY COUNTRY

Capitalized terms used but not defined herein shall have the meanings given to such terms in the Plan or the Award Terms, as the case may be.

TERMS AND CONDITIONS

This Appendix includes special terms and conditions applicable to Holders who work and/or reside in the countries covered by the Appendix. These terms and conditions are in addition to or, if so indicated, in place of, the terms and conditions set forth in the Award Terms.

If the Holder is a citizen or resident of a country other than the one in which he or she is currently residing and/or working, transferred or transfers employment and/or residency after the Stock Option was granted or is considered a resident of another country for local law purposes (*i.e.*, the Holder is a "mobile employee"), the Company shall have the sole discretion to determine to what extent the special terms and conditions shall apply to the Holder.

NOTIFICATIONS

This Appendix also includes notifications relating to exchange control and other issues of which the Holder should be aware with respect to his or her participation in the Plan. The information is based on the exchange control, securities and other laws in effect in the countries to which this Appendix refers as of October 2021. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Holder not rely on the notifications herein as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time Shares are purchased upon exercise of the Stock Option or Shares purchased under the Plan are sold.

In addition, the notifications are general in nature and may not apply to the particular situation of the Holder, and the Company is not in a position to assure the Holder of any particular result. Accordingly, each Holder should seek appropriate professional advice as to how the relevant laws in his or her country may apply to his or her situation. Finally, if the Holder is a mobile employee, the information contained herein may not be applicable to the Holder in the same manner.

GENERAL PROVISIONS APPLICABLE TO ALL HOLDERS WHO WORK AND/OR RESIDE OUTSIDE THE U.S.

Nature of Grant. By accepting the Stock Option, the Holder acknowledges, understands, and agrees that:

(1) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and/or these Award Terms;

(2) the grant of the Stock Option is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of rights to purchase Common Shares, or benefits in lieu of grants of rights to purchase Common Shares, even if grants of rights to purchase Common Shares have been granted in the past;

(3) all decisions with respect to future grants of rights to purchase Common Shares, if any, will be at the sole discretion of the Company;

(4) the Holder's participation in the Plan is voluntary;

(5) the grant of the Stock Option and any Shares acquired under the Plan and the income in respect of and the value of the same are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which are outside the scope of the employment agreement or service contract between the Holder and the Company, the Employer or any other entity in the Company Group, if any;

(6) the Stock Option and any Shares acquired under the Plan and the income in respect of and the value of the same are not intended to replace any pension rights or compensation;

(7) the Stock Option and any Shares acquired under the Plan, and the income in respect of and the value of the same, are not part of normal or expected compensation or salary for any purpose, including, without limitation, the calculation of any severance, resignation, termination, redundancy, dismissal, end of service payment, bonus, long-service award, leave-related payment, holiday pay, pension or retirement or welfare benefit or similar payments;

(8) the Stock Option grant and the Holder's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company and, furthermore, the Stock Option grant will not be interpreted to form an employment agreement or service contract or relationship with any other company in the Company Group;

(9) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(10) if the underlying Shares do not increase in value, the Stock Option will have no value;

(11) if the Holder exercises the Stock Option and obtains Shares, the value of those Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price;

(12) unless otherwise agreed with the Company, the Stock Option and the Shares subject to the Stock Option, and the income and value of same, are not granted as consideration for, or in connection with, the service the Holder may provide as a director of any entity of Company Group;

(13) no claim or entitlement to compensation or damages shall arise from forfeiture of the Stock Option resulting from termination of the Holder's continuous service with the Company or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which the Holder is employed or the terms of the employment agreement or service contract between the Holder and the Company, the Employer or any other entity in the Company Group, if any);

(14) unless the Committee determines otherwise, in the event of the termination of the Holder's continuous service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which the Holder is employed or the terms of the employment agreement or service contract between the Holder and the Company, the Employer or any other entity in the Company Group, if any), the Holder's right to receive or vest in the Stock Option under the Plan, if any, will terminate effective as of the date that the Holder is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of the termination of the Holder's continuous service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which the Holder is employed or the terms of the Holder's employment agreement or service contract, if any), the Holder's right to exercise the Stock Option after termination of the Holder's continuous service, if any, will be measured by the date of termination of the Holder's active employment and will not be extended by any notice period mandated under local law; the Committee shall have the exclusive discretion to determine when the Holder is no longer actively employed for purposes of the Holder's Stock Option grant (including whether the Holder may still be considered actively employed while on a leave of absence);

(15) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Holder's participation in the Plan, or the Holder's acquisition or sale of the underlying Shares;

(16) the Holder should consult with the Holder's own personal tax, legal and financial advisors regarding the Holder's participation in the Plan before taking any action related to the Plan;

(17) unless otherwise provided in the Plan or by the Company in its discretion, the Stock Option and the benefits evidenced by these Award Terms do not create any entitlement to have the Stock Option or any such benefits transferred to, or assumed by, another company, nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(18) neither the Company, the Employer nor any other entity in the Company Group shall be liable for any foreign exchange rate fluctuation between the Holder's local currency and the United States Dollar that may affect the value of the Stock Option or of any amounts due to the Holder pursuant to the exercise of the Stock Option or the subsequent sale of any Shares acquired upon exercise.

Foreign Asset/Account Reporting Requirements. The Holder acknowledges that there may be certain foreign asset and/or account reporting requirements which may affect the Holder's ability to acquire or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage or bank account outside the Holder's country of work and/or residence. The Holder may be required to report such accounts, assets or transactions to the tax or other authorities in his or her country. The Holder also may be required to repatriate sale proceeds or other funds received as a result of the Holder's participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. The Holder acknowledges that it is his or her responsibility to be compliant with such regulations, and the Holder is advised to consult his or her personal legal advisor for any details.

Language. The Holder acknowledges that he or she is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, to understand the terms and conditions of these Award Terms. Furthermore, if the Grant Notice, these Award Terms or any other document related to the Plan has been translated into a language other than English and the meaning of the translated version is different than the English version then, by accepting the Award, the Holder acknowledges that the English version will control.

DATA PRIVACY INFORMATION AND CONSENT

The following provision applies to Holders who work and/or reside outside the European Economic Area.

Data Collection and Usage. The Holder hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Holder's personal data as described in the Grant Notice and these Award Terms by and among, as applicable, the Employer or any other entity in the Company Group for the exclusive purpose of implementing, administering and managing the Holder's participation in the Plan.

Data Processing. The Holder understands that the Company and the Employer may hold certain personal information about the Holder, including, without limitation, the Holder's name, home address, email address and telephone number, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any directorships held in any entity in the Company Group, any Shares owned, details of all options or any other entitlement to Shares or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in the Holder's favor (the "Data"), for the purpose of implementing, administering and managing the Plan.

Stock Plan Administration, Data Transfer, Retention and Data Subject Rights. The Holder understands that the Data will be transferred to the Equity Account Administrator, which is assisting the Company with the implementation, administration and management of the Plan. The Holder understands that the recipients of the Data may be located in the Holder's country of work and/or residence, or elsewhere, and that any recipient's country may have different data privacy laws and protections than the Holder's country of work and/or residence. The Holder understands that the Holder may request a list with the names and addresses of any potential recipients of the Data by contacting the Holder's local human resources representative. The Holder authorizes the Company, the Equity Account Administrator and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purpose of implementing, administering and managing the Holder's participation in the Plan. The Holder understands that Data will be held only as long as is necessary to implement, administer and manage the Holder's participation in the Plan. The Holder understands that the Holder may, at any time, view the Data, request additional

information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Holder's local human resources representative. Further, the Holder understands that he or she is providing the consents herein on a purely voluntary basis. If the Holder does not consent, or if the Holder later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing the Holder's consent is that the Company would not be able to grant the Holder Stock Options or other equity awards or administer or maintain such awards. Therefore, the Holder understands that refusal or withdrawal of consent may affect the Holder's ability to participate in the Plan. For more information on the consequences of the Holder's refusal to consent or withdrawal of consent, the Holder understands that the Holder may contact the Holder's local human resources representative.

The following provision applies to Holders who work and/or reside in the European Economic Area (including Switzerland and the United Kingdom).

Data Collection and Usage. Pursuant to applicable data protection laws, the Holder is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about the Holder for the exclusive legitimate purpose of granting Stock Options and implementing, administering and managing the Holder's participation in the Plan. Specifics of the data processing are described below.

Controller. The Company is the controller responsible for the processing of the Holder's personal data in connection with the Plan.

Personal Data subject to Processing. The Company collects, processes and uses the following types of personal data about the Holder: name, home address and telephone number, email address, date of birth, social insurance, passport number or other identification number, salary, nationality, job title, any shares of stock or directorships held in any entity in the Company Group, details of all Stock Options or any other entitlement to Shares awarded, canceled, settled, vested, unvested or outstanding in the Holder's favor, which the Company receives from the Holder or the Employer ("Personal Data"), for the purpose of implementing, administrating and managing the Plan.

Purposes and Legal Bases of Processing. The Company processes the Personal Data for the purpose of performing its contractual obligations under the Award Terms, granting Stock Options, implementing, administering and managing the Holder's participation in the Plan and facilitating compliance with applicable tax and securities law. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Award Terms and for the Company's legitimate business interests of managing the Plan and generally administering employee equity awards.

Stock Plan Administration Service Providers. The Company transfers Personal Data to the Equity Account Administrator, an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and may share Personal Data with such service providers. The Holder will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of the Holder's ability to participate in the Plan. The Holder's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating the Holder's participation in the Plan. The Holder understands that the Holder may request a list with the names and addresses of any potential recipients of Personal Data by contacting the Holder's local human resources representative.

International Data Transfers. The Company and its service providers, including, without limitation, the Equity Account Administrator, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in, the United States, for the performance of the contractual obligations under the Award Terms. The Holder understands that the Holder may request a list with the names and addresses of any potential recipients of the Data by contacting the Holder's local human resources representative.

The Holder understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that the Holder's Personal Data may not have an equivalent level of protection as compared to the Holder's country of work and/or residence. To provide appropriate safeguards for the protection of the Holder's Personal Data, the Personal Data is transferred to the Company based on data transfer and processing agreements implementing the EU Standard Contractual Clauses. The Holder may request a copy of the safeguards used to protect his or her Personal Data by contacting the Company at: employeeprivacy@activision.com.

Data Retention. The Company will use the Personal Data only as long as necessary to implement, administer and manage the Holder's participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. This period may extend beyond the Holder's termination of employment with the Employer. When the Company no longer needs the Personal Data, the Company will remove it from its systems to the fullest extent reasonably practicable. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be relevant laws or regulations.

Holder's Rights. To the extent provided by law, the Holder has the right to (i) inquire whether and what kind of Personal Data the Company holds about the Holder and how it is processed, and to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements, (iv) request the Company to restrict the processing of Personal Data in certain situations where the Holder feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, (vi) request portability of Personal Data that the Holder has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with the Holder and is carried out by automated means, or (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding the Holder's rights, raise any other questions regarding the practices described in the Award Terms or to exercise his or her rights, the Holder should contact the Company at: employeeprivacy@activision.com.

Contractual Requirement. The Holder's provision of Personal Data and its processing as described above is a contractual requirement and a condition to the Holder's ability to participate in the Plan. The Holder understands that, as a consequence of the Holder's refusing to provide Personal Data, the Company may not be able to allow the Holder to participate in the Plan, grant Stock Options to the Holder or administer or maintain such Stock Options. However, the Holder's participation in the Plan and his or her acceptance of the Award Terms are purely voluntary. While the Holder will not receive Stock Options if he or she decides against participating in the Plan or providing Personal Data as described above, the Holder's career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, the Holder may contact the Company at: employeeprivacy@activision.com.

Appendix for Australia

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Stock Option Award Terms

NOTIFICATIONS

Securities Law Notification. If the Holder exercises the Stock Option and subsequently offers the Shares purchased upon exercise for sale to a person or entity resident in Australia, the offer may be subject to disclosure requirements under Australian law and the Holder should obtain legal advice regarding any applicable disclosure obligations prior to making any such offer.

Exchange Control Notification. Exchange control reporting is required for cash transactions exceeding A$10,000 and all international fund transfers. The Australian bank assisting with the transaction will file the report for the Holder. If there is no Australian bank involved in the transfer, the Holder will be required to file the report him/herself.

Tax Information. The Plan is a plan to which subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) applies (subject to conditions therein).

Appendix for Brazil
Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Stock Option Award Terms

TERMS AND CONDITIONS

Compliance with Law. By accepting the Stock Option, the Holder acknowledges that he or she agrees to comply with applicable Brazilian laws and to pay any and all applicable taxes associated with the Holder's participation in the Plan, including the exercise of the Stock Option, the receipt of any dividends, and the sale of any Shares acquired under the Plan.

Nature of Company Stock Option Grants. By accepting the Stock Option, the Holder agrees that (1) he or she is making an investment decision and (2) the value of the underlying Shares is not fixed and may increase or decrease in value over time without compensation to the Holder.

NOTIFICATIONS

Exchange Control Notification. If the Holder is resident or domiciled in Brazil, he or she will be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights equals or exceeds US$1,000,000. Assets and rights that must be reported include any Shares acquired under the Plan.

Tax on Financial Transaction (IOF). Payments to foreign countries (including the payment of the Exercise Price) and repatriation of funds into Brazil and the conversion between BRL and US$ associated with such fund transfers may be subject to the Tax on Financial Transactions. It is the Holder's responsibility to comply with any applicable Tax on Financial Transactions arising from the Holder's participation in the Plan. The Holder should consult with his or her personal tax advisor for additional details.

Appendix for Canada
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Form of Payment. The Holder is prohibited from surrendering Shares that he or she already owns or attesting to the ownership of Shares to pay the Exercise Price or any Withholding Taxes in connection with the Stock Option.

Termination of Employment. Notwithstanding anything to the contrary in Section 4(c) of the Award Terms, unless the Committee determines otherwise, in the event of the termination of the Holder's continuous service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which the Holder is employed or the terms of the Holder's employment agreement or service contract, if any), vesting will terminate and the period remaining to exercise the Stock Option will be measured effective as of the date that is the earliest of: (1) the date the Holder's employment or service with the Company Group is terminated, (2) the date the Holder receives notice of termination of employment or service from the Employer or any other entity in the Company Group, and (3) the date the Holder is no longer actively employed or rendering services to the Company Group, regardless of any notice period or period of pay in lieu of such notice required under local law(including, but not limited to, statutory law, regulatory law and/or common law). In the event the date the Holder is no longer actively employed or rendering services cannot be reasonably determined under the Award Terms and/or the Plan, the Committee shall have the exclusive discretion to determine when the Holder is no longer actively employed for purposes of the Stock Option (including whether the Holder may still be considered actively employed while on a leave of absence).

Notwithstanding the foregoing, if applicable employment standards legislation explicitly requires continued entitlement to vesting during a statutory notice period, the Holder's right to vest in the Stock Options under the Plan, if any, will terminate effective as of the last day of the Holder's minimum statutory notice period, but the Holder will not earn or be entitled to pro-rated vesting if the vesting date falls after the end of the Holder's statutory notice period, nor will the Holder be entitled to any compensation for lost vesting.

The following provisions will apply to Holders who are residents of Quebec:

Language Acknowledgement. The parties acknowledge that it is their express wish that the Award Terms, including this Appendix, as well as all documents, notices, and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement relatif à la langue utilisée*: Les parties reconnaissent avoir exigé la rédaction en anglais de cette annexe, la convention afférente, ainsi que de tous documents, avis donnés et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement aux présentes.*

Data Privacy Notice and Consent. This provision supplements the "Data Privacy Information and Consent for Holders outside the European Economic Area" Section of the Appendix:

The Holder hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the

administration and operation of the Plan. The Holder further authorizes the Company Group, Equity Account Administrator and any other broker(s) designated by the Company to disclose and discuss the Plan with their respective advisors. The Holder further authorizes the Company Group to record such information and to keep such information in the Holder's employee file.

NOTIFICATIONS

Securities Law Notification. The Holder is permitted to sell any Shares acquired under the Plan through the Equity Account Administrator, provided that the resale of Shares acquired under the Plan takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the Nasdaq.

Foreign Asset/Account Reporting Notification. Foreign specified property (including Shares) held by Canadian residents must be reported annually on Form T1135 (Foreign Income Verification Statement) if the total value of such foreign specified property exceeds C$100,000 at any time during the year. Foreign specified property includes any Shares acquired under the Plan and may include the Stock Option. The Stock Option must be reported—generally at a nil cost—if the C$100,000 cost threshold is exceeded because of other foreign specified property the Holder holds. If Shares are acquired, their cost generally is the adjusted cost base ("ACB") of the Shares. The ACB would normally equal the fair market value of the Shares at exercise, but if the Holder owns other shares of the Company's common stock, this ACB may have to be averaged with the ACB of those other shares. If due, the form must be filed by April 30th of the following year. The Holder should speak with a personal tax advisor to determine the scope of foreign property that must be considered for purposes of this requirement.

Appendix for China

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Exchange Control Notification. The Holder understands, acknowledges and agrees that certain exchange control restrictions may apply to the Holder's participation in the Plan, including to the remittance of funds out of China to pay the Exercise Price and the remittance into China of any sale proceeds or dividends paid on any Shares acquired under the Plan. The Holder understands that it is his or her sole responsibility to comply with applicable exchange control restrictions in China.

Appendix for Denmark

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Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

By participating in the Plan, the Holder acknowledges that he or she understands and agrees that the grant of the Option relates to future services to be performed and is not a bonus or compensation for past services.

Stock Option Act. The Holder acknowledges that they have received an "Employer Statement" in Danish which sets forth additional terms of the Stock Options, to the extent that the Danish Stock Option Act applies to the Stock Options.

NOTIFICATIONS

Foreign Asset/Account Reporting Information. Danish tax payers that have an account holding Common Shares or an account holding cash outside Denmark must report those accounts to the Danish Tax Administration. The form which should be used in this respect may be obtained from a local bank.

Appendix for France

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Stock Option Not Tax-Qualified. The Holder understands that the Stock Option is not intended to be French tax-qualified.

Language Consent. By accepting the Award, the Holder confirms that he or she has read and understood the documents relating to the Stock Option (the Grant Notice, the Plan, and the Award Terms, including this Appendix) which were provided in the English language. The Holder accepts the terms of these documents accordingly.

Consentement relatif à la langue utilisée: *En acceptant l'Attribution, le Titulaire confirme qu'il ou qu'elle a lu et compris les documents afférents à l'Option (la Notification d'Attribution, le Plan et les Termes de l'Attribution, ainsi que la présente Annexe) qui sont produits en langue anglaise. Le Titulaire accepte les termes de ces documents en connaissance de cause.*

NOTIFICATIONS

Foreign Asset/Account Reporting Notification. If the Holder retains Shares acquired under the Plan outside of France or maintains a foreign bank account, the Holder is required to report such to the French tax authorities when filing his or her annual tax return. Further, French residents with foreign account balances exceeding €1,000,000 may have additional monthly reporting obligations.

Appendix for Germany

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Exchange Control Notification. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. No report is required for payments less than €12,500. In case of payments in connection with securities (including proceeds realized upon the sale of Shares), the report must be made by the 5th day of the month following the month in which the payment was received. Effective from September 2013, the report must be filed electronically. The form of report ("*Allgemeine Meldeportal Statistik*") can be accessed via the *Bundesbank's* website (www.bundesbank.de) and is available in both German and English. The Holder is responsible for satisfying the reporting obligation.

Foreign Asset/Account Reporting Information. If the Holder's acquisition of Shares under the Plan leads to a "qualified participation" at any point during the calendar year, the Holder will need to report the acquisition of such shares when the Holder files his or her tax return for the relevant year. A qualified participation is attained if (1) the value of the Stock acquired exceeds €150,000 or (2) the shares of Stock held exceed 10% of the Company's total common stock. However, provided the Shares are listed on a recognized stock exchange (*e.g.*, the Nasdaq Stock Market) and the Holder owns less than 1% of the Company, this requirement will not apply. The Holder should consult with his or her personal tax advisor to ensure the Holder complies with applicable reporting obligations.

Appendix for Hong Kong

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Sale Restriction. Any Shares received at exercise are accepted as a personal investment. Notwithstanding anything contrary in the Agreement or the Plan, in the event the Stock Option vests and Shares are issued to the Holder or his or her legal representatives or estate within six months of the Date of Grant, the Holder agrees that the Holder or his or her legal representatives or estate will not offer to the public or otherwise dispose of any Shares acquired prior to the six-month anniversary of the Date of Grant.

NOTIFICATIONS

Securities Warning. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. The Holder is advised to exercise caution in relation to the offer. If the Holder is in any doubt about any of the contents of this document, he or she should obtain independent professional advice. The Stock Options and any Shares acquired upon vesting of the Stock Options do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or any Subsidiary or Affiliate. The Plan, the Grant Agreement and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The Stock Options are intended only for the personal use of each eligible employee of the Company or any Subsidiary or Affiliate and may not be distributed to any other person.

Appendix for Hungary

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There are no country-specific provisions.

Appendix for Ireland

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TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the grant of the Stock Option, the Holder acknowledges that he or she understands and agrees that the benefits received under the Plan will not be taken into account for any redundancy or unfair dismissal claim.

NOTIFICATIONS

Director Notification Requirements. If the Holder is a director, shadow director or secretary of an Irish Subsidiary and the Holder's aggregate shareholding interest equals or exceeds 1% of the voting rights of the Company, the Holder must notify the Irish Subsidiary in writing within a certain time period of (i) receiving or disposing of an interest in the Company (*e.g.*, Stock Options, Shares), (ii) becoming aware of the event giving rise to the notification requirement, or (iii) becoming a director or secretary if such an interest exists at the time. This notification requirement also applies with respect to the interests of a spouse or minor children (whose interests will be attributed to the director, shadow director or secretary, as the case may be). The Holder may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Italy

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Plan Document Acknowledgment. By accepting the Stock Options, the Holder acknowledges that he or she has received a copy of the Plan and the Grant Agreement and has reviewed the Plan and the Grant Agreement, including this Appendix B, in their entirety and fully understands and accepts all provisions of the Plan and the Grant Agreement, including this Appendix B. The Holder acknowledges having read and specifically and expressly approves the following sections of the Grant Agreement: Section 3 ("Vesting Schedule"), Section 4 ("Termination of Employment"), Section 5 ("Taxes Withholding"), Section 15 ("No Right to Employment"), Section 16 ("No Rights as Stockholder"), Section 18 ("Venue and Governing Law"), and "Data Privacy Information and Consent" and "Language" as described in Exhibit B.

NOTIFICATIONS

Foreign Asset / Account Tax Reporting Notification. Italian residents who, at any time during the fiscal year, hold foreign financial assets (such as cash, Shares) which may generate income taxable in Italy are required to report such assets on their annual tax returns or on a special form if no tax return is due. The same reporting duties apply to Italian residents who are beneficial owners of the foreign financial assets pursuant to Italian money laundering provisions, even if they do not directly hold the foreign asset abroad. The Holder is advised to consult his or her personal legal advisor to ensure compliance with applicable reporting requirements.

Foreign Asset Tax Information. Italian residents who, at any time during the fiscal year, hold foreign financial assets (including cash and Shares) which may generate income taxable in Italy are required to report these assets on their annual tax returns (UNICO Form, RW Schedule) for the year during which the assets are held, or on a special form if no tax return is due. These reporting obligations will also apply to Italian residents who are the beneficial owners of foreign financial assets under Italian money laundering provisions.

Appendix for Japan

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Exchange Control Notification. If the Holder is a Japanese resident and acquires Shares valued at more than ¥100,000,000 in a single transaction, the Holder must file a Securities Acquisition Report with the Ministry of Finance through the Bank of Japan within 20 days of the purchase of such Shares.

In addition, if the Holder is a Japanese resident and pays more than ¥30,000,000 in a single transaction for the purchase of Shares upon the exercise of the Stock Option, the Holder must file a Payment Report with the Ministry of Finance through the Bank of Japan by the 20th day of the month following the month in which the payment was made. The precise reporting requirements vary depending on whether or not the relevant payment is made through a bank in Japan.

A Payment Report is required independently from a Securities Acquisition Report. Therefore, if the total amount that the Holder pays upon a one-time transaction for exercising the Stock Option and purchasing Shares exceeds ¥100,000,000, then the Holder must file both a Payment Report and a Securities Acquisition Report.

Foreign Asset/Account Reporting Notification. The Holder will be required to report details of any assets (including any Shares acquired under the Plan) held outside of Japan as of December 31st of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th of the following year. The Holder should consult with his or her personal tax advisor as to whether the reporting obligation applies to the Holder and whether the Holder will be required to report details of any outstanding Stock Options or Shares held by the Holder in the report.

Appendix for Korea

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Foreign Asset/Account Reporting Notification. Korean residents must declare all foreign financial accounts (*e.g.*, non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency). The Holder should consult with his or her personal tax advisor to determine how to value the Holder's foreign accounts for purposes of this reporting requirement and whether the Holder is required to file a report with respect to such accounts.

Appendix for Luxembourg

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There are no country-specific provisions.

Appendix for Mexico
Additional terms and Conditions of the
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TERMS AND CONDITIONS

Acknowledgement of the Award Terms. By accepting the Stock Option, the Holder acknowledges that he or she has received a copy of the Plan and the Award Terms, including this Appendix, which he or she has reviewed. The Holder further acknowledges that he or she accepts all the provisions of the Plan and the Award Terms, including this Appendix. The Holder also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the "Nature of Grant" Section of the Appendix, which clearly provide as follows:

(1) The Holder's participation in the Plan does not constitute an acquired right;

(2) The Plan and the Holder's participation in it are offered by the Company on a wholly discretionary basis;

(3) The Holder's participation in the Plan is voluntary; and

(4) The Company and any entity in the Company Group are not responsible for any decrease in the value of any Shares acquired upon settlement of the Stock Option.

Labor Law Acknowledgement and Policy Statement. By accepting the Stock Option, the Holder acknowledges that the Company, with registered offices at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A., is solely responsible for the administration of the Plan. The Holder further acknowledges that his or her participation in the Plan, the grant of the Stock Option and any acquisition of Shares under the Plan do not constitute an employment relationship between the Holder and the Company because the Holder is participating in the Plan on a wholly commercial basis and his or her sole employer is Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision-Mexico"). Based on the foregoing, the Holder expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Holder and his or her employer, Activision-Mexico, and do not form part of the employment conditions and/or benefits provided by Activision-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Holder's employment.

The Holder further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Holder's participation in the Plan at any time, without any liability to the Holder.

Finally, the Holder hereby declares that he or she does not reserve to him or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its Subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

SPANISH TRANSLATION

Reconicimiento de los terminos del otorgamiento de acciones. *Al aceptar las Opciones Acciones, el Tenedor reconoce que ha recibido una copia del Plan y de los Términos del Otorgamiento de acciones, incluyendo este anexo, los cuales ha revisado. El Tenedor también reconoce que acepta los términos del Plan y del Otorgamiento de Acciones, incluyendo este anexo. Así mismo el Tenedor reconoce que ha leído y expresamente aprueba los términos y condiciones establecidas en la cláusula 1 de los Términos Generales para Tenedores fuera de los Estados Unidos, las cuales claramente establecen lo siguiente:*

(1) La participación del Tenedor en el Plan no constituye un derecho adquirido

(2) El plan y la participación del Tenedor en dicho Plan son ofrecidos por la Empresa en forma totalmente discrecional.

(3) La participación del Tenedor en el Plan es voluntaria; y

(4) La Empresa y cualquier empresa del Grupo de Empresas no son responsables por la reducción en el valor de las acciones comunes que sean adquiridas en virtud de las Opciones Accionarias.

Política de Ley Laboral y Reconocimiento*. Al aceptar las Opciones Accionarias, el Tenedor expresamente reconoce que la Empresa, con domicilio ubicado en 310 Ocean Park Boulevard, Santa Mónica, California, 90405 U.S.A., es el único responsable para la administración de Plan y que su participación en los Plan y adquisición de acciones no constituye una relación de trabajo entre la Empresa y el Tenedor, toda vez que su participación en el Plan es totalmente en base a una relación comercial entre mi único patrón Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision Mexico") Derivado de lo anterior, el Tenedor expresamente reconoce que el Plan y beneficios que pudieran derivar de su participación en el Plan no establecen derechos entre mi único patrón Activision Mexico y el suscrito, no forman parte de mis condiciones y/o prestaciones de trabajo otorgadas por Ativision Mexico y cualquier modificación del Plan o su terminación no constituye un cambio o detrimento en los términos y condiciones de mi relación de trabajo.*

Asimismo, el Tenedor entiende que su participación en el Plan es resultado de una decisión unilateral y discrecional de la Empresa, por lo tanto la Empresa se reserva el derecho absoluto de modificar y/o discontinuar la participación de usted en cualquier momento y sin responsabilidad alguna frente al Tenedor.

Finalmente, en este acto el Tenedor declara que no se reserva acción o derecho alguno para presentar cualquier reclamación en contra de la Empresa por cualquier compensación o daño en relación con cualquier disposición del Plan o de los beneficios derivados del Plan y, por lo tanto, usted otorga el más amplio y total finiquito a la Empresa, sus afiliadas, sucursales, oficinas de representación, accionistas, funcionarios, agentes o representantes en relación con cualquier reclamación que pudiera surgir.

NOTIFICATIONS

Securities Law Notification. The Stock Option and the Common Shares offered under the Plan have not been registered with the National Register of Securities maintained by the Mexican National Banking and Securities Commission and cannot be offered or sold publicly in Mexico. In addition, the Plan, the Award Terms and any other document relating to the Stock Option may not be publicly distributed in Mexico. These materials are addressed to the Holder only because of the Holder's existing relationship with the Company and the Employer and these materials should not be reproduced or copied in any form. The offer contained in these materials does not constitute a public offering of securities but rather constitutes a private placement of securities addressed specifically to individuals who are present employees of Activision Mexico made in accordance with the provisions of the Mexican Securities Market Law, and any rights under such offering shall not be assigned or transferred.

Appendix for the Netherlands

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Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the grant of the Stock Option, the Holder acknowledges that the Stock Option granted under the Plan is intended as an incentive for the Holder to remain employed with the Employer and is not intended as remuneration for labor performed.

Appendix for New Zealand

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Securities Law Notification. Warning: This is an offer of rights to receive Shares upon exercise of the Stock Option subject to the terms of the Plan and the Award Terms. Stock Options give the Holder a stake in the ownership of the Company. The Holder may receive a return if dividends are paid on the Shares.

If the Company runs into financial difficulties and is wound up, the Holder will be paid only after all creditors and holders of preferred shares have been paid. The Holder may lose some or all of their investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision.

The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, the Holder may not be given all the information usually required. The Holder will also have fewer other legal protections for this investment.

The Holder should ask questions, read all documents carefully, and seek independent financial advice before committing to participate in the Plan.

In addition, the Holder is hereby notified that the Company's most recent Annual Report on Form 10-K, the Plan and the Plan prospectus are available for review on the Company intranet site at Finance - The Hub (activisionblizzard.com). The Company's most recent Annual Report can also be found at: https://investor.activision.com/#ir-reports-filings. And your Award Terms can be found in your E*Trade account at www.etrade.com by navigating to My Account/Plan Elections.

As noted above, the Holder should carefully read the materials provided before making a decision whether to participate in the Plan. The Holder is also encouraged to contact their personal tax advisor for specific information concerning the Holder's personal tax situation with regard to Plan participation.

Appendix for Poland

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Foreign Asset/Account Reporting Notification. Polish residents holding foreign securities (including Shares acquired under the Plan) and maintaining accounts abroad must report information to the National Bank of Poland on transactions and balances of the securities and cash deposited in such accounts if the value of such transactions or balances exceeds PLN 7,000,000. If required, the reports must be filed on a quarterly basis on special forms available on the website of the National Bank of Poland.

Exchange Control Notification. If the Holder transfers funds into Poland in excess of a certain threshold (currently €15,000, unless the transfer of funds is considered to be connected with the business activity of an entrepreneur, in which case a lower threshold may apply) in connection with the sale of Shares under the Plan, the funds must be transferred via a bank account held at a bank in Poland. The Holder is required to retain the documents connected with a foreign exchange transaction for a period of five (5) years, as measured from the end of the tax year in which such transaction occurred.

Appendix for Portugal

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Language Consent. The Holder hereby expressly declares that he or she has full knowledge of the English language and has read, understood and fully accepted and agreed with the terms and conditions established in the Plan and Award Terms.

Consentimento sobre Língua

O Empregado Contratado, pelo presente instrumento, declara expressamente que domina a língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidos no Plano e no Acordo de Atribuição.

Appendix for Romania

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Exchange Control Notification. The Holder is generally not required to seek authorization from the National Bank of Romania to participate in the Plan or to open and operate a foreign bank account to receive any proceeds under the Plan. However, if the Holder acquires 10% or more of the registered capital of a non-resident company, the Holder must file a report with the National Bank of Romania ("NBR") within 30 days from the date such ownership is reached. This is a statutory requirement, but it does not trigger the payment of fees to NBR.

Appendix for Russia

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Securities Law Information. The Employer is not in any way involved in the offer of Stock Options or administration of the Plan. These materials do not constitute advertising or an offering of securities in Russia nor do they constitute placement of the Shares in Russia. The issuance of Shares pursuant to the Stock Options described herein has not and will not be registered in Russia and hence, the Shares described herein may not be admitted or used for offering, placement or public circulation in Russia.

Data Privacy Notice and Consent. This section replaces the Data Privacy and Consent provision of Exhibit B.

The Holder hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in the Award Terms by and among, as applicable, the Employer, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing his or her participation in the Plan.

The Holder understands that the Company, any Affiliate and/or the Employer may hold certain personal data about the Holder, including, but not limited to, the Holder's name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any Shares of stock or directorships held in the Company, details of all Stock Options or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in his or her favor ("Data"), for the purpose of implementing, administering and managing the Plan.

The Holder understands that Data may be transferred to the Equity Account Administrator or such other stock plan service provider as may be selected by the Company in the future, which is assisting in the implementation, administration and management of the Plan, that the recipients of the Data may be located in his or her country, or elsewhere, and that the recipients' country (*e.g.*, the United States) may have different data privacy laws and protections than his or her country. The Holder understands that the Holder may request a list with the names and addresses of any potential recipients of the Data by contacting the U.S. human resources representative or stock plan services. The Holder authorizes the Company, the Equity Account Administrator and other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of the Stock Options may be deposited. The Holder understands that Data will be held only as long as is necessary to implement, administer and manage the Holder's participation in the Plan.

The Holder understands that the Holder may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case and without cost, by contacting in writing the U.S. human resources representative. The Holder understands that refusal or withdrawal, rescission

or termination of consent may affect his or her ability to participate in the Plan. For more information on the consequences of the Holder's refusal to consent or withdrawal of consent, the Holder understands that Holder may contact the U.S. human resources representative or stock plan services.

U.S. Transaction. Any Shares issued pursuant to the Stock Options shall be delivered to the Holder through a brokerage account in the U.S. The Holder may hold Shares in his or her brokerage account in the U.S.; however, in no event will Shares issued to the Holder and/or Share certificates or other instruments be delivered to the Holder in Russia. The Holder is not permitted to make any public advertising or announcements regarding the Stock Options or Shares in Russia, or promote these Shares to other Russian legal entities or individuals, and the Holder is not permitted to sell or otherwise dispose of Shares directly to other Russian legal entities or individuals. The Holder is permitted to sell Shares only on the Nasdaq Stock Market and only through a U.S. broker.

Settlement of Stock Options and Sale of Shares. Due to local regulatory requirements, the Company reserves the right to require the immediate sale of any Shares to be issued to the Holder upon vesting of the Stock Options. The Holder agrees that the Company is authorized to instruct its designated broker to assist with any such mandatory sale of the Shares (on his or her behalf pursuant to this authorization) and the Holder expressly authorizes the Company's designated broker to complete the sale of such Shares, if so instructed by the Company. In such case, the Holder acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay Holder the cash proceeds from the sale of the Shares, less any brokerage fees or commissions and subject to any obligation to satisfy Withholding Tax-related items. The Holder may hold the cash proceeds in the brokerage account in the U.S. for an indefinite period of time (*e.g.*, for subsequent reinvestment). The Holder acknowledge that Holder is not aware of any material nonpublic information with respect to the Company or any securities of the Company as of the date of this Agreement.

Exchange Control Information. Under exchange control regulations in Russia, the Holder may be required to repatriate certain cash amounts the Holder receives with respect to the Stock Options to Russia as soon as the Holder intends to use those cash amounts for any purpose, including reinvestment. If the repatriation requirements apply, such funds must initially be credited to the Holder through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

Under the Directive of the Russian Central Bank (the "CBR") N 5371-U which came into force on April 17, 2020, there are no restrictions on the transfer of cash into and from accounts opened by Russian currency residents with a foreign financial market institution other than a bank. Accordingly, the repatriation requirement in certain cases may not apply with respect to cash amounts received in an account that is considered by the CBR to be a foreign brokerage account opened with a financial market institution other than a bank. Statutory exceptions to the repatriation requirement also may apply.

Anti-Corruption Notification. Anti-corruption laws prohibit certain public servants, their spouses and their dependent children from owning any foreign source financial instruments (*e.g.*, Shares of foreign companies such as the Company). Accordingly, the Holder should inform the Company if the Holder is covered by these laws because Holder should not hold Shares acquired under the Plan.

Appendix for Singapore

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Stock Option Award Terms

TERMS AND CONDITIONS

Sale Restriction. The Holder agrees that any Shares acquired pursuant to the Stock Option will not be offered for sale in Singapore prior to the six-month anniversary of the Date of Grant, unless such offer or sale is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("SFA").

NOTIFICATIONS

Securities Law Notification. The grant of the Stock Option is being made pursuant to the "Qualifying Person exemption" under section 273(1)(f) of the SFA under which it is exempt from the prospectus and registration requirements and is not made with a view to the underlying Shares being subsequently offered for sale to any other party. The Plan has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore.

Director Notification Requirements. If the Holder is a director of a Singapore Subsidiary of the Company, the Holder must notify the Singapore Subsidiary in writing within two business days of: (i) receiving or disposing of an interest (*e.g.*, Stock Options, Shares) in the Company (ii) any change in a previously disclosed interest (*e.g.*, exercise of Stock Options, Shares, etc.) or (iii) becoming a director if such an interest exists at the time. This notification requirement also applies to an associate director and to a shadow director (*i.e.*, an individual who is not on the board of directors but who has sufficient control so that the board of directors acts in accordance with the "directions and instructions" of the individual) of a Singapore Subsidiary or affiliate of the Company. The Holder may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Spain

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Stock Option Award Terms

TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the Stock Option, the Holder consents to participate in the Plan and acknowledges having received and read a copy of the Plan.

The Holder understands that the Company has unilaterally, gratuitously and discretionally decided to grant an Option under the Plan to individuals who may be employees of the Company or any other entity in the Company Group throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not bind the Company or any other entity in the Company Group. Consequently, the Holder understands that the Stock Option is granted on the assumption and condition that such Option and any Shares acquired upon exercise of the Stock Option shall not become a part of any employment contract (either with the Company or any other entity in the Company Group) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Holder understands that the Stock Option would not granted but for the assumptions and conditions referred to above; thus, the Holder acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of the Stock Option shall be null and void.

Further, the vesting of the Stock Options is expressly conditioned on the Holder's active employment, such that if the Holder's employment or service terminates for any reason whatsoever, the Stock Options cease vesting immediately effective on the date of termination of employment. This will be the case, for example, even if the Holder (1) is considered to be unfairly dismissed without good cause (i.e., subject to a "*despido improcedente*"); (2) is dismissed for disciplinary or objective reasons or due to a collective dismissal; (3) terminates service due to a change of work location, duties or any other employment or contractual condition; (4) terminates service due to the Company's or any entity in the Company Group's unilateral breach of contract; or (5) is terminated from employment for any other reason whatsoever. Consequently, upon the Holder's termination of employment for any of the above reasons, the Holder may automatically lose any rights to Stock Options that were unvested on the date of termination.

NOTIFICATIONS

Exchange Control Notification. The acquisition, ownership and sale of Shares under the Plan must be declared for statistical purposes to the Spanish *Dirección General de Comercio e Inversiones* (the "DGCI"), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness. Generally, the declaration must be made each January for Shares owned as of December 31st of the prior year, by means of a D-6 form; however, if the value of the Shares acquired or sold exceeds €1,502,530 (or if the Holder holds 10% or more of the share capital of the Company or such other amount that would entitle the Holder to join the Company's board of directors), the declaration must be filed also within one month of the acquisition or sale, as applicable.

The Holder is required to declare electronically to the Bank of Spain any securities accounts (including brokerage accounts held abroad), and foreign instruments (including any Shares acquired under the Plan) and any transactions with non-Spanish residents (including any payments of Shares made to the Holder by the Company) depending on the amount of the transactions during the relevant year or the balances in such accounts as of December 31 of the relevant year. Generally, the report is required on an annual basis (by January 20 of each year). The Holder should consult with his or her personal advisor to ensure that the Holder is properly complying with his or her reporting obligations.

Foreign Asset/Account Reporting Notification. If the Holder holds rights or assets (e.g., Shares or cash held in a bank or brokerage account) outside of Spain with a value in excess of €50,000 per type of right or asset (e.g., Shares, cash, etc.) as of December 31 each year, the Holder is required to report certain information regarding such rights and assets on tax form 720. After such rights and/or assets are initially reported, the reporting obligation will only apply for subsequent years if the value of any previously-reported rights or assets increases by more than €20,000. If reporting is required, the reporting must be completed by the following March 31. The Holder should consult his or her personal tax advisor for details regarding this requirement.

Securities Law Notification. The Stock Options described in this document do not qualify as securities under Spanish regulations. No "offer of securities to the public," within the meaning of Spanish law, has taken place or will take place in the Spanish territory. The Plan, the Award Terms (including this Appendix), and any other documents evidencing the award of Stock Options have not been, nor will they be, registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission), and none of those documents constitutes a public offering prospectus.

Appendix for Sweden

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
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Authorization to Withhold. This provision supplements Section 5 of the Award Terms:

Without limiting the Company's and the Employer's authority to satisfy their obligations for Withholding Taxes as set forth in Section 5 of the Award Terms, by accepting the Stock Options, the Holder authorizes the Company and/or the Employer to withhold Shares or to sell Shares otherwise deliverable to the Holder upon exercise of the Stock Options to satisfy any Withholding Taxes, regardless of whether the Company and/or the Employer have an obligation to withhold such Withholding Taxes.

Appendix for Taiwan

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Data Privacy Acknowledgement. The Holder hereby acknowledges that he or she has read and understands the terms regarding collection, processing and transfer of Data contained in the "Data Privacy Information and Consent for Holders outside the European Economic Area" Section of the Appendix and, by participating in the Plan, the Holder agrees to such terms. In this regard, upon request of the Company or the Employer, the Holder agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in the Holder's country, either now or in the future. The Holder understands that he or she will not be able to participate in the Plan if he or she fails to execute any such consent or agreement.

NOTIFICATIONS

Securities Law Notification. The offer of participation in the Plan is available only for employees of the Company Group. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

Exchange Control Notification. The Holder may acquire and remit foreign currency (including proceeds from the sale of Shares or the receipt of any dividends paid on such Shares) into and out of Taiwan up to US$5,000,000 per year. If the transaction amount is TWD$500,000 or more in a single transaction, the Holder must submit a Foreign Exchange Transaction Form and provide supporting documentation to the satisfaction of the bank involved in the transaction. The Holder should consult his or her personal advisor to ensure compliance with any applicable exchange control laws in Taiwan.

Appendix for the United Kingdom

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
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TERMS AND CONDITIONS

Tax Withholding and Payment. This section supplements Section 5 of the Award Terms:

Without limitation to Section 5 of the Award Terms, the Holder agrees that the Holder is liable for all Withholding Taxes and hereby covenants to pay all such Withholding Taxes, as and when requested by the Company or the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). The Holder also agrees to indemnify, and keep indemnified, the Company and the Employer against any Withholding Taxes that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Holder's behalf.

Appendix for the United States of America

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Stock Option Award Terms

1. Definitions.

(a) For U.S. Holders only, the following terms shall have the meanings set forth below:

"Employment Violation" means (1) any material breach by the Holder of his or her employment agreement with any entity in the Company Group for so long as the terms of such employment agreement shall apply to the Holder (with any breach of the post-termination obligations contained therein deemed to be material for purposes of this definition) and (2) a good faith belief by the Company, after investigation, that the Holder has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Look-back Period" means, with respect to any Employment Violation by the Holder, the period beginning on the date which is 12 months prior to the date of such Employment Violation by the Holder and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

"Recapture Amount" means, with respect to any Employment Violation by the Holder, the gross gain realized or unrealized by the Holder upon all exercises of the Stock Option during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if the Company and/or the Employer has satisfied any Withholding Taxes resulting from the exercise (in whole or in part) of the Stock Option, the issuance or transfer of any Shares upon exercise of the Stock Option or otherwise in connection with the Award during the Look-back Period by selling Shares on the Holder's behalf or withholding Shares otherwise deliverable, the amount of the Withholding Taxes so satisfied; plus

(ii) if the Holder has exercised any portion of the Stock Option during such Look-back Period and sold any of the Shares acquired on exercise thereafter, an amount equal to (A) the sum of the sales price for all such Shares sold minus (B) the aggregate Exercise Price for such Shares; plus

(iii) if the Holder has exercised any portion of the Stock Option during such Look-back Period and not sold all of the Shares acquired on exercise thereafter, an amount equal to the product of (A) the greatest of the following, minus the Exercise Price: (1) the Market Value per Share of Common Shares on the date of exercise, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under Section 3 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of computation times (B) the number of Shares as to which the Stock Option was exercised and which were not sold.

2. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between the Holder and any entity in the Company Group in effect at the time and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between the Holder and any entity in the Company Group in effect at the time and the terms of the Plan, the terms of the Plan shall control.

3. Employment Violation. The terms of this Section 3 shall apply to the Stock Option if the Holder is or becomes subject to an employment agreement with any entity in the Company Group. In the event of an Employment Violation, the Company shall have the right to require (a) the termination and cancellation of the Stock Option, whether vested or unvested, and (b) payment by the Holder to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by the Holder to the Company of the Recapture Amount, the Holder, in his or her discretion, may tender to the Company the Shares acquired upon exercise of the Stock Option during the Look-back Period with respect to such Employment Violation (without any consideration from the Company in exchange therefor). Any such termination of the Stock Option and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate the Holder's employment if not already terminated and to seek injunctive relief and additional monetary damages.

Exhibit 10.16

ACTIVISION BLIZZARD, INC.

2014 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

You have been awarded Restricted Share Units of Activision Blizzard, Inc. (the "Company"), as follows:

- Your name: **[ ]**
- Total number of Restricted Share Units awarded: **[ ]**
- Date of Grant: **[ ]**
- Grant ID: **[ ]**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
  - this Notice of Restricted Share Unit Award;
  - the Restricted Share Unit Award Terms attached hereto as Exhibit A (the "Award Terms"); and
  - the Company's 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting*[1]:

  Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest as follows, provided you continuously serve as a member of the Board through the applicable vesting date:

Schedule for Vesting

Date of Vesting	No. of Restricted Share Units Vesting at Vesting Date	Cumulative No. of Restricted Share Units Vested at Vesting Date
[Three months after Date of Grant]	**[_____]**	**[_____]**
[Six months after Date of Grant]	**[_____]**	**[_____]**
[Nine months after Date of Grant]	**[_____]**	**[_____]**
[First anniversary of Date of Grant]	**[_____]**	**[_____]**

- ***Please sign and return to the Company this Notice of Restricted Share Unit Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.***

[1] Revise as needed to reflect the vesting terms of the grant.

- ***Please return the signed Notice of Restricted Share Unit Award to the Company at:***

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attn: Stock Plan Administration

- ***By accepting the Award, you are deemed to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Restricted Share Unit Award and the Award Terms.***

You should retain the enclosed duplicate copy of this Notice of Restricted Share Unit Award for your records.

Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

ACTIVISION BLIZZARD, INC.

_____
Julie Hodges
Chief People Officer

Date: _____

ACCEPTED AND AGREED:

_____
[Name of Holder]

Date: _____

EXHIBIT A

ACTIVISION BLIZZARD, INC.

2014 INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

"Award" means the award described on the Grant Notice.

"Common Shares" means the shares of common stock, par value $0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 10 hereof.

"Company" means Activision Blizzard, Inc. and any successor thereto.

"Company Group" means the Company and its subsidiaries.

"Company-Sponsored Equity Account" means an account that is created with the Equity Account Administrator in connection with the administration of the Company's equity plans and programs, including the Plan.

"Date of Grant" means the Date of Grant of the Award set forth on the Grant Notice.

"Disability" means "permanent and total disability" as defined in Section 22(e)(3) of the Code, as interpreted by the Company (with such interpretation to be final, conclusive and binding for purposes of these Award Terms).

"Equity Account Administrator" means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company's equity plans and programs, including the Plan.

"Exercise Rules and Regulations" means (i) the Securities Act or any comparable federal securities law and all applicable state securities laws, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (iv) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction.

"Grantee" means the recipient of the Award named on the Grant Notice.

"Grant Notice" means the Notice of Restricted Share Unit Award to which these Award Terms are attached as Exhibit A.

"Plan" means the Activision Blizzard, Inc. 2014 Incentive Plan, as amended from time to time.

"Restricted Share Units" means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

"Section 409A" means Section 409A of the Code and the guidance and regulations promulgated thereunder.

"Securities Act" means the Securities Act of 1933, as amended.

"Separation from Service" means "separation from service" within the meaning of Section 409A.

"Vested Shares" means the Common Shares to which the holder of the Restricted Share Units becomes entitled upon vesting thereof in accordance with Section 2 or 3 hereof.

"Withholding Taxes" means any taxes, including, but not limited to, social security and Medicare taxes and federal, state and local income taxes, required under any applicable law to be withheld from amounts otherwise payable to Grantee.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Vesting. Except as otherwise set forth in these Award Terms, the Restricted Share Units shall vest in accordance with the "Schedule for Vesting" set forth on the Grant Notice. Each Restricted Share Unit, upon vesting thereof, shall entitle the holder thereof to receive one Common Share (subject to adjustment pursuant to Section 10 hereof).

3. Termination of Service.

(a) Death or Disability. Unless the Committee determines otherwise, in the event that Grantee incurs a Separation from Service due to his or her death or Disability, the Restricted Share Units shall immediately vest as of the date of such Separation from Service.

(b) Change of Control. Unless the Committee determines otherwise, in the event that Grantee incurs a Separation from Service pursuant to the terms of any business combination or similar transaction involving the Company, the Restricted Share Units shall immediately vest as of the date of such Separation from Service.

(c) Other. Unless the Committee determines otherwise, in the event that Grantee incurs a Separation from Service for any reason not addressed by Section 4(a) or 4(b) hereof, as of the date of such Separation from Service all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 8 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

4. Tax Withholding. The Company shall have the right to require Grantee to satisfy any Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award at the time such Withholding Taxes become due. The Company shall determine the method or methods Grantee may use to satisfy any Withholding Taxes contemplated by this Section 4, which may include any of the following: (a) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (b) through the delivery of irrevocable written

instructions, in a form acceptable to the Company, that the Company withhold Vested Shares otherwise then deliverable having a value equal to the aggregate amount of the Withholding Taxes (valued in the same manner used in computing the amount of such Withholding Taxes); (c) if securities of the Company of the same class as the Vested Shares are then traded or quoted on a national securities exchange, the Nasdaq Stock Market, Inc. or a national quotation system sponsored by the National Association of Securities Dealers, Inc., through the delivery of irrevocable written instructions, in a form acceptable to the Company, to the Equity Account Administrator (or, with the Company's consent, such other brokerage firm as may be requested by the Grantee) to sell some or all of the Vested Shares and to thereafter deliver promptly to the Company from the proceeds of such sale an amount in cash equal to the aggregate amount of such Withholding Taxes; or (d) by any combination of (a), (b) and (c) above. Notwithstanding anything to the contrary contained herein, any entity in the Company Group shall have the right to ensure that all Withholding Taxes contemplated by this Section 4 are satisfied by (i) withholding from any compensation paid to Grantee, (ii) withholding Vested Shares otherwise then deliverable (in which case Grantee will be deemed to have been issued the full number of Vested Shares), and (iii) arranging for the sale, on Grantee's behalf, of Vested Shares otherwise then deliverable. The Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

5. Deemed Agreement. **By accepting the Award, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.**

6. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon vesting of the Restricted Share Units such number of Common Shares as shall be required for issuance or delivery upon vesting thereof.

7. Dividend Equivalents. The holder of the Restricted Share Units shall not be entitled to receive any payment, payment-in-kind or any equivalent with regard to any cash or other dividends that are declared and paid on Common Shares.

8. Receipt and Delivery. As soon as administratively practicable (and, in any event, within 30 days) after any Restricted Share Units vest, the Company shall (a) effect the issuance or transfer of the resulting Vested Shares, (b) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (c) cause such Vested Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Vested Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Vested Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

9. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of Grantee taken as a whole without Grantee's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 10

hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to any adverse consequences under Section 409A.

10. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that otherwise would result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

11. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Share Units or Vested Shares, and no Restricted Share Units or Vested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, Restricted Share Units or Vested Shares with the SEC, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. Grantee shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act or any comparable federal securities law or applicable state securities law.

12. Transferability. Subject to the terms of the Plan and only with the Company's consent, Grantee may transfer Restricted Share Units for estate planning purposes or pursuant to a domestic relations order; provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided, further that Grantee will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms. Except as otherwise permitted under the Plan or this Section 12, the Restricted Share Units shall not be transferable by Grantee other than by will or the laws of descent and distribution.

13. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) Grantee is responsible for complying with (i) any federal, state and local taxation laws applicable to Grantee in connection with the Award and (ii) all Exercise Rules and Regulations.

(b) The Award is subject to the terms and conditions any policy requiring or permitting the Company to recover any gains realized by Grantee in connection with the Award.

14. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on Grantee or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of Grantee, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 14 does not create an obligation on the part of the Committee or the Company to make any such modification, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by Grantee pursuant to Section 409A.

(b) Neither Grantee nor any of Grantee's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to Grantee or for Grantee's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by Grantee to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Committee determines in good faith that the Restricted Share Units are deferred compensation for purposes of Section 409A, (ii) Grantee is a "specified employee" (as defined in Section 409A) and (iii) a delay in the issuance or transfer of Vested Shares to Grantee or his or her estate or beneficiaries hereunder by reason of Grantee's Separation from Service with any entity in the Company Group is required to avoid tax penalties under Section 409A but is not already provided for by this Award, the Company shall cause the issuance or transfer of such Vested Shares to Grantee or Grantee's estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of Grantee's Separation from Service or (B) Grantee's death.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Vested Shares to bear a legend substantially as follows:

> "THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE 'ACT'), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT."

16. No Right to Continued Service. Nothing contained in the Grant Notice or these Award Terms shall be construed to confer upon Grantee any right to continued service on the Board or derogate from any right of the Company or its stockholders remove Grantee from the Board at any time, with or without cause.

17. No Rights as Stockholder. No holder of Restricted Share Units shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth in the Plan, the Grant Notice or these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Venue and Governing Law.

(a) For purposes of litigating any dispute that arises directly or indirectly from the Grant Notice or these Award Terms, the parties submit and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Los Angeles County, California or the federal courts of the United States for the Central District of California, regardless of where the grant of the Restricted Share Units is made and/or to be performed; provided, however, that if the parties have entered into another agreement providing for a different venue or forum (e.g., a dispute resolution agreement), then the terms of such agreement will control for purposes of this provision.

(b) To the extent that federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and Grantee and, to the extent applicable, Grantee's permitted assigns under Section 12 hereof and Grantee's estate or beneficiaries as determined by will or the laws of descent and distribution.

21. Notices.

(a) Any notice or other document which Grantee may be required or permitted to deliver to the Company pursuant to or in connection with the Grant Notice or these

Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, Attn: Stock Plan Administration, or such other address as the Company by notice to Grantee may designate in writing from time to time. Notices shall be effective upon delivery.

(b) Any notice or other document which the Company may be required or permitted to deliver to Grantee pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to Grantee at the address shown on the records of the Company, or such other address as Grantee by notice to the Company may designate in writing from time to time. The Company may also, in its sole discretion, deliver any such document to Grantee electronically via an e-mail to Grantee at his or her Company-provided email address or through a notice delivered to such e-mail address that such document is available on a website established and maintained on behalf of the Company or a third party designated by the Company, including, without limitation, the Equity Account Administrator. Notices shall be effective upon delivery.

22. Conflict with Plan. In the event of any conflict between the terms of any the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on Grantee's participation in the Plan, on the Restricted Share Units and on any Common Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. Waiver. Grantee acknowledges that a waiver by the Company of a breach of any provision of these Award Terms shall not operate or be construed as a waiver of any other provision of these Award Terms, or of any subsequent breach by Grantee or any other grantee of an equity award from the Company.

Exhibit 10.17

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

NOTICE OF RESTRICTED SHARE UNIT AWARD

You have been awarded Restricted Share Units of Activision Blizzard, Inc. (the "Company"), as follows:

- Your name: **[ ]**
- Total number of Restricted Share Units awarded: **[ ]**
- Date of Grant: **[ ]**
- Grant ID: **[ ]**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
  - this Notice of Restricted Share Unit Award;
  - the Restricted Share Unit Award Terms attached hereto as Exhibit A;
  - the Appendix attached hereto as Exhibit B, which may include special terms and conditions relating to your country of work and/or residence (the "Appendix"); and
  - the Company's 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- Your Award of Restricted Share Units has been made in connection with your employment agreement with the Company or one of its Subsidiaries as a material inducement to your entering into or renewing employment with such entity pursuant to such agreement and is also governed by any applicable terms and conditions set forth in such agreement.
- *Schedule for Vesting*: Except as otherwise provided pursuant to the Restricted Share Unit Award Terms attached hereto as Exhibit A, as supplemented, modified, or replaced by the special terms and conditions, if any, set forth under your country of work and/or residence in the Appendix attached hereto as Exhibit B (together, the "Award Terms"), , the Restricted Share Units shall vest shall vest and become exercisable as follows, provided you remain continuously employed by the Company or one of its Subsidiaries through the applicable vesting date:

Date of Vesting	No. of Shares Vesting at Vesting Date
December 15, 2020	**[_____]**
March 15, 2024	**[_____]**

- ***Please sign and return to the Company this Notice of Restricted Share Unit Award, which bears an original signature on behalf of the Company. You are urged to do so promptly.***
- ***Please return the signed Notice of Restricted Share Unit Award to the Company at:***

Activision Blizzard, Inc.
3100 Ocean Park Boulevard
Santa Monica, CA 90405
Attn: Stock Plan Administration

- Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.
- ***By accepting the Award, you agree that the definition of "Cause" set forth in the Award Terms and, if the Appendix for the United States of America is applicable to you and/or your Award, the definition of "Employment Violation" set forth therein, shall supersede any such definitions in the award terms applicable to any other outstanding equity awards granted to you by the Company and shall apply to such awards as if set forth in those award terms.***
- ***By accepting the Award, you agree to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Restricted Share Unit Award and the Award Terms. If you do not accept the Award by the first scheduled vesting date and you do not indicate your intention to decline the Award, your Award will be automatically accepted on your behalf and you will be deemed to have accepted the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Restricted Share Unit Award and the Award Terms.***

You should retain the enclosed duplicate copy of this Notice of Restricted Share Unit Award for your records.

ACTIVISION BLIZZARD, INC.

_____
Julie Hodges
Chief People Officer

Date: _____

ACCEPTED AND AGREED:

_____
[Name of Grantee]

Date: _____

EXHIBIT A

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

"Award" means the award described on the Grant Notice.

"Cause" (i) shall have the meaning given to such term in any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time of the determination or (ii) if Grantee is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of "cause," shall mean a good faith determination by the Company that Grantee (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other conduct that causes, or has the potential to cause, harm to any entity in the Company Group, including its business reputation or financial condition; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, service contract, proprietary information agreement or confidentiality agreement with any entity in the Company Group; (E) was convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (F) breached his or her fiduciary duties to the Company Group. Without limiting the generality of the foregoing, "cause" under clauses (i) and (ii) of the preceding sentence shall also mean a good faith belief by the Company, after investigation, that Grantee has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Common Shares" means the shares of common stock, par value $0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 10 hereof.

"Company" means Activision Blizzard, Inc. and any successor thereto.

"Company Group" means the Company and its Subsidiaries.

"Company-Sponsored Equity Account" means an account that is created with the Equity Account Administrator in connection with the administration of the Company's equity plans and programs, including the Plan.

"Date of Grant" means the Date of Grant of the Award set forth on the Grant Notice.

"Employer" means the Subsidiary of the Company which employs Grantee.

"Equity Account Administrator" means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company's equity plans and programs, including the Plan.

"Exercise Rules and Regulations" means (i) (A) for employees who work and/or reside in the U.S., the Securities Act or any comparable U.S. federal securities law and all applicable state securities laws, and (B) for employees who work and/or reside outside the U.S., any laws applicable to Grantee which subject him or her to insider trading restrictions and/or market abuse laws or otherwise affect his or her ability to accept, acquire, sell, attempt to sell or otherwise dispose of Common Shares, rights to Common Shares (*e.g.*, Restricted Share Units) or rights linked to the value of Common Shares during such times as he or she is considered to have "inside information" regarding the Company, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (iv) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction.

"Grantee" means the recipient of the Award named on the Grant Notice.

"Grant Notice" means the Notice of Restricted Share Unit Award to which these Award Terms are attached.

"Plan" means the Activision Blizzard, Inc. 2014 Incentive Plan, as amended from time to time.

"Restricted Share Units" means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

"Section 409A" means Section 409A of the Code and the guidance and regulations promulgated thereunder.

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Vested Shares" means the Common Shares to which the holder of the Restricted Share Units becomes entitled upon vesting thereof in accordance with Section 2 or 3 hereof.

"U.S." means the United States of America.

"Withholding Taxes" means any taxes, including, but not limited to, income tax, social insurance (*e.g.*, U.S. social security and Medicare), payroll tax, state and local income taxes, fringe benefits tax, and payment on account, required or permitted under any applicable law to be withheld from amounts otherwise payable to Grantee.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Vesting. Except as otherwise set forth in these Award Terms, the Restricted Share Units shall vest in accordance with the "Schedule for Vesting" set forth on the Grant

Notice. Each Restricted Share Unit, upon vesting thereof, shall entitle the holder thereof to receive one Common Share (subject to adjustment pursuant to Section 10 hereof).

3. Termination of Employment.

(a) Cause. In the event that Grantee's employment is terminated by any entity in the Company Group for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and any outstanding Restricted Share Units and Vested Shares that have yet to settle pursuant to Section 8 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

(b) Other. Unless the Committee determines otherwise, in the event that Grantee's employment is terminated for any reason other than for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 8 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

4. Tax Withholding.

(a) Regardless of any action the Company or the Employer takes with respect to any Withholding Taxes related to Grantee's participation in the Plan and legally applicable to Grantee, Grantee acknowledges that the ultimate liability for all Withholding Taxes is and remains Grantee's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. Grantee further acknowledges that the Company and/or the Employer (A) make no representations or undertakings regarding the treatment of any Withholding Taxes in connection with any aspect of the Restricted Share Units, including, without limitation, the grant, vesting or payment of the Award, the subsequent sale of Vested Shares acquired, and the receipt of any dividends; and (B) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Share Units to reduce or eliminate Grantee's liability for Withholding Taxes or achieve any particular tax result. Further, if Grantee is or becomes subject to tax in more than one jurisdiction, Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Withholding Taxes in more than one jurisdiction. The Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

(b) Prior to any relevant taxable or tax withholding event, as applicable, Grantee agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award at the time such Withholding Taxes become due. In this regard, Grantee authorizes the Company and/or the Employer, or their respective agents to satisfy any applicable withholding obligations with regard to all Withholding Taxes by one or a combination of the following: (i) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (ii) through the delivery of irrevocable written instructions, in a form acceptable to the Company, that the Company withhold Vested Shares otherwise then deliverable having a value equal to the aggregate amount of the Withholding Taxes (valued in the same manner used in computing the amount of such Withholding Taxes); (iii) arranging for the sale, on Grantee's behalf, of Vested Shares otherwise then deliverable to Grantee (valued in the same manner used in computing the amount of such Withholding Taxes); or (iv) by any combination of (i), (ii) or (iii) above. Further, any entity in the Company Group shall have the right to require Grantee to satisfy any Withholding Taxes contemplated by this Section 4 by any of the aforementioned methods or by withholding from Grantee's wages or other cash compensation.

(c) The Company Group may withhold or account for Withholding Taxes contemplated by this Section 4 by reference to applicable withholding rates, including minimum or maximum applicable statutory rates in Grantee's jurisdiction(s) of employment and/or residency, and if the Company Group withholds more than the amount necessary to satisfy the liability, Grantee may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the Company Group withholds less than the amount necessary to satisfy the liability, Grantee may be required to pay any additional Withholding Taxes directly to the applicable tax authority or to the Company and/or the Employer. If the obligation for Withholding Taxes is satisfied by withholding in Shares, for tax purposes, Grantee will be deemed to have been issued the full number of Vested Shares underlying the Restricted Share Units, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Withholding Taxes. No fractional Shares will be withheld or issued pursuant to the settlement of the Restricted Share Units and the Withholding Taxes thereunder.

5. Deemed Agreement. **By accepting the Award, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.**

6. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon vesting of the Restricted Share Units such number of Common Shares as shall be required for issuance or delivery upon vesting thereof.

7. Dividend Equivalents. The holder of the Restricted Share Units shall not be entitled to receive any payment, payment-in-kind or any equivalent with regard to any cash or other dividends that are declared and paid on Common Shares.

8. Receipt and Delivery. As soon as administratively practicable (and, in any event, within 30 days) after any Restricted Share Units vest, the Company shall (a) effect the issuance or transfer of the resulting Vested Shares, (b) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (c) cause such Vested Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Vested Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Vested Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

9. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of Grantee taken as a whole without Grantee's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 10 hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and

interpretations thereof, or (iii) to prevent the Award from becoming subject to any adverse consequences under Section 409A.

10. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that otherwise would result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

11. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Share Units or Vested Shares, and no Restricted Share Units or Vested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, Restricted Share Units or Vested Shares with the U.S. Securities and Exchange Commission, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. Grantee shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act or any comparable federal securities law or applicable state securities law.

12. Transferability. Subject to the terms of the Plan, and only with the Company's consent, Grantee may transfer Restricted Share Units for estate planning purposes or pursuant to a domestic relations order (or a comparable order under applicable local law); provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided, further that Grantee will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms. Except as otherwise permitted under the Plan or this Section 12, the Restricted Share Units shall not be transferable by Grantee other than by will or the laws of descent and distribution.

13. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) Grantee is responsible for complying with (i) any federal, state, and local tax, social insurance, national insurance contributions, payroll tax, payment on account or other tax liabilities applicable to Grantee in connection with the Award and (ii) all Exercise Rules and Regulations.

(b) The Award is subject to the terms and conditions of any policy requiring or permitting the Company to recover any gains realized by Grantee in connection with the Award, including, without limitation, the Policy on Recoupment of Performance-Based Compensation Related to Certain Financial Restatements.

(c) If and when Grantee is an "executive officer" of the Company within the meaning of the Executive Stock Ownership Guidelines, the Award will be subject to the terms and conditions of the Executive Stock Ownership Guidelines and the limitations contained therein on the ability of Grantee to transfer any Vested Shares.

14. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on Grantee or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of Grantee, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 14 does not create an obligation on the part of the Committee or the Company to make any such modification, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by Grantee pursuant to Section 409A.

(b) Neither Grantee nor any of Grantee's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to Grantee or for Grantee's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by Grantee to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Committee determines in good faith that the Restricted Share Units do not qualify for the "short-term deferral exception" under Section 409A, (ii) Grantee is a "specified employee" (as defined in Section 409A) and (iii) a delay in the issuance or transfer of Vested Shares to Grantee or his or her estate or beneficiaries hereunder by reason of Grantee's "separation from service" (as defined in Section 409A) with any entity in the Company Group is required to avoid tax penalties under Section 409A but is not already provided for by this Award, the Company shall cause the issuance or transfer of such Vested Shares to Grantee or Grantee's estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of Grantee's separation from service and (B) Grantee's death.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Vested Shares to bear a legend substantially as follows:

> "THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE 'ACT'), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT."

16. No Right to Employment. Nothing contained in the Grant Notice or these Award Terms shall create a right to employment or be interpreted as forming and employment or service contract with the Company, the Employer or any other entity in the Company Group and shall not interfere with the ability of the Employer to retire, request the resignation of or terminate Grantee's employment or service relationship at any time.

17. No Rights as Stockholder. No holder of Restricted Share Units shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth in the Plan, the Grant Notice or these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Venue and Governing Law.

(a) For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the grant of the Restricted Share Units or these Award Terms, the parties submit and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Los Angeles County, California or the federal courts of the U.S. for the Central District of California and no other courts, regardless of where the grant of the Restricted Share Units is made and/or to be performed; provided, however, that if the parties have entered into another agreement providing for a different venue or forum (e.g., a dispute resolution agreement), then the terms of such agreement will control for purposes of this provision.

(b) To the extent that U.S. federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and Grantee and, to the extent applicable, Grantee's permitted assigns under Section 12 hereof

and Grantee's estate or beneficiaries as determined by will or the laws of descent and distribution.

21. Delivery of Notices and Other Documents.

(a) Any notice or other document which Grantee may be required or permitted to deliver to the Company pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A. Attn: Stock Plan Administration, or such other address as the Company by notice to Grantee may designate in writing from time to time. Notices shall be effective upon delivery.

(b) Any notice or other document which the Company may be required or permitted to deliver to Grantee pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to Grantee at the address shown on any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time, or such other address as Grantee by notice to the Company may designate in writing from time to time. The Company may also, in its sole discretion, deliver any such document to Grantee electronically via an e-mail to Grantee at his or her Company-provided email address or through a notice delivered to such e-mail address that such document is available on a website established and maintained on behalf of the Company or a third party designated by the Company, including, without limitation, the Equity Account Administrator. Notices shall be effective upon delivery.

22. Conflict with Plan. In the event of any conflict between the terms the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Appendix. Notwithstanding anything to the contrary contained herein, the Restricted Share Units shall be subject to any additional terms and conditions set forth in the Appendix for Grantee's country of work and/or residence, both of which constitute a part of these Award Terms. Moreover, if Grantee relocates his or her work and/or residence to one of the countries included in the Appendix, the additional terms and conditions for such country will apply to Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan.

24. Imposition of Other Requirements. The Company reserves the right to impose other requirements on Grantee's participation in the Plan, on the Restricted Share Units and on any Common Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan, and to require Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

25. Waiver. Grantee acknowledges that a waiver by the Company of a breach of any provision of these Award Terms shall not operate or be construed as a waiver of any other provision of these Award Terms, or of any subsequent breach by Grantee or any other grantee of an equity award from the Company.

EXHIBIT B

APPENDIX

TO

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD TERMS

ADDITIONAL TERMS AND CONDITIONS BY COUNTRY

Capitalized terms used but not defined herein shall have the meanings given to such terms in the Plan or the Award Terms, as the case may be.

TERMS AND CONDITIONS

This Appendix includes special terms and conditions applicable to Grantees who work and/or reside in the countries covered by the Appendix. These terms and conditions are in addition to or, if so indicated, in place of, the terms and conditions set forth in the Award Terms.

If Grantee is a citizen or resident of a country other than the one in which he or she is currently residing and/or working, transferred or transfers employment and/or residency after the Restricted Share Units were granted or is considered a resident of another country for local law purposes (*i.e.*, Grantee is a "mobile employee"), the Company shall have the sole discretion to determine to what extent the special terms and conditions shall apply to Grantee.

NOTIFICATIONS

This Appendix also includes notifications relating to exchange control and other issues of which Grantee should be aware with respect to his or her participation in the Plan. The information is based on the exchange control, securities and other laws in effect in the countries to which this Appendix refers as of October 2021. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Grantee not rely on the notifications herein as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time Grantee vests in the Restricted Share Units or Vested Shares acquired under the Plan are sold.

In addition, the notifications are general in nature and may not apply to the particular situation of Grantee, and the Company is not in a position to assure Grantee of any particular result. Accordingly, Grantee should seek appropriate professional advice as to how the relevant laws in his or her country may apply to his or her situation. Finally, if Grantee is a mobile employee, the information contained herein may not be applicable to Grantee in the same manner.

GENERAL PROVISIONS APPLICABLE TO ALL GRANTEES WHO WORK AND/OR RESIDE OUTSIDE THE U.S.

Nature of Grant. By accepting the Award, Grantee acknowledges, understands, and agrees that:

(1) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and/or these Award Terms;

(2) the grant of the Restricted Share Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of rights to receive Common Shares, or benefits in lieu of rights to receive Common Shares, even if rights to receive Common Shares have been granted in the past;

(3) all decisions with respect to future grants of rights to receive Common Shares, if any, will be at the sole discretion of the Company;

(4) Grantee's participation in the Plan is voluntary;

(5) the grant of the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and are outside the scope of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any;

(6) the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are not intended to replace any pension rights or compensation;

(7) the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are not part of normal or expected compensation or salary for any purpose, including, without limitation, the calculation of any severance, resignation, termination, redundancy, dismissal, end of service payment, bonus, long-service award, leave-related payment, holiday pay, pension or retirement or welfare benefit or similar payments;

(8) the Restricted Share Unit grant and Grantee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company and, furthermore, the Restricted Share Unit grant will not be interpreted to form an employment agreement or service contract or relationship with any other company in the Company Group;

(9) the future value of the underlying Common Shares is unknown and cannot be predicted with certainty;

(10) unless otherwise agreed with the Company, the Restricted Share Units and the Common Shares subject to the Restricted Share Units, and the income and value of same, are not granted as consideration for, or in connection with, the service Grantee may provide as a director of any entity of Company Group;

(11) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Share Units resulting from termination of Grantee's continuous service with the Company or the Employer (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any);

(12) unless the Committee determines otherwise, in the event of the termination of Grantee's continuous service (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any), Grantee's right to receive or vest in the

Restricted Share Units under the Plan, if any, will terminate effective as of the date that Grantee is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Committee shall have the exclusive discretion to determine when Grantee is no longer actively employed for purposes of Grantee's Restricted Share Unit grant (including whether Grantee may still be considered actively employed while on a leave of absence);

(13) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Grantee's participation in the Plan, or Grantee's acquisition or sale of the underlying Common Shares;

(14) Grantee should consult with Grantee's own personal tax, legal and financial advisors regarding Grantee's participation in the Plan before taking any action related to the Plan;

(15) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Share Units and the benefits evidenced by these Award Terms do not create any entitlement to have the Restricted Share Units or any such benefits transferred to, or assumed by, another company, nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Common Shares; and

(16) neither the Company, the Employer nor any other entity in the Company Group shall be liable for any foreign exchange rate fluctuation between Grantee's local currency and the United States Dollar that may affect the value of the Restricted Share Units or of any amounts due to Grantee pursuant to the settlement of the Restricted Share Units or the subsequent sale of any Common Shares acquired upon settlement.

Foreign Asset/Account Reporting Requirements. Grantee acknowledges that there may be certain foreign asset and/or account reporting requirements which may affect Grantee's ability to acquire or hold Common Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Common Shares acquired under the Plan) in a brokerage or bank account outside Grantee's country of work and/or residence. Grantee may be required to report such accounts, assets or transactions to the tax or other authorities in his or her country. Grantee also may be required to repatriate sale proceeds or other funds received as a result of Grantee participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. Grantee acknowledges that it is his or her responsibility to be compliant with such regulations, and Grantee is advised to consult his or her personal legal advisor for any details.

Language. Grantee acknowledges that he or she is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, to understand the terms and conditions of these Award Terms. Furthermore, if the Grant Notice, these Award Terms or any other document related to the Plan has been translated into a language other than English and the meaning of the translated version is different than the English version then, by accepting the Award, Grantee acknowledges that the English version will control.

DATA PRIVACY INFORMATION AND CONSENT

The following provision applies to Grantees who work and/or reside outside the European Economic Area.

Data Collection and Usage. Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Grantee's personal data as described in the Grant Notice and these Award Terms by and among, as applicable, the Employer or any

other entity in the Company Group for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan.

Data Processing. Grantee understands that the Company and the Employer may hold certain personal information about Grantee, including, without limitation, Grantee's name, home address, email address and telephone number, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any directorships held in any entity in the Company Group, any Common Shares owned, details of all Restricted Share Units or any other entitlement to the Common Shares or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Grantee's favor (the "Data"), for the purpose of implementing, administering and managing the Plan.

Stock Plan Administration, Data Transfer, Retention and Data Subject Rights. Grantee understands that the Data will be transferred to the Equity Account Administrator, which is assisting the Company with the implementation, administration and management of the Plan. Grantee understands that the recipients of the Data may be located in Grantee's country of work and/or residence, or elsewhere, and that any recipient's country may have different data privacy laws and protections than Grantee's country of work and/or residence. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting Grantee's local human resources representative. Grantee authorizes the Company, the Equity Account Administrator and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purpose of implementing, administering and managing Grantee's participation in the Plan. Grantee understands that the Data will be held only as long as is necessary to implement, administer and manage Grantee's participation in the Plan. Grantee understands that Grantee may, at any time, view Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Grantee's local human resources representative. Further, Grantee understands that he or she is providing the consents herein on a purely voluntary basis. If Grantee does not consent, or if Grantee later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing Grantee's consent is that the Company would not be able to grant Restricted Share Units or other equity awards to Grantee or administer or maintain such awards. Therefore, Grantee understands that refusal or withdrawal of consent may affect Grantee's ability to participate in the Plan. For more information on the consequences of Grantee's refusal to consent or withdrawal of consent, Grantee understands that Grantee may contact Grantee's local human resources representative.

The following provision applies to Grantees who work and/or reside in the European Economic Area (including Switzerland and the United Kingdom).

Data Collection and Usage. Pursuant to applicable data protection laws, Grantee is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about Grantee for the exclusive legitimate purpose of granting Restricted Share Units and implementing, administering and managing Grantee's participation in the Plan. Specifics of the data processing are described below.

Controller. The Company is the controller responsible for the processing of Grantee's personal data in connection with the Plan.

Personal Data Subject to Processing. The Company collects, processes and uses the following types of personal data about Grantee: name, home address and telephone number, email address, date of birth, social insurance, passport number or other identification number, salary,

nationality, job title, any shares of stock or directorships held in any entity in the Company Group, details of all Restricted Share Units or any other entitlement to Common Shares awarded, canceled, settled, vested, unvested or outstanding in Grantee's favor, which the Company receives from Grantee or the Employer ("Personal Data"), for the purpose of implementing, administrating and managing the Plan.

Purposes and Legal Bases of Processing. The Company processes the Personal Data for the purpose of performing its contractual obligations under the Award Terms, granting Restricted Share Units, implementing, administering and managing Grantee's participation in the Plan and facilitating compliance with applicable tax and securities law. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Award Terms and for the Company's legitimate business interests of managing the Plan and generally administering employee equity awards.

Stock Plan Administration Service Providers. The Company transfers Personal Data to the Equity Account Administrator, an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and may share Personal Data with such service providers. Grantee will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of Grantee's ability to participate in the Plan. Grantee's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating Grantee's participation in the Plan. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of Personal Data by contacting Grantee's local human resources representative.

International Data Transfers. The Company and its service providers, including, without limitation, the Equity Account Administrator, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in the United States, for the performance of the contractual obligations under the Award Terms. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting Grantee's local human resources representative.

Grantee understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that Grantee's Personal Data may not have an equivalent level of protection as compared to Grantee's country of work and/or residence. To provide appropriate safeguards for the protection of Grantee's Personal Data, the Personal Data is transferred to the Company based on data transfer and processing agreements implementing the EU Standard Contractual Clauses. Grantee may request a copy of the safeguards used to protect his or her Personal Data by contacting the Company at: employeeprivacy@activision.com.

Data Retention. The Company will use the Personal Data only as long as necessary to implement, administer and manage Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. This period may extend beyond Grantee's termination of employment with the Employer. When the Company no longer needs the Personal Data, the Company will remove it from its systems to the fullest extent reasonably practicable. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be relevant laws or regulations.

Grantee's Rights. To the extent provided by law, Grantee has the right to (i) inquire whether and what kind of Personal Data the Company holds about Grantee and how it is processed, and

to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements, (iv) request the Company to restrict the processing of Personal Data in certain situations where Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, (vi) request portability of Personal Data that Grantee has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with Grantee and is carried out by automated means, or (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding Grantee's rights, raise any other questions regarding the practices described in the Award Terms or to exercise his or her rights, Grantee should contact the Company at: employeeprivacy@activision.com.

Contractual Requirement. Grantee's provision of Personal Data and its processing as described above is a contractual requirement and a condition to Grantee's ability to participate in the Plan. Grantee understands that, as a consequence of Grantee's refusing to provide Personal Data, the Company may not be able to allow Grantee to participate in the Plan, grant Restricted Share Units to Grantee or administer or maintain such Restricted Share Units. However, Grantee's participation in the Plan and his or her acceptance of the Award Terms are purely voluntary. While Grantee will not receive Restricted Share Units if he or she decides against participating in the Plan or providing Personal Data as described above, Grantee's career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, Grantee may contact the Company at: employeeprivacy@activision.com.

Appendix for Australia

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

NOTIFICATIONS

Australia Offer Document. The grant of Restricted Share Units under the Plan is intended to comply with the provisions of the Corporations Act 2001, ASIC Regulatory Guide 49 and ASIC Class Order CO 14/1000. Additional details are set forth in the Australia Offer Document, which is provided with the Award Terms.

Tax Information. The Plan is a plan to which subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) applies (subject to conditions therein).

Appendix for Belgium

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Grantee is required to report any bank accounts opened and maintained outside Belgium on his or her annual tax return. In a separate report, Grantee may be required to provide the National Bank of Belgium with certain details regarding such foreign accounts (including the account number, bank name and country in which any such account was opened). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, www.nbb.be, under *Kredietcentrales / Centrales des crédits* caption. Grantee should consult with his or her personal tax advisor to determine his or her personal reporting obligations.

Annual Securities Accounts Tax. If the value of securities held in a Belgian or foreign securities account exceeds EUR 1 million, a new "annual securities accounts tax" applies. Belgian residents should consult with their personal tax advisor regarding the new tax.

Stock Exchange Tax. A stock exchange tax applies to transactions executed by a Belgian resident through a non-Belgian financial intermediary, such as a U.S. broker. The stock exchange tax will likely apply when Common Shares acquired upon vesting of the Restricted Share Units are sold. Grantee should consult with his or her personal tax advisor for additional details on his or her obligations with respect to the stock exchange tax.

Appendix for Brazil

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Compliance with Law. By accepting the Restricted Share Units, Grantee acknowledges that he or she agrees to comply with applicable Brazilian laws and to pay any and all applicable taxes associated with Grantee's participation in the Plan.

Nature of Company Restricted Share Unit Grants. By accepting the Restricted Share Units, Grantee agrees that (1) he or she is making an investment decision and (2) the value of the underlying Common Shares is not fixed and may increase or decrease in value over time without compensation to Grantee.

NOTIFICATIONS

Exchange Control Notification. If Grantee is resident or domiciled in Brazil, he or she will be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights equals or exceeds US$1,000,000. Assets and rights that must be reported include the Common Shares.

Tax on Financial Transaction (IOF). Payments to foreign countries (including the payment of the exercise price) and repatriation of funds into Brazil and the conversion between BRL and US$ associated with such fund transfers may be subject to the Tax on Financial Transactions. It is Grantee's responsibility to comply with any applicable Tax on Financial Transactions arising from Grantee's participation in the Plan. Grantee should consult with his or her personal tax advisor for additional details.

Appendix for Canada

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Restricted Share Units Payable Only in Common Shares. The grant of Restricted Share Units does not provide any right for Grantee to receive a cash payment, and the Restricted Share Units are payable in Common Shares only.

Termination of Employment. Notwithstanding anything to the contrary in Section 3(b) of the Award Terms, unless the Committee determines otherwise, in the event of the termination of Grantee's continuous service (for any reason whatsoever, and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of Grantee's employment agreement or service contract, if any), Grantee's right to receive or vest in the Restricted Share Units under the Plan, if any, will terminate as of the date is the earliest of: (1) the date Grantee's employment or service with the Company Group is terminated, (2) the date Grantee receives notice of termination of employment or service from the Employer or any other entity in the Company Group, and (3) the date Grantee is no longer actively employed or rendering services to the Company Group, regardless of any notice period or period of pay in lieu of such notice required under local law (including, but not limited to, statutory law, regulatory law and/or common law). In the event the date Grantee is no longer actively employed or rendering services cannot be reasonably determined under the Award Terms and/or the Plan, the Committee shall have the exclusive discretion to determine when Grantee is no longer actively employed for purposes of the Restricted Share Units (including whether Grantee may still be considered actively employed while on a leave of absence).

Notwithstanding the foregoing, if applicable employment standards legislation explicitly requires continued entitlement to vesting during a statutory notice period, Grantee's right to vest in the Restricted Share Units under the Plan, if any, will terminate effective as of the last day of Grantee's minimum statutory notice period, but Grantee will not earn or be entitled to pro-rated vesting if the vesting date falls after the end of Grantee's statutory notice period, nor will Grantee be entitled to any compensation for lost vesting.

The following provisions will apply to Grantees who are residents of Quebec:

Language Acknowledgment. The parties acknowledge that it is their express wish that the Award Terms, including this Appendix, as well as all documents, notices, and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement relatif à la langue utilisée*: Les parties reconnaissent avoir exigé la rédaction en anglais de cette annexe, la convention afférente, ainsi que de tous documents, avis donnés et procédures judiciaires exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement aux présentes.*

Data Privacy Notice and Consent. This provision supplements the "Data Privacy Information and Consent for Grantees outside the European Economic Area" Section of the Appendix:

Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Grantee further authorizes the Company Group, Equity Account Administrator and any other broker(s) designated by the Company to disclose and discuss the Plan with their respective advisors. Grantee further authorizes the Company Group to record such information and to keep such information Grantee's employee file.

NOTIFICATIONS

Securities Law Notification. Grantee is permitted to sell Common Shares acquired under the Plan through the Equity Account Administrator, provided that the resale of Common Shares acquired under the Plan takes place outside of Canada through the facilities of a stock exchange on which the Common Shares are listed. The Common Shares are currently listed on the Nasdaq.

Foreign Asset/Account Reporting Notification. Foreign specified property held by Canadian residents must be reported annually on Form T1135 (Foreign Income Verification Statement) if the total value of such foreign specified property exceeds C$100,000 at any time during the year. Foreign specified property includes Common Shares acquired under the Plan and may include the Restricted Share Units. The Restricted Share Units must be reported—generally at a nil cost—if the C$100,000 cost threshold is exceeded because of other foreign specified property Grantee holds. If Common Shares are acquired, their cost generally is the adjusted cost base ("ACB") of the Common Shares. The ACB would normally equal the fair market value of the Common Shares at vesting, but if Grantee owns other shares of the Company's common stock, this ACB may have to be averaged with the ACB of those other shares. If due, the form must be filed by April 30th of the following year. Grantee should speak with a personal tax advisor to determine the scope of foreign property that must be considered for purposes of this requirement.

Appendix for China

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

Exchange Control Notification. Grantee understands, acknowledges and agrees that certain exchange control restrictions may apply to Grantee's participation in the Plan, including to the remittance of funds into China of any sale proceeds or dividends paid on Common Shares acquired under the Plan. Grantee understands that it is his or her sole responsibility to comply with applicable exchange control restrictions in China.

Appendix for Denmark

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

By participating in the Plan, Grantee acknowledges that he or she understands and agrees that the grant of the Restricted Share Units relates to future services to be performed and is not a bonus or compensation for past services.

Stock Option Act. Grantee acknowledges that he or she has received an "Employer Statement" in Danish which sets forth additional terms of the Restricted Share Units, to the extent that the Danish Stock Option Act applies to the Restricted Share Units.

NOTIFICATIONS

Foreign Asset/Account Reporting Information. Danish tax payers that have an account holding Common Shares or an account holding cash outside Denmark must report those accounts to the Danish Tax Administration. The form which should be used in this respect may be obtained from a local bank.

Appendix for France

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Restricted Share Units Not Tax-Qualified. Grantee understands that these Restricted Share Units are not intended to be French tax-qualified.

Language Consent. By accepting the Award, Grantee confirms that he or she has read and understood the documents relating to the Restricted Share Units (the Grant Notice, the Plan, and the Award Terms, including this Appendix) which were provided in the English language. Grantee accepts the terms of these documents accordingly.

Consentement relatif à la langue utilisée: *En acceptant l'Attribution, le Bénéficiaire confirme qu'il ou qu'elle a lu et compris les documents afférents aux Attributions Gratuites d'Actions (la Notification d'Attribution, le Plan et les Termes de l'Attribution, ainsi que la présente Annexe) qui sont produits en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en connaissance de cause.*

NOTIFICATIONS

Foreign Asset/Account Reporting Notification. If Grantee retains Common Shares acquired under the Plan outside of France or maintains a foreign bank account, Grantee is required to report such to the French tax authorities when filing his or her annual tax return. Further, French residents with foreign account balances exceeding €1,000,000 may have additional monthly reporting obligations.

Appendix for Germany

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

NOTIFICATIONS

Exchange Control Notification. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. No report is required for payments less than €12,500. In case of payments in connection with securities (including proceeds realized upon the sale of Common Shares), the report must be made by the 5th day of the month following the month in which the payment was received. Effective from September 2013, the report must be filed electronically. The form of report ("*Allgemeine Meldeportal Statistik*") can be accessed via the *Bundesbank's* website (www.bundesbank.de) and is available in both German and English. Grantee is responsible for satisfying the reporting obligation.

Foreign Asset/Account Reporting Information. If Grantee's acquisition of Common Shares under the Plan leads to a "qualified participation" at any point during the calendar year, Grantee will need to report the acquisition of such shares when Grantee files his or her tax return for the relevant year. A qualified participation is attained if (1) the value of the Common Shares acquired exceeds €150,000 or (2) the Common Shares held exceed 10% of the Company's total common stock. However, provided the Common Shares are listed on a recognized stock exchange (*e.g.*, the Nasdaq Stock Market) and Grantee owns less than 1% of the Company, this requirement will not apply. Grantee should consult with his or her personal tax advisor to ensure Grantee complies with applicable reporting obligations.

Appendix for Hong Kong

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Sale Restriction. Any Shares received at vesting are accepted as a personal investment. Notwithstanding anything contrary in the Agreement or the Plan, in the event the Restricted Share Units vest and Shares are issued to Grantee or his or her legal representatives or estate within six months of the Date of Grant, Grantee agrees that Grantee or his or her legal representatives or estate will not offer to the public or otherwise dispose of any Shares acquired prior to the six-month anniversary of the Date of Grant.

Payout of Restricted Share Units in Shares Only. Restricted Share Units granted to Employees resident in Hong Kong shall be paid in Shares only. In no event shall any of such Restricted Share Units be paid in cash, notwithstanding any discretion contained in the Plan to the contrary.

NOTIFICATIONS

Securities Warning. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Grantee is advised to exercise caution in relation to the offer. If Grantee is in any doubt about any of the contents of this document, he or she should obtain independent professional advice. The Restricted Share Units and Shares acquired upon vesting of the Restricted Share Units do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or any Subsidiary or Affiliate. The Plan, the Grant Agreement and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The Restricted Share Units are intended only for the personal use of each eligible employee of the Company or any Subsidiary or Affiliate and may not be distributed to any other person.

Appendix for Hungary

Additional terms and Conditions of the
Activision Blizzard, Inc.
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There are no country-specific provisions.

Appendix for Ireland

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" of Grant Section of the Appendix:

In accepting the grant of the Restricted Share Units, Grantee acknowledges that he or she understands and agrees that the benefits received under the Plan will not be taken into account for any redundancy or unfair dismissal claim.

NOTIFICATIONS

Director Notification Requirements. If Grantee is a director, shadow director or secretary of an Irish Subsidiary and Grantee's aggregate shareholding interest equals or exceeds 1% of the voting rights of the Company, Grantee must notify the Irish Subsidiary in writing within a certain time period of (i) receiving or disposing of an interest in the Company (e.g., Restricted Share Units, Common Shares), (ii) becoming aware of the event giving rise to the notification requirement, or (iii) becoming a director or secretary if such an interest exists at the time. This notification requirement also applies with respect to the interests of a spouse or minor children (whose interests will be attributed to the director, shadow director or secretary, as the case may be). Grantee may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Italy

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Plan Document Acknowledgment. By accepting the Restricted Share Units, Grantee acknowledges that he or she has received a copy of the Plan and the Grant Agreement and has reviewed the Plan and the Grant Agreement, including this Appendix B, in their entirety and fully understands and accepts all provisions of the Plan and the Grant Agreement, including this Appendix B. Grantee acknowledges having read and specifically and expressly approves the following sections of the Grant Agreement: "Vesting Schedule" as described in the Grant Notice, Section 3 ("Termination of Employment"), Section 4 ("Taxes Withholding"), Section 16 ("No Right to Employment"), Section 17 ("No Rights as Stockholder"), Section 19 ("Venue and Governing Law"), and "Data Privacy Information and Consent" and "Language" as described in Exhibit B.

NOTIFICATIONS

Foreign Asset / Account Tax Reporting Notification. Italian residents who, at any time during the fiscal year, hold foreign financial assets (such as cash, Shares) which may generate income taxable in Italy are required to report such assets on their annual tax returns or on a special form if no tax return is due. The same reporting duties apply to Italian residents who are beneficial owners of the foreign financial assets pursuant to Italian money laundering provisions, even if they do not directly hold the foreign asset abroad. Grantee is advised to consult his or her personal legal advisor to ensure compliance with applicable reporting requirements.

Foreign Asset Tax Information. Italian residents who, at any time during the fiscal year, hold foreign financial assets (including cash and Shares) which may generate income taxable in Italy are required to report these assets on their annual tax returns (UNICO Form, RW Schedule) for the year during which the assets are held, or on a special form if no tax return is due. These reporting obligations will also apply to Italian residents who are the beneficial owners of foreign financial assets under Italian money laundering provisions.

Appendix for Japan

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Restricted Share Unit Award Terms

NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Grantee will be required to report details of any assets (including any Common Shares acquired under the Plan) held outside of Japan as of December 31st of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th of the following year. Grantee should consult with his or her personal tax advisor as to whether the reporting obligation applies to Grantee and whether Grantee will be required to report details of any outstanding Restricted Share Units or Common Shares held by Grantee in the report.

Appendix for Korea

Additional terms and Conditions of the
Activision Blizzard, Inc.
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NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Korean residents must declare all foreign financial accounts (e.g., non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency). Grantee should consult with his or her personal tax advisor to determine how to value Grantee's foreign accounts for purposes of this reporting requirement and whether Grantee is required to file a report with respect to such accounts.

Appendix for Luxembourg

Additional terms and Conditions of the
Activision Blizzard, Inc.
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There are no country-specific provisions.

Appendix for Malta

Additional terms and Conditions of the
Activision Blizzard, Inc.
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NOTIFICATIONS

Securities Law Notification. Neither the Company nor the Plan is registered in Malta and no investment services will be carried out in or from within Malta. The Plan will not be marketed in Malta and the Company is exempt from any investment service license requirements.

Appendix for Mexico

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Acknowledgement of the Award Terms. By accepting the Restricted Share Units, Grantee acknowledges that he or she has received a copy of the Plan and the Award Terms, including this Appendix, which he or she has reviewed. Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Terms, including this Appendix. Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in "Nature of Grant" Section of the Appendix, which clearly provide as follows:

(1) Grantee's participation in the Plan does not constitute an acquired right;

(2) The Plan and Grantee's participation in it are offered by the Company on a wholly discretionary basis;

(3) Grantee's participation in the Plan is voluntary; and

(4) The Company and any entity in the Company Group are not responsible for any decrease in the value of any Common Shares acquired upon settlement of the Restricted Share Units.

Labor Law Acknowledgement and Policy Statement. By accepting the Restricted Share Units, Grantee acknowledges that the Company with registered offices at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A., is solely responsible for the administration of the Plan. Grantee further acknowledges that his or her participation in the Plan, the grant of Restricted Share Units and any acquisition of Common Shares under the Plan do not constitute an employment relationship between Grantee and the Company because Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision-Mexico"). Based on the foregoing, Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between Grantee and his or her employer, Activision-Mexico, and do not form part of the employment conditions and/or benefits provided by Activision-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of Grantee's employment.

Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue Grantee's participation in the Plan at any time, without any liability to Grantee.

Finally, Grantee hereby declares that he or she does not reserve to him or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its Subsidiaries, affiliates, branches, representation

offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

SPANISH TRANSLATION

Reconicimiento de los terminos del otorgamiento de acciones. *Al aceptar las Unidades de Acciones Restringidas, el Receptor reconoce que ha recibido una copia del Plan y de los Términos del Otorgamiento de acciones, incluyendo este anexo, los cuales ha revisado. El Receptor también reconoce que acepta los términos del Plan y del Otorgamiento de Acciones, incluyendo este anexo. Así mismo el Receptor reconoce que ha leído y expresamente aprueba los términos y condiciones establecidas en la cláusula 1 del los Términos Generales para Receptores fuera de los Estados Unidos, las cuales claramente establecen lo siguiente:*

(1) La participación del Receptor en el Plan no constituye un derecho adquirido

(2) El plan y la participación del Receptor en dicho Plan son ofrecidos por la Empresa en forma totalmente discrecional.

(3) La participación del Receptor en el Plan es voluntaria; y

(4) La Empresa y cualquier empresa del Grupo de Empresas no son responsables por la reducción en el valor de las acciones comunes que sean adquiridas en virtud de las Unidades de Acciones Restringidas.

Política de Ley Laboral y Reconocimiento. *Al aceptar el otorgamiento de adquisición de acciones y/o Restricted Share Units, el Receptor reconoce que la Empresa, con domicilio ubicado en 310 Ocean Park Boulevard, Santa Mónica, California, 90405 U.S.A., es el único responsable para la administración de Plan y que su participación en los Plan y adquisición de acciones no constituye una relación de trabajo entre la Empresa y el Receptor, toda vez que su participación en el Plan es totalmente en base a una relación comercial entre mi único patrón Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision Mexico") Derivado de lo anterior, el Receptor expresamente reconoce que el Plan y beneficios que pudieran derivar de su participación en el Plan no establece derechos entre su único patrón Activision Mexicoy el suscrito, no forman parte de sus condiciones y/o prestaciones de trabajo otorgadas por Ativision Mexico y cualquier modificación del Plan o su terminación no constituye un cambio o detrimento en los términos y condiciones de su relación de trabajo.*

Asimismo, el Receptor entiende que su participación en el Plan es resultado de una decisión unilateral y discrecional de la Empresa, por lo tanto la Empresa se reserva el derecho absoluto de modificar y/o discontinuar la participación de usted en cualquier momento y sin responsabilidad alguna frente al Receptor.

Finalmente, en este acto el Receptor declara que no se reserva acción o derecho alguno para presentar cualquier reclamación en contra de la Empresa por cualquier compensación o daño en relación con cualquier disposición del Plan o de los beneficios derivados del Plan y, por lo tanto, el Receptor otorga el más amplio y total finiquito a la Empresa, sus afiliadas, sucursales, oficinas de representación, accionistas, funcionarios, agentes o representantes en relación con cualquier reclamación que pudiera surgir.

NOTIFICATIONS

Securities Law Notification. The Restricted Share Units and the Common Shares offered under the Plan have not been registered with the National Register of Securities maintained by the Mexican National Banking and Securities Commission and cannot be offered or sold publicly in Mexico. In addition, the Plan, the Award Terms and any other document relating to the Restricted Share Units may not be publicly distributed in Mexico. These materials are addressed to Grantee only because of Grantee's existing relationship with the Company and the Employer and these materials should not be reproduced or copied in any form. The offer contained in these materials does not constitute a public offering of securities but rather constitutes a private placement of securities addressed specifically to individuals who are present employees of Activision Mexico made in accordance with the provisions of the Mexican Securities Market Law, and any rights under such offering shall not be assigned or transferred.

Appendix for the Netherlands

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the grant of the Restricted Share Units, Grantee acknowledges that the Restricted Share Units granted under the Plan are intended as an incentive for Grantee to remain employed with the Employer and are not intended as remuneration for labor performed.

Appendix for New Zealand

Additional terms and Conditions of the
Activision Blizzard, Inc.
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NOTIFICATIONS

Securities Law Notification. Warning: This is an offer of rights to receive Shares upon vesting of the Restricted Share Units subject to the terms of the Plan and the Award Terms. Restricted Share Units give Grantee a stake in the ownership of the Company. Grantee may receive a return if dividends are paid on the Shares.

If the Company runs into financial difficulties and is wound up, Grantee will be paid only after all creditors and holders of preferred shares have been paid. Grantee may lose some or all of their investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision.

The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, Grantee may not be given all the information usually required. Grantee will also have fewer other legal protections for this investment.

Grantee should ask questions, read all documents carefully, and seek independent financial advice before committing to participate in the Plan.

In addition, the Holder is hereby notified that the Company's most recent Annual Report on Form 10-K, the Plan and the Plan prospectus are available for review on the Company intranet site at Finance - The Hub (activisionblizzard.com). The Company's most recent Annual Report can also be found at: https://investor.activision.com/#ir-reports-filings. And your Award Terms can be found in your E*Trade account at www.etrade.com by navigating to My Account/Plan Elections.

As noted above, Grantee should carefully read the materials provided before making a decision whether to participate in the Plan. Grantee is also encouraged to contact their personal tax advisor for specific information concerning Grantee's personal tax situation with regard to Plan participation.

Appendix for Poland

Additional terms and Conditions of the
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NOTIFICATIONS

Foreign Asset/Accounting Reporting Notification. Polish residents holding foreign securities (including Common Shares acquired under the Plan) and maintaining accounts abroad must report information to the National Bank of Poland on transactions and balances of the securities and cash deposited in such accounts if the value of such transactions or balances exceeds PLN 7,000,000. If required, the reports must be filed on a quarterly basis on special forms available on the website of the National Bank of Poland.

Exchange Control Notification. If Grantee transfers funds into Poland in excess of a certain threshold (currently €15,000, unless the transfer of funds is considered to be connected with the business activity of an entrepreneur, in which case a lower threshold may apply) in connection with the sale of Common Shares under the Plan, the funds must be transferred via a bank account held at a bank in Poland. Grantee is required to retain the documents connected with a foreign exchange transaction for a period of five (5) years, as measured from the end of the tax year in which such transaction occurred.

Appendix for Portugal

Additional terms and Conditions of the
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Language Consent. Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and fully accepted and agreed with the terms and conditions established in the Plan and Award Terms.

Consentimento sobre Língua

O Empregado Contratado, pelo presente instrumento, declara expressamente que domina a língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidos no Plano e no Acordo de Atribuição.

NOTIFICATIONS

Exchange Control Notification. If Grantee holds Shares upon vesting of the Restricted Share Units, the acquisition of Shares should be reported to the Banco de Portugal for statistical purposes. If the Shares are deposited with a commercial bank or financial intermediary in Portugal, such bank or financial intermediary will submit the report on Grantee's behalf. If the Shares are not deposited with a commercial bank or financial intermediary in Portugal, Grantee is responsible for submitting the report to the Banco de Portugal.

Appendix for Romania

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NOTIFICATIONS

Exchange Control Notification. Grantee is generally not required to seek authorization from the National Bank of Romania to participate in the Plan or to open and operate a foreign bank account to receive any proceeds under the Plan. However, if Grantee acquires 10% or more of the registered capital of a non-resident company, Grantee must file a report with the National Bank of Romania ("NBR") within 30 days from the date such ownership is reached. This is a statutory requirement, but it does not trigger the payment of fees to NBR.

Appendix for Russia

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Securities Law Information. The Employer is not in any way involved in the offer of Restricted Share Units or administration of the Plan. These materials do not constitute advertising or an offering of securities in Russia nor do they constitute placement of the Shares in Russia. The issuance of Shares pursuant to the Restricted Share Units described herein has not and will not be registered in Russia and hence, the Shares described herein may not be admitted or used for offering, placement or public circulation in Russia.

Data Privacy Notice and Consent. This section replaces the Data Privacy and Consent provision in Exhibit B.

Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in the Award Terms by and among, as applicable, the Employer, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan.

Grantee understands that the Company, any Affiliate and/or the Employer may hold certain personal data about Grantee, including, but not limited to, Grantee's name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any Shares of stock or directorships held in the Company, details of all Restricted Share Units or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in his or her favor ("Data"), for the purpose of implementing, administering and managing the Plan.

Grantee understands that Data may be transferred to the Equity Account Administrator or such other stock plan service provider as may be selected by the Company in the future, which is assisting in the implementation, administration and management of the Plan, that the recipients of the Data may be located in Grantee's country, or elsewhere, and that the recipients' country (*e.g.*, the United States) may have different data privacy laws and protections than Grantee's country. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the U.S. human resources representative or stock plan services. Grantee authorizes the Company, the Equity Account Administrator and other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Grantee's participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of the Restricted Share Units may be deposited. Grantee understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan.

Grantee understands that Grantee may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case and without cost, by contacting in writing the U.S. human

resources representative. Grantee understands that refusal or withdrawal, rescission or termination of consent may affect his or her ability to participate in the Plan. For more information on the consequences of Grantee's refusal to consent or withdrawal of consent, Grantee understands that Grantee may contact the U.S. human resources representative or stock plan services.

U.S. Transaction. Any Shares issued pursuant to the Restricted Share Units shall be delivered to Grantee through a brokerage account in the U.S. Grantee may hold Shares in his or her brokerage account in the U.S.; however, in no event will Shares issued to Grantee and/or Share certificates or other instruments be delivered to Grantee in Russia. Grantee is not permitted to make any public advertising or announcements regarding the Restricted Share Units or Shares in Russia, or promote these Shares to other Russian legal entities or individuals, and Grantee is not permitted to sell or otherwise dispose of Shares directly to other Russian legal entities or individuals. Grantee is permitted to sell Shares only on the Nasdaq Stock Market and only through a U.S. broker.

Settlement of Restricted Share Units and Sale of Shares. Due to local regulatory requirements, the Company reserves the right to require the immediate sale of any Shares to be issued to Grantee upon vesting of the Restricted Share Units. Grantee agrees that the Company is authorized to instruct its designated broker to assist with any such mandatory sale of the Shares (on his or her behalf pursuant to this authorization) and Grantee expressly authorizes the Company's designated broker to complete the sale of such Shares, if so instructed by the Company. In such case, Grantee acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay Grantee the cash proceeds from the sale of the Shares, less any brokerage fees or commissions and subject to any obligation to satisfy Withholding Tax-related items. Grantee may hold the cash proceeds in the brokerage account in the U.S. for an indefinite period of time (*e.g.*, for subsequent reinvestment). Grantee acknowledges that Grantee is not aware of any material nonpublic information with respect to the Company or any securities of the Company as of the date of this Agreement.

Exchange Control Information. Under exchange control regulations in Russia, Grantee may be required to repatriate certain cash amounts that Grantee receives with respect to the Restricted Share Units to Russia as soon as Grantee intends to use those cash amounts for any purpose, including reinvestment. If the repatriation requirements apply, such funds must initially be credited to Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

Under the Directive of the Russian Central Bank (the "CBR") N 5371-U which came into force on April 17, 2020, there are no restrictions on the transfer of cash into and from accounts opened by Russian currency residents with a foreign financial market institution other than a bank. Accordingly, the repatriation requirement in certain cases may not apply with respect to cash amounts received in an account that is considered by the CBR to be a foreign brokerage account opened with a financial market institution other than a bank. Statutory exceptions to the repatriation requirement also may apply.

Anti-Corruption Notification. Anti-corruption laws prohibit certain public servants, their spouses and their dependent children from owning any foreign source financial instruments (*e.g.*, Shares of foreign companies such as the Company). Accordingly, Grantee should inform the Company if Grantee is covered by these laws because Grantee should not hold Shares acquired under the Plan.

Appendix for Singapore

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Sale Restriction. Grantee agrees that any Common Shares acquired pursuant to the Restricted Share Units will not be offered for sale in Singapore prior to the six-month anniversary of the Date of Grant, unless such sale or offer is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("SFA").

NOTIFICATIONS

Securities Law Notification. The grant of the Restricted Share Units is being made pursuant to the "Qualifying Person exemption" under section 273(1)(f) of the SFA under which it is exempt from the prospectus and registration requirements and is not made with a view to the underlying Common Shares being subsequently offered for sale to any other party. The Plan has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore.

Director Notification Requirements. If Grantee is a director of a Singapore Subsidiary of the Company, Grantee must notify the Singapore Subsidiary in writing within two business days of receiving or disposing of an interest (e.g., Restricted Share Units, Common Shares) in the Company or within two business days of becoming a director if such an interest exists at the time. This notification requirement also applies to an associate director and to a shadow director (i.e., an individual who is not on the board of directors but who has sufficient control so that the board of directors acts in accordance with the "directions and instructions" of the individual) of a Singapore Subsidiary or affiliate of the Company. Grantee may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Spain

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the Restricted Share Units, Grantee consents to participate in the Plan and acknowledges having received and read a copy of the Plan.

Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant Restricted Share Units under the Plan to individuals who may be employees of the Company or any other entity in the Company Group throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not bind the Company or any other entity in the Company Group. Consequently, Grantee understands that the Restricted Share Units are granted on the assumption and condition that such Restricted Share Units and any Common Shares acquired under the Plan shall not become a part of any employment contract (either with the Company or any other entity in the Company Group) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, Grantee understands that the Restricted Share Units would not granted but for the assumptions and conditions referred to above; thus, Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of the Restricted Share Units shall be null and void.

Further, the vesting of the Restricted Share Units is expressly conditioned on Grantee's active employment, such that if Grantee's employment or service terminates for any reason whatsoever, the Restricted Share Units cease vesting immediately effective on the date of termination of employment. This will be the case, for example, even if Grantee (1) is considered to be unfairly dismissed without good cause (*i.e.*, subject to a "*despido improcedente*"); (2) is dismissed for disciplinary or objective reasons or due to a collective dismissal; (3) terminates service due to a change of work location, duties or any other employment or contractual condition; (4) terminates service due to the Company's or any entity in the Company Group's unilateral breach of contract; or (5) is terminated from employment for any other reason whatsoever. Consequently, upon Grantee's termination of employment for any of the above reasons, Grantee may automatically lose any rights to Restricted Share Units that were unvested on the date of termination.

NOTIFICATIONS

Exchange Control Notification. The acquisition, ownership and sale of Common Shares under the Plan must be declared for statistical purposes to the Spanish *Dirección General de Comercio e Inversiones* (the "DGCI"), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness. Generally, the declaration must be made each January for Common Shares owned as of December 31st of the prior year, by means of a D-6 form; however, if the value of the Common Shares acquired or sold exceeds €1,502,530 (or if Grantee holds 10% or more of the share capital of the Company or such other amount that would entitle Grantee to join the Company's board of directors), the declaration must be filed also within one month of the acquisition or sale, as applicable.

Grantee is required to declare electronically to the Bank of Spain any securities accounts (including brokerage accounts held abroad), foreign instruments (including any Common Shares acquired under the Plan) and any transactions with non-Spanish residents (including any payments of Common Shares made to Grantee by the Company), depending on the amount of the transactions during the relevant year or the balances in such accounts as of December 31st of the relevant year. Generally, the report is required on an annual basis (by January 20 of each year). Grantee should consult with his or her personal advisor to ensure that Grantee is properly complying with his or her reporting obligations.

Foreign Asset/Account Reporting Notification. If Grantee holds rights or assets (e.g., Common Shares or cash held in a bank or brokerage account) outside of Spain with a value in excess of €50,000 per type of right or asset (e.g., Common Shares, cash, etc.) as of December 31 each year, Grantee is required to report certain information regarding such rights and assets on tax form 720. After such rights and/or assets are initially reported, the reporting obligation will only apply for subsequent years if the value of any previously-reported rights or assets increases by more than €20,000. If reporting is required, the reporting must be completed by the following March 31. Grantee should consult his or her personal tax advisor for details regarding this requirement.

Securities Law Notification. The Restricted Share Units described in this document do not qualify as securities under Spanish regulations. No "offer of securities to the public," within the meaning of Spanish law, has taken place or will take place in the Spanish territory. The Plan, the Award Terms (including this Appendix), and any other documents evidencing the award of Restricted Share Units have not been, nor will they be, registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission), and none of those documents constitutes a public offering prospectus.

Appendix for Sweden

Additional terms and Conditions of the
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Authorization to Withhold. This provision supplements Section 4 of the Award Terms:

Without limiting the Company's and the Employer's authority to satisfy their obligations for Withholding Taxes as set forth in Section 4 of the Award Terms, by accepting the Restricted Share Units, Grantee authorizes the Company and/or the Employer to withhold Common Shares or to sell Common Shares otherwise deliverable to Grantee upon vesting of the Restricted Share Units to satisfy any Withholding Taxes, regardless of whether the Company and/or the Employer have an obligation to withhold such Withholding Taxes.

Appendix for Taiwan

Additional terms and Conditions of the
Activision Blizzard, Inc.
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Data Privacy Acknowledgement. Grantee hereby acknowledges that he or she has read and understands the terms regarding collection, processing and transfer of Data contained in the "Data Privacy Information and Consent for Grantees outside the European Economic Area" Section of the Appendix and, by participating in the Plan, Grantee agrees to such terms. In this regard, upon request of the Company or the Employer, Grantee agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Grantee's country, either now or in the future. Grantee understands that he or she will not be able to participate in the Plan if he or she fails to execute any such consent or agreement.

NOTIFICATIONS

Securities Law Notification. The offer of participation in the Plan is available only for employees of the Company Group. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

Exchange Control Notification. Grantee may acquire and remit foreign currency (including proceeds from the sale of Common Shares or the receipt of any dividends paid on such Common Shares) into and out of Taiwan up to US$5,000,000 per year. If the transaction amount is TWD$500,000 or more in a single transaction, Grantee must submit a Foreign Exchange Transaction Form and provide supporting documentation to the satisfaction of the bank involved in the transaction. Grantee should consult his or her personal advisor to ensure compliance with any applicable exchange control laws in Taiwan.

Appendix for the United Kingdom

Additional terms and Conditions of the
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Tax Withholding and Payment. This section supplements Section 4 of the Award Terms:

Without limitation to Section 4 of the Award Terms, Grantee agrees that Grantee is liable for all Withholding Taxes and hereby covenants to pay all such Withholding Taxes, as and when requested by the Company or the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). Grantee also agrees to indemnify and keep indemnified the Company and the Employer against any Withholding Taxes that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on Grantee's behalf.

Appendix for the United States of America

Additional terms and Conditions of the
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1. Definitions.

(a) For U.S. Grantees only, the following terms shall have the meanings set forth below:

"Employment Violation" means (1) any material breach by Grantee of his or her employment agreement with any entity in the Company Group for so long as the terms of such employment agreement shall apply to Grantee (with any breach of the post-termination obligations contained therein deemed to be material for purposes of this definition) and (2) a good faith belief by the Company, after investigation, that Grantee has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Look-back Period" means, with respect to any Employment Violation by Grantee, the period beginning on the date which is 12 months prior to the date of such Employment Violation by Grantee and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

"Recapture Amount" means, with respect to any Employment Violation by Grantee, the gross gain realized or unrealized by Grantee upon all vesting of Restricted Share Units or delivery or transfer of Vested Shares during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if the Company and/or the Employer has satisfied any Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award during the Look-back Period by withholding Vested Shares or selling Vested Shares on Grantee's behalf, the amount of the Withholding Taxes so satisfied; plus

(ii) if Grantee has received Vested Shares during such Look-back Period and sold any such Vested Shares, an amount equal to the sum of the sales price for all such Vested Shares; plus

(iii) if Grantee has received Vested Shares during such Look-back Period and not sold all such Vested Shares, an amount equal to the product of (A) the greatest of the following: (1) the Market Value per Share of Common Shares on the date such Vested Shares were issued or transferred to Grantee, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under Section 3 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of computation, times (B) the number of such Vested Shares which were not sold; plus

2. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time and the terms of the Plan, the terms of the Plan shall control.

3. Employment Violation. The terms of this Section 3 shall apply to the Restricted Share Units if Grantee is or becomes subject to an employment agreement with any entity in the Company Group. In the event of an Employment Violation, the Company shall have the right to require (a) the forfeiture by Grantee to the Company of any outstanding Restricted Share Units or Vested Shares which have yet to settle pursuant to Section 8 of Exhibit A and (b) payment by Grantee to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by Grantee to the Company of the Recapture Amount, Grantee, in his or her discretion, may tender to the Company the Vested Shares acquired during the Look-back Period with respect to such Employment Violation (without any consideration from the Company in exchange therefor). Any such forfeiture of Restricted Share Units and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate Grantee's employment if not already terminated and to seek injunctive relief and additional monetary damages.

Exhibit 10.18

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

NOTICE OF PERFORMANCE-VESTING RESTRICTED SHARE UNIT AWARD

You have been awarded Restricted Share Units of Activision Blizzard, Inc. (the "Company"), as follows:

- Your name: **[ ]**
- Total number of Restricted Share Units awarded: **[ ]**
- Date of Grant: **[ ]**
- Grant ID: **[ ]**
- Your Award of Restricted Share Units is governed by the terms and conditions set forth in:
  - this Notice of Performance-Vesting Restricted Share Unit Award;
  - the Performance-Vesting Restricted Share Unit Award Terms attached hereto as Exhibit A;
  - the Appendix attached hereto as Exhibit B, which may include special terms and conditions relating to your country of work and/or residence (the "Appendix"); and
  - the Company's 2014 Incentive Plan, the receipt of a copy of which you hereby acknowledge.
- *Schedule for Vesting*: Except as otherwise provided pursuant to the Performance-Vesting Restricted Share Unit Award Terms attached hereto as Exhibit A, as supplemented, modified, or replaced by the special terms and conditions, if any, set forth under your country of work and/or residence in the Appendix attached hereto as Exhibit B (together, the "Award Terms"), the Performance-Vesting Restricted Share Units shall vest in accordance with the Performance-Vesting Restricted Share Unit Vesting Schedule attached hereto as Exhibit C (the "Vesting Schedule").
- Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Award Terms.

- ***By accepting the Award, you agree that the definition of "Cause" set forth in the Award Terms and, if the Appendix for the United States of America is applicable to you and/or your Award, the definition of "Employment Violation" set forth therein, shall supersede any such definitions in the award terms applicable to any other outstanding equity awards granted to you by the Company and shall apply to such awards as if set forth in those award terms.***

- ***By accepting the Award, you agree to be bound by the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Performance-Vesting Restricted Share Unit Award and the Award Terms. If you do not accept the Award by the first scheduled vesting date and you do not indicate your intention to decline the Award, your Award will be automatically accepted on your behalf and you will be deemed to have accepted the terms and conditions set forth in the 2014 Incentive Plan, this Notice of Performance-Vesting Restricted Share Unit Award and the Award Terms.***

EXHIBIT A

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

PERFORMANCE-VESTING RESTRICTED SHARE UNIT AWARD TERMS

1. Definitions.

(a) For purposes of these Award Terms, the following terms shall have the meanings set forth below:

"Award" means the award described on the Grant Notice.

"Cause" (i) shall have the meaning given to such term in any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time of the determination or (ii) if Grantee is not then party to any agreement or offer letter with any entity in the Company Group or any such agreement or offer letter does not contain a definition of "cause," shall mean a good faith determination by the Company that Grantee (A) engaged in misconduct or gross negligence in the performance of his or her duties or willfully and continuously failed or refused to perform any duties reasonably requested in the course of his or her employment; (B) engaged in fraud, dishonesty, or any other conduct that causes, or has the potential to cause, harm to any entity in the Company Group, including its business reputation or financial condition; (C) violated any lawful directives or policies of the Company Group or any applicable laws, rules or regulations; (D) materially breached his or her employment agreement, service contract, proprietary information agreement or confidentiality agreement with any entity in the Company Group; (E) was convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; or (F) breached his or her fiduciary duties to the Company Group. Without limiting the generality of the foregoing, "cause" under clauses (i) and (ii) of the preceding sentence shall also mean a good faith belief by the Company, after investigation, that Grantee has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Common Shares" means the shares of common stock, par value $0.000001 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 10 hereof.

"Company" means Activision Blizzard, Inc. and any successor thereto.

"Company Group" means the Company and its Subsidiaries.

"Company-Sponsored Equity Account" means an account that is created with the Equity Account Administrator in connection with the administration of the Company's equity plans and programs, including the Plan.

"Date of Grant" means the Date of Grant of the Award set forth on the Grant Notice.

"Employer" means the Subsidiary of the Company which employs Grantee.

"Equity Account Administrator" means the brokerage firm utilized by the Company from time to time to create and administer accounts for participants in the Company's equity plans and programs, including the Plan.

"Exercise Rules and Regulations" means (i) (A) for employees who work and/or reside in the U.S., the Securities Act or any comparable U.S. federal securities law and all applicable state securities laws, and (B) for employees who work and/or reside outside the U.S., any laws applicable to Grantee which subject him or her to insider trading restrictions and/or market abuse laws or otherwise affect his or her ability to accept, acquire, sell, attempt to sell or otherwise dispose of Common Shares, rights to Common Shares (*e.g.*, Restricted Share Units) or rights linked to the value of Common Shares during such times as he or she is considered to have "inside information" regarding the Company, (ii) the requirements of any securities exchange, securities association, market system or quotation system on which Common Shares are then traded or quoted, (iii) any restrictions on transfer imposed by the Company's certificate of incorporation or bylaws, and (iv) any policy or procedure the Company has adopted with respect to the trading of its securities, in each case as in effect on the date of the intended transaction.

"Grantee" means the recipient of the Award named on the Grant Notice.

"Grant Notice" means the Notice of Performance-Vesting Restricted Share Unit Award to which these Award Terms are attached.

"Plan" means the Activision Blizzard, Inc. 2014 Incentive Plan, as amended from time to time.

"Restricted Share Units" means units subject to the Award, which represent the conditional right to receive Common Shares in accordance with the Grant Notice and these Award Terms, unless and until such units become vested or are forfeited to the Company in accordance with the Grant Notice and these Award Terms.

"Section 409A" means Section 409A of the Code and the guidance and regulations promulgated thereunder.

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Vested Shares" means the Common Shares to which the holder of the Restricted Share Units becomes entitled upon vesting thereof in accordance with Section 2 or 3 hereof.

"U.S." means the United States of America.

"Withholding Taxes" means any taxes, including, but not limited to, income tax, social insurance (*e.g.*, U.S. social security and Medicare), payroll tax, state and local income taxes, fringe benefits tax, and payment on account, required or permitted under any applicable law to be withheld from amounts otherwise payable to Grantee.

(b) Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term in the Plan.

2. Vesting. Except as otherwise set forth in these Award Terms, the Restricted Share Units shall vest in accordance with the Vesting Schedule. Each Restricted Share Unit, upon vesting thereof, shall entitle the holder thereof to receive one Common Share (subject to adjustment pursuant to Section 10 hereof).

3. Termination of Employment.

(a) Cause. In the event that Grantee's employment is terminated by any entity in the Company Group for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and any outstanding Restricted Share Units and Vested Shares that have yet to settle pursuant to Section 8 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

(b) Other. Unless the Committee determines otherwise, in the event that Grantee's employment is terminated for any reason other than for Cause, as of the date of such termination of employment all Restricted Share Units shall cease to vest and, with the exception of any Vested Shares that have yet to settle pursuant to Section 8 hereof, shall immediately be forfeited to the Company without payment of consideration by the Company.

4. Tax Withholding.

(a) Regardless of any action the Company or the Employer takes with respect to any Withholding Taxes related to Grantee's participation in the Plan and legally applicable to Grantee, Grantee acknowledges that the ultimate liability for all Withholding Taxes is and remains Grantee's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. Grantee further acknowledges that the Company and/or the Employer (A) make no representations or undertakings regarding the treatment of any Withholding Taxes in connection with any aspect of the Restricted Share Units, including, without limitation, the grant, vesting or payment of the Award, the subsequent sale of Vested Shares acquired, and the receipt of any dividends; and (B) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Share Units to reduce or eliminate Grantee's liability for Withholding Taxes or achieve any particular tax result. Further, if Grantee is or becomes subject to tax in more than one jurisdiction, Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Withholding Taxes in more than one jurisdiction. The Company shall have no obligation to deliver any Vested Shares unless and until all Withholding Taxes contemplated by this Section 4 have been satisfied.

(b) Prior to any relevant taxable or tax withholding event, as applicable, Grantee agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award at the time such Withholding Taxes become due. In this regard, Grantee authorizes the Company and/or the Employer, or their respective agents to satisfy any applicable withholding obligations with regard

to all Withholding Taxes by one or a combination of the following: (i) by delivery to the Company of a bank check or certified check or wire transfer of immediately available funds; (ii) through the delivery of irrevocable written instructions, in a form acceptable to the Company, that the Company withhold Vested Shares otherwise then deliverable having a value equal to the aggregate amount of the Withholding Taxes (valued in the same manner used in computing the amount of such Withholding Taxes); (iii) arranging for the sale, on Grantee's behalf, of Vested Shares otherwise then deliverable to Grantee (valued in the same manner used in computing the amount of such Withholding Taxes); or (iv) by any combination of (i), (ii) or (iii) above. Further, any entity in the Company Group shall have the right to require Grantee to satisfy any Withholding Taxes contemplated by this Section 4 by any of the aforementioned methods or by withholding from Grantee's wages or other cash compensation.

(c) The Company Group may withhold or account for Withholding Taxes contemplated by this Section 4 by reference to applicable withholding rates, including minimum or maximum applicable statutory rates in Grantee's jurisdiction(s) of employment and/or residency, and if the Company Group withholds more than the amount necessary to satisfy the liability, Grantee may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the Company Group withholds less than the amount necessary to satisfy the liability, Grantee may be required to pay any additional Withholding Taxes directly to the applicable tax authority or to the Company and/or the Employer. If the obligation for Withholding Taxes is satisfied by withholding in Shares, for tax purposes, Grantee will be deemed to have been issued the full number of Vested Shares underlying the Restricted Share Units, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Withholding Taxes. No fractional Shares will be withheld or issued pursuant to the settlement of the Restricted Share Units and the Withholding Taxes thereunder.

5. Deemed Agreement. **By accepting the Award, Grantee is deemed to be bound by the terms and conditions set forth in the Plan, the Grant Notice and these Award Terms.**

6. Reservation of Shares. The Company shall at all times reserve for issuance or delivery upon vesting of the Restricted Share Units such number of Common Shares as shall be required for issuance or delivery upon vesting thereof.

7. Dividend Equivalents. The holder of the Restricted Share Units shall not be entitled to receive any payment, payment-in-kind or any equivalent with regard to any cash or other dividends that are declared and paid on Common Shares.

8. Receipt and Delivery. As soon as administratively practicable (and, in any event, within 30 days) after any Restricted Share Units vest, the Company shall (a) effect the issuance or transfer of the resulting Vested Shares, (b) cause the issuance or transfer of such Vested Shares to be evidenced on the books and records of the Company, and (c) cause such Vested Shares to be delivered to a Company-Sponsored Equity Account in the name of the person entitled to such Vested Shares (or, with the Company's consent, such other brokerage account as may be requested by such person); provided, however, that, in the event such Vested Shares are subject to a legend as set forth in Section 15 hereof, the Company shall instead cause a certificate evidencing such Vested Shares and bearing such legend to be delivered to the person entitled thereto.

9. Committee Discretion. Except as may otherwise be provided in the Plan, the Committee shall have sole discretion to (a) interpret any provision of the Plan, the Grant Notice and these Award Terms, (b) make any determinations necessary or advisable for the administration of the Plan and the Award, and (c) waive any conditions or rights of the Company under the Award, the Grant Notice or these Award Terms. Without intending to limit the generality or effect of the foregoing, any decision or determination to be made by the Committee

pursuant to these Award Terms, including whether to grant or withhold any consent, shall be made by the Committee in its sole and absolute discretion, subject only to the terms of the Plan. Subject to the terms of the Plan, the Committee may amend the terms of the Award prospectively or retroactively; however, no such amendment may materially and adversely affect the rights of Grantee taken as a whole without Grantee's consent. Without intending to limit the generality or effect of the foregoing, the Committee may amend the terms of the Award (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 10 hereof) affecting any entity in the Company Group or any of the Company's other affiliates or the financial statements of any entity in the Company Group or any of the Company's other affiliates, (ii) in response to changes in applicable laws, regulations or accounting principles and interpretations thereof, or (iii) to prevent the Award from becoming subject to any adverse consequences under Section 409A.

10. Adjustments. Notwithstanding anything to the contrary contained herein, pursuant to Section 12 of the Plan, the Committee will make or provide for such adjustments to the Award as are equitably required to prevent dilution or enlargement of the rights of Grantee that otherwise would result from (a) any stock dividend, extraordinary dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any change of control, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for the Award such alternative consideration (including, without limitation, cash), if any, as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Award.

11. Registration and Listing. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue or transfer any Restricted Share Units or Vested Shares, and no Restricted Share Units or Vested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered in any way, unless such transaction is in compliance with all Exercise Rules and Regulations. The Company is under no obligation to register, qualify or list, or maintain the registration, qualification or listing of, Restricted Share Units or Vested Shares with the U.S. Securities and Exchange Commission, any state securities commission or any securities exchange, securities association, market system or quotation system to effect such compliance. Grantee shall make such representations and furnish such information as may be appropriate to permit the Company, in light of the then existence or non-existence of an effective registration statement under the Securities Act relating to Restricted Share Units or Vested Shares, to issue or transfer Restricted Share Units or Vested Shares in compliance with the provisions of that or any comparable federal securities law and all applicable state securities laws. The Company shall have the right, but not the obligation, to register the issuance or transfer of Restricted Share Units or Vested Shares or resale of Restricted Share Units or Vested Shares under the Securities Act or any comparable federal securities law or applicable state securities law.

12. Transferability. Subject to the terms of the Plan, and only with the Company's consent, Grantee may transfer Restricted Share Units for estate planning purposes or pursuant to a domestic relations order (or a comparable order under applicable local law); provided, however, that any transferee shall be bound by all of the terms and conditions of the Plan, the Grant Notice and these Award Terms and shall execute an agreement in form and substance satisfactory to the Company in connection with such transfer; and provided, further that Grantee will remain bound by the terms and conditions of the Plan, the Grant Notice and these Award Terms. Except as otherwise permitted under the Plan or this Section 12, the Restricted Share

Units shall not be transferable by Grantee other than by will or the laws of descent and distribution.

13. Compliance with Applicable Laws and Regulations and Company Policies and Procedures.

(a) Grantee is responsible for complying with (i) any federal, state, and local tax, social insurance, national insurance contributions, payroll tax, payment on account or other tax liabilities applicable to Grantee in connection with the Award and (ii) all Exercise Rules and Regulations.

(b) The Award is subject to the terms and conditions of any policy requiring or permitting the Company to recover any gains realized by Grantee in connection with the Award, including, without limitation, the Policy on Recoupment of Performance-Based Compensation Related to Certain Financial Restatements.

(c) If and when Grantee is an "executive officer" of the Company within the meaning of the Executive Stock Ownership Guidelines, the Award will be subject to the terms and conditions of the Executive Stock Ownership Guidelines and the limitations contained therein on the ability of Grantee to transfer any Vested Shares.

14. Section 409A.

(a) Payments contemplated with respect to the Award are intended to comply with Section 409A, and all provisions of the Plan, the Grant Notice and these Award Terms shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding the foregoing, (i) nothing in the Plan, the Grant Notice and these Award Terms shall guarantee that the Award is not subject to taxes or penalties under Section 409A and (ii) if any provision of the Plan, the Grant Notice or these Award Terms would, in the reasonable, good faith judgment of the Company, result or likely result in the imposition on Grantee or any other person of taxes, interest or penalties under Section 409A, the Committee may, in its sole discretion, modify the terms of the Plan, the Grant Notice or these Award Terms, without the consent of Grantee, in the manner that the Committee may reasonably and in good faith determine to be necessary or advisable to avoid the imposition of such taxes, interest or penalties; provided, however, that this Section 14 does not create an obligation on the part of the Committee or the Company to make any such modification, and in no event shall the Company be liable for the payment of or gross up in connection with any taxes, interest or penalties owed by Grantee pursuant to Section 409A.

(b) Neither Grantee nor any of Grantee's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable with respect to the Award to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to Grantee or for Grantee's benefit with respect to the Award may not be reduced by, or offset against, any amount owing by Grantee to the Company.

(c) Notwithstanding anything to the contrary contained herein, if (i) the Committee determines in good faith that the Restricted Share Units do not qualify for the "short-term deferral exception" under Section 409A, (ii) Grantee is a "specified employee" (as defined in Section 409A) and (iii) a delay in the issuance or transfer of Vested Shares to Grantee or his or her estate or beneficiaries hereunder by reason of Grantee's "separation from service" (as defined in Section 409A) with any entity in the Company Group is required to avoid tax penalties under Section 409A but is not already provided for by this Award, the Company shall cause the

issuance or transfer of such Vested Shares to Grantee or Grantee's estate or beneficiary upon the earlier of (A) the date that is the first business day following the date that is six months after the date of Grantee's separation from service and (B) Grantee's death.

15. Legend. The Company may, if determined by it based on the advice of counsel to be appropriate, cause any certificate evidencing Vested Shares to bear a legend substantially as follows:

> "THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE 'ACT'), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT."

16. No Right to Employment. Nothing contained in the Grant Notice or these Award Terms shall create a right to employment or be interpreted as forming and employment or service contract with the Company, the Employer or any other entity in the Company Group and shall not interfere with the ability of the Employer to retire, request the resignation of or terminate Grantee's employment or service relationship at any time.

17. No Rights as Stockholder. No holder of Restricted Share Units shall, by virtue of the Grant Notice or these Award Terms, be entitled to any right of a stockholder of the Company, either at law or in equity, and the rights of any such holder are limited to those expressed, and are not enforceable against the Company except to the extent set forth in the Plan, the Grant Notice or these Award Terms.

18. Severability. In the event that one or more of the provisions of these Award Terms shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

19. Venue and Governing Law.

(a) For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the grant of the Restricted Share Units or these Award Terms, the parties submit and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Los Angeles County, California or the federal courts of the U.S. for the Central District of California and no other courts, regardless of where the grant of the Restricted Share Units is made and/or to be performed; provided, however, that if the parties have entered into another agreement providing for a different venue or forum (e.g., a dispute resolution agreement), then the terms of such agreement will control for purposes of this provision.

(b) To the extent that U.S. federal law does not otherwise control, the validity, interpretation, performance and enforcement of the Grant Notice and these Award Terms shall be governed by the laws of the State of Delaware, without giving effect to principles of conflicts of laws thereof.

20. Successors and Assigns. The provisions of the Grant Notice and these Award Terms shall be binding upon and inure to the benefit of the Company, its successors and assigns, and Grantee and, to the extent applicable, Grantee's permitted assigns under Section 12 hereof and Grantee's estate or beneficiaries as determined by will or the laws of descent and distribution.

21. Delivery of Notices and Other Documents.

(a) Any notice or other document which Grantee may be required or permitted to deliver to the Company pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to the Company, at its office at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A. Attn: Stock Plan Administration, or such other address as the Company by notice to Grantee may designate in writing from time to time. Notices shall be effective upon delivery.

(b) Any notice or other document which the Company may be required or permitted to deliver to Grantee pursuant to or in connection with the Grant Notice or these Award Terms shall be in writing, and may be delivered personally or by mail, postage prepaid, or overnight courier, addressed to Grantee at the address shown on any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time, or such other address as Grantee by notice to the Company may designate in writing from time to time. The Company may also, in its sole discretion, deliver any such document to Grantee electronically via an e-mail to Grantee at his or her Company-provided email address or through a notice delivered to such e-mail address that such document is available on a website established and maintained on behalf of the Company or a third party designated by the Company, including, without limitation, the Equity Account Administrator. Notices shall be effective upon delivery.

22. Conflict with Plan. In the event of any conflict between the terms the Grant Notice or these Award Terms and the terms of the Plan, the terms of the Plan shall control.

23. Appendix. Notwithstanding anything to the contrary contained herein, the Restricted Share Units shall be subject to any additional terms and conditions set forth in the Appendix for Grantee's country of work and/or residence, both of which constitute a part of these Award Terms. Moreover, if Grantee relocates his or her work and/or residence to one of the countries included in the Appendix, the additional terms and conditions for such country will apply to Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan.

24. Imposition of Other Requirements. The Company reserves the right to impose other requirements on Grantee's participation in the Plan, on the Restricted Share Units and on any Common Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with applicable local law or facilitate the administration of the Plan, and to require Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

25. Waiver. Grantee acknowledges that a waiver by the Company of a breach of any provision of these Award Terms shall not operate or be construed as a waiver of any other provision of these Award Terms, or of any subsequent breach by Grantee or any other grantee of an equity award from the Company.

EXHIBIT B

APPENDIX

TO

ACTIVISION BLIZZARD, INC.
2014 INCENTIVE PLAN

PERFORMANCE-VESTING RESTRICTED SHARE UNIT AWARD TERMS

ADDITIONAL TERMS AND CONDITIONS BY COUNTRY

Capitalized terms used but not defined herein shall have the meanings given to such terms in the Plan or the Award Terms, as the case may be.

TERMS AND CONDITIONS

This Appendix includes special terms and conditions applicable to Grantees who work and/or reside in the countries covered by the Appendix. These terms and conditions are in addition to or, if so indicated, in place of, the terms and conditions set forth in the Award Terms.

If Grantee is a citizen or resident of a country other than the one in which he or she is currently residing and/or working, transferred or transfers employment and/or residency after the Restricted Share Units were granted or is considered a resident of another country for local law purposes (*i.e.*, Grantee is a "mobile employee"), the Company shall have the sole discretion to determine to what extent the special terms and conditions shall apply to Grantee.

NOTIFICATIONS

This Appendix also includes notifications relating to exchange control and other issues of which Grantee should be aware with respect to his or her participation in the Plan. The information is based on the exchange control, securities and other laws in effect in the countries to which this Appendix refers as of October 2021. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Grantee not rely on the notifications herein as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time Grantee vests in the Restricted Share Units or Vested Shares acquired under the Plan are sold.

In addition, the notifications are general in nature and may not apply to the particular situation of Grantee, and the Company is not in a position to assure Grantee of any particular result. Accordingly, Grantee should seek appropriate professional advice as to how the relevant laws in his or her country may apply to his or her situation. Finally, if Grantee is a mobile employee, the information contained herein may not be applicable to Grantee in the same manner.

GENERAL PROVISIONS APPLICABLE TO ALL GRANTEES WHO WORK AND/OR RESIDE OUTSIDE THE U.S.

Nature of Grant. By accepting the Award, Grantee acknowledges, understands, and agrees that:

(1) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and/or these Award Terms;

(2) the grant of the Restricted Share Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of rights to receive Common Shares, or benefits in lieu of rights to receive Common Shares, even if rights to receive Common Shares have been granted in the past;

(3) all decisions with respect to future grants of rights to receive Common Shares, if any, will be at the sole discretion of the Company;

(4) Grantee's participation in the Plan is voluntary;

(5) the grant of the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and are outside the scope of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any;

(6) the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are not intended to replace any pension rights or compensation;

(7) the Restricted Share Units and any Common Shares underlying the Restricted Share Units, and the income in respect of and the value of the same, are not part of normal or expected compensation or salary for any purpose, including, without limitation, the calculation of any severance, resignation, termination, redundancy, dismissal, end of service payment, bonus, long-service award, leave-related payment, holiday pay, pension or retirement or welfare benefit or similar payments;

(8) the Restricted Share Unit grant and Grantee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company and, furthermore, the Restricted Share Unit grant will not be interpreted to form an employment agreement or service contract or relationship with any other company in the Company Group;

(9) the future value of the underlying Common Shares is unknown and cannot be predicted with certainty;

(10) unless otherwise agreed with the Company, the Restricted Share Units and the Common Shares subject to the Restricted Share Units, and the income and value of same, are not granted as consideration for, or in connection with, the service Grantee may provide as a director of any entity of Company Group;

(11) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Share Units resulting from termination of Grantee's continuous service with the Company or the Employer (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any);

(12) unless the Committee determines otherwise, in the event of the termination of Grantee's continuous service (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of the employment agreement or service contract between Grantee and the Company, the Employer or any other entity in the Company Group, if any), Grantee's right to receive or vest in the

Restricted Share Units under the Plan, if any, will terminate effective as of the date that Grantee is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Committee shall have the exclusive discretion to determine when Grantee is no longer actively employed for purposes of Grantee's Restricted Share Unit grant (including whether Grantee may still be considered actively employed while on a leave of absence);

(13) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Grantee's participation in the Plan, or Grantee's acquisition or sale of the underlying Common Shares;

(14) Grantee should consult with Grantee's own personal tax, legal and financial advisors regarding Grantee's participation in the Plan before taking any action related to the Plan;

(15) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Share Units and the benefits evidenced by these Award Terms do not create any entitlement to have the Restricted Share Units or any such benefits transferred to, or assumed by, another company, nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Common Shares; and

(16) neither the Company, the Employer nor any other entity in the Company Group shall be liable for any foreign exchange rate fluctuation between Grantee's local currency and the United States Dollar that may affect the value of the Restricted Share Units or of any amounts due to Grantee pursuant to the settlement of the Restricted Share Units or the subsequent sale of any Common Shares acquired upon settlement.

Foreign Asset/Account Reporting Requirements. Grantee acknowledges that there may be certain foreign asset and/or account reporting requirements which may affect Grantee's ability to acquire or hold Common Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Common Shares acquired under the Plan) in a brokerage or bank account outside Grantee's country of work and/or residence. Grantee may be required to report such accounts, assets or transactions to the tax or other authorities in his or her country. Grantee also may be required to repatriate sale proceeds or other funds received as a result of Grantee participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. Grantee acknowledges that it is his or her responsibility to be compliant with such regulations, and Grantee is advised to consult his or her personal legal advisor for any details.

Language. Grantee acknowledges that he or she is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, to understand the terms and conditions of these Award Terms. Furthermore, if the Grant Notice, these Award Terms or any other document related to the Plan has been translated into a language other than English and the meaning of the translated version is different than the English version then, by accepting the Award, Grantee acknowledges that the English version will control.

DATA PRIVACY INFORMATION AND CONSENT

The following provision applies to Grantees who work and/or reside outside the European Economic Area.

Data Collection and Usage. Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Grantee's personal data as described in the Grant Notice and these Award Terms by and among, as applicable, the Employer or any

other entity in the Company Group for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan.

Data Processing. Grantee understands that the Company and the Employer may hold certain personal information about Grantee, including, without limitation, Grantee's name, home address, email address and telephone number, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any directorships held in any entity in the Company Group, any Common Shares owned, details of all Restricted Share Units or any other entitlement to the Common Shares or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Grantee's favor (the "Data"), for the purpose of implementing, administering and managing the Plan.

Stock Plan Administration, Data Transfer, Retention and Data Subject Rights. Grantee understands that the Data will be transferred to the Equity Account Administrator, which is assisting the Company with the implementation, administration and management of the Plan. Grantee understands that the recipients of the Data may be located in Grantee's country of work and/or residence, or elsewhere, and that any recipient's country may have different data privacy laws and protections than Grantee's country of work and/or residence. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting Grantee's local human resources representative. Grantee authorizes the Company, the Equity Account Administrator and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purpose of implementing, administering and managing Grantee's participation in the Plan. Grantee understands that the Data will be held only as long as is necessary to implement, administer and manage Grantee's participation in the Plan. Grantee understands that Grantee may, at any time, view Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Grantee's local human resources representative. Further, Grantee understands that he or she is providing the consents herein on a purely voluntary basis. If Grantee does not consent, or if Grantee later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing Grantee's consent is that the Company would not be able to grant Restricted Share Units or other equity awards to Grantee or administer or maintain such awards. Therefore, Grantee understands that refusal or withdrawal of consent may affect Grantee's ability to participate in the Plan. For more information on the consequences of Grantee's refusal to consent or withdrawal of consent, Grantee understands that Grantee may contact Grantee's local human resources representative.

The following provision applies to Grantees who work and/or reside in the European Economic Area (including Switzerland and the United Kingdom).

Data Collection and Usage. Pursuant to applicable data protection laws, Grantee is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about Grantee for the exclusive legitimate purpose of granting Restricted Share Units and implementing, administering and managing Grantee's participation in the Plan. Specifics of the data processing are described below.

Controller. The Company is the controller responsible for the processing of Grantee's personal data in connection with the Plan.

Personal Data Subject to Processing. The Company collects, processes and uses the following types of personal data about Grantee: name, home address and telephone number, email address, date of birth, social insurance, passport number or other identification number, salary,

nationality, job title, any shares of stock or directorships held in any entity in the Company Group, details of all Restricted Share Units or any other entitlement to Common Shares awarded, canceled, settled, vested, unvested or outstanding in Grantee's favor, which the Company receives from Grantee or the Employer ("Personal Data"), for the purpose of implementing, administrating and managing the Plan.

Purposes and Legal Bases of Processing. The Company processes the Personal Data for the purpose of performing its contractual obligations under the Award Terms, granting Restricted Share Units, implementing, administering and managing Grantee's participation in the Plan and facilitating compliance with applicable tax and securities law. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Award Terms and for the Company's legitimate business interests of managing the Plan and generally administering employee equity awards.

Stock Plan Administration Service Providers. The Company transfers Personal Data to the Equity Account Administrator, an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and may share Personal Data with such service providers. Grantee will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of Grantee's ability to participate in the Plan. Grantee's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating Grantee's participation in the Plan. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of Personal Data by contacting Grantee's local human resources representative.

International Data Transfers. The Company and its service providers, including, without limitation, the Equity Account Administrator, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in the United States, for the performance of the contractual obligations under the Award Terms. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting Grantee's local human resources representative.

Grantee understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that Grantee's Personal Data may not have an equivalent level of protection as compared to Grantee's country of work and/or residence. To provide appropriate safeguards for the protection of Grantee's Personal Data, the Personal Data is transferred to the Company based on data transfer and processing agreements implementing the EU Standard Contractual Clauses. Grantee may request a copy of the safeguards used to protect his or her Personal Data by contacting the Company at: employeeprivacy@activision.com.

Data Retention. The Company will use the Personal Data only as long as necessary to implement, administer and manage Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. This period may extend beyond Grantee's termination of employment with the Employer. When the Company no longer needs the Personal Data, the Company will remove it from its systems to the fullest extent reasonably practicable. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be relevant laws or regulations.

Grantee's Rights. To the extent provided by law, Grantee has the right to (i) inquire whether and what kind of Personal Data the Company holds about Grantee and how it is processed, and to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements, (iv) request the Company to restrict the processing of Personal Data in certain situations where Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, (vi) request portability of Personal Data that Grantee has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with Grantee and is carried out by automated means, or (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding Grantee's rights, raise any other questions regarding the practices described in the Award Terms or to exercise his or her rights, Grantee should contact the Company at: employeeprivacy@activision.com.

Contractual Requirement. Grantee's provision of Personal Data and its processing as described above is a contractual requirement and a condition to Grantee's ability to participate in the Plan. Grantee understands that, as a consequence of Grantee's refusing to provide Personal Data, the Company may not be able to allow Grantee to participate in the Plan, grant Restricted Share Units to Grantee or administer or maintain such Restricted Share Units. However, Grantee's participation in the Plan and his or her acceptance of the Award Terms are purely voluntary. While Grantee will not receive Restricted Share Units if he or she decides against participating in the Plan or providing Personal Data as described above, Grantee's career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, Grantee may contact the Company at: employeeprivacy@activision.com.

Appendix for Australia

Additional terms and Conditions of the
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Australia Offer Document. The grant of Restricted Share Units under the Plan is intended to comply with the provisions of the Corporations Act 2001, ASIC Regulatory Guide 49 and ASIC Class Order CO 14/1000. Additional details are set forth in the Australia Offer Document, which is provided with the Award Terms.

Tax Information. The Plan is a plan to which subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) applies (subject to conditions therein).

Appendix for Belgium

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NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Grantee is required to report any bank accounts opened and maintained outside Belgium on his or her annual tax return. In a separate report, Grantee may be required to provide the National Bank of Belgium with certain details regarding such foreign accounts (including the account number, bank name and country in which any such account was opened). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, www.nbb.be, under *Kredietcentrales / Centrales des crédits* caption. Grantee should consult with his or her personal tax advisor to determine his or her personal reporting obligations.

Annual Securities Accounts Tax. If the value of securities held in a Belgian or foreign securities account exceeds EUR 1 million, a new "annual securities accounts tax" applies. Belgian residents should consult with their personal tax advisor regarding the new tax.

Stock Exchange Tax. A stock exchange tax applies to transactions executed by a Belgian resident through a non-Belgian financial intermediary, such as a U.S. broker. The stock exchange tax will likely apply when Common Shares acquired upon vesting of the Restricted Share Units are sold. Grantee should consult with his or her personal tax advisor for additional details on his or her obligations with respect to the stock exchange tax.

Appendix for Brazil

Additional terms and Conditions of the
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Compliance with Law. By accepting the Restricted Share Units, Grantee acknowledges that he or she agrees to comply with applicable Brazilian laws and to pay any and all applicable taxes associated with Grantee's participation in the Plan.

Nature of Company Restricted Share Unit Grants. By accepting the Restricted Share Units, Grantee agrees that (1) he or she is making an investment decision and (2) the value of the underlying Common Shares is not fixed and may increase or decrease in value over time without compensation to Grantee.

NOTIFICATIONS

Exchange Control Notification. If Grantee is resident or domiciled in Brazil, he or she will be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights equals or exceeds US$1,000,000. Assets and rights that must be reported include the Common Shares.

Tax on Financial Transaction (IOF). Payments to foreign countries (including the payment of the exercise price) and repatriation of funds into Brazil and the conversion between BRL and US$ associated with such fund transfers may be subject to the Tax on Financial Transactions. It is Grantee's responsibility to comply with any applicable Tax on Financial Transactions arising from Grantee's participation in the Plan. Grantee should consult with his or her personal tax advisor for additional details.

Appendix for Canada

Additional terms and Conditions of the
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TERMS AND CONDITIONS

Restricted Share Units Payable Only in Common Shares. The grant of Restricted Share Units does not provide any right for Grantee to receive a cash payment, and the Restricted Share Units are payable in Common Shares only.

Termination of Employment. Notwithstanding anything to the contrary in Section 3(b) of the Award Terms, unless the Committee determines otherwise, in the event of the termination of Grantee's continuous service (for any reason whatsoever, and whether or not later found to be invalid or in breach of employment laws in the jurisdiction in which Grantee is employed or the terms of Grantee's employment agreement or service contract, if any), Grantee's right to receive or vest in the Restricted Share Units under the Plan, if any, will terminate as of the date is the earliest of: (1) the date Grantee's employment or service with the Company Group is terminated, (2) the date Grantee receives notice of termination of employment or service from the Employer or any other entity in the Company Group, and (3) the date Grantee is no longer actively employed or rendering services to the Company Group, regardless of any notice period or period of pay in lieu of such notice required under local law (including, but not limited to, statutory law, regulatory law and/or common law). In the event the date Grantee is no longer actively employed or rendering services cannot be reasonably determined under the Award Terms and/or the Plan, the Committee shall have the exclusive discretion to determine when Grantee is no longer actively employed for purposes of the Restricted Share Units (including whether Grantee may still be considered actively employed while on a leave of absence).

Notwithstanding the foregoing, if applicable employment standards legislation explicitly requires continued entitlement to vesting during a statutory notice period, Grantee's right to vest in the Restricted Share Units under the Plan, if any, will terminate effective as of the last day of Grantee's minimum statutory notice period, but Grantee will not earn or be entitled to pro-rated vesting if the vesting date falls after the end of Grantee's statutory notice period, nor will Grantee be entitled to any compensation for lost vesting.

The following provisions will apply to Grantees who are residents of Quebec:

Language Acknowledgment. The parties acknowledge that it is their express wish that the Award Terms, including this Appendix, as well as all documents, notices, and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement relatif à la langue utilisée*: Les parties reconnaissent avoir exigé la rédaction en anglais de cette annexe, la convention afférente, ainsi que de tous documents, avis donnés et procédures judiciaires exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement aux présentes.*

Data Privacy Notice and Consent. This provision supplements the "Data Privacy Information and Consent for Grantees outside the European Economic Area" Section of the Appendix:

Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Grantee further authorizes the Company Group, Equity Account Administrator and any other broker(s) designated by the Company to disclose and discuss the Plan with their respective advisors. Grantee further authorizes the Company Group to record such information and to keep such information Grantee's employee file.

NOTIFICATIONS

Securities Law Notification. Grantee is permitted to sell Common Shares acquired under the Plan through the Equity Account Administrator, provided that the resale of Common Shares acquired under the Plan takes place outside of Canada through the facilities of a stock exchange on which the Common Shares are listed. The Common Shares are currently listed on the Nasdaq.

Foreign Asset/Account Reporting Notification. Foreign specified property held by Canadian residents must be reported annually on Form T1135 (Foreign Income Verification Statement) if the total value of such foreign specified property exceeds C$100,000 at any time during the year. Foreign specified property includes Common Shares acquired under the Plan and may include the Restricted Share Units. The Restricted Share Units must be reported—generally at a nil cost—if the C$100,000 cost threshold is exceeded because of other foreign specified property Grantee holds. If Common Shares are acquired, their cost generally is the adjusted cost base ("ACB") of the Common Shares. The ACB would normally equal the fair market value of the Common Shares at vesting, but if Grantee owns other shares of the Company's common stock, this ACB may have to be averaged with the ACB of those other shares. If due, the form must be filed by April 30th of the following year. Grantee should speak with a personal tax advisor to determine the scope of foreign property that must be considered for purposes of this requirement.

Appendix for China

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Exchange Control Notification. Grantee understands, acknowledges and agrees that certain exchange control restrictions may apply to Grantee's participation in the Plan, including to the remittance of funds into China of any sale proceeds or dividends paid on Common Shares acquired under the Plan. Grantee understands that it is his or her sole responsibility to comply with applicable exchange control restrictions in China.

Appendix for Denmark

Additional terms and Conditions of the
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Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

By participating in the Plan, Grantee acknowledges that he or she understands and agrees that the grant of the Restricted Share Units relates to future services to be performed and is not a bonus or compensation for past services.

Stock Option Act. Grantee acknowledges that he or she has received an "Employer Statement" in Danish which sets forth additional terms of the Restricted Share Units, to the extent that the Danish Stock Option Act applies to the Restricted Share Units.

NOTIFICATIONS

Foreign Asset/Account Reporting Information. Danish tax payers that have an account holding Common Shares or an account holding cash outside Denmark must report those accounts to the Danish Tax Administration. The form which should be used in this respect may be obtained from a local bank.

Appendix for France

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TERMS AND CONDITIONS

Restricted Share Units Not Tax-Qualified. Grantee understands that these Restricted Share Units are not intended to be French tax-qualified.

Language Consent. By accepting the Award, Grantee confirms that he or she has read and understood the documents relating to the Restricted Share Units (the Grant Notice, the Plan, and the Award Terms, including this Appendix) which were provided in the English language. Grantee accepts the terms of these documents accordingly.

Consentement relatif à la langue utilisée: *En acceptant l'Attribution, le Bénéficiaire confirme qu'il ou qu'elle a lu et compris les documents afférents aux Attributions Gratuites d'Actions (la Notification d'Attribution, le Plan et les Termes de l'Attribution, ainsi que la présente Annexe) qui sont produits en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en connaissance de cause.*

NOTIFICATIONS

Foreign Asset/Account Reporting Notification. If Grantee retains Common Shares acquired under the Plan outside of France or maintains a foreign bank account, Grantee is required to report such to the French tax authorities when filing his or her annual tax return. Further, French residents with foreign account balances exceeding €1,000,000 may have additional monthly reporting obligations.

Appendix for Germany

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Exchange Control Notification. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. No report is required for payments less than €12,500. In case of payments in connection with securities (including proceeds realized upon the sale of Common Shares), the report must be made by the 5th day of the month following the month in which the payment was received. Effective from September 2013, the report must be filed electronically. The form of report ("*Allgemeine Meldeportal Statistik*") can be accessed via the *Bundesbank's* website (www.bundesbank.de) and is available in both German and English. Grantee is responsible for satisfying the reporting obligation.

Foreign Asset/Account Reporting Information. If Grantee's acquisition of Common Shares under the Plan leads to a "qualified participation" at any point during the calendar year, Grantee will need to report the acquisition of such shares when Grantee files his or her tax return for the relevant year. A qualified participation is attained if (1) the value of the Common Shares acquired exceeds €150,000 or (2) the Common Shares held exceed 10% of the Company's total common stock. However, provided the Common Shares are listed on a recognized stock exchange (*e.g.*, the Nasdaq Stock Market) and Grantee owns less than 1% of the Company, this requirement will not apply. Grantee should consult with his or her personal tax advisor to ensure Grantee complies with applicable reporting obligations.

Appendix for Hong Kong

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Sale Restriction. Any Shares received at vesting are accepted as a personal investment. Notwithstanding anything contrary in the Agreement or the Plan, in the event the Restricted Share Units vest and Shares are issued to Grantee or his or her legal representatives or estate within six months of the Date of Grant, Grantee agrees that Grantee or his or her legal representatives or estate will not offer to the public or otherwise dispose of any Shares acquired prior to the six-month anniversary of the Date of Grant.

Payout of Restricted Share Units in Shares Only. Restricted Share Units granted to Employees resident in Hong Kong shall be paid in Shares only. In no event shall any of such Restricted Share Units be paid in cash, notwithstanding any discretion contained in the Plan to the contrary.

NOTIFICATIONS

Securities Warning. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Grantee is advised to exercise caution in relation to the offer. If Grantee is in any doubt about any of the contents of this document, he or she should obtain independent professional advice. The Restricted Share Units and Shares acquired upon vesting of the Restricted Share Units do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or any Subsidiary or Affiliate. The Plan, the Grant Agreement and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The Restricted Share Units are intended only for the personal use of each eligible employee of the Company or any Subsidiary or Affiliate and may not be distributed to any other person.

Appendix for Hungary

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There are no country-specific provisions.

Appendix for Ireland

Additional terms and Conditions of the
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TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" of Grant Section of the Appendix:

In accepting the grant of the Restricted Share Units, Grantee acknowledges that he or she understands and agrees that the benefits received under the Plan will not be taken into account for any redundancy or unfair dismissal claim.

NOTIFICATIONS

Director Notification Requirements. If Grantee is a director, shadow director or secretary of an Irish Subsidiary and Grantee's aggregate shareholding interest equals or exceeds 1% of the voting rights of the Company, Grantee must notify the Irish Subsidiary in writing within a certain time period of (i) receiving or disposing of an interest in the Company (e.g., Restricted Share Units, Common Shares), (ii) becoming aware of the event giving rise to the notification requirement, or (iii) becoming a director or secretary if such an interest exists at the time. This notification requirement also applies with respect to the interests of a spouse or minor children (whose interests will be attributed to the director, shadow director or secretary, as the case may be). Grantee may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Italy

Additional terms and Conditions of the
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TERMS AND CONDITIONS

Plan Document Acknowledgment. By accepting the Restricted Share Units, Grantee acknowledges that he or she has received a copy of the Plan and the Grant Agreement and has reviewed the Plan and the Grant Agreement, including this Appendix B, in their entirety and fully understands and accepts all provisions of the Plan and the Grant Agreement, including this Appendix B. Grantee acknowledges having read and specifically and expressly approves the following sections of the Grant Agreement: "Vesting Schedule" as described in the Grant Notice, Section 3 ("Termination of Employment"), Section 4 ("Taxes Withholding"), Section 16 ("No Right to Employment"), Section 17 ("No Rights as Stockholder"), Section 19 ("Venue and Governing Law"), and "Data Privacy Information and Consent" and "Language" as described in Exhibit B.

NOTIFICATIONS

Foreign Asset / Account Tax Reporting Notification. Italian residents who, at any time during the fiscal year, hold foreign financial assets (such as cash, Shares) which may generate income taxable in Italy are required to report such assets on their annual tax returns or on a special form if no tax return is due. The same reporting duties apply to Italian residents who are beneficial owners of the foreign financial assets pursuant to Italian money laundering provisions, even if they do not directly hold the foreign asset abroad. Grantee is advised to consult his or her personal legal advisor to ensure compliance with applicable reporting requirements.

Foreign Asset Tax Information. Italian residents who, at any time during the fiscal year, hold foreign financial assets (including cash and Shares) which may generate income taxable in Italy are required to report these assets on their annual tax returns (UNICO Form, RW Schedule) for the year during which the assets are held, or on a special form if no tax return is due. These reporting obligations will also apply to Italian residents who are the beneficial owners of foreign financial assets under Italian money laundering provisions.

Appendix for Japan

Additional terms and Conditions of the
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NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Grantee will be required to report details of any assets (including any Common Shares acquired under the Plan) held outside of Japan as of December 31st of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th of the following year. Grantee should consult with his or her personal tax advisor as to whether the reporting obligation applies to Grantee and whether Grantee will be required to report details of any outstanding Restricted Share Units or Common Shares held by Grantee in the report.

Appendix for Korea

Additional terms and Conditions of the
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NOTIFICATIONS

Foreign Asset/Account Reporting Notification. Korean residents must declare all foreign financial accounts (e.g., non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency). Grantee should consult with his or her personal tax advisor to determine how to value Grantee's foreign accounts for purposes of this reporting requirement and whether Grantee is required to file a report with respect to such accounts.

Appendix for Luxembourg

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There are no country-specific provisions.

Appendix for Malta

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NOTIFICATIONS

Securities Law Notification. Neither the Company nor the Plan is registered in Malta and no investment services will be carried out in or from within Malta. The Plan will not be marketed in Malta and the Company is exempt from any investment service license requirements.

Appendix for Mexico

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Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Acknowledgement of the Award Terms. By accepting the Restricted Share Units, Grantee acknowledges that he or she has received a copy of the Plan and the Award Terms, including this Appendix, which he or she has reviewed. Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Terms, including this Appendix. Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in "Nature of Grant" Section of the Appendix, which clearly provide as follows:

(1) Grantee's participation in the Plan does not constitute an acquired right;

(2) The Plan and Grantee's participation in it are offered by the Company on a wholly discretionary basis;

(3) Grantee's participation in the Plan is voluntary; and

(4) The Company and any entity in the Company Group are not responsible for any decrease in the value of any Common Shares acquired upon settlement of the Restricted Share Units.

Labor Law Acknowledgement and Policy Statement. By accepting the Restricted Share Units, Grantee acknowledges that the Company with registered offices at 3100 Ocean Park Boulevard, Santa Monica, California 90405, U.S.A., is solely responsible for the administration of the Plan. Grantee further acknowledges that his or her participation in the Plan, the grant of Restricted Share Units and any acquisition of Common Shares under the Plan do not constitute an employment relationship between Grantee and the Company because Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision-Mexico"). Based on the foregoing, Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between Grantee and his or her employer, Activision-Mexico, and do not form part of the employment conditions and/or benefits provided by Activision-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of Grantee's employment.

Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue Grantee's participation in the Plan at any time, without any liability to Grantee.

Finally, Grantee hereby declares that he or she does not reserve to him or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its Subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

SPANISH TRANSLATION

Reconicimiento de los terminos del otorgamiento de acciones. *Al aceptar las Unidades de Acciones Restringidas, el Receptor reconoce que ha recibido una copia del Plan y de los Términos del Otorgamiento de acciones, incluyendo este anexo, los cuales ha revisado. El Receptor también reconoce que acepta los términos del Plan y del Otorgamiento de Acciones, incluyendo este anexo. Así mismo el Receptor reconoce que ha leído y expresamente aprueba los términos y condiciones establecidas en la cláusula 1 del los Términos Generales para Receptores fuera de los Estados Unidos, las cuales claramente establecen lo siguiente:*

(1) La participación del Receptor en el Plan no constituye un derecho adquirido

(2) El plan y la participación del Receptor en dicho Plan son ofrecidos por la Empresa en forma totalmente discrecional.

(3) La participación del Receptor en el Plan es voluntaria; y

(4) La Empresa y cualquier empresa del Grupo de Empresas no son responsables por la reducción en el valor de las acciones comunes que sean adquiridas en virtud de las Unidades de Acciones Restringidas.

Política de Ley Laboral y Reconocimiento. *Al aceptar el otorgamiento de adquisición de acciones y/o Restricted Share Units, el Receptor reconoce que la Empresa, con domicilio ubicado en 310 Ocean Park Boulevard, Santa Mónica, California, 90405 U.S.A., es el único responsable para la administración de Plan y que su participación en los Plan y adquisición de acciones no constituye una relación de trabajo entre la Empresa y el Receptor, toda vez que su participación en el Plan es totalmente en base a una relación comercial entre mi único patrón Actibliz Mexico S. de RL de CV, Tihuatlan 41,602, San Jerónimo Aculco, Federal District, México ("Activision Mexico") Derivado de lo anterior, el Receptor expresamente reconoce que el Plan y beneficios que pudieran derivar de su participación en el Plan no establece derechos entre su único patrón Activision Mexicoy el suscrito, no forman parte de sus condiciones y/o prestaciones de trabajo otorgadas por Ativision Mexico y cualquier modificación del Plan o su terminación no constituye un cambio o detrimento en los términos y condiciones de su relación de trabajo.*

Asimismo, el Receptor entiende que su participación en el Plan es resultado de una decisión unilateral y discrecional de la Empresa, por lo tanto la Empresa se reserva el derecho absoluto de modificar y/o discontinuar la participación de usted en cualquier momento y sin responsabilidad alguna frente al Receptor.

Finalmente, en este acto el Receptor declara que no se reserva acción o derecho alguno para presentar cualquier reclamación en contra de la Empresa por cualquier compensación o daño en relación con cualquier disposición del Plan o de los beneficios derivados del Plan y, por lo tanto, el Receptor otorga el más amplio y total finiquito a la Empresa, sus afiliadas, sucursales, oficinas de representación, accionistas, funcionarios, agentes o representantes en relación con cualquier reclamación que pudiera surgir.

NOTIFICATIONS

Securities Law Notification. The Restricted Share Units and the Common Shares offered under the Plan have not been registered with the National Register of Securities maintained by the Mexican National Banking and Securities Commission and cannot be offered or sold publicly in Mexico. In addition, the Plan, the Award Terms and any other document relating to the Restricted Share Units may not be publicly distributed in Mexico. These materials are addressed to Grantee only because of Grantee's existing relationship with the Company and the Employer and these materials should not be reproduced or copied in any form. The offer contained in these materials does not constitute a public offering of securities but rather constitutes a private placement of securities addressed specifically to individuals who are present employees of Activision Mexico made in accordance with the provisions of the Mexican Securities Market Law, and any rights under such offering shall not be assigned or transferred.

Appendix for the Netherlands

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the grant of the Restricted Share Units, Grantee acknowledges that the Restricted Share Units granted under the Plan are intended as an incentive for Grantee to remain employed with the Employer and are not intended as remuneration for labor performed.

Appendix for New Zealand

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

NOTIFICATIONS

Securities Law Notification. Warning: This is an offer of rights to receive Shares upon vesting of the Restricted Share Units subject to the terms of the Plan and the Award Terms. Restricted Share Units give Grantee a stake in the ownership of the Company. Grantee may receive a return if dividends are paid on the Shares.

If the Company runs into financial difficulties and is wound up, Grantee will be paid only after all creditors and holders of preferred shares have been paid. Grantee may lose some or all of their investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision.

The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, Grantee may not be given all the information usually required. Grantee will also have fewer other legal protections for this investment.

Grantee should ask questions, read all documents carefully, and seek independent financial advice before committing to participate in the Plan.

In addition, the Holder is hereby notified that the Company's most recent Annual Report on Form 10-K, the Plan and the Plan prospectus are available for review on the Company intranet site at Finance - The Hub (activisionblizzard.com). The Company's most recent Annual Report can also be found at: https://investor.activision.com/#ir-reports-filings. And your Award Terms can be found in your E*Trade account at www.etrade.com by navigating to My Account/Plan Elections.

As noted above, Grantee should carefully read the materials provided before making a decision whether to participate in the Plan. Grantee is also encouraged to contact their personal tax advisor for specific information concerning Grantee's personal tax situation with regard to Plan participation.

Appendix for Poland

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

NOTIFICATIONS

Foreign Asset/Accounting Reporting Notification. Polish residents holding foreign securities (including Common Shares acquired under the Plan) and maintaining accounts abroad must report information to the National Bank of Poland on transactions and balances of the securities and cash deposited in such accounts if the value of such transactions or balances exceeds PLN 7,000,000. If required, the reports must be filed on a quarterly basis on special forms available on the website of the National Bank of Poland.

Exchange Control Notification. If Grantee transfers funds into Poland in excess of a certain threshold (currently €15,000, unless the transfer of funds is considered to be connected with the business activity of an entrepreneur, in which case a lower threshold may apply) in connection with the sale of Common Shares under the Plan, the funds must be transferred via a bank account held at a bank in Poland. Grantee is required to retain the documents connected with a foreign exchange transaction for a period of five (5) years, as measured from the end of the tax year in which such transaction occurred.

Appendix for Portugal

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Language Consent. Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and fully accepted and agreed with the terms and conditions established in the Plan and Award Terms.

Consentimento sobre Língua

O Empregado Contratado, pelo presente instrumento, declara expressamente que domina a língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidos no Plano e no Acordo de Atribuição.

NOTIFICATIONS

Exchange Control Notification. If Grantee holds Shares upon vesting of the Restricted Share Units, the acquisition of Shares should be reported to the Banco de Portugal for statistical purposes. If the Shares are deposited with a commercial bank or financial intermediary in Portugal, such bank or financial intermediary will submit the report on Grantee's behalf. If the Shares are not deposited with a commercial bank or financial intermediary in Portugal, Grantee is responsible for submitting the report to the Banco de Portugal.

Appendix for Romania

Additional terms and Conditions of the
Activision Blizzard, Inc.
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NOTIFICATIONS

Exchange Control Notification. Grantee is generally not required to seek authorization from the National Bank of Romania to participate in the Plan or to open and operate a foreign bank account to receive any proceeds under the Plan. However, if Grantee acquires 10% or more of the registered capital of a non-resident company, Grantee must file a report with the National Bank of Romania ("NBR") within 30 days from the date such ownership is reached. This is a statutory requirement, but it does not trigger the payment of fees to NBR.

Appendix for Russia

Additional terms and Conditions of the
Activision Blizzard, Inc.
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NOTIFICATIONS

Securities Law Information. The Employer is not in any way involved in the offer of Restricted Share Units or administration of the Plan. These materials do not constitute advertising or an offering of securities in Russia nor do they constitute placement of the Shares in Russia. The issuance of Shares pursuant to the Restricted Share Units described herein has not and will not be registered in Russia and hence, the Shares described herein may not be admitted or used for offering, placement or public circulation in Russia.

Data Privacy Notice and Consent. This section replaces the Data Privacy and Consent provision in Exhibit B.

Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in the Award Terms by and among, as applicable, the Employer, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan.

Grantee understands that the Company, any Affiliate and/or the Employer may hold certain personal data about Grantee, including, but not limited to, Grantee's name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any Shares of stock or directorships held in the Company, details of all Restricted Share Units or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in his or her favor ("Data"), for the purpose of implementing, administering and managing the Plan.

Grantee understands that Data may be transferred to the Equity Account Administrator or such other stock plan service provider as may be selected by the Company in the future, which is assisting in the implementation, administration and management of the Plan, that the recipients of the Data may be located in Grantee's country, or elsewhere, and that the recipients' country (*e.g.*, the United States) may have different data privacy laws and protections than Grantee's country. Grantee understands that Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the U.S. human resources representative or stock plan services. Grantee authorizes the Company, the Equity Account Administrator and other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Grantee's participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of the Restricted Share Units may be deposited. Grantee understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan.

Grantee understands that Grantee may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case and without cost, by contacting in writing the U.S. human resources representative. Grantee understands that refusal or withdrawal, rescission or termination of consent may affect his or her ability to participate in the Plan. For more

information on the consequences of Grantee's refusal to consent or withdrawal of consent, Grantee understands that Grantee may contact the U.S. human resources representative or stock plan services.

U.S. Transaction. Any Shares issued pursuant to the Restricted Share Units shall be delivered to Grantee through a brokerage account in the U.S. Grantee may hold Shares in his or her brokerage account in the U.S.; however, in no event will Shares issued to Grantee and/or Share certificates or other instruments be delivered to Grantee in Russia. Grantee is not permitted to make any public advertising or announcements regarding the Restricted Share Units or Shares in Russia, or promote these Shares to other Russian legal entities or individuals, and Grantee is not permitted to sell or otherwise dispose of Shares directly to other Russian legal entities or individuals. Grantee is permitted to sell Shares only on the Nasdaq Stock Market and only through a U.S. broker.

Settlement of Restricted Share Units and Sale of Shares. Due to local regulatory requirements, the Company reserves the right to require the immediate sale of any Shares to be issued to Grantee upon vesting of the Restricted Share Units. Grantee agrees that the Company is authorized to instruct its designated broker to assist with any such mandatory sale of the Shares (on his or her behalf pursuant to this authorization) and Grantee expressly authorizes the Company's designated broker to complete the sale of such Shares, if so instructed by the Company. In such case, Grantee acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay Grantee the cash proceeds from the sale of the Shares, less any brokerage fees or commissions and subject to any obligation to satisfy Withholding Tax-related items. Grantee may hold the cash proceeds in the brokerage account in the U.S. for an indefinite period of time (*e.g.*, for subsequent reinvestment). Grantee acknowledges that Grantee is not aware of any material nonpublic information with respect to the Company or any securities of the Company as of the date of this Agreement.

Exchange Control Information. Under exchange control regulations in Russia, Grantee may be required to repatriate certain cash amounts that Grantee receives with respect to the Restricted Share Units to Russia as soon as Grantee intends to use those cash amounts for any purpose, including reinvestment. If the repatriation requirements apply, such funds must initially be credited to Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

Under the Directive of the Russian Central Bank (the "CBR") N 5371-U which came into force on April 17, 2020, there are no restrictions on the transfer of cash into and from accounts opened by Russian currency residents with a foreign financial market institution other than a bank. Accordingly, the repatriation requirement in certain cases may not apply with respect to cash amounts received in an account that is considered by the CBR to be a foreign brokerage account opened with a financial market institution other than a bank. Statutory exceptions to the repatriation requirement also may apply.

Anti-Corruption Notification. Anti-corruption laws prohibit certain public servants, their spouses and their dependent children from owning any foreign source financial instruments (*e.g.*, Shares of foreign companies such as the Company). Accordingly, Grantee should inform the Company if Grantee is covered by these laws because Grantee should not hold Shares acquired under the Plan.

Appendix for Singapore

Additional terms and Conditions of the
Activision Blizzard, Inc.
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TERMS AND CONDITIONS

Sale Restriction. Grantee agrees that any Common Shares acquired pursuant to the Restricted Share Units will not be offered for sale in Singapore prior to the six-month anniversary of the Date of Grant, unless such sale or offer is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("SFA").

NOTIFICATIONS

Securities Law Notification. The grant of the Restricted Share Units is being made pursuant to the "Qualifying Person exemption" under section 273(1)(f) of the SFA under which it is exempt from the prospectus and registration requirements and is not made with a view to the underlying Common Shares being subsequently offered for sale to any other party. The Plan has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore.

Director Notification Requirements. If Grantee is a director of a Singapore Subsidiary of the Company, Grantee must notify the Singapore Subsidiary in writing within two business days of receiving or disposing of an interest (e.g., Restricted Share Units, Common Shares) in the Company or within two business days of becoming a director if such an interest exists at the time. This notification requirement also applies to an associate director and to a shadow director (i.e., an individual who is not on the board of directors but who has sufficient control so that the board of directors acts in accordance with the "directions and instructions" of the individual) of a Singapore Subsidiary or affiliate of the Company. Grantee may contact Stock Plan Administration to obtain a sample form that can be used to satisfy this notification requirement.

Appendix for Spain

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Nature of Grant. This provision supplements the "Nature of Grant" Section of the Appendix:

In accepting the Restricted Share Units, Grantee consents to participate in the Plan and acknowledges having received and read a copy of the Plan.

Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant Restricted Share Units under the Plan to individuals who may be employees of the Company or any other entity in the Company Group throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not bind the Company or any other entity in the Company Group. Consequently, Grantee understands that the Restricted Share Units are granted on the assumption and condition that such Restricted Share Units and any Common Shares acquired under the Plan shall not become a part of any employment contract (either with the Company or any other entity in the Company Group) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, Grantee understands that the Restricted Share Units would not granted but for the assumptions and conditions referred to above; thus, Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of the Restricted Share Units shall be null and void.

Further, the vesting of the Restricted Share Units is expressly conditioned on Grantee's active employment, such that if Grantee's employment or service terminates for any reason whatsoever, the Restricted Share Units cease vesting immediately effective on the date of termination of employment. This will be the case, for example, even if Grantee (1) is considered to be unfairly dismissed without good cause (*i.e.*, subject to a "*despido improcedente*"); (2) is dismissed for disciplinary or objective reasons or due to a collective dismissal; (3) terminates service due to a change of work location, duties or any other employment or contractual condition; (4) terminates service due to the Company's or any entity in the Company Group's unilateral breach of contract; or (5) is terminated from employment for any other reason whatsoever. Consequently, upon Grantee's termination of employment for any of the above reasons, Grantee may automatically lose any rights to Restricted Share Units that were unvested on the date of termination.

NOTIFICATIONS

Exchange Control Notification. The acquisition, ownership and sale of Common Shares under the Plan must be declared for statistical purposes to the Spanish *Dirección General de Comercio e Inversiones* (the "DGCI"), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness. Generally, the declaration must be made each January for Common Shares owned as of December 31st of the prior year, by means of a D-6 form; however, if the value of the Common Shares acquired or sold exceeds €1,502,530 (or if Grantee holds 10% or more of the share capital of the Company or such other amount that would entitle Grantee to join the Company's board of directors), the declaration must be filed also within one month of the acquisition or sale, as applicable.

Grantee is required to declare electronically to the Bank of Spain any securities accounts (including brokerage accounts held abroad), foreign instruments (including any Common Shares acquired under the Plan) and any transactions with non-Spanish residents (including any payments of Common Shares made to Grantee by the Company), depending on the amount of the transactions during the relevant year or the balances in such accounts as of December 31st of the relevant year. Generally, the report is required on an annual basis (by January 20 of each year). Grantee should consult with his or her personal advisor to ensure that Grantee is properly complying with his or her reporting obligations.

Foreign Asset/Account Reporting Notification. If Grantee holds rights or assets (e.g., Common Shares or cash held in a bank or brokerage account) outside of Spain with a value in excess of €50,000 per type of right or asset (e.g., Common Shares, cash, etc.) as of December 31 each year, Grantee is required to report certain information regarding such rights and assets on tax form 720. After such rights and/or assets are initially reported, the reporting obligation will only apply for subsequent years if the value of any previously-reported rights or assets increases by more than €20,000. If reporting is required, the reporting must be completed by the following March 31. Grantee should consult his or her personal tax advisor for details regarding this requirement.

Securities Law Notification. The Restricted Share Units described in this document do not qualify as securities under Spanish regulations. No "offer of securities to the public," within the meaning of Spanish law, has taken place or will take place in the Spanish territory. The Plan, the Award Terms (including this Appendix), and any other documents evidencing the award of Restricted Share Units have not been, nor will they be, registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission), and none of those documents constitutes a public offering prospectus.

Appendix for Sweden

Additional terms and Conditions of the
Activision Blizzard, Inc.
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Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Authorization to Withhold. This provision supplements Section 4 of the Award Terms:

Without limiting the Company's and the Employer's authority to satisfy their obligations for Withholding Taxes as set forth in Section 4 of the Award Terms, by accepting the Restricted Share Units, Grantee authorizes the Company and/or the Employer to withhold Common Shares or to sell Common Shares otherwise deliverable to Grantee upon vesting of the Restricted Share Units to satisfy any Withholding Taxes, regardless of whether the Company and/or the Employer have an obligation to withhold such Withholding Taxes.

Appendix for Taiwan

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Data Privacy Acknowledgement. Grantee hereby acknowledges that he or she has read and understands the terms regarding collection, processing and transfer of Data contained in the "Data Privacy Information and Consent for Grantees outside the European Economic Area" Section of the Appendix and, by participating in the Plan, Grantee agrees to such terms. In this regard, upon request of the Company or the Employer, Grantee agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Grantee's country, either now or in the future. Grantee understands that he or she will not be able to participate in the Plan if he or she fails to execute any such consent or agreement.

NOTIFICATIONS

Securities Law Notification. The offer of participation in the Plan is available only for employees of the Company Group. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

Exchange Control Notification. Grantee may acquire and remit foreign currency (including proceeds from the sale of Common Shares or the receipt of any dividends paid on such Common Shares) into and out of Taiwan up to US$5,000,000 per year. If the transaction amount is TWD$500,000 or more in a single transaction, Grantee must submit a Foreign Exchange Transaction Form and provide supporting documentation to the satisfaction of the bank involved in the transaction. Grantee should consult his or her personal advisor to ensure compliance with any applicable exchange control laws in Taiwan.

Appendix for the United Kingdom

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

Tax Withholding and Payment. This section supplements Section 4 of the Award Terms:

Without limitation to Section 4 of the Award Terms, Grantee agrees that Grantee is liable for all Withholding Taxes and hereby covenants to pay all such Withholding Taxes, as and when requested by the Company or the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). Grantee also agrees to indemnify and keep indemnified the Company and the Employer against any Withholding Taxes that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on Grantee's behalf.

Appendix for the United States of America

Additional terms and Conditions of the
Activision Blizzard, Inc.
2014 Incentive Plan
Performance-vesting Restricted Share Unit Award Terms

TERMS AND CONDITIONS

1. Definitions.

(a) For U.S. Grantees only, the following terms shall have the meanings set forth below:

"Employment Violation" means (1) any material breach by Grantee of his or her employment agreement with any entity in the Company Group for so long as the terms of such employment agreement shall apply to Grantee (with any breach of the post-termination obligations contained therein deemed to be material for purposes of this definition) and (2) a good faith belief by the Company, after investigation, that Grantee has engaged in harassment based on any legally protected category or has retaliated against anyone for reporting a concern or potential misconduct in good faith.

"Look-back Period" means, with respect to any Employment Violation by Grantee, the period beginning on the date which is 12 months prior to the date of such Employment Violation by Grantee and ending on the date of computation of the Recapture Amount with respect to such Employment Violation.

"Recapture Amount" means, with respect to any Employment Violation by Grantee, the gross gain realized or unrealized by Grantee upon all vesting of Restricted Share Units or delivery or transfer of Vested Shares during the Look-back Period with respect to such Employment Violation, which gain shall be calculated as the sum of:

(i) if the Company and/or the Employer has satisfied any Withholding Taxes resulting from the vesting of any Restricted Share Units, the issuance or transfer of any Vested Shares or otherwise in connection with the Award during the Look-back Period by withholding Vested Shares or selling Vested Shares on Grantee's behalf, the amount of the Withholding Taxes so satisfied; plus

(ii) if Grantee has received Vested Shares during such Look-back Period and sold any such Vested Shares, an amount equal to the sum of the sales price for all such Vested Shares; plus

(iii) if Grantee has received Vested Shares during such Look-back Period and not sold all such Vested Shares, an amount equal to the product of (A) the greatest of the following: (1) the Market Value per Share of Common Shares on the date such Vested Shares were issued or transferred to Grantee, (2) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of the Company's written notice of its exercise of its rights under Section 3 hereof, or (3) the arithmetic average of the per share closing sales prices of Common Shares as reported on Nasdaq for the 30 trading day period ending on the trading day immediately preceding the date of computation, times (B) the number of such Vested Shares which were not sold; plus

2. Conflict with Employment Agreement or Plan. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time and the terms of the Grant Notice or these Award Terms, the terms of the Grant Notice or these Award Terms, as the case may be, shall control. In the event of any conflict between the terms of any employment agreement, service contract or offer letter between Grantee and any entity in the Company Group in effect at the time and the terms of the Plan, the terms of the Plan shall control.

3. Employment Violation. The terms of this Section 3 shall apply to the Restricted Share Units if Grantee is or becomes subject to an employment agreement with any entity in the Company Group. In the event of an Employment Violation, the Company shall have the right to require (a) the forfeiture by Grantee to the Company of any outstanding Restricted Share Units or Vested Shares which have yet to settle pursuant to Section 8 of Exhibit A and (b) payment by Grantee to the Company of the Recapture Amount with respect to such Employment Violation; provided, however, that, in lieu of payment by Grantee to the Company of the Recapture Amount, Grantee, in his or her discretion, may tender to the Company the Vested Shares acquired during the Look-back Period with respect to such Employment Violation (without any consideration from the Company in exchange therefor). Any such forfeiture of Restricted Share Units and payment of the Recapture Amount, as the case may be, shall be in addition to, and not in lieu of, any other right or remedy available to the Company arising out of or in connection with such Employment Violation, including, without limitation, the right to terminate Grantee's employment if not already terminated and to seek injunctive relief and additional monetary damages.

EXHIBIT C

ACTIVISION BLIZZARD, INC.

2014 INCENTIVE PLAN

ACTIVISION BLIZZARD, INC.

2014 INCENTIVE PLAN

PERFORMANCE-VESTING RESTRICTED SHARE UNIT VESTING SCHEDULE

Except as otherwise provided under the Award Terms, the Restricted Share Units awarded to you will vest in full on or prior to March 30, 2025, provided you remain continuously employed by the Company or one of its Subsidiaries through such date, as follows:

No. of Restricted Share Units Vesting at Vesting Date	If, and Only If, the Committee Determines that the Following Has Occurred
The number of Restricted Share Units awarded as set forth in the Grant Notice adjusted by the Performance Factor, rounded to the nearest whole number	The sum of the Company's Non-GAAP OI for 2022, 2023 and 2024 is at least 90% of the Objective

For purposes of this Vesting Schedule the following terms shall have the meanings set forth below:

"Non-GAAP OI" means non-GAAP operating income, calculated using the same accounting policies and otherwise in a manner consistent with the calculation of such measurement in the long-range strategic plan that was presented to the Board for the three-year period consisting of 2022, 2023 and 2024. Moreover, for the purposes of this Award, consistent with historic executive compensation practices, non-GAAP OI currently excludes the impact of any extraordinary transaction (defined as a non-recurring corporate transaction or legal expense matter which results in expenses exceeding $10 million). Any proposed changes to the accounting policies, or the manner of calculation, that would affect Non-GAAP OI for purposes of this Award may be approved by the Committee in its sole discretion.

"Objective" means the non-GAAP OI objective established by the Committee for the three-year period consisting of 2022, 2023 and 2024.

"Performance Factor" is calculated as a percentage based on the sum of the Company's Non-GAAP OI for 2022, 2023 and 2024 divided by the Objective (i.e., Actual Non-GAAP OI for three-year period / Objective = Performance Factor). The Performance Factor is then applied as follows:

(i) If the Performance Factor is above 100%, for every 1% difference above 100% the Annual Target Amount is increased by 1%, up to a maximum increase of 25%, with linear interpolation between points, and

(ii) If the Performance Factor is below 100%, for every 1% difference below 100% the Annual Target Amount is decreased by 5%, with linear interpolation between points.

For the sake of clarity: (1) if the Company's aggregate Non-GAAP OI for the three-year period from 2022 to 2024 is $1,100,000 and the Objective is $1,000,000, then the Performance Factor will be 110%; and (2) if the Company's aggregate Non-GAAP OI for the three-year period from 2022 to 2024 is $950,000 and the Objective is $1,000,000, then the Performance Factor will be 75%.

Exhibit 10.28

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") amends and restates in its entirety the employment agreement entered into by Activision Blizzard, Inc. ("Activision Blizzard" or "Employer") and Brian Bulatao ("you") with an effective date of February 1, 2021. Activision Blizzard and Employer includes Activision Blizzard, Inc.'s subsidiaries, as appropriate and are collectively referred to as the "Activision Blizzard Group." This Agreement shall be deemed effective as of February 1, 2021.

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 February 1, 2021 (the "Effective Date") and shall end on March 31, 2023 (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 remain 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 $1,000,000, which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically at the same time as similarly situated executives of the Employer and may be increased (but not decreased) by an amount determined by the Employer, in its sole and absolute discretion.

(c) Beginning with respect to 2021, you will be eligible to receive an annual discretionary bonus (the "Annual Bonus"). The target amount of your Annual Bonus will be 100% of your Base Salary and may be delivered in cash or equity or some combination thereof. Your target Annual Bonus target mix will be 40% cash and 60% equity. In all instances, the actual amount and the form (e.g. cash and/or equity) 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, the portion of the year falling in the Term (e.g. a partial bonus with respect to your service during 2021 determined in a manner consistent with similarly situated executives of the Employer who served during a portion of the year), your overall performance and the performance of the Employer. The cash and equity portion of the Annual Bonus, if any, will be paid at the same time as the cash and equity portion of the 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, and will be subject to applicable taxes and withholdings, as applicable. In all instances, you must remain continuously employed by the Activision Blizzard Group through the date on which the cash and equity portions of the Annual Bonus, if any, are paid to be eligible to receive such Annual Bonus.

(d) At the next regularly scheduled meeting of the Compensation Committee of the Board of Directors for Activision Blizzard (the "***Compensation Committee***") that includes equity granting on the agenda and occurs after the Effective Date, the 2021 Equity Awards (as defined below) shall be presented for approval; once approved they shall be granted in the first open trading window thereafter. Activision Blizzard will grant to you equity awards with a total target grant value of approximately $7,000,000 as follows:

1. Activision Blizzard shall grant to you non-qualified stock options to purchase shares of Activision Blizzard's common stock (***"Shares"***) with a total grant value of approximately $1,500,000 (the "***2021 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 the Employer and determined using the same methodology used with respect to similarly situated executives of the Employer. 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, so long as such methodology is the same with respect to similarly situated executives of the Employer. The 2021 Options shall be awarded with an exercise price that is equal to the Grant Date Price. Finally, one-third of the 2021 Options shall be eligible to vest as further described below on March 30, 2022, one-third of the 2021 Options shall be eligible to vest on March 30, 2023 and one- third of the 2021 Options shall be eligible to vest on March 30, 2024, in each case, subject to your remaining employed by Activision Blizzard through the applicable vesting date.

i. One third of the 2021 Options (the "***First Tranche 2021 Options***") shall be eligible to vest on March 30, 2022, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2021 AOP OI Objective (as defined below)) for 2021 for Activision Blizzard ("***2021 AOP OI***") is 50% or more of the annual operating plan operating income objective established by the Compensation Committee for 2021 (the "***2021 AOP OI Objective***").

If the 2021 AOP OI is less than 50% of the 2021 AOP OI Objective, then the First Tranche 2021 Options will not vest and shall be forfeited.

ii. One-third of the 2021 Options (the "***Second Tranche 2021 Options***") shall be eligible to vest on March 30, 2023, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2022 AOP OI Objective (as defined below)) for 2022 for Activision Blizzard ("***2022 AOP OI***") is 50% or more of the annual operating

plan operating income objective established by the Compensation Committee for 2022 (the "***2022 AOP OI Objective***").

If the 2022 AOP OI is less than 50% of the 2022 AOP OI Objective, then the Second Tranche 2021 Options will not vest and shall be forfeited.

iii. One-third of the 2021 Options (the "***Third Tranche 2021 Options***") shall be eligible to vest on March 30, 2024, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2023 AOP OI Objective (as defined below)) for 2023 for Activision Blizzard ("***2023 AOP OI***") is 50% or more of the annual operating plan operating income objective established by the Compensation Committee for 2023 (the "***2023 AOP OI Objective***").

If the 2023 AOP OI is less than 50% of the 2023 AOP OI Objective, then the Third Tranche 2021 Options will not vest and shall be forfeited.

2. Activision Blizzard shall grant to you performance-vesting restricted share units, which represent the conditional right to receive Shares (the "***2021 Performance Share Units***"), with a target value at the time of grant of approximately $2,500,000 (the "***2021 Target PSU Grant Value***"). The actual number of 2021 Performance Share Units awarded to you on the grant date shall be equal to the 2021 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 2021 Performance Share Units, the value of the Shares received upon vesting for all of the 2021 Performance Share Units would have been $5,000,000 at the time of grant of the 2021 Performance Share Units, representing 200% of the 2021 Target PSU Grant Value). The number of 2021 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, so long as such methodology is the same used with respect to similarly situated executives of the Employer. Subject to your remaining employed by Activision Blizzard through the applicable vesting dates, the actual number of Shares that shall be received on each of the applicable vesting dates is determined as follows:

i. One-third of the 2021 Performance Share Units (the "***First Tranche 2021 Performance Share Units***") shall be eligible to vest on March 30, 2022, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2021 AOP OI Objective (as defined above)) for 2021 AOP OI is 90% or more of the 2021 AOP OI Objective.

If the 2021 AOP OI is less than 90% of the 2021 AOP OI Objective, then the First Tranche 2021 Performance Share Units will not vest and shall be forfeited.

If the 2021 AOP OI is 90% or more of the 2021 AOP OI Objective, then the number of Shares that shall be received with regard to the First Tranche 2021 Performance Share Units on the applicable vesting date shall be equal to the product of (i) the number of First Tranche 2021 Performance Share Units; and (ii) the ratio of the 2021 AOP OI to the 2021 AOP OI Objective, up to a maximum of 200%.

ii. One-third of the 2021 Performance Share Units (the "***Second Tranche 2021 Performance Share Units***") shall be eligible to vest on March 30, 2023, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2022 AOP OI Objective (as defined above)) for 2022 AOP OI is 90% or more of the 2022 AOP OI Objective.

If the 2022 AOP OI is less than 90% of the 2022 AOP OI Objective, then the Second Tranche 2021 Performance Share Units will not vest and shall be forfeited.

If the 2022 AOP OI is 90% or more of the 2022 AOP OI Objective, then the number of Shares that shall be received with regard to the Second Tranche 2021 Performance Share Units on the applicable vesting date shall be equal to the product of (i) the number of Second Tranche 2021 Performance Share Units; and (ii) the ratio of the 2022 AOP OI to the 2022 AOP OI Objective, up to a maximum of 200%.

iii. One-third of the 2021 Performance Share Units (the "***Third Tranche 2021 Performance Share Units***") shall be eligible to vest on March 30, 2024, if, and only if, the Compensation Committee determines that the non-GAAP operating income (calculated in the same manner as the 2023 AOP OI Objective (as defined above)) for 2023 AOP OI is 90% or more of the 2023 AOP OI Objective.

If the 2023 AOP OI is less than 90% of the 2023 AOP OI Objective, then the Third Tranche 2021 Performance Share Units will not vest and shall be forfeited.

If the 2023 AOP OI is 90% or more of the 2023 AOP OI Objective, then the number of Shares that shall be received with regard to the Third Tranche 2021 Performance Share Units on the applicable vesting date shall be equal to the product of (i) the number of Third Tranche 2021 Performance Share Units; and (ii) the ratio of the 2023 AOP OI to the 2023 AOP OI Objective, up to a maximum of 200%.

3. Activision Blizzard shall grant to you performance-vesting restricted share units, which represent the conditional right to receive Shares (the "***2021 EPS Performance Share Units***"), with a target value at the time of grant of approximately $1,000,000 (the "***2021 EPS Target PSU Grant Value***"). The actual number of 2021 EPS Performance Share Units awarded to you on the grant date shall be equal to the 2021 EPS 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 2021 EPS Performance Share Units, the value of the Shares received upon vesting for all of the 2021 EPS Performance Share Units would have been $2,000,000 at the time of grant of the 2021 EPS Performance Share Units, representing the maximum percentage (which in this case shall be 200%)) of the 2021 EPS Target PSU Grant Value. The number of 2021 EPS 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, so long as the such methodology is the same used with respect to similarly-situated executives of the Employer. Subject to your remaining employed by Activision Blizzard through the applicable vesting dates, the actual number of Shares that shall be received on each of the applicable vesting dates is determined as follows:

i. One-third of the 2021 EPS Performance Share Units (the ***"First Tranche 2021 EPS Performance Share Units"***) shall vest on March 30, 2022, if, and only if, the Compensation Committee determines that Activision Blizzard's earnings per Share (***"EPS"***) (calculated in the same manner as the 2021 AOP EPS Objective (as defined below)) for 2021 EPS is 100% or more of the annual operating plan EPS objective established by the Compensation Committee for 2021 (the ***"2021 AOP EPS Objective"***).

If the 2021 EPS is less than 100% of the 2021 AOP EPS Objective, then the First Tranche 2021 EPS Performance Share Units will not vest and shall be forfeited.

If the 2021 EPS is 100% or more of the 2021 AOP EPS Objective, then the number of Shares that shall be received with regard to the First Tranche 2021 EPS Performance Share Units on the applicable vesting date shall be equal to the product of (1) the number of First Tranche 2021 EPS Performance Share Units; and (2) the ratio of the 2021 EPS to the 2021 AOP EPS Objective, up to a maximum of 200%.

ii. One-third of the 2021 EPS Performance Share Units (the ***"Second Tranche 2021 EPS Performance Share Units"***) shall vest on March 30, 2023, if, and only if, the Compensation Committee determines that the EPS (calculated in the same manner as the 2022 AOP EPS Objective (as defined below)) for 2022 EPS is 100% or more of the annual operating plan EPS objective established by the Compensation Committee for 2022 (the ***"2022 AOP EPS Objective"***).

If the 2022 EPS is less than 100% of the 2022 AOP EPS Objective, then the Second Tranche 2021 EPS Performance Share Units will not vest and shall be forfeited.

If the 2022 EPS is 100% or more of the 2022 AOP EPS Objective, then the number of Shares that shall be received with regard to the Second Tranche 2021 EPS Performance Share Units on the applicable vesting date shall be equal to the product of (1) the number of Second Tranche 2021 EPS Performance Share Units; and (2) the ratio of the 2022 EPS to the 2022 AOP EPS Objective, up to a maximum of 200%.

iii. One-third of the 2021 EPS Performance Share Units (the ***"Third Tranche 2021 EPS Performance Share Units"***) shall vest on March 30, 2024, if, and only if, the Compensation Committee determines that the EPS (calculated in the same manner as the 2023 AOP EPS Objective (as defined below)) for 2023 EPS is 100% or more of the annual operating plan EPS objective established by the Compensation Committee for 2023 (the ***"2023 AOP EPS Objective"***).

If the 2023 EPS is less than 100% of the 2023 AOP EPS Objective, then the Third Tranche 2021 EPS Performance Share Units will not vest and shall be forfeited.

If the 2023 EPS is 100% or more of the 2023 AOP EPS Objective, then the number of Shares that shall be received with regard to the Third Tranche 2021 EPS Performance Share Units on the applicable vesting date shall be equal to the product of (1) the number of Third Tranche 2021 EPS Performance Share Units; and (2) the ratio of the 2023 EPS to the 2023 AOP EPS Objective, up to a maximum of 200%.

4. Activision Blizzard shall grant to you performance-vesting restricted share units, which represent the conditional right to receive Shares (the "***2021 TSR Performance Share Units***"), with a target value at the time of grant of approximately $1,000,000 (the "***2021 TSR Target PSU Grant Value***"). The actual number of 2021 TSR Performance Share Units awarded to you on the grant dates shall be equal to the 2021 TSR Target PSU Grant Value divided by the Grant Date Price (it being recognized that if the minimum performance objectives are met for all of the 2021 TSR Performance Share Units, the value of the Shares received upon vesting for all of the 2021 TSR Performance Share Units would have been $1,000,000 at the time of grant of the 2021 TSR Performance Share Units). The number of 2021 TSR 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, so long as the such methodology is the same used with respect to similarly-situated executives of the Employer. Subject to your remaining employed by Activision Blizzard through the applicable vesting date, the actual number of Shares that shall be received on the applicable vesting dates is determined as follows:

Each 2021 TSR Performance Share Units Tranche shall vest on the dates set forth below, if: (A) the Compensation Committee determines that the TSR Performance during the relevant TSR Performance Measurement Period is ten percent (10%) or more and (B) the Company TSR during the relevant TSR Performance Measurement Period is greater than zero.

If the TSR Performance during the relevant TSR Performance Measurement Period is less than 10% or if the Company TSR is not greater than zero in any given performance measurement period, then relevant allocation (e.g., the 2021 TSR Tranche, the 2022 TSR Tranche, the 2023 TSR Tranche or the 3-Year TSR Tranche) of the 2021 TSR Performance Share Units will not vest and shall be forfeited.

Vesting Date	Percentage of 2021 TSR Performance Share Units	3. TSR Performance Measurement Period	Tranche
March 30, 2022	16.67%	Effective Date through December 31, 2021	4. ***"2021 TSR Tranche"***
March 30, 2023	16.67%	January 1, 2022-December 31, 2022	5. ***"2022 TSR Tranche"***
March 30, 2024	16.66%	January 1, 2023-December 31, 2023	6. ***"2023 TSR Tranche"***
March 30, 2024	50%	Effective date through December 31, 2023	7. ***"3-Year TSR Tranche"***

For purposes of this Section 2(d)(4), the following terms shall have the meaning set forth below:

"Company TSR" for the relevant TSR Performance Measurement Period, means the rate of return on the Shares, assuming the reinvestment of dividends (stock price appreciation assuming dividend reinvestments, with such dividend reinvestments calculated based on same-day reinvestment into the Shares on the ex-dividend date) determined by reference to the increase or decrease, as the case may be, between the average of Activision Blizzard's closing stock price per Share as reported by NASDAQ for the thirty days leading up to, and inclusive of, the TSR Performance Measurement Period's start date and the thirty days leading up to, and inclusive of, the period's end date.

"S&P 500 TSR" means the rate of return on the S&P 500 Total Return Index, determined by reference to the increase or decrease, as the case may be, between the average of the closing value of the S&P Total Return Index for the thirty NASDAQ trading days leading up to, and inclusive of, the TSR Performance Measurement Period's start date and the thirty trading days leading up to, and inclusive of, the period's end date.

"TSR Performance" means Company TSR minus S&P 500 TSR.

"**TSR Performance Measurement Period**" means the period of time during which performance will be measured for the 2021 TSR Tranche, the 2022 TSR Tranche, the 2023 TSR Tranche and the 3-Year TSR Tranche as set forth above.

"S&P 500 Total Return Index" means the index of this name promulgated by S&P Dow Jones Indices, and reflects the stock price performance of the constituent companies in the index together with the assumed reinvestment of dividends (or, in the event that the S&P 500 Total Return Index is discontinued or, in the opinion of the Compensation Committee, materially changed prior to December 31, 2023, a substantially equivalent replacement index chosen by the Compensation Committee in its sole and absolute discretion to determine how the calculations related to the index will be conducted, consistent with the methodology of the S&P 500 Total Return Index).

5. Activision Blizzard shall grant to you an annual equity grant of performance-vesting restricted share units (***"LRP Equity Award"***), pursuant to the following target guidelines: i) performance objectives contingent upon cumulative non- GAAP operating income performance as compared to Activision Blizzard's three-year plan non-GAAP operating income, each calculated using the same methodology; ii) a target value at date of grant of $1,000,000; and iii) the formula for vesting of the total number of performance share units being equal to the product of: (a) the target number of performance share units and (b) the percentage of achievement, which shall be calculated by dividing the operating income achieved for calendar years 2021, 2022, and 2023 (***"LRP OI"***) by the operating income performance objective as approved by the Compensation Committee for calendar years 2021, 2022, and 2023 ("***LRP Objective"***), with a minimum ratio of 90% and a maximum ratio of 125%. Subject to your remaining employed by Activision Blizzard through the applicable vesting dates, the actual number of Shares that shall be received on each of the applicable vesting dates is determined as follows:

The LRP Award shall vest on March 30, 2024, if, and only if, the Compensation Committee determines that Activision Blizzard's LRP OI is 90% or more of the LRP Objective. If the LRP OI is less than 90% of the LRP Objective, then the LRP Equity Award will not vest and shall be forfeited. If the LRP OI is 90% or more of the LRP Objective, then the number of Shares that shall be received with regard to the LRP Equity Award on the applicable vesting date shall be equal to the product of (1) the target number of performance share units subject to the LRP Equity Award; and (2) the ratio of the LRP OI to the LRP Objective, up to a maximum of 125%.

6. Prior to the vesting of any portion of the 2021 Options, 2021 Performance Share Units or the LRP Equity Award, as provided for in this Section 2(d), Activision Blizzard, in its sole discretion, may adjust the performance objective for the relevant fiscal year(s) by substituting the OI and AOP OI objective or LRP OI and LRP Objective of one or more new, different or additional business units or activities for that of the original business unit or activity stated herein or by prorating or otherwise combining the OI and AOP OI objective or LRP OI and LRP Objective of the applicable business units or activities, or by substituting one or more other objectives or elements contained in the AOP for the OI and AOP OI objectives or the long range plan for the LRP OI and LRP Objective or elements in each case for purposes of determining whether or not the conditions of the unvested 2021 Options, 2021 Performance Share Units or the LRP Equity Award have been satisfied. The Employer agrees that it will in good faith engage in meaningful consultation with you prior to implementing any such change.

Collectively, the options and equity grants provided for in Section 2(d) shall be referred to as the "***2021 Equity Awards.***" You acknowledge that the grant of 2021 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 2021 Equity Awards shall be subject to all terms of the equity incentive plan pursuant to which they are granted (the "***Incentive Plan***") and Activision Blizzard's standard forms of award agreement and in the event that Activision Blizzard determines that you are an "Executive Officer" within the meaning of the Executive Ownership Guidelines 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 D, will apply. In the event of a conflict between this Agreement and the terms of the Incentive Plan or award agreements, or the Executive Stock Ownership Guidelines, the Incentive Plan or the award agreements or the Executive Stock Ownership Guidelines, as applicable, shall govern.

(a) The Employer will provide you with a sign-on bonus in the amount of $1,000,000 (less applicable taxes and withholdings), in part, to cover your relocation to the Santa Monica, California area, to the extent necessary. $500,000 of the $1,000,000 sign-on bonus will be paid within 30 days after the Effective Date and $500,000 of which will be paid within 30 days after the first anniversary of the Effective Date. This $1,000,000 sign-on bonus will not be fully earned by you unless you remain continuously employed by the Employer until December 31, 2022. Specifically, should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) on or prior to December 31, 2021, you agree to repay the Employer $500,000 within 60 days of the termination of your employment and you will not be entitled to any remaining portion of the sign-on bonus. Should your employment with the Employer terminate other than pursuant to Section 9(b), 9(c), 9(d) or 9(e) at any point after December 31, 2021, but prior to December 31, 2022, you agree to repay the Employer $500,000 of the sign-on bonus within 60 days of the termination of your employment. If you remain employed by Activision Blizzard through the second anniversary of the Effective Date, the sign-on bonus shall be fully earned as of such date such that if your employment subsequently terminates for any reason you will not have to repay any portion of the sign-on bonus. The fact that you are receiving this sign-on bonus and the terms under which you will be required to repay the sign-on bonus in no way affects your other obligations under this Agreement.

3. Title; Location

You shall serve as Chief Administrative Officer. Your principal place of business initially shall be Activision Blizzard's offices in Santa Monica, California. You may elect to reside more than fifty (50) miles from the Santa Monica office and telecommute, provided you secure the Employer's consent and until such time, if ever, that the Employer determines that telecommuting and/or residing in such location negatively impacts your ability to satisfactorily perform your duties. If you choose to reside beyond fifty (50) miles from your assigned principal place of business, you acknowledge and agree that: (i) you will be required to travel from time to time for business reasons (including, but not limited to, regular travel to the Employer's offices in Santa Monica); (ii) the Employer will pay the reasonable costs of any mandated travel to Activision Blizzard's offices in Santa Monica for Board of Director ("Board") -approved business reasons up to a maximum amount to be determined by the Compensation Committee or the Board; and (iii) Section 9(c) shall not apply. The Employer understands that you are currently a resident of the State of Texas, currently plan to maintain residency in Texas and, subject to the terms of this paragraph, approves of your telecommuting from Texas.

4. Duties

You shall report directly to the Chief Executive Officer (or such other executive of Activision Blizzard as may be determined from time to time by it in its sole and absolute discretion). You shall have such duties commensurate with your position as may be assigned to you from time to time by the Chief Executive Officer of the Employer (or, as applicable, such other executive designated by the Employer). You are also required to read, review and observe all of Activision Blizzard'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 of the Employer (or such other executive of Activision Blizzard 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 Employer. 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 written consent of the Chief Executive Officer of the Employer or otherwise engage in activities that would interfere with your faithful and diligent performance of your duties 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 policies covering your life with a face amount of
$2,500,000 through a carrier of Employer's choice (the "***Target Face Amount***"), subject to your insurability, as applicable. 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, conditions, and eligibility requirements 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 Activision Blizzard; 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 Activision Blizzard. 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 during normal business hours 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 Activision Blizzard, (ii) result from or are suggested by any task assigned to you or any work performed by you on behalf of Activision Blizzard, (iii) were created using the time or resources of Activision Blizzard, or (iv) are based on any property owned or idea conceived by Activision Blizzard, shall be deemed to be a work made for hire and shall be the sole and exclusive property of Activision Blizzard. To the extent that any such intellectual or other property does not fully qualify to be a work made for hire you hereby irrevocably assign and transfer worldwide all rights in such intellectual or other property. You agree to execute, acknowledge and deliver to the Employer, at the Employer's request, such further documents, including, without limitation, copyright and patent assignments, as the Employer finds appropriate to evidence Activision Blizzard's rights in such property. Your agreement to assign to Activision Blizzard 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 Activision Blizzard was used, where the invention was developed entirely upon your own time, where the invention does not relate to Activision Blizzard's business, and where the invention does not result from any work performed by you for Activision Blizzard.

(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 Activision Blizzard. During any such 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 Activision Blizzard'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 Activision Blizzard. During your employment and at all times following the termination of your employment, confidential or proprietary information of Activision Blizzard 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 Activision Blizzard 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 Activision Blizzard 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, cloud storage, or other media. You agree to advise the Employer of the location of any such materials and information and to cooperate fully with any instructions by the Employer concerning the retrieval of any such materials and other actions that the Employer determines to be appropriate to prevent your continued access to such materials and information. You acknowledge and agree that, because your duties will provide you with access to personal and private information of the Chairman, Chief Executive Officer and Lead Director (and their entities), you will sign and deliver a Non-Disclosure Agreement prior to the Effective Date. 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 Activision Blizzard or surrender to Activision Blizzard's representative all property of Activision Blizzard, including, without limitation, all documents and other materials (and all copies thereof) relating to Activision Blizzard's business, all identification and access cards, all contact lists and third party business cards however and wherever preserved, and any equipment provided by Activision Blizzard, 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 Activision Blizzard by participating in interviews to share any knowledge you may have regarding Activision Blizzard's intellectual or other property with personnel designated by Activision Blizzard. You also agree to resign from any office held by you within Activision Blizzard 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 Activision Blizzard'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 Activision Blizzard, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by Activision Blizzard, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of Activision Blizzard; (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of Activision Blizzard to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with Activision Blizzard, (c) assist others to engage in the acts contemplated by Sections 8(f)(i)(a) or (b) or (d) engage in any subterfuge to attempt to circumvent the application of this Section.

(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 (a) 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 Activision Blizzard, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of Activision Blizzard; (b) assist others to engage in the acts contemplated by Section 8(f)(ii)(a); or (c) engage in any subterfuge to attempt to circumvent the application of this Section.

(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 or trade secret information of Activision Blizzard 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 Activision Blizzard to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with Activision Blizzard.

(iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect Activision Blizzard'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 and shall remain and continue in effect if your employment becomes at-will as provided in Paragraph 1(b).

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 Activision Blizzard, including its business or reputation; (iii) materially violated any applicable lawful directives or policies of Activision Blizzard or any applicable laws, rules or regulations applicable to your employment with Activision Blizzard; (iv) materially breached this Agreement; (v) materially breached any proprietary information or confidentiality agreement with Activision Blizzard; (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 Activision Blizzard.

(ii) In the case of any termination for Cause that is curable without any residual damage (financial or otherwise) to 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, subject to Section 3, 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 then- current principal place of business and that reassignment 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, if the Employer does not cure, 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 mutually acceptable to you and the Employer 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(g), 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 Activision Blizzard that may now or hereafter exist and (y) deemed to satisfy and be in full and final settlement of all obligations of Activision Blizzard 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 (if any) 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) provided, however, that in the exercise of discretion, to the extent any other similarly-situated executive has the same objective bonus measurements or metrics, the Employer will evaluate your achievement of such objective measurements or metrics in a manner consistent with such other similarly-situated executive; and

(ii) an amount equal to the Annual Bonus that the Employer determines, in its sole discretion, you would have received (if any) 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; provided, however, that in the exercise of discretion, to the extent any other similarly-situated executive has the same objective bonus measurements or metrics, the Employer will evaluate your achievement of such objective measurements or metrics in a manner consistent with such other similarly- situated executive.

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

"Total Severance Limit" shall mean the maximum total value of any severance payments and benefits that you will be due from the Employer in any scenario, which maximum total value shall be equal to your prior year's target compensation, as determined by the Compensation Committee, notwithstanding anything to the contrary in this Agreement; provided, however, that if the AOP OI Objective for the calendar year preceding the calendar year in which your Termination Date occurred (the "Measurement Year") was 100% or more of the annual operating plan operating income objective established by the Board for such Measurement Year, the Employer's Chief Executive Officer may, in his or her sole discretion, increase the Total Severance Limit.

(b) Death. In the event your employment is terminated under Section 9(d), and subject to the Total Severance Limit:

(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 $2,500,000 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 equity shall be handled in accordance with the applicable incentive plans and award agreements. 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) and subject to the Total Severance Limit:

(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; and

(iv) Impact on Equity Awards. All outstanding equity awards shall cease to vest. All vested equity shall be handled in accordance with the applicable incentive plans and award agreements. Any equity awards that are not vested as of your Termination Date will be cancelled immediately.

(v) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(c)(ii) and (c)(iii) 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 Without Cause 9(b), by You if Your Principal Place of Business Is Relocated Without Your Consent 9(c), by the Employer if Because of Your Death 9(d) or You Become Disabled 9(e). If and only if your employment is terminated pursuant to Section 9(b), 9(c), 9(d) or 9(e), in addition to any payments and benefits described in Section 10(c)(ii) and 10(c)(iii) you may be due, you will also receive, subject to the Total Severance Limit:

(i) Additional Severance.

a. You or your legal representative, as the case may be, shall receive payment of $950,000, if and only if, (i) your Termination Date is after December 31, 2021 but before March 31, 2022, and (ii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's 2021 AOP OI is 90% or greater than the 2021 AOP OI Objective;

b. You or your legal representative, as the case may be, shall receive payment of $950,000, if and only if, (i) your Termination Date is after December 31, 2022 but before March 30, 2023, and (ii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's 2022 AOP OI is 90% or greater than the 2022 AOP OI Objective; and

c. You or your legal representative, as the case may be, shall receive payment of $950,000, if and only if, (i) your Termination Date is after December 31, 2023 but before March 30, 2024, and (ii) the Compensation Committee determines, in its sole discretion, that Activision Blizzard's 2023 AOP OI is 90% or greater than the 2023 AOP OI Objective.

All amounts owed pursuant to this Section 10(d)(i) 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.

(ii) PSU Termination Consideration. Notwithstanding the foregoing, but subject to the Total Severance Limit, in the event that (a) your Termination Date occurs after the completion of one or more applicable performance periods (i.e. fiscal years 2021, 2022, 2023), (b) the Compensation Committee determines that the applicable performance objective(s) (i.e. 2021 AOP OI Objective, 2022 AOP OI Objective or 2023 AOP OI Objective) have been achieved for a performance period completed prior to your Termination Date, and (c) the applicable tranche (i.e. the First Tranche 2021 Performance Share Units, the Second Tranche 2021 Performance Share Units, or the Third Tranche 2021 Performance Share Units) has not vested as of the Termination Date, then an amount to be calculated as provided for below in Paragraph 10(d)(iii) 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. 2021 AOP OI Objective, 2022 AOP OI Objective and/or 2023 AOP OI Objective) have been achieved (if any), provided that this is no sooner than the 60th day following the Termination Date and no later than December 31 of the year in which the Termination Date occurs, and will be subject to applicable taxes and withholdings.

(iii) The formula for determining the PSU Termination Consideration for each applicable tranche of cancelled 2021 Performance Share Units, if any, (i.e. the First Tranche 2021 Performance Share Units, the Second Tranche 2021 Performance Share Units or the Third Tranche 2021 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 for the applicable time period to the AOP OI Objective for the applicable fiscal year (e.g. the performance objective for the applicable fiscal year) or applicable time period, up to the applicable maximum percentage.

(iv) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(d) 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(d).

(e) 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.

(f) 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 equity shall be handled in accordance with the applicable incentive plans and award agreements. Any equity awards that are not vested as of your Termination Date will be cancelled immediately.

(g) 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 or Services. Notwithstanding anything to the contrary contained herein, you shall receive any payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) only for the time period that you do not obtain subsequent employment, self-employment or provide services for compensation to any type of entity. This provision shall apply if you 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, unless: (a) the Chief Executive Officer consents, in writing, to such post-employment activities; or (b) the activity or service was approved by the Chief Executive Officer in writing pursuant to Section 4 of this Agreement as of your Termination Date. If, at any time, you obtain subsequent employment or provide

services as set forth in the prior sentence, you must promptly notify the Employer. Any payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) shall: (a) cease as of the date you commenced such employment or provision of services; or (b) if the activity was pre-approved by the Chief Executive Officer, may be offset by whatever amount you earned during the relevant period from the approved employment or services, at the Chief Executive Officer's discretion. Such discretion will be exercised in a manner consistent with similarly situated executives.

11. General Provisions

(a) Entire Agreement. This Agreement, together with the Confidential Information Agreement, the Activision Blizzard Dispute Resolution Agreement (the "Dispute Resolution Agreement", as referenced in Section 11(k) below), and the New Employee Letter and Certification (as defined in Section 11(d)), supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with Activision Blizzard, 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. You acknowledge that in entering into this Agreement, you are not relying on any promises or representations (whether oral or written) other than those set forth in the agreements referenced in this Section. 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 Activision Blizzard the right, but not the obligation, to use your name or likeness in any product made by Activision Blizzard 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 and you will notify us prior to your execution of this Agreement if you may be subject to or have executed any contracts, offer letters or any other documents that contain any unexpired post termination restrictions such as a non-competition or non-solicitation agreement. 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 Activision Blizzard, 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. You further acknowledge and agree that any misrepresentation to the Employer of any of the provisions contained in this Section 11(d) constitutes a material breach of this Agreement pursuant to Section 9(a)(i) of this Agreement.

(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. Your obligations under Section 8 shall continue following the Expiration Date or termination of this Agreement.

(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 and Background Check. 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. In addition, this contract of employment is conditioned upon your successful completion of a background check (as determined by the Employer in its discretion). Honesty during the hiring process and throughout an employee's tenure is required, and any suspected misrepresentations, falsifications or material omissions, no matter when discovered by the Employer, may result in disqualification from any or continued employment. Accordingly, you acknowledge and agree that pursuant to the conditions articulated in this Section 11(i) that failure to provide proof of your identity and legal ability to work in the United States pursuant to U.S. law or failure to successfully complete the Employer's background check process shall constitute a material breach of this Agreement pursuant to Section 9(a)(i) of this Agreement.

(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 in which you were employed by the Employer, without regard to conflict of law principles.

(k) Arbitration. Except as otherwise provided in this Agreement, and the Non- Disclosure Agreement referenced above, 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 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 2(e), 8, 10, 11 and 12, as well as Exhibits A through D, shall survive the termination or expiration of this Agreement.

(t) Counterparts and Electronic Signature. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same document. The Agreement may be executed by facsimile or other

electronic method. If electronic methods are used by the parties to execute this Agreement, the parties agree that the place of sending and receiving this Agreement shall be in the State of California.

(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. The Employer shall pay the reasonable costs and expenses of such legal counsel in connection with your onboarding. You understand and agree that any attorney retained by the Employer 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, and that you are entering into this agreement voluntarily, with sufficient time to consider the terms and conditions of this Agreement.

(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 Activision Blizzard 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 Activision Blizzard, 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, via email, or by United States mail or Federal Express, and addressed to the party to be given notice at the applicable addresses as follows:

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

By email:
EmployementAgreements@activision.com

To You: Brian Bulatao
(to the last known address on file)

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:

This Agreement may be executed by electronic signatures (including the delivery of signed documents in PDF or TIF format or by means of Adobe or other electronic signature platforms). By clicking "agree" (if electronic) or signing below, I understand that I am entering into and binding myself to this Agreement.

Employer:		**Employee:**	
ACTIVISION BLIZZARD, INC.			
By:	/s/ Claudine Naughton Claudine Naughton Chief People Officer	By:	/s/ Brian Bulatao Brian Bulatao
Date:	July 9, 2021	Date:	February 28, 2021

Exhibit 10.29

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 Grant Dixton ("***you***").

1. Term of Employment

(a) The term of your employment under this Agreement (the "***Term***") shall commence on June 14, 2021 (the "***Effective Date***") and shall end on June 30, 2024 (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 one (1) additional year, in its sole and absolute discretion, 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 under Section 9). Except as set forth in Section 11(s), upon the Expiration Date (or such earlier date on which your employment is terminated) all obligations of the Employer and all of your rights and obligations under this Agreement shall immediately lapse.

(b) You and the Employer each agree to provide the other with at least six (6) months' prior notice of any intent not to continue your employment following the Expiration Date. If your employment continues beyond the Expiration Date, you shall remain 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 seven hundred fifty thousand dollars ($750,000), which shall be paid in accordance with the Employer's payroll policies. Your Base Salary shall be reviewed periodically at the same time as similarly situated executives of the Employer and may be increased by an amount determined by the Employer, in its sole and absolute discretion.

(c) Beginning with respect to calendar year 2021, you will be eligible to receive an annual discretionary bonus (the "***Annual Bonus***"). The target amount of your Annual Bonus will be seventy-five percent (75%) of your Base Salary on the Effective Date (and as in effect at the beginning of each year thereafter) and may be delivered in cash or equity or any combination thereof. In all instances, the actual amount and the form (e.g., cash and/or equity) of the Annual Bonus, if any, shall be determined by the Compensation Committee of the Board of Directors for Activision Blizzard (the "***Compensation Committee***"), in its sole and absolute discretion, and may be based on, among other things, your Base Salary, the portion of the year falling in the Term (e.g., a partial bonus with respect to your service during calendar year 2021 or any other calendar year determined in a manner consistent with similarly situated executives of the Employer who served during a portion of the year), your overall performance and the performance of the Employer. The cash and equity portion of the Annual Bonus, if any, will be paid at the same time as the cash and equity portion of the 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 fifteenth (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 the cash and equity portions of the Annual Bonus, if any, are paid, granted, or delivered to you, for you to be eligible to receive such Annual Bonus.

(d) At the next regularly scheduled meeting of the Compensation Committee that includes equity granting on the agenda and occurs after the Effective Date, the 2021 Contract Equity Awards (as defined below) shall be presented for approval; once approved, they shall be granted in the first open trading window thereafter. Activision Blizzard will grant to you equity awards as follows:

(i) Activision Blizzard shall grant to you time-based vesting restricted share units ("RSUs"), which represent the conditional right to receive shares of Activision Blizzard's common stock ("Shares"), with a value at the time of grant of approximately two million dollars ($2,000,000) ("***2021 RSUs***"). The actual number of RSUs awarded to you on the grant date shall be determined based on the Grant Date Price, and an applicable factor selected by the Employer and determined using the same methodology used with respect to similarly situated executives of the Employer. The number of RSUs awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in its sole and absolute discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed, so long as such methodology is the same with respect to similarly situated executives of the Employer. The 2021 RSUs shall be eligible to vest on June 29, 2024, subject to your remaining employed by Activision Blizzard through that date and otherwise satisfying the terms of the award.

(ii) Commencing with the Employer's 2021 annual grant process and not more than once per fiscal year during the Term, Activision Blizzard shall grant to you performance vesting restricted share units ("***PSUs***"), which represent the conditional right to receive Shares with performance objectives contingent upon cumulative performance for three full fiscal years ("***Annual 3-Year PSUs***"), with a target value at the time of grant of approximately one million dollars ($1,000,000) ("***Annual Target 3-Year PSU Grant Value***"). The first Annual 3-Year PSU granted to you shall be for the 2021, 2022 and 2023 performance cycle, and shall vest on June 29, 2024. The actual number of Annual 3-Year PSUs awarded to you on the grant date shall be equal to the Annual Target 3-Year PSU Grant Value divided by the Grant Date Price (it being recognized that if the maximum performance objectives are met for any of the Annual 3-Year PSUs, the value of the Shares received upon vesting for such the Annual 3-Year PSU would have been approximately one million two hundred fifty thousand dollars ($1,250,000) at the time of grant, representing approximately one hundred twenty five percent (125%) of the Annual Target 3-Year PSU Grant Value). The number of Annual 3-Year PSUs awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in its sole and absolute discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed, so long as such methodology is the same used with respect to similarly situated executives of the Employer. Subject to your remaining employed by Activision Blizzard through each applicable vesting date and otherwise satisfying the terms of the award, the actual number of each Annual 3-Year PSU award shall be eligible to vest no later than the June 29th following the end of the relevant three-year performance period if, and only if, the Compensation Committee determines the determines that Activision Blizzard's annual OI (defined below) is ninety percent (90%) or more of the OI Objective (defined below) for the same performance period and the number of Shares delivered will be calculated based on the OI Performance Curve (defined below).

(iii) Activision Blizzard shall grant to you a one-time award of PSUs ("***2021 Long Term Equity***"), with a target value at the time of the grant of approximately six million dollars ($6,000,000) ("***Target 2021 Long Term Equity Grant Value***"). The actual number of PSUs awarded to you on the grant date shall be equal to the Target 2021 Long Term Equity Grant Value divided by the Grant Date Price (it being recognized that if the maximum performance objectives are met for all of the 2021 Long Term Equity, the value of the Shares received upon vesting for all of the 2021 Long Term Equity would have been approximately seven million five hundred thousand dollars ($7,500,000) at the time of grant, representing approximately one hundred twenty five percent (125%) of the Target 2021 Long Term Equity Grant Value). The number of 2021 Long Term Equity PSUs awarded shall be rounded to the nearest whole number and shall be determined by the Compensation Committee in its sole and absolute discretion, and Activision Blizzard retains the discretion to modify the methodology for such calculations as needed, so long as such methodology is the same used with respect to similarly situated executives of the Employer. Subject to your remaining employed by Activision Blizzard through each applicable vesting date and otherwise satisfying the terms of the award, the 2021 Long Term Equity award shall vest as follows:

a. One half (1/2) shall be divided into four tranches (of one-third (1/3rd), one-third (1/3rd), one-sixth (1/6th), and one-sixth (1/6th)) over four 1-year performance measurement periods (January 1, 2021 through December 31, 2021 (one-third (1/3rd)), January 1, 2022 through December 31, 2022 (one-third (1/3rd)), January 1, 2023 through December 31, 2023 (one-sixth (1/6th)), and January 1, 2024 through December 31, 2024 (one-sixth (1/6th))); each tranche will be eligible to vest no later than the June 29th following the end of the relevant one-year performance measurement period, if, and only if, the Compensation Committee determines that Activision Blizzard's OI is ninety percent (90%) or more of the relevant OI Objective for the relevant performance period and the number of shares delivered will be subject to the OI Performance Curve.

b. One half (1/2) shall be divided into four tranches (of one-third (1/3rd), one-third (1/3rd), one-sixth (1/6th), and one-sixth (1/6th)) over four 1-year performance measurement periods (January 1, 2021 through December 31, 2021 (one-third (1/3rd)), January 1, 2022 through December 31, 2022 (one-third (1/3rd)), January 1, 2023 through December 31, 2023 (one-sixth (1/6th)), and January 1, 2024 through December 31, 2024 (one-sixth (1/6th))); each tranche will be eligible to vest no later than the June 29th following the end of the relevant one-year performance measurement period, if, and only if, the Compensation Committee determines that EPS (defined below) for the same performance period is ninety percent (90%) or more of the annual EPS Objective (defined below), and the number of shares delivered will be calculated based on the EPS Performance Curve (defined below).

(iv) For purposes of this Section 2(d) the following terms shall have the meaning set forth below:

"***EPS***" for the relevant performance period means Activision Blizzard's earnings per Share as determined by the Compensation Committee and calculated in the same manner as the relevant performance measurement period's EPS Objective.

"***EPS Objective***" means the operating plan EPS objective established by the Compensation Committee for the relevant performance measurement period.

"***EPS Performance Curve***" means and shall be determined as follows:

a. If the EPS for the relevant performance measurement period is less than ninety percent (90%) of the EPS Objective for the same period, then the relevant PSUs will not vest and shall be forfeited.

b. If EPS is ninety percent (90%) of the EPS Objective for the relevant performance measurement period, then fifty percent (50%) of the relevant tranche shall vest; if EPS is one hundred percent (100%) of the relevant EPS Objective for the relevant performance period, then one hundred percent (100%) of the relevant tranche shall vest; and if EPS is between ninety and one hundred percent (90–100%) of the relevant EPS Objective for the relevant performance period, then the vesting for that tranche will be established via straight line interpolation between those two numbers (e.g., if the EPS is ninety two percent (92%) of the relevant EPS Objective for the relevant performance period, then sixty percent (60%) of the relevant tranche shall vest).

c. If EPS is one hundred percent (100%) of the relevant EPS Objective for the relevant performance period, then one hundred percent (100%) of the relevant tranche shall vest; if EPS is one hundred twenty five percent (125%) of the relevant EPS Objective for the relevant performance period, then one hundred twenty five percent (125%) of the relevant tranche shall vest; and if EPS is between one hundred and one hundred twenty five percent (100-125%) of the relevant EPS Objective for the relevant performance period, then the vesting for that tranche will be established via straight line interpolation between those two numbers (e.g., if the EPS is one hundred two percent (102%) of the relevant EPS Objective for the relevant performance period, then one hundred two percent (102%) of the relevant tranche shall vest).

d. In no circumstance will any of the EPS PSU tranches vest at any percentage above one hundred twenty five percent (125%).

"***Grant Date Price***" means the official closing price of Activision Blizzard's common stock on the effective date of the grant, as reported by NASDAQ.

"***OI***" means Activision Blizzard's operating income for the relevant performance measurement period as determined by the Compensation Committee and calculated in the same manner as the relevant performance measurement period's OI Objective

"***OI Objective***" means the operating plan OI objective established by the Compensation Committee for the relevant performance measurement period.

"***OI Performance Curve***" means and shall be determined as follows:

a. If the OI for the relevant performance measurement period is less than ninety percent (90%) of the OI Objective for the same period, then the relevant PSUs will not vest and shall be forfeited.

b. If OI is ninety percent (90%) of the relevant OI Objective for the relevant performance period, then fifty percent (50%) of the relevant tranche shall vest; if OI is one hundred percent (100%) of the relevant OI Objective for the relevant performance period, then one hundred percent (100%) of the relevant tranche shall vest; and if OI is between ninety and one hundred percent (90–100%) of the relevant OI Objective for the relevant performance period, then the vesting for that tranche will be established via straight line interpolation between those two numbers (e.g., if OI is ninety two percent (92%) of the relevant OI Objective for the relevant performance period, then sixty percent (60%) of the relevant tranche shall vest).

c. If OI is one hundred percent (100%) of the relevant OI Objective for the relevant performance period, then one hundred percent (100%) of the relevant tranche shall vest; if OI is one hundred twenty five percent (125%) of the relevant OI Objective for the relevant performance period, then one hundred twenty five percent (125%) of the relevant tranche shall vest; and if OI is between one hundred and one hundred twenty five percent (100–125%) of the relevant OI Objective for the relevant performance period, then the vesting for that tranche will be established via straight line interpolation between those two numbers (e.g., if the OI is one hundred two percent (102%) of the relevant OI Objective for the relevant performance period, then one hundred two percent (102%) of the relevant tranche shall vest).

d. In no circumstance will any of the OI PSU tranches vest at any percentage above one hundred twenty five percent (125%).

(v) Prior to the vesting of any portion of the OI PSUs as provided for in this Section 2(d), Activision Blizzard, in its sole and absolute discretion, may adjust the performance objective for the relevant fiscal year(s) by substituting the OI and OI objective of one or more new, different or additional business units or activities for that of the original business unit or activity stated herein or by prorating or otherwise combining the OI and OI objective, or by substituting one or more other objectives or elements contained in the operating plan for the OI and OI objectives or elements, in each case for purposes of determining whether or not the conditions of the relevant unvested PSUs have been satisfied. The Employer agrees that it will in good faith engage in meaningful consultation with you prior to implementing any such change.

(vi) Collectively, the options and equity grants provided for in this Section 2(d) shall be referred to as the "***2021 Contract Equity Awards***." You acknowledge that the grant of 2021 Contract Equity Awards pursuant to this Section 2(d) is expressly conditioned upon approval by the Compensation Committee and that the Compensation Committee has sole and absolute discretion to approve or disapprove the grants and/or to determine and make modifications to the terms of the grants. The actual amount, performance objectives, and vesting schedule, for the 2021 Contract Equity Awards will 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. The 2021 Contract 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); 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.

(vii) You acknowledge and understand that Activision Blizzard's performance-oriented pay practices target compensation no greater than the median of its group of peer companies. If Activision Blizzard exceeds its target performance measurements for the relevant performance period, then, at the sole and absolute discretion of the Chief Executive Officer with the approval of the Compensation Committee, Activision Blizzard may increase your compensation for the relevant performance period up to the average compensation earned by similarly situated executives of Activision Blizzard's peer companies, adjusted for tenure, role and any other discretionary criteria to be determined by the Chief Executive Officer. In addition, if the Employer extends the Term by one additional year pursuant to Section 1(a), the Compensation Committee will review your overall compensation at that time.

(viii) Within three (3) weeks of the Effective Date, the Employer will provide you with a sign on bonus in the amount of one million seven hundred fifty thousand dollars ($1,750,000) (less applicable taxes and withholdings) ("***Long Term Commitment Bonus***"). This Long Term Commitment Bonus will not be fully earned by you until you have completed three years of continuous employment under this Agreement. Should your employment terminate pursuant to Section 9(a), or you resign in breach of Section 9(c) prior to June 29, 2024, you will not have fully earned the Long Term Commitment Bonus and accordingly you agree to repay the Employer the Long Term Commitment Bonus within 60 days of the termination of your employment as follows: for such a termination prior to June 29, 2022, you will repay 100%; for such a termination between June 30, 2022 and June 29, 2023, you will repay 66%; and, for such a termination between June 30, 2023 and June 29, 2024, you will repay 33%. If you remain employed by the Activision Blizzard Group continuously through June 29, 2024, the Long Term Commitment Bonus shall be fully earned as of that date such that if your employment subsequently terminates for any reason you will not have to repay any portion thereof. If you do not repay the Long Term Commitment Bonus or any portion of the bonus due upon demand by the Employer, you will be liable for the attorney's fees and costs incurred by the Employer in having to collect such sums from you. The fact that you are receiving this Long Term Commitment Bonus and the terms under which you will be required to repay it in no way affect your other obligations under this Agreement.

(e) 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. 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 the Chief Legal Officer of Activision Blizzard. Your principal place of business initially shall be Activision Blizzard's office in Santa Monica, California. While you transition into your role, you may reside more than fifty (50) miles from the Santa Monica office and telecommute, or physically commute to Santa Monica at your own expense (other than those expenses provided for in the "***Relocation Summary***" attached hereto as Exhibit D), until August 1, 2022, unless the Company earlier determines in its sole discretion that telecommuting, commuting from, and/or residing in such location negatively impacts your ability to satisfactorily perform your duties. During this transition time, you will be required to travel from time to time for business reasons (including, but not limited to, regular travel to the Employer's offices in Santa Monica).

4. Duties

You shall report directly to the Chief Executive Officer of the Employer (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). As with all senior executives, your duties, responsibilities and title are subject to adjustment. 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 commit yourself to a diverse and inclusive work environment. 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 prior written consent of the Chief Executive Officer or otherwise engage in activities that would interfere with your faithful and diligent performance of your duties hereunder.

5. Expenses

Except to the extent provided herein, 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 ("***$2,000,000 Life Insurance Policy***"). 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, conditions, and eligibility requirements 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 Activision Blizzard. During any such 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 Activision Blizzard'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 Activision Blizzard. During your employment and at all times following the termination of your employment, confidential or proprietary information of Activision Blizzard 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 Activision Blizzard 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 Activision Blizzard 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, cloud storage, or other media. You agree to advise the Employer of the location of any such materials and information and to cooperate fully with any instructions by the Employer concerning the retrieval of any such materials and other actions that the Employer determines to be appropriate to prevent your continued access to such materials and information. You acknowledge and agree that, because your duties will provide you with access to personal and private information of the Chairman, Chief Executive Officer and Lead Director (and their entities), you will sign and deliver a Non-Disclosure Agreement prior to the Effective Date. 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 member 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); 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 Activision Blizzard, either for your own account or for any other person, firm or company, any person employed or otherwise engaged by Activision Blizzard, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of Activision Blizzard; (b) solicit, induce or entice any client, customer, contractor, licensor, agent, supplier, partner or other business relationship of Activision Blizzard to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with Activision Blizzard; (c) assist others to engage in the acts contemplated by Sections 8(f)(i)(a) or (b); or (d) engage in any subterfuge to attempt to circumvent the application of this Section.

(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 (a) 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 Activision Blizzard, whether or not such person would commit any breach of a contract by reason of his or her leaving the service of Activision Blizzard; (b) assist others to engage in the acts contemplated by Section 8(f)(ii)(a); or (c) engage in any subterfuge to attempt to circumvent the application of this Section.

(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 or trade secret information of Activision Blizzard 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 Activision Blizzard to terminate, discontinue, renegotiate or otherwise cease or modify its relationship with Activision Blizzard.

(iv) You expressly acknowledge and agree that the restrictions contained in this Section 8(f) are reasonably tailored to protect Activision Blizzard'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 and shall remain and continue in effect if your employment becomes at-will as provided in Section 1(b).

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 wilfully 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 or any other agreement to which you are a party with any members of Activision Blizzard Group; (v) materially breached

any proprietary information or confidentiality agreement with any member of Activision Blizzard Group; (vi) were convicted of, or pled guilty or no contest to, a felony or crime involving dishonesty or moral turpitude; (vii) materially breached your fiduciary duties to the Activision Blizzard; or (viii) may not lawfully work for the Employer at your assigned principal place of business.

(ii) In the case of any termination for Cause that is curable without any residual damage (financial or otherwise) to 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, if the Employer does not cure, after which your ability to terminate your employment under this Section 9(c) will no longer exist. You agree that if you resign for any other reason that it will constitute a material breach of this Agreement.

(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 mutually acceptable to you and the Employer 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(e), 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 and absolute discretion, you would have received (if any) 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 otherwise been paid (in the event that your Termination Date occurs before such bonus would have been paid) provided, however, that in the exercise of discretion, to the extent any other similarly situated executive has the same objective bonus measurements or metrics, the Employer will evaluate your achievement of such objective measurements or metrics in a manner consistent with such other similarly situated executive; and

(ii) an amount equal to the Annual Bonus that the Employer determines, in its sole and absolute discretion, you would have received (if any) in accordance with Section 2(c) for the year in which your Termination Date occurs had you 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; provided, however, that in the exercise of discretion,

to the extent any other similarly situated executive has the same objective bonus measurements or metrics, the Employer will evaluate your achievement of such objective measurements or metrics in a manner consistent with such other similarly situated executive.

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

"***Total Severance Limit***" shall mean the maximum total value of any severance payments and benefits that you will be due from the Employer in any scenario, which maximum total value shall be equal to your prior year's target compensation, as determined by the Compensation Committee, notwithstanding anything to the contrary in this Agreement; provided, however, that if the AOP OI Objective for the calendar year preceding the calendar year in which your Termination Date occurred (the "***Measurement Year***") was 100% or more of the annual operating plan operating income objective established by the Board for such Measurement Year, the Employer's Chief Executive Officer may, in the Chief Executive Officer's sole and absolute discretion, increase the Total Severance Limit.

(b) **Death**. In the event your employment is terminated under Section 9(d), and subject to the Total Severance Limit:

(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 as defined in Section 6(a);

(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 equity shall be handled in accordance with the applicable incentive plans and award agreements. 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) and subject to the Total Severance Limit:

(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; and

(iv) Impact on Equity Awards. All outstanding equity awards shall cease to vest. All vested equity shall be handled in accordance with the applicable incentive plans and award agreements. Any equity awards that are not vested as of your Termination Date will be cancelled immediately.

(v) Severance Conditioned Upon Release. Payments and benefits described in Sections 10(c)(ii) and (c)(iii) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared and provided to you by the Employer within thirty-two (32) days after the Termination Date, and that release becoming effective and irrevocable in its entirety within sixty (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 sixtieth (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 Without Cause (Section 9(b)), by You if Your Principal Place of Business Is Relocated Without Your Consent (Section 9(c)), by the Employer if Because of Your Death (Section 9(d)) or You Become Disabled (Section 9(e)).** If and only if your employment is terminated pursuant to Section 9(b), 9(c), 9(d) or 9(e), in addition to any payments and benefits described in Section 10(c)(ii) and 10(c)(iii) you (or your legal representative) may be due, you will also receive, subject to the Total Severance Limit:

(i) Additional Severance.

a. You or your legal representative, as the case may be, shall receive payment of $750,000, if, and only if, (i) your Termination Date is after December 31, 2021, but before June 29, 2022, and (ii) the Compensation Committee determines, in its sole and absolute

discretion, that Activision Blizzard's 2021 OI is 90% or greater than the 2021 OI Objective;

b. You or your legal representative, as the case may be, shall receive payment of $750,000, if, and only if, (i) your Termination Date is after December 31, 2022, but before June 29, 2023, and (ii) the Compensation Committee determines, in its sole and absolute discretion, that Activision Blizzard's 2022 OI is 90% or greater than the 2022 OI Objective; and

All amounts owed pursuant to this Section 10(d)(i) will be paid within thirty (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.

(ii) PSU Termination Consideration. Notwithstanding the foregoing, but subject to the Total Severance Limit, in the event that (a) your Termination Date occurs after the completion of one or more applicable performance periods, (b) the Compensation Committee determines that the applicable OI performance objective(s) have been achieved for a performance period completed prior to your Termination Date, and (c) the applicable tranche has not vested as of the Termination Date, then an amount to be calculated as provided for below in Section 10(d)(iii) 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 OI performance objective(s) have been achieved (if any), provided that this is no sooner than the sixtieth (60th) day following the Termination Date and no later than December 31 of the year in which the Termination Date occurs, and will be subject to applicable taxes and withholdings.

(iii) The formula for determining the PSU Termination Consideration for each applicable tranche of cancelled PSUs, if any, 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 sole and absolute discretion, of the non-GAAP operating income for the applicable time period to the OI Objective for the applicable fiscal year (e.g., the performance objective for the applicable fiscal year) or applicable time period, up to the applicable maximum percentage.

(iv) Severance Conditioned Upon Release. Payments and benefits described in this Section 10(d) are conditioned upon your or your legal representative's execution of a waiver and release in a form prepared and provided to you by the Employer within thirty-two (32) days after the Termination Date, and that release becoming effective and irrevocable in its entirety within sixty (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 sixtieth (60th) day following the Termination Date, you shall not be entitled to any payments under this Section 10(d).

(e) **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.

(f) **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 fifteenth (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 equity shall be handled in accordance with the applicable incentive plans and award agreements. Any equity awards that are not vested as of your Termination Date will be cancelled immediately.

(g) **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 or Services. Notwithstanding anything to the contrary contained herein, you shall receive any payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) only for the time period that you do not 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. If, at any time, you obtain subsequent employment or provide services as set forth in the prior sentence, you must promptly notify the Employer and payments and benefits to which you may be entitled under Section 10 (other than payment of the Basic Severance) shall cease as of the date you commenced such employment or provision of services.

11. General Provisions

(a) **Entire Agreement**. This Agreement, together with the Confidential Information Agreement and the Activision Blizzard Group Dispute Resolution Agreement (the "***Dispute***

Resolution Agreement", as referenced in Section 11(k) below), supersede all prior or contemporaneous agreements and statements, whether written or oral, concerning the terms of your employment with the Activision Blizzard, 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. You acknowledge that in entering into this Agreement, you are not relying on any promises or representations (whether oral or written) other than those set forth in the agreements referenced in this Section. 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 each member of 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 and you will notify us prior to your execution of this Agreement if you may be subject to or have executed any contracts, offer letters or any other documents that contain any unexpired post termination restrictions such as a non-competition or non-solicitation agreement. 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. You further acknowledge and agree that any misrepresentation to the Activision Blizzard Group of any of the provisions contained in this Section 11(d) constitutes a material breach of this Agreement pursuant to Section 9(a)(i) of this Agreement.

(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, the Employer shall not have any obligations 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 and the Non-Disclosure Agreement referenced above, 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 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**. 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 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. 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 and B, shall survive the termination or expiration of this Agreement.

(t) **Counterparts and Electronic Signature**. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same document. The Agreement may be executed by facsimile or other electronic method. If electronic methods are used by the parties to execute this Agreement, the parties agree that the place of sending and receiving this Agreement shall be in the State of California.

(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. The Employer shall pay the reasonable costs and expenses of such legal counsel (up to no more than $25,000) in connection with your onboarding. 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, and that you are entering into this agreement voluntarily, with sufficient time to consider the terms and conditions of this Agreement.

(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 Activision Blizzard, 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: Grant Dixton
(to be sent to the 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.

[Signature Page Follows]

ACCEPTED AND AGREED TO:

Employer:

ACTIVISION BLIZZARD, INC.

By: /s/ FRANCES TOWNSEND
Frances Townsend
EVP Corporate Affairs

Date: May 17, 2021

Employee:

By: /s/ GRANT DIXTON
Grant Dixton

Date: May 17, 2021

Exhibit 10.33
As adopted by the Board on
December 3, 2021, effective as of November 22, 2021

Non-Affiliated Director Compensation Program and Stock Ownership Guidelines

For purposes of this program, a "***Non-Affiliated Director***" is any director of the Company that is not also an employee of the Company or any of its subsidiaries.

Annual Retainers

- Board Member
  $90,000
- Chair of the Board
  $150,000
- Lead Independent Director
  $50,000
- Chair of the Audit Committee
  $40,000
- Chair of the Workplace Responsibility Committee
  $40,000
- Chair of the Compensation Committee
  $40,000
- Chair of the Nominating and Corporate Governance Committee
  $30,000
- Audit Committee Member (other than the Chair)
  $11,000
- Workplace Responsibility Committee Member (other than the Chair)
  $11,000
- Compensation Committee Member (other than the Chair)
  $5,500
- Nominating and Corporate Governance Committee Member (other than the Chair)
  $5,500

Special Assignment Fees

- Per day for special assignments required in connection with board duties (including, without limitation, litigation-related matters, but excluding days on which a director is required to travel to attend meetings)
  $5,500

Payment Terms

- All cash retainers will generally be paid in arrears in equal quarterly installments no later than the 60th day following the last date of the applicable quarter; *provided*, *however*, that in no event shall fees be paid later than the date that is 2½ months following the last date of the Company's fiscal year for which the retainer relates.

- Special Assignment Fees will generally be paid in arrears in equal quarterly installments no later than the 60th day following the last date of the applicable quarter; *provided*, *however*, that in no event shall fees be paid later than the date that is 2½ months following the last date of the Company's fiscal year for which the retainer relates.

- Fees will be prorated for partial years of service, with partial months of service credited for full months.

New Appointment/Election RSU Grant

- Each newly elected or appointed Non-Affiliated Director will receive a grant of RSUs with a grant date value of $250,000 (the exact number of RSUs to be determined by dividing $250,000 by the NASDAQ Official Closing Price of the Company's stock on the date of grant) upon initial election or appointment to the Board. If a Non-Affiliated Director is newly elected or appointed at any time other than at the Board meeting immediately following the annual meeting of shareholders, then the $250,000 grant date value will be pro-rated by reference to the expected amount of time from the date of such appointment or election until the Company's next annual meeting of stockholders.

Annual RSU Grant

- Each Non-Affiliated Director will receive an annual grant of RSUs with a grant date value of $250,000 (the exact number of RSUs to be determined by dividing $250,000 by the NASDAQ Official Closing Price of the Company's stock on the date of grant) upon re-election to the Board.

Grant Date

- RSU grants will be approved by the Board promptly following election, appointment or re-election to the Board and will be made three business days following the date of the Board's approval of such grant.

Vesting

- All RSUs will vest ratably on a quarterly basis over the one-year period from the date of grant.
- A director must be in continuous active service on each applicable vesting date.
- Vesting will accelerate on the date of a director's cessation of service due to death or Disability.

Change of Control

- In the event that the director ceases to serve as a member of the Board of Directors pursuant to the terms of any business combination or similar transaction involving the Company, the RSUs will immediately vest as of the date on which the business combination or similar transaction is consummated.

Dividend Equivalents

- The RSUs will not be entitled to receive any payment, payment-in-kind or any equivalent with regard to any cash or other dividends that are declared and paid on the Company's common stock.

Award Agreement

- RSUs will be granted pursuant to the Company's 2014 Incentive Plan and will be subject to the terms of the applicable Non-Affiliated Director stock RSU agreement as in effect at the time of grant.

Directors receive reimbursement of business and travel expenses from time to time in accordance with Company policy.

As determined by the Board from time-to-time.

Directors who are employees of the Company or any of its subsidiaries will not be entitled to compensation as a director.

The human resources and the legal departments will administer the Non-Affiliated Directors' compensation program.

- Each Non-Affiliated Director is required, within four years following his or her first election to the Board, to beneficially own (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) shares of the Company's common stock (including any restricted shares of common stock or restricted share units payable in shares of the Company's common stock) having an aggregate value at least equal to five times the amount of the annual cash Board retainer that we then pay such director for regular service on the Board.
- For purposes of determining compliance with the share ownership guidelines, the aggregate value of the shares owned by the director is calculated as of January 2nd of each applicable year (or if such date is not a trading date, the next trading date) based on the higher of:
    - the NASDAQ Official Closing Price of the Company's common stock on that day; and
    - the NASDAQ Official Closing Price of the Company's common stock on the date of grant (or if such date is not a trading date, the next trading date), for any shares awarded to the director by the Company, and the actual cost to the director, for any other shares (e.g., with respect to shares acquired through the exercise of stock options, the exercise price).
- Non-Affiliated Directors are subject to these guidelines for as long as they continue to serve on the Board.

Exhibit 21.1

MAJOR SUBSIDIARIES OF THE REGISTRANT AT DECEMBER 31, 2021

Name of Subsidiary	State or Other Jurisdiction of Incorporation or Organization
Activision Blizzard International B.V.	Netherlands
Activision Blizzard Media Limited	United Kingdom
Activision Blizzard UK Limited	United Kingdom
Activision Publishing, Inc.	U.S.-Delaware
Infinity Ward, Inc.	U.S.-Delaware
Blizzard Entertainment, Inc.	U.S.-Delaware
Blizzard Entertainment SAS	France
King.com (US), LLC	U.S.-Delaware
King.com Limited	Malta
Midasplayer AB	Sweden
Midasplayer.com Limited	United Kingdom

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-233617) and Form S-8 (No. 333-153661, 333-165123, 333-167428, 333-196956, 333-209825 and 333-209864) of Activision Blizzard, Inc. of our report dated February 25, 2022 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2022

Exhibit 31.1

CERTIFICATION

I, Robert A. Kotick, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 25, 2022

/s/ ROBERT A. KOTICK
Robert A. Kotick
Chief Executive Officer and
Principal Executive Officer of
Activision Blizzard, Inc.

Exhibit 31.2

CERTIFICATION

I, Armin Zerza, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 25, 2022

/s/ ARMIN ZERZA
Armin Zerza
Chief Financial Officer and Principal Financial Officer of Activision Blizzard, Inc.

Exhibit 32.1

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 Annual Report of Activision Blizzard, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021 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: February 25, 2022

/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.

Exhibit 32.2

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 Annual Report of Activision Blizzard, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Armin Zerza, 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: February 25, 2022

/s/ ARMIN ZERZA
Armin Zerza
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.

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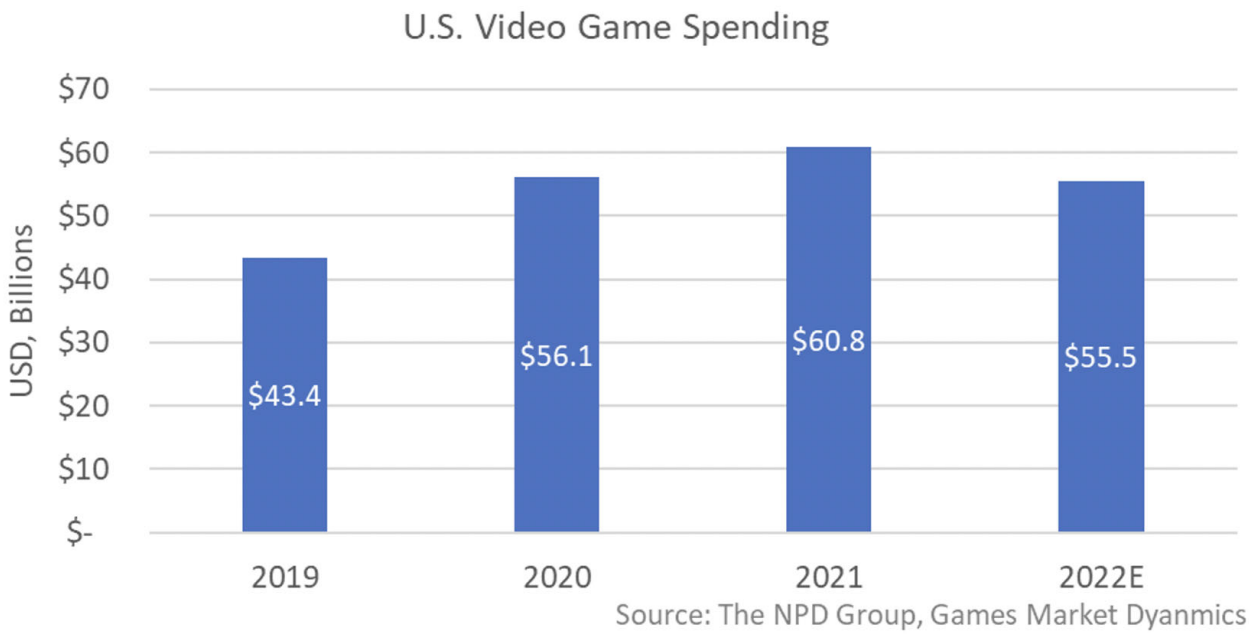
PX9053

July 6, 2022

2022's Video Game Market C Declines Expected to Continue C

Mat Piscatella
Industry Analyst, Video Games
MatPiscatella

U.S. consumer spending on video game hardware, content and accessories is now projected C to reach $55.5 billion in 2022, a decline of 8.7% when compared to 2021. C



Some of the drivers of the decline include the return of experiential spending, higher prices in everyday spending categories such as food and fuel, the uncertain supply of video game console hardware and certain accessories such as gamepads, and a lighter release slate of games, among others.

The surge in video game players and engagement the market experienced during 2020 and 2021 has leveled off, and we are now seeing more entertainment opportunities emerge that compete for consumer attention and, of course, dollars.

In hardware, the video game console market has yet to reflect normalized demand given ongoing supply constraints, particularly on new generation systems such as the PlayStation 5 and the Xbox Series X. This is not likely to change throughout 2022 and will lead to continued uncertainty for the market.

On the content front, the expectation is that year-on-year declines will be experienced across PC, console and mobile platforms in both premium game sales and recurrent post-launch spending. The only category of content spending expected to gain when compared to a year ago is subscription spending. C C

Accessory sales are also expected to fall when compared to 2021, driven by the headset/headphone category. While headset/headphone sales continue to trend above pre-pandemic norms, they are failing to meet the sharp gains experienced earlier in the

Projected among the top 1 best-selling premium games of 2 22 are (in alphabetical order): Call of Duty: Modern Warfare 2, Elden Ring, God of War Ragnarök, Gotham Knights, Horizon: Forbidden West, LEGO Star Wars: The Skywalker Saga, Madden NFL 23, NBA 2K23, Pokémon Legends: Arceus, and Pokémon Scarlet/Violet. This is, of course, pending changes to assumed release timing for announced games, and any surprise releases the market may see.

Some predictions for 2022 at the year's halfway mark:

- Switch will lead 2022 console hardware in units sold, with dollar leadership a too-close-to-call race between Switch, PlayStation 5, and Xbox Series.
- Xbox Series will be the only console hardware platform to show dollar sales growth compared to 2021.
- Hardware shortages will continue into 2023, particularly on PlayStation 5 and Xbox Series X, while potentially impacting other segments such as VR.
- Elden Ring will finish as 2022's best-selling premium game in the U.S. market, marking only the 3rd time since 2009 that a Call of Duty franchise release does not lead the market.
- Despite Elden Ring leading the individual title charts, Call of Duty will remain the U.S. market's best-selling premium gaming franchise for a record 14th consecutive year.
- Increased PC GPU availability and price declines will incentivize PC gamers to upgrade and make PC gaming an even more appealing consumer option.
- Subscription will be 2022's only video game content growth segment.

We are living in interesting times. And while, generally, the video game market can be at least partially insulated from factors impacting the wider economy, the return of experiential spending and higher pricing in everyday spending categories appear to be impacting the space. The continued challenges in manufacturing, particularly in bringing new consoles and accessories such as gamepads to market is also playing a role, as is the lighter release slate of premium gaming content.

There are many known unknowns when trying to predict what's next, and a list of unknown unknowns that may be more extensive. In the short-term, this means likely declines, uncertainty, and turbulence. While in the long-term, the growth prospects of the video game space remain as strong as they've ever been. C

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SHARES

The NPD Group: Third Quarter 2022 US Consumer Spending on VideoC Game Products Decreased 5% to $12.34 Billion →

Holiday 2022: See Consumers' Purchasing Intentions →C

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HALO 3

Former Xbox Boss: 'We Encouraged the Console Wars but Not to Create Division'

Peter Moore talks of running Xbox during the height of the console wars.

Updated: Jul 28, 2022 8:55 pm

Posted: Jul 28, 2022 8:40 pm

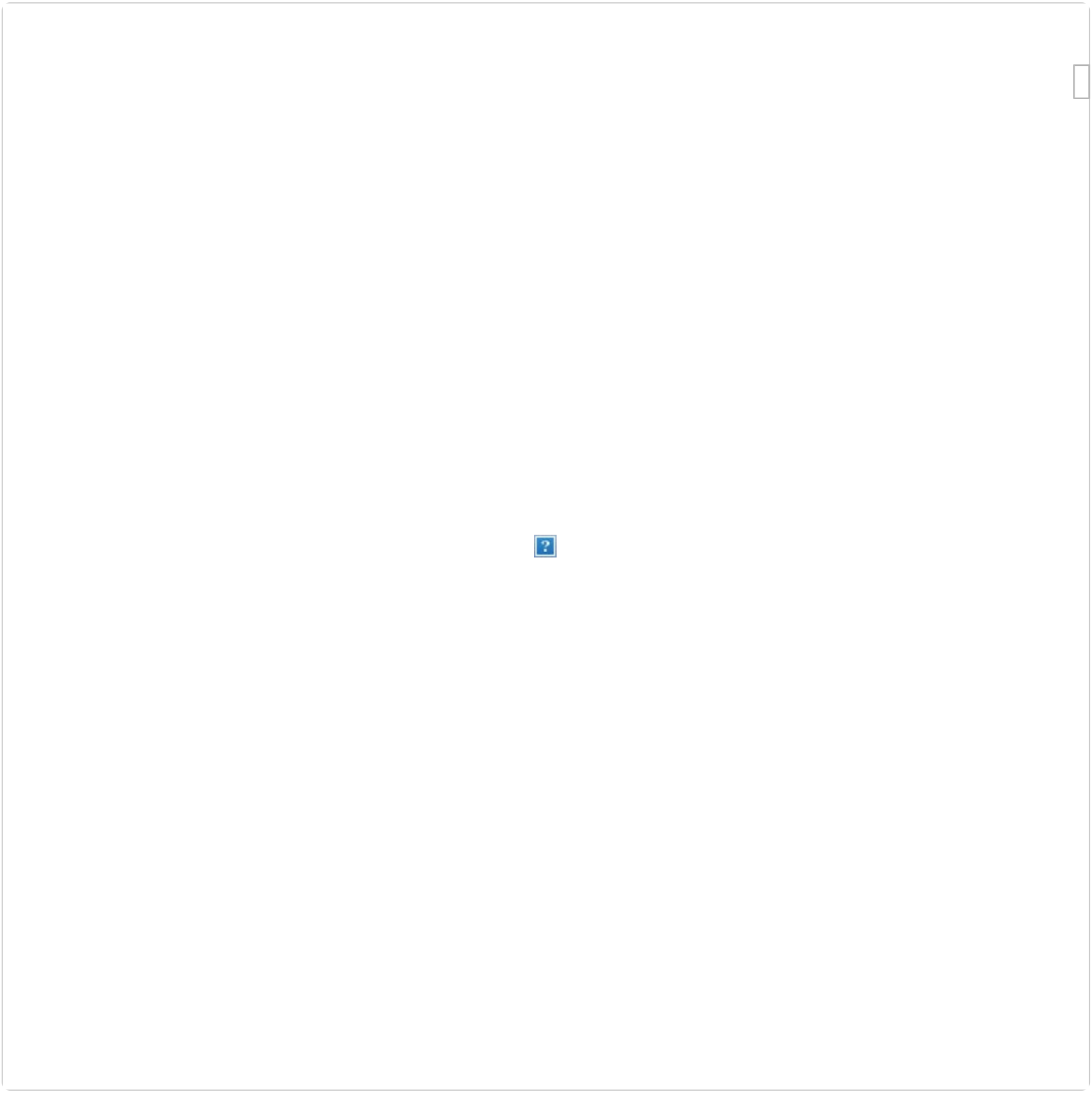
By Matt Kim

Peter Moore is known for wearing many hats around the games (and sports) industry. One stop in his career was at Microsoft where he helped oversee Xbox during the 360-era. In a new interview, Moore spoke about his time at Xbox and how they encouraged the console wars, but not for reasons you'd expect.

Moore recently made an appearance on one of Front Office Sports' podcast to discuss his time as Liverpool FC CEO, in the process touching on his time at Xbox. While the games industry has shifted towards a more unified tone, during Moore's tenure the console wars were arguably an even bigger part of the games industry — something Moore says was encouraged at Xbox.

"We encouraged the console wars, not to create division, but to challenge each other," Moore says. "And when I say each other I mean Microsoft and Sony. If Microsoft hadn't of stuck the course after the Xbox, after the Red Rings of Death, gaming would be a poorer place for it, you wouldn't have the competition you have today."

Top 25 Xbox 360 Games







Moore joined Xbox in 2003 after serving as president and COO of Sega America. Moore is best remembered for helping launch the Xbox 360 and Dreamcast as well as his penchant for announcing high-profile games with fake tattoos. Xbox's early dominance in the 360-era was driven by games like Halo as well as the launch of Xbox Live.

But Moore also talked about the lows such as the Red Ring of Death controversy. "If we didn't resolve Red Rings of Death the way that we did I know darn well there'd be no Xbox today."

Nowadays, the console wars are a bit more downplayed, especially given the current landscape of cross-platform and cross-play titles. Even when Xbox and Sony acquire developers like Activision and Bungie, there are still talks of keeping their biggest games multiplatform, at least for now.

Moore would later join EA to lead its sports division before becoming the CEO of Liverpool Football Club. He has since returned to the tech space and is currently a vice president and GM at Unity.

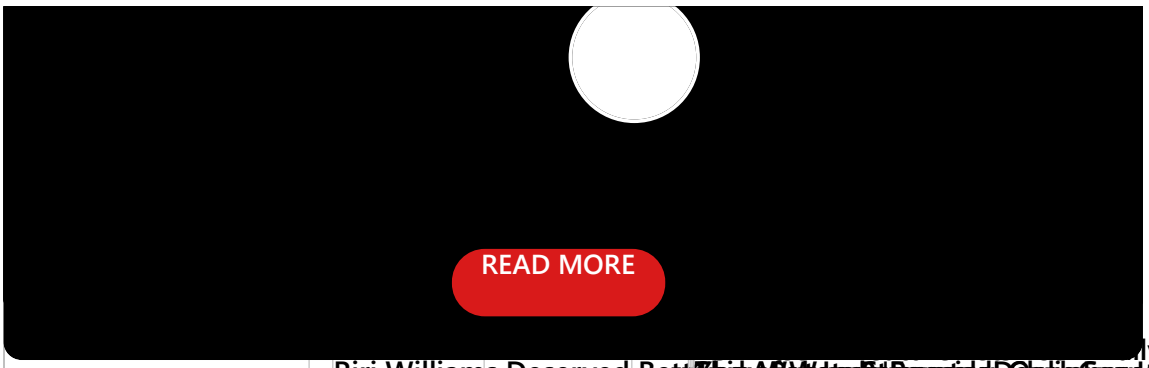
Matt T.M. Kim is IGN's News Editor. You can reach him @lawoftd.

In This Article

Halo 3

Halo 3
BUNGIE SEP 25, 2007
RATING ESRB: Mature **PLATFORMS** Xbox 360

Wishlist



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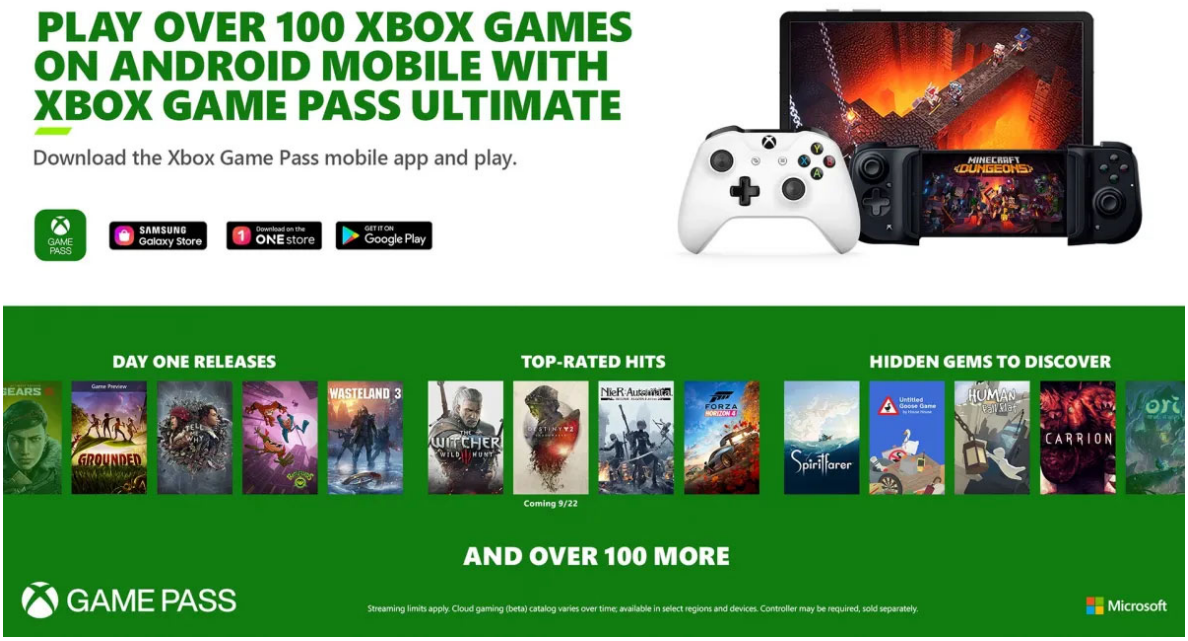

XBOX GAME A L

ud Gaming with Xb x Game Pa U timate aunche with re Than 15 Game

by Kareem Choudhry, Corporate Vice President, Cloud Gaming, Microsoft • Sep 14, 2020 @ 6:00am

Today, I'm pleased to share the initial launch line-up of more than 150 **games that Xbox Game Pass Ultimate members can play via the cloud in 22 countries starting September 15 at no additional cost**. You will find a fantastic, curated selection of games available in the Xbox Game Pass library, including popular Xbox Game Studios titles such as *Tell Me Why*, *Grounded, Forza Horizon 4*, and *Battletoads*, along with favorites from our content partners like *Spiritfarer*, *Untitled Goose Game*, and *Destiny 2*. Similar to Xbox Game Pass for Console and PC, you can expect the library to evolve over time based on members' feedback, with new games added all the time.

As Xbox Game Pass Ultimate members, you can discover the freedom and flexibility the cloud brings to your gaming experience. One of the key benefits of cloud gaming is that it gives you more choices in how to play. Because your Xbox profile resides in the cloud, you can easily continue your *Wasteland 3* play through that you began on your living-room Xbox console on your Android phone or tablet. It's perfect for those times when you want to get in a gaming L

session whi e w om home o when ou sh ed TV o conso e is occupied. With the c oud, g me ike *Sea f h eves* c n t ns o m into g e t couch co-op expe ience with mu tip e peop e p ing c oss conso e, PC, nd mobi e devices in the s me oom.

Addition , c oud g ming s p t o Xbox G me P ss U timate now opens up the wo d o Xbox to those who m a not own conso e t . With n Xbox G me P ss U timate membe ship, g me s need on n And oid phone o t b et nd suppo ted cont o e to join in on the un o Xbox g ming whi e enjo ing the u bene its o the Xbox ecos stem. This inc udes iends, chievements, p ties nd voice ch t, c oud s ves nd the bi it to enjo mu tip e with othe g me s, i espective o whethe the e p ing on conso e o vi the c oud. You c n so p with PC p e s in g mes whe e c oss-p with Xbox One conso es is suppo ted, such s *Forza Horizon 4*, *Gears 5* nd mo e.

Fin , **cloud gaming with Xbox Game Pass Ultimate makes it easier than ever before to play games with your friends**. Bec use membe s h ve ccess to common ib , membe s immedi te h ve dozens o mu tip e g mes t thei dispos th t the c n p togethe . And best o , i ou' e p ing togethe vi the c oud, the g mes e e d to go, so ou nd ou iends c n jump in nd st t p ing in seconds. Whethe ou' e p ing with iends on n Xbox One, o i ou' e p ing with someone expe iencing Xbox o the i st time th ough c oud g ming on mobi e device, Xbox G me P ss U timate b ings ou togethe nd m akes o the best g ming expe ience.

New membe s **can join Xbox Game Pass Ultimate today for $1 for the first month, then $14.99 per month after that**, which is g e t w to ensu e ou' e e d to t ke dv nt ge o c oud g ming next week. To p g mes on ou phone o t b et, down o d the Xbox G me P ss pp om the S msung G x Sto e (which inc udes comp ete, u - e tu ed expe ience with in- pp pu ch se c p bi ities), o the Goog e P Sto e. And i ou w nt to enh nce ou c oud g ming expe ience, ou c n o de new S msung G x device nd se ect the G ming Bund e t pu ch se, which inc udes th ee months o Xbox G me P ss U timate nd the -new Powe A MOGA XP5-X P us B uetooth Cont o e with n tt ch b e phone c ip. We' unch c oud g ming in bet o Xbox G me P ss U timate membe s in 22 count ies to ensu e st bi it s we sc e the e tu e to mi ions o g me s g ob . And this ho id , some o the best EA P g mes wi be v i b e o Xbox G me P ss U timate membe s to p on And oid devices vi the c oud t no ddition ch ge.

This is pivot step on ou jou ne to put the p e t the cente o thei expe ience nd empowe g me s to p the g mes the w nt, with the peop e the w nt, n whe e the w nt. Wh t ou' see on d one is just the beginning. Ove time we' continue to innov te nd dd mo e g mes th t ou w nt. St tuned to Xbox Wi e nd @XboxG meP ss on Twitte o mo e c oud g ming upd tes.

Cloud gaming launch titles:

- *A Plague ale: Innocence*
- *Absolver*
- *Afterparty*
- *Age of Wonders: Planetfall T*
- *ARK: Survival Evolved*
- *Astroneer*

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- *Batman: A am n g t T*
- *Battletoads*
- *Battle C ase s: N g twa*
- *Blac Dese t*
- *Bla Witc*
- *Bleed ng Edge*
- *Bloodsta ned: R tual of t e N g t*
- *B dge Const ucto Po tal*
- *Ca on*
- *C ld en of Mo ta*
- *Cluste uc*
- *C ac down 3: Campa gn*
- *C osscode*
- *Da s de s Genes s*
- *Da s de s III*
- *DayZ*
- *de Blob T*
- *Dead by Dayl g t*
- *Dead Cells*
- *Dead Island Def n t ve Ed t on*
- *Deat Squa ed*
- *Del ve us t e moon*
- *Demon's lt*
- *Descende s*
- *Dest ny 2: S adow eep & Fo sa en expans on (Septembe 22)*
- *D R 4*
- *Don't Sta ve*
- *Double c He oes*
- *D a e Hollow*
- *Dungeon of t e Endless*
- *Ente e Gungeon*
- *F1 2019*
- *Fallout 76*
- *Fa m ng S mulato 17 T*
- *Fel x t e Reape*
- *F s ng S m Wo ld: P o ou*
- *Fo t e ng*
- *Fo age*
- *Fo za Ho zon 4*
- *F actu ed M nds*
- *F ostpun : Console Ed t on*
- *Gato Roboto*
- *Gea s of Wa 1: Ult mate Ed t on*
- *Gea s of Wa 4*
- *Gea s of Wa 5 T*

- *Goat Sim u ato*
- *Go ith Yo F iends*
- *G o nded*
- *G acame ee! 2*
- *Ha o 5: G a dians*
- *Ha o Wa s 1: De initive Edition*
- *Ha o Wa s 2*
- *Ha o: he Maste Chie Co ection*
- *Ha o: Spa tan Assa t*
- *He b ade: Sen a's Sac i ice*
- *He o Neighbo*
- *Ho o Knight (Rene a)*
- *Hot Shot Racing*
- *H man Fa F at*
- *Hype dot*
- *Hypnospace O ut a*
- *Indivisib e*
- *Jo ney to the Savage P anet*
- *Katana ZERO (Coming soon)*
- *Ki e Instinct DE*
- *Kona*
- *Leve head*
- *Lone y Mo ntains: Do nhi*
- *Ma ve vs. Capcom: In inite*
- *Met o 2033 Red x*
- *Midd e Ea th: Shado o Wa*
- *Minec a t: D ngeons*
- *MINI*
- *Momodo a: Reve ie Unde the Moon ight*
- *Moon ighte*
- *Mo ta Kombat X (Not avai ab e in Ko ea)*
- *Mo nt & B ade: Wa band*
- *Moving O ut*
- *Mud nne*
- *Munchkin: Q uacked Q uest*
- *M utant Yea Ze o: Road to Eden*
- *My ime At Po tia*
- *Neon Abyss*
- *Ne S pe L cky's a e*
- *NieR:A tomata*
- *Night Ca*
- *Night in the Woods (Coming soon)*
- *No Man's Sky*
- *No he e P ophet*
- *Obse vation T*

PUBLIC

- *Ori and t ind or st: D finitiv Edition*
- *Ori and t Wi of t Wisps*
- *Ov rcook d! 2*
- *Ox nfr*
- *Pat o ogic 2*
- *Pikuniku C*
- *Pi ars of Et rnity: omp t Edition*
- *Pow r Rang rs: att for t Grid*
- *R or : D finitiv Edition*
- *R mnant: rom t As s*
- *R sid nt Evi 7 io azard*
- *Ris & S in*
- *Riv r ity Gir s (oming soon)*
- *S a of T i v s: Anniv rsary Edition*
- *S a Sa t*
- *S cr t N ig bor*
- *S adow Warrior 2*
- *S ay t Spir*
- *Snip r E it 4*
- *Spiritfar r*
- *Stat of D cay 2: Jugg rnaut Edition*
- *St aris*
- *Strang r T ings 3: T Gam e*
- *Str ts of Rag 4*
- *Str ts of Rogu*
- *Subnautica*
- *Surviving Mars*
- *Tacoma*
- *T M Why Episod 1 – 3*
- *T rraria*
- *T ard's Ta IV: Dir ctors ut*
- *T ard's Ta R mast r d and R snark d C*
- *T ard's Ta Tri ogy*
- *T Dark rysta : Ag of R sistanc Tactics*
- *T E d r Scro s On in*
- *T Gard ns tw n*
- *T Jackbox Party Pack 4*
- *T Long Dark*
- *T Lord of t Rings: Adv ntur ard Gam e*
- *T M ss ng r*
- *T Out r Wor ds*
- *T Surg 2*
- *T Touryst*
- *T Witc r 3: Wi d Hunt*
- *T Escapists 2 C*

- *The Talos ple*
- *The Tu g Test*
- *The Walk g Dead: A New F o t e – Ep sode 1 th ough 5 3*
- *The Walk g Dead: Mi ho e – Ep sode 1 –*
- *The Walk g Dead: Seaso Two*
- *theHu te : Call of the Wild*
- *Th o eb eake : The Wit he Tales*
- *Totally A u ate Battle S mulato*
- *Totally Rel able Del ve y Se v e*
- *Touhou Lu a N ghts*
- *T a ks – The T a Set Game*
- *T a lmake s*
- *T a S m Wo ld 2020*
- *Two o t Hosp tal*
- *U de m i e*
- *U t tled Goose Game*
- *Vo d Basta ds*
- *Wa de so g*
- *Wa hamme Ve m i t de 2 (Com i g soo)*
- *Wastela d Remaste ed*
- *Wastela d 2: D e to 's Cut*
- *Wastela d*
- *We Happy Few*
- *West of Dead*
- *Wiza d of Lege d*
- *Wo ld Wa Z*
- *Wo ms W.M.D*
- *Xe o C s s*
- *Yakuza 0*
- *Yakuza K wam i*
- *Yakuza K wam i 2*

Recommended for you

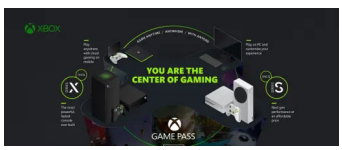
CLOUD GAMING

Cl ud Gaming Comes to Seri s X|S and Xbox One Consoles

Aug 24, 2021 @ 10:34am

XBOX GAME PASS

Xbox Game Pa s Ultimate Me rs G t



Sep 29, 2020 @ 6:00am

XB X GAME PASS

Xbox Ga Pass Ulti t Da li rs 100+ Ga s ir tly to Your Mobil D ic B gi i g S pt r 15 O

Aug 4, 2020 @ 6:00am

BO GAME PASS

Xbox Game Pass Ultimate Delivers 100+ Games O Directly to Your Mobile Device Be innin September 15

by Kareem Choudhry, Corporate Vice President, Project xCloud, Microsoft • Aug 4, 2020 @ 6:00am O

Our vision for Project xCloud, Microsoft's cloud gaming technology, is to give you the pp rtu ity t play the games you want, with the people you want, anywhere you want. Since O lau chi g the public preview across North America, Europe and in South Korea, you've shared

stories a o t t e i e ways yo 've played from t e clo d w ile providi g i val a le feed ack t at's elped s improve t e experie ce.

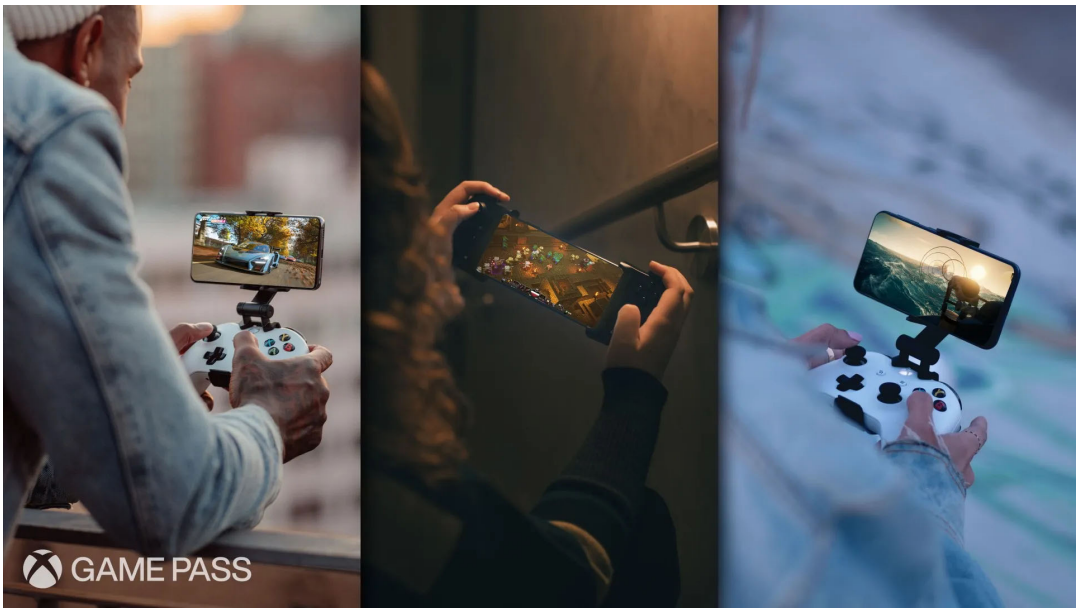
Clo d gami g as part of X ox Game Pass is t e ext ma or step i o r o goi g visio to p t yo at t e ce ter of t e experie ce, to give yo more val e from yo r games a d mem bers ip, a d to remove t e arriers from play. Last mo t we laid o t o r commitme t to yo a d a o ced clo d gami g, powered y Pro ect xClo d, will e part of X ox Game Pass Ultimate at o additio al cost.

Today we're excited to s are more a o t w at yo ca expect. **Beginning September 15, Xbox Game Pass Ultimate members can play more than 100 games from the cloud on their Android phone or tablet**. Clo d gami g will la c i eta for X ox Game Pass Ultimate mem ers i 22 markets to e s re sta ility as we scale t e feat re to millio s of gamers.

Whe clo d gami g la c es as part of X ox Game Pass Ultimate, **players will have access to more than 100 high-quality games playable from the cloud, including** *Minecraft Dungeons*, *Destiny 2*, *Tell Me Why*, *Gears 5*, *Yakuza Kiwami 2*, a d more. A d as we've committed to providi g day-o e access to ew titles from X ox Game St dios as part of X ox Game Pass, it's o r i te t to make t ose same games availa le i t e clo d from t e day t ey release. We'll ave more to s are a o t t e f ll catalog of games as we approac la c .

As t e world aro d s c a ges a d e tertai me t is readily availa le o matter t e device, it's o r visio to make games accessi le i a variety of sce arios. **All the experiences you expect on Xbox and your gaming profile travel with you on mobile, including your friends list, achievements, controller settings, and saved game progress.** Yo ca co ti e yo r *Gears 5* campaig w ile traveli g away from yo r ome co sole, or if a si li g or roommate is si g t e TV yo ca still complete strikes wit frie ds i *Destiny 2*.

Clo d gami g also locks ew co c co-op experie ces wit traditio al o li e games. Sail off to adve t re i *Sea of Thieves* o yo r ta let w ile a frie d plays alo gside yo o co sole, rig t i t e same room. Clo d gami g removes t e eed to wait til yo ca access yo r co sole i order to play yo r favorite games: J st pick p yo r p o e or ta let a d play t e games yo wa t, a y time yo wa t. j



Since its ince ti n in 7, Xb x Game Pass has been ab ut r viding members with the freed m t disc ver and la games fr m a curated, c nstantl u dated librar . With this in mind, making cl ud gaming available as art f Xb x Game Pass Ultimate was a natural next ste . **More than 10 million Xbox Game Pass members are already discovering and playing great games on console and PC – and with the addition of cloud gaming, members can discover and try out new games on Android phones and tablets**. And Xb x Game Pass Ultimate members have a shared librar f games, s n matter whether ur friends refer t la acr ss Xb x One, m obile r PC, it's never been easier f r Xb x Game Pass members t la the same games t gether. Xb x Game Pass Ultimate members can dive right int the latest librar additi n's cam paign within sec nds, and a s ntane us Minecraft Dunge ns c - sessi n reall is just an invite awa .

You can join Xbox Game Pass Ultimate today for $1 for the first month, then $14.99 per month after that. In additi n t cl ud gaming, Xb x Game Pass Ultimate includes access t m ore than high-qualit games f r c ns le and PC; exclusive member disc unts, deals, erks, and Xb x Live G ld. T la games n ur h ne r tablet, d wnl ad the Xb x Game Pass a fr m the Samsung Galax St re r the ONE St re (b th f which include a c m plete, full-featured ex erience with in-a urchase ca abilities), r the G gle Pla St re.

Cl ud gaming with Xb x Game Pass Ultimate will be available n Andr id devices in markets at launch, including Austria, Belgium, Canada, Czech Re ublic, Denmark, Finland, France, German , Hungar , Ireland, Ital , Netherlands, N rwa , P land, P rtugal, Sl vakia, S ain, S uth K rea, Sweden, Switzerland, the United Kingd m, and the United States.

T enhance the m obile gaming ex erience, we're artnering with Razer, P werA, 8BitD , and Nac n t create all-new access ries s ecificall designed f r cl ud gaming. These include different t es f h ne cli s that ada t t a wide range f devices, travel c ntr llers that fit in an bag, and exclusive Xb x-branded c ntr llers that s lit a art and attach t the side f ur h ne. Y u can als la with ur Xb x One Bluet th Wireless and Pla Stati n DualSh ck 4 y c ntr llers.

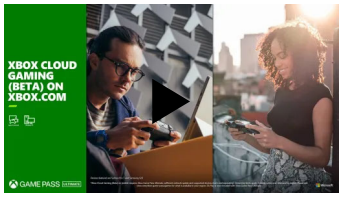
This is an e i in i as we e en er a new era of a n . For hose who've par i ipa ed in he Proje Cloud preview, we han you you've helped us shape he way we play a s evin o forward. The preview will on inue o be available un il Sep e er 15. We'll also on inue o lis en o our o ni y and add new fea ures, a s and perks o Xbo Ga Pass Ul i e a over i , in ludin news a Sa un 's Gala y Unpa ked even o rrow (Au us 5). We look – forward o on inuin his journey and enablin you and your friends o sea esslyplay he a es you wan anywhere you wan . For re inf or ion, please visi – www. bo . o a /passe

Recommended for you

CLOUD GAMING

Xbox Cloud Gaming: Now Running on Xbox Ser es X; Expand d PC – and App e Device Availab lity

Jun 28, 2021 @ 12:01pm



CLOUD GAMING

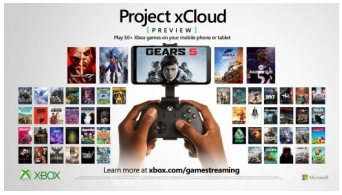
Cloud G ming H ds to Australia, Brazil, Japan, and Mexico November 18

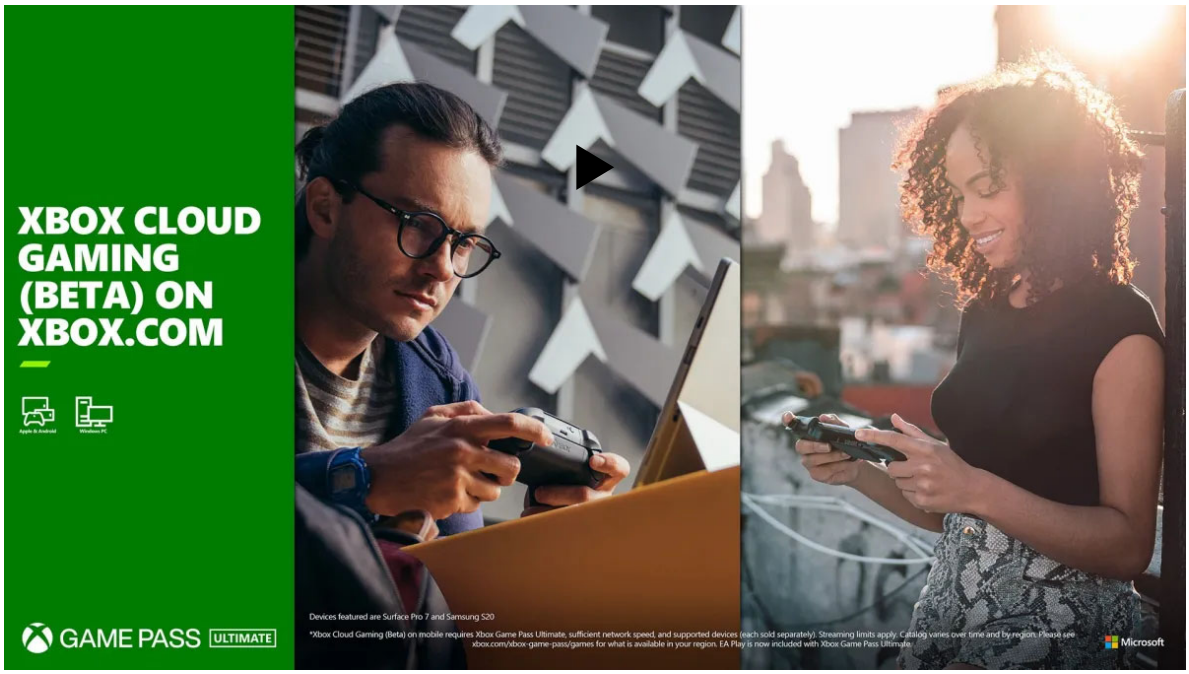
Nov 11, 2020 @ 12:00pm

GAMES

X019: Expanding Project xCloud with More G mes, re Ways to Play, and More Players

Nov 14, 2019 @ 12:47pm –





CLOUDGAA

ox Cloud Gaming: Now Running on ox e ies Expanded PC and Apple evice Availa ility

by Catherine Gluckstein, Vice President & Head of Product, Xbox Cloud Gaming • Jun 28, 2021 @ 12:01pm

At Xbox, our mission is simple: bring the joy and community of gaming to everyone on the r lan t. To achieve that, we aspire to empower everyone to play the games you want, with the p opl you want, anywhere you want.

We are creating a future that combines the gaming heritage of Xbox and the power of Azure. A future where we bring high fidelity, immersive games to the 3 billion players around the world. Now we're taking a big step forward to reaching that vision: **Starting today, Xbox Cloud Gaming is available to all Xbox Game Pass Ultimate members with Windows 10 PCs and Apple phones and tablets, via browser, across 22 countries**. If you're a member or want to become a member, simply go to xbox.com/play on Microsoft Edge, Chrome, or Safari on your PC or mobile device to start playing hundreds of games from the Xbox Game Pass library.

With billions of active Windows 10 PCs, iOS devices and Android phones, we want you to have new opportunities to play the deepest, most immersive games whenever and wherever you choose. Simply put, **we're bringing the Xbox experience directly to the devices you use most**. r

We're als gas g f ca t r vep ts te the verall exper e ce: **Xbox Clou G ming s now owere by custom Xbox Ser es X h r w re**. We've bee upgrad g Micr s ft datace ters ar u d the gl be w th the fastest, st p werful Xb x hardware t g ve y u faster l ad t s, e r vepd fra rates, a d a exper e ce f a ew ge erat f ga g. T e sure the l west late cy, h ghest qual ty exper e ce acr ss the br adest set f dev ces, we w ll be strea g at 1080p a d up t 60fps. G g f rward we'll c t ue t vate a d add re features t e ha ce y ur cl ud ga g exper e ce.

Cl ud ga g pr v des sea ess play acr ss y ur dev ces. Whe y u're strea g ga s ea PC r b le dev ce, y ue ga s play g fr Xb x hardware a Micr s ft datace ter. Th s a s ye u ca ju t pa ga , c e ect w th y ur fr e ds, a d play thr ugh the Xb x etw r just as y u've always d e. That's r ght, y ur ga saves are just the sa whee ever a d whe ever y u play, s y u ca p c r ght bac up fr where y u left ff.

S grab y ur PC a d strea *Outriders* r *Doom* y ur Pad us g y ur saved ga . Or, e whe y u have a free half-h ur, y u ca f re up xb x.c play a d get a ga e *MLB The Show 21*.

As we br g ga s t e re dev ces, we're als ev lv g h w y u ca play y ur ga s. T e lay ab ut e- -s x players wh play fr the cl ud are exclus vely us g cust t uch c tr ls that are e abled f r re tha 50 ga s – e e l pers ally l ve s *Minecraft Dungeons*. A d f c urse, y u ca als play ga s fr e the cl ud us g a c at ble Xb x Wireless C tr ller, r e f the y sapp rted c tr llers a d b le ga g access r es, clud g the all- ew Bac b e O re f r OS.

T day r s ae ey lest e ur j ur ey t br g the Xb x exper e ce t mae ga rs, a d we ca 't wa t f r y u t beg play g. I re ee ab ut three years ag , then st t l p c ed up a ph e a d played a cl ud ga , us eg th g but t uch c tr ls. It's a t l'le ever f rget, where the beauty f the graph cs xed w th the creat v ty f tech l gy t create s th e truly g cal S , fr Tea Xb x t y u, we h pe y u exper e ce re j y a d c ect thr ugh ga g a ywhere a d everywhere.

Recommended for you

GAMES

Xbox is Building the Gaming Platform for the Next 20 Years

Jun 9, 2022 @ 5:00am

CLOUD GAMING

Xbox Cloud Gaming Launches in Australia, Brazil, Japan, and Mexico

Sep 30, 2021 @ 2:20am a

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CLOUD GA G

ox Cloud Gaming for Windows 1 PC and Apple Phones and Ta lets Beqin as Limited Beta for ox Game Pa s Ultimate Mem bers 0

Apr 19, 2021 @ 7:00am

Xbox Game Studios 0

343 Industries 0
Age of Empires 0
The Coalition 0
Compulsion Games 0
Double Fine 0
The Initiative 0
inXile Entertainment
Minecraft 0
Ninja Theory Ltd 0
Obsidian Entertainment 0
Playground Games
Rare 0
Turn 10 Studios
Undead Labs

Global Sites 0

Xbox Wire
Xbox Wire DACH 0
Xbox Wire en Español 0
Xbox Wire en Francais 0
Xbox Wire em Português
Xbox Wire Japan

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PX9095

GAMES

How Xbox outgrew the console: inside Phil Spencer's multi-billion dollar gamble

Phil Spencer saved Xbox. Now he wants to reinvent gaming. Ahead of Xbox's 20th anniversary, we sat down with him and Microsoft's gaming A-Team to discuss their wildly ambitious future including Game Pass, Xbox Cloud Gaming, *Halo Infinite*, *The Elder Scrolls VI* exclusivity and more

By Sam White

15 November 2021

Phil Spencer knows the price of the smallest decisions.

It's 2017, and the head of Xbox is in a design meeting for the Xbox One X. He's deliberating on a motorised button. It rotates so the Xbox logo stays the right way up whether the console is sitting vertically or horizontally. The designers love it. The brand bods love it. "They never like our logo sitting sideways," he tells us, chuckling.

The price of that little button? A single solitary buck.

"You're thinking, like, 'it's just a dollar, of course you would do that,'" he says.

Someone else pipes up: "there's a world where we sell a hundred million of these."

Suddenly, that's a hundred million dollar decision.

In the end, the rotating button – described by Spencer as "just another thing that could fail" – wasn't worth the potential cost. But 'risk averse' is perhaps the least appropriate label for the guy who started his career helming the development of the Encarta CD-ROM encyclopedia.

Throughout his seven-year tenure in charge of Xbox, Spencer has made some of the biggest moves not just in gaming but entertainment at large. Under his leadership, Xbox's list of total first-party studios has increased dramatically, from five to 23. The spend exceeds $10 billion. That includes buying indie block-builder *Minecraft* for $2.5bn in 2014. And purchasing *Skyrim* and *Fallout* creators, Bethesda, for a record-breaking $7.5bn last year. He's also overseen the creation of Game Pass – the first Netflix-esque subscription service for video games – and doubled down on game

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streaming technology despite having seen several competitors elsewhere flame out in ignominy. All of these monumental calls came in the wake of his inheriting 2013's Xbox One, a console with a famously disastrous start to life.

Most of those decisions don't weigh much on his shoulders ("I'm not much of a keep-me-up-at-night guy," he tells me) but delaying *Halo Infinite*, the flagship launch game for last year's new Xbox Series consoles, still sits heavy in his heart. "I don't like how we did it," he admits. "I don't like that we showed the game, talked about it launching at the launch of the consoles. And then within a month we had moved it."

Infinite was the big tentpole release for Microsoft's comeback console. In Spencer's eyes, Series X and S needed it: the original Halo defined the original Xbox in 2001. Pairing them together for another launch? Poetry. But Xbox pushed it to 2021 after reception to a gameplay showcase, just four months before its initial release, went viral. And not in a good way. As a result, Xbox launched with no major exclusive game to speak of. It was a major shortcoming compared to Sony, which launched its PlayStation 5 with no fewer than three exclusive blockbuster games. "We should have known before and just been honest with ourselves," Spencer says. "We were there not out of deception, but more out of... hope. And I don't think hope is a great development strategy."

Phil Spencer presenting at Xbox's E3 2019 Briefing

Spencer's ability to make fast, seismic calls without being paralysed is clear. He has a confidence and clarity of vision about what the future of Xbox – and the future of gaming – can and should be. What it will be, even. Between our time with him, we also spoke with Liz Hamren, head of hardware; Kareem Choudhry, head of cloud gaming; Sarah Bond, head of gaming ecosystems; Todd Howard, game director at Bethesda Game Studios; and Craig Duncan, studio head at Rare. And the common theme was trust. The trust in each other. The trust in a shared mission. The trust in Phil. It was all pivotal to bringing Xbox back from the brink.

Eight years ago, Xbox One put the company in a hole. It was an even greater failure than the Xbox 360's "Red Ring of Death" – a hardware recall debacle in 2006 that cost a billion dollars to fix. But the problem with the Xbox One was different. It was existential. Microsoft created a machine that was more of an 'entertainment' hub than it was a games console. There was a huge backlash that the device could never quite recover from. Previous leader Don Mattrick left the company within two months of its unveiling. Eventually, the Xbox One would sell 51 million consoles over its lifetime, less than half the 116 million PS4s that Sony did.

This crisis proved to be Spencer's opportunity. He was, as Microsoft saw it, the perfect fit to spearhead Xbox through one generation and into the next; repackaging and reinvigorating an existing team with newfound confidence and purpose. But it wasn't an easy transition. "I felt completely underprepared and out of my element," Spencer reveals. "Impostor syndrome is a real thing for many people. I don't know if I could say I earned it… I happened to be there as probably the most senior person that was still left."

To succeed, he had to revitalise the people around him. "If they were questioning why we were there, then we had no chance," he continues. "It wasn't a PR problem. It wasn't a business problem. Our opportunity was to re-engage the team. And that was a journey."

It's one Spencer embraces. He knows his decisions have consequences. Thanks to teamwork and smart gambles, Xbox is back on the steady. But his largest decisions are still in play. Spencer has taken Microsoft all-in.

Will it pay off?

The Rock and Bill Gates promote the original Xbox in 2001 HENNY RAY ABRAMS

Craig Duncan wasn't always convinced. But he had good reason to be hesitant.

The studio head at Rare has been at Microsoft for ten years. Rare has been with Microsoft for almost double that time since it was acquired for $375m in 2002. Paltry money by today's standards. Back in the day, Rare took most of the brunt from Xbox's shift to casual gaming under Don Mattrick. At the start of the 2010s, having developed 1997's *GoldenEye 007* – a Nintendo 64 first-person shooter that was every bit as beloved as *Super Mario 64* and *The Legend of Zelda: Ocarina of Time* – Rare found itself making a brand-new Xbox franchise. The even better news? It would be a game for Xbox 360's much-hyped peripheral: Kinect.

Although the motion control accessory would eventually die a limp, unloved death, *Kinect Sports* was envisioned as a rival to Nintendo's *Wii Sports* – the most successful single platform game of all time, with more than 80 million copies shipped. Although KinectSports was a departure from Rare's totemic games, such as *Donkey Kong Country* and *Banjo-Kazooie*, it sold more than three million copies. The period left its

mark among some gamers, though; there was a pervading feeling that Microsoft didn't know how to best use its talent. A sentiment echoed by the shuttering of its other big British development institution, Lionhead. The maker of the iconic and recently revived RPG franchise *Fable* was rendered defunct just a decade after being acquired.

"It was such a weird period," Duncan reminisces. "I definitely got what Microsoft was trying to do with innovation and trying to grow the market. From a game dev point of view, it was a bunch of really difficult kinds of challenges."

Duncan can say hand on heart that he put everything into Kinect, but his team still had eyes on the future. And while motion controls ultimately proved to be a swing and a miss, the same mad creative ethos helped spawn Rare's next game. Codenamed, very inventively, as "Rare Next," the team were "squirrelled away" considering the future of multiplayer. The project would turn out to be *Sea Of Thieves* – a swashbuckling pirate multiplayer game that, at the time, didn't even feature pirates ("that's a whole other story for another day," Duncan says).

Microsoft's early concept sketches for the Xbox One and Kinect

It was to be the major first experiment for Xbox Game Pass, the service that had been

in concept as early as 2013. Codenamed Arches, Game Pass started as a rental service for video games, but as Netflix and Spotify proliferated the team settled on a subscription model. It was the answer to a shift in revenue tails in games. “Something like 75 per cent of a game’s revenue used to be made in the first two months of release,” explains Sarah Bond, head of gaming ecosystems. “Nowadays it’s spread over two years.”

Spencer and his team saw an opportunity.

They went out to publishers, but the idea was met with staunch resistance. “They were like, ‘no way, [Game Pass] is going to devalue games,’” Bond continues. Xbox asked instead to experiment with their older games, where the risk was low. Engagement surpassed all estimates, so a potentially even more audacious play came to life. Xbox would release one of its own exclusive first-party games onto Game Pass, on the same day it hit shops. *Sea Of Thieves* was first to leap over the barricades. It was a big point of differentiation for Microsoft. PlayStation and Nintendo players still have to spend upwards of £50 on a new title. Here was Xbox giving you its latest, most valuable product, as well as its existing back catalogue, all from £7.99 per month.

Craig Duncan remembers turning to Spencer and asking the big question:

“If every single person plays Sea Of Thieves on Game Pass, and we don’t sell a single copy. Are you kind of cool with that?”

Spencer was categorical.

“Absolutely.”

In the end, *Sea Of Thieves* had a great launch, people still bought it and it was heralded as Rare’s return to form. But more importantly, it proved Game Pass could work. The economics were “100 per cent a success,” says Bond. Xbox’s business model transformed. Since then, every single Xbox Game Studios game, no matter the size or budget, has been released, day one, onto the service. Major publishers such as Electronic Arts, makers of *FIFA*, have partnered with Xbox Game Pass too. The 18 million subscribers spend 50 per cent more than non-subscribers. A game’s average

engagement goes up eight times when added to Game Pass. And player experimentation within genres dramatically increases. Three years after release, *Sea Of Thieves* just passed 25 million players, and that continues to grow.

“Even today,” Duncan says, smiling.

Rare's *Sea Of Thieves* celebrated 25 million players and a crossover with Disney's *Pirates of the Caribbean* this year

Phil Spencer is a Microsoft lifer. At 53-years-old, he’s walked through the same office doors for 33 of them. Even throughout Covid-19, which dramatically reshaped how the entire Xbox team functions, Spencer has been going into the office wherever possible. “I don't work well from home,” he tells me from his wife’s study. She’s out of town, and he doesn’t have his own workspace in the house. He’s never needed it. Their two kids, now adults, are out too. It’s just Spencer and his two dogs on this Monday morning in Seattle.

It doesn’t take long after meeting him to clock that this is a man who is never happier than when he’s playing. “My wife likes to tease me that I found the one job on the planet that maybe I’m qualified for,” he says, laughing. He’s also a huge comic book and sci-fi fan. Especially *Dune*. “For me, that’s one of those seminal sci-fi series,” he says, getting sidetracked by Denis Villeneuve’s new film. “More than *The Lord Of The Rings*. More than even *Star Wars*. I don’t know if it’s because it was written here in the Northwest – Frank Herbert was in Oregon – but it just always resonated with me.”

While Spencer is open about getting sidetracked while WFH, there hasn't been too much time for distractions since early 2020. Having had best-laid plans for a new console generation launch later that year, Covid-19 obliterated them. This was a nightmare shared by the entire team, including Liz Hamren, Xbox's hardware lead, who oversaw the development of the Series X and S, launching them globally in the middle of a pandemic. She hadn't once even seen a Series S come off the factory line. "We just right away said, 'Hey, everything's different, what do we have to change?'" she says. Like the rotating button, hundreds of small decisions go into making a console. Countless codenames. White and black colourways for Xbox Series X. Little nods to Xbox history, like green fans and vents. This was all done remotely.

While processes and ways of working were adapted, the biggest change from the ill-fated Xbox One was rediscovering the philosophy of Xbox. "We can't get confused that our primary responsibility is to bring the joy and community of gaming to every one of our customers," Spencer says. "Are people going to watch YouTube on an Xbox, or are they going to watch *Dune* on HBO? Yes. But we needed to be a great gaming platform."

To do that the team created the most powerful console ever, the Xbox Series X. But they did something perhaps even more significant: a more affordable, digital little brother, the Series S. Coupled with a Game Pass subscription you had unbeatable value at two price points. At £249.99, the Series S is the most affordable next-generation console by some margin. Combined, the Xbox Series consoles became the fastest-selling in their maker's history, selling eight million units, even with Covid-19-induced supply problems. The mess of 2013 seems a long time ago.

Potential designs for the Xbox Series X

Horizon one, two, and three. That's how Phil Spencer and his team views the future.

The things that are happening today. Horizon One.

The projects happening in a year or three. Horizon Two.

And the big ideas that might not happen for five, even ten years. That's Horizon Three.

These are the bets that, Spencer says, "probably won't work".

Kareem Choudhry, the man leading Xbox's cloud-gaming efforts, is never more excited when he's making Spencer uncomfortable with Horizon Three plays. This process is how some of Xbox's linchpin features such as Game Pass and Xbox Cloud Gaming ended up becoming a reality. The first "disruptive innovation", as Choudhry calls it, was with backwards compatibility. "After the Xbox One launched, I went to Phil," he says. "I'm like, 'I've been thinking, we don't have the ability to play old games on Xbox One. I want to take a team of about 30 of our smartest people. And we're gonna go work on it for a year, and only at the end of the year will I then tell you whether or not it's going to work.'"

To Chouhdry's glee, Spencer agreed. And it paid off. Backwards compatibility became a big part of Xbox's strategy in keeping the library of games as broad and appealing as possible. With Choudhry's scheme, you can play practically any digital version of Xbox, Xbox 360 and Xbox One games on Xbox Series consoles – for free, if you owned them already. You can even play some disc games. Pick up 2002's *The Elder Scrolls III: Morrowind*, if you've still got it kicking around, and it'll work. By contrast, Sony's backward compatibility efforts are still limited, especially for its machines that preceded the PS4. This buy-in to innovative R&D also gave the team further

preceded the PS4. This buy-in to innovative R&D also gave the team further confidence. They were not only seeing Microsoft invest, but also seeing a return. Even if it meant taking a risk and pulling people "off-grid" for five or ten-year projects. By drawing on its past, Xbox had fuelled its future.

Concept designs for the Xbox 360, over 500 games for which can be played on new Xbox Series consoles via backwards compatibility

"What I've learned is it's also very risky not to do that," Spencer says. "You have to plant those seeds today. Because they're not just going to 'happen'. And you're not able to buy innovation easily." This ethos also allowed the creation of peripherals like the Xbox Adaptive Controller, which revolutionised accessibility options for disabled players.

"Microsoft was willing to back accessibility when the industry just started realising its importance," says Steve Spohn, senior director of development at AbleGamers, an accessibility charity. AbleGamers had created their own accessibility device called the Adroit Switchblade, years before the Xbox Adaptive Controller. Spohn's team secretly worked with Microsoft for over three years to create an Xbox equivalent. "It took a mainstream juggernaut to get the public behind accessibility," he continues. "Microsoft showed people with disabilities deserve to have the same shared experiences as the rest of us."

The final answer on investment comes from Spencer, but it's his team driving the

questions. “When they’re asking themselves those questions and then we can actually put the resources behind it. That’s awesome,” he says. “Because at some point that Horizon Three stuff is going to be the Horizon One stuff. And if you don’t put the investments in place? Man, you’re just running out the clock.”

Initial designs for the Xbox Adaptive Controller

PlayStation is no longer the competition. After two decades of console wars, Xbox has sacked off the trenches and started the space race. Sony has its console and its dedicated games, playable only on that box, for £70 apiece. It’s a price that Sony Interactive Entertainment CEO Jim Ryan called “fair” last year.

Xbox’s fight is different; with the Apples and the Netflixes of the world, in the battle for time, convenience and mass consumption. Play any game you want, from any generation of Xbox, all in one with Game Pass. But it’s Xbox Cloud Gaming, the biggest Horizon Three yet, that can take that potential to the next level.

The ‘Netflix for Games’ fight has been fought and lost many times, though. Both gamers and fans of much-hyped catastrophes will remember OnLive, Ouya and most recently Google Stadia. Cloud gaming has been a moonshot for a decade.

The premise is simple: stream games on any screen like a movie or TV show. The technology is much harder to realise. All who have come have failed. Even Stadia

fizzled out in less than 18 months, despite spending untold millions of dollars on studio start-ups and game deals. But Xbox has done the groundwork that Google did not. Stadia relied on games like *Red Dead Redemption 2* selling at full price, a year after its initial release on Xbox and PlayStation. With Game Pass and Xbox Cloud Gaming, Xbox is offering hundreds of games, including new ones, playable anywhere, for a reasonable monthly fee. Bigger risk, bigger reward.

But Microsoft has had its head in the cloud for a while.

Microsoft's Xbox Cloud Gaming first began beta testing in November 2019 and is now available to all Xbox Game Pass Ultimate subscribers

Since 2016, at the time Choudhry was developing back compat features. “We enabled people to play a game designed for the 360, without a 360,” he says. “So how do we take that to the next step? I started asking the question of, ‘What does it mean to play a console game without a console?’” His giddy proposition took a similar arc as before. “‘Hey Phil, I’m going to take some people, we’re going to go and start to investigate this and start to explore what I call the feasibility risk,’” he says with a grin. Game Pass was going online at the same time. All the pieces were coming together. And then in 2018, Xbox officially built a cloud team that was initially labelled Project xCloud.

Although Cloud Gaming is untested at a mass scale, its appeal is clear. Focusing not on the hundreds of millions of players with a console, but the three billion players on other devices. Bond tells me about a trip to Africa that she and Spencer took, while xCloud was still in the testing phase. “[Phil] was playing on his phone. And everybody

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in Africa knows brands like *Grand Theft Auto*. But they can't necessarily play those things. They don't own a console, they don't own a high-end PC." xCloud has the potential to increase Xbox's user base tenfold.

It was only this year that Microsoft began to roll it out to billions of iPhone and Android users across the world. Spencer tells me that they're doing work with TV manufacturers so that you'll soon be able to stream games directly from your TV, too, just like Netflix or Disney+. To properly show the proof of concept and break people out of that ownership cycle, though, Xbox needed a killer app. Not hedging his bets, Spencer bought eight.

The Elder Scrolls III: Morrowind was first released for Xbox by Bethesda in 2002

"It's actually not a very long conversation," says Spencer. He's explaining how you ask the board of your publicly listed company for $7.5 billion. "They're going to do their work and ask hard questions [...] but I think the biggest hurdles are the self-imposed questions. The 'hole' in that acquisition was, it's more 'core'. It's more guys in armour, killing aliens or demons."

The money was for ZeniMax Media, the parent company of Bethesda Softworks, a massive video game publisher in ownership of eight major league development

studios. The deal cost more than Disney paid for Star Wars and every Marvel franchise. Combined. Suddenly, Xbox owned some of the most popular names in video games.

Dishonored. *Doom*. *Quake*. *Wolfenstein*.

Fallout. *Starfield*.

The Elder Scrolls.

Bethesda didn't just mean big names, but big sales and critical love. *Skyrim* has to date sold some 30 million copies. The ironically PS5-exclusive *Deathloop* is one of 2021's highest-rated games. These aren't mass mainstream 'social casual' games like *Candy Crush*, Spencer admits, "but we're going to go do that work as well."

For Todd Howard, game director at Bethesda Game Studios, the man responsible for directing *Skyrim*, the acquisition hasn't changed all that much. At least "so far," he says. "You don't know what's going to change once you start digging in. But we went into it pretty clear-eyed. So did they."

For Howard, Game Pass is the biggest change yet to how his team thinks about designing. It's a "creator-driven" platform that gives developers the confidence that whatever game they make is "going to find an audience of some heft. Before [Game Pass] you might want to make this game, and then you're gonna sit in a lot of forecasting sales meetings, and say, 'well, I don't know if we can make that game'," he says. "Game Pass opens up the creative canvas to many more types of games that may not find an audience in other ways."

Todd Howard first joined Bethesda in 1994 as a producer for *The Terminator: Future Shock*

Microsoft's acquisition was helped by an unofficial partnership stretching back to 2002. Bethesda develops its games with Xbox as its lead console platform. And by securing such a strong conveyor of new games, Spencer has managed to spread his bets beyond a small but storied cluster of top tier franchises in *Halo*, *Gears of War* and *Forza*. "There was a time when we didn't have a lot of first-party franchises," Spencer says, "and now we do. It's not just four games that we're kind of alternating every year. And if one of them doesn't hit, then we're not like, 'Boy, what are we doing?'"

For that reason, exclusivity has been the elephant in the room ever since the buyout. It's been confirmed that next year's *Starfield*, arguably the biggest game of 2022, will be Xbox and PC only. Spencer says he sees the same for *The Elder Scrolls VI*. In his eyes, Xbox is the whole experience. Xbox Live. Game Pass. Cloud Gaming. Friends lists. Save states. "It's not about punishing any other platform, like I fundamentally believe all of the platforms can continue to grow," he says. "But in order to be on Xbox, I want us to be able to bring the full complete package of what we have. And

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that would be true when I think about *Elder Scrolls VI*. That would be true when I think about any of our franchises."

As for what the game is or when we'll see more, the team is tight-lipped.

"We've been designing," Howard says offhandedly. *Starfield*'s technology base has been providing the next-gen features and tech to *The Elder Scrolls VI*, which, if you do the maths, will arrive some fifteen to seventeen years after *Skyrim*. Several lifetimes in game dev. Yet the "ultimate goal" for Howard is still the same. "I do this weird exercise that I like," he explains. "You go back and you read a review of the first *Elder Scrolls*. And then you read *The Elder Scrolls IV: Oblivion*'s, then you read *The Elder Scrolls V: Skyrim*'s. You black out a couple things. And they read the same. 'You've stepped out and oh my gosh, it feels so real.' People change. Technology changes. But the ultimate goal is still to make it so that, when you boot the game up, you feel like you've been transported."

Ironically, this month also sees another important Xbox birthday: the tenth anniversary of *Skyrim*. The game, re-released so many times in the last decade that it's literally playable via Amazon's Alexa voice assistant, has an almost undying legacy. It's this game specifically that amps up the pressure for the sequel. "I think that would drive me crazy to try to say, 'Okay, this is the thing you have to top,'" Howard says as he considers the game's long life. "But then you realise, like, *The Elder Scrolls VI* has got to be a 'decade game'. How do you make a game where you go into it, like, 'people have to play it for a decade?'"

That problem is yet to be solved.

Bethesda's *Starfield* will be release exclusively for Xbox consoles and PC in 2022

Phil Spencer isn't done yet. That much is clear. There are still potential acquisitions and other big moves in the works. *Halo Infinite* will finally be released in less than a month. Spencer is confident that the team at 343 Industries has done its best work. *Starfield* will be the most-anticipated game of 2022, and Game Pass and xCloud will ensure that more people than ever play this and every other Xbox game to come. And in places they never could before.

Xbox has found a way to bring its games to more gamers, without sacrificing that core joy for unfocused novelties. Boosted, at least a little, by gaming's boom during the pandemic.

"I'm not going to create this aura of any foresight, but I will say some of the key things that we started investing in five or six years ago that have come to fruition in this time have really helped us," Spencer says. Game Pass has enabled better access to more games. Back compat has alleviated supply problems so players can play new games on old boxes. xCloud has removed the need for those boxes entirely.

But there's still more to do.

"I talked a little bit about some of the kind of genre and taste stuff and areas that I think we need to continue to invest in," he continues. "Doesn't mean we won't invest in other stuff if the opportunity comes up… but there's a lot of great conversations happening and I'm encouraged"

While Spencer and his team are celebrating Xbox's 20th anniversary, he's aware that the future doesn't involve him. "Clearly, as somebody who has been here for 33 years, I have more years behind me than ahead of me," he says. "But the longevity of this team, the sustainability of this team, there's nothing that's more important to me right now than that."

And then there's succession.

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Phil Spencer presents at his first E3 as head of Xbox in 2014 Invision

It's something Spencer is thinking about. Microsoft, in fact, is pushing him to. "You should do it when you think about the long-term health of the team," he says. To make sure the team is in a good place. That the culture of the company is in a good place. "And that we're making the right decisions on who to bet on. That has got to outlive me."

Whether it's preserving Xbox's two-decade-long library of games; making a controller specifically for disabled players; creating a subscription for better and more varied experiences; a streaming platform with the potential to work anywhere with an Internet connection; Spencer's legacy is far-reaching. The recent launch of *Forza Horizon 5* – Xbox's biggest ever – is especially timely. And both he and his team are secure in the knowledge that Microsoft doesn't view Xbox as a "pawn getting played" on the business board. "We have a financial capability with this company to go and kind of do the things that we feel we need to do," he says.

But this is video game development. Mistakes, delays, wrong bets – they come at any time. Xbox's seven-year resuscitation shows that comebacks are neither cheap nor

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easy nor even guaranteed. And one year on from the beginning of the next console generation, PlayStation 5 still sits ahead of Xbox in terms of sales. The story isn't over. Which is why the team will do what they've always done: take those risks, make those calls, even if it doesn't turn out to be the right time for them.

"Cloud gaming was an idea that first came about years and years ago. We tried it a couple times, and things weren't ready," Choudhry concludes. "I have a number of things that we've tried in the past and either the industry wasn't ready, the business wasn't ready, or consumers weren't ready. But that's all just unfinished business. And I don't give up."

Unfinished business indeed.

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Microsoft Fiscal Year 2022 Second Quarter Earnings Conference Call

Tuesday, Jan 25, 2022

Brett Iversen, Satya Nadella, Amy Hood

video

Transcript

Microsoft Fiscal Year 2022 Second Quarter Earnings Conference Call

Microsoft FY22 Second Quarter Earnings Conference Call
Brett Iversen, Satya Nadella, Amy Hood
Tuesday, January 25, 2022

BRETT IVERSEN: Good afternoon and thank you for joining us today. On the call with me are Satya Nadella, chairman and chief executive officer, Amy Hood, chief financial officer, Alice Jolla, chief accounting officer, and Keith Dolliver, deputy general counsel.

On the Microsoft Investor Relations website, you can find our earnings press release and financial summary slide deck, which is intended to supplement our prepared remarks during today's call and provides the reconciliation of differences between GAAP and non-GAAP financial measures.

Unless otherwise specified, we will refer to non-GAAP metrics on the call. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP. They are included as additional clarifying items to aid investors in further understanding the company's second quarter performance in addition to the impact these items and events have on the financial results.

All growth comparisons we make on the call today relate to the corresponding period of last year unless otherwise noted. We will also provide growth rates in constant currency, when available, as a framework for assessing how our underlying businesses performed, excluding the effect of foreign currency rate fluctuations. Where growth rates are the same in constant currency, we will refer to the growth rate only.

We will post our prepared remarks to our website immediately following the call until the complete transcript is available. Today's call is being webcast live and recorded. If you ask a question, it will be included in our live transmission, in the transcript, and in any future use of the recording. You can replay the call and view the transcript on the Microsoft Investor Relations website.

During this call, we will be making forward-looking statements which are predictions, projections, or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release, in the comments made during this conference call, and in the risk factor section of our Form 10-K, Forms 10-Q, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

And with that, I'll turn the call over to Satya.

SATYA NADELLA: Thank you, Brett.

It was a record quarter, driven by continued strength of the Microsoft Cloud, which surpassed $22 billion in revenue, up 32 percent year over year.

We're living through a generational shift in our economy and society. Digital technology is the most malleable resource at the world's disposal to overcome constraints and reimagine everyday work and life.

We are innovating and expanding our entire portfolio across consumer and commercial segments to help people and organizations thrive in this new era.

Now I'll highlight examples, starting with Azure.

As every company becomes a digital company, they will need a distributed computing fabric to build, manage, secure, and deploy applications anywhere.

We have more datacenter regions than any other provider, delivering fast access to cloud services, while meeting data residency requirements.

We're extending our infrastructure to the 5G network edge, helping operators and enterprises create new business models and deliver ultra-low latency services closer to the end user. AT&T, for example, is bringing together its 5G network with our cloud services to help General Motors deliver next generation connected vehicle solutions to drivers.

Our Azure Arc customer base has tripled year over year. We're now helping thousands of organizations – from BP to Rabobank – unify their on-premises, hybrid, and multi-cloud infrastructure.

And, as the digital and physical worlds come together, we are seeing real enterprise metaverse usage. From smart factories, to smart buildings, to smart cities, we are helping organizations use the combination of Azure IoT, Digital Twins, and Mesh, to help digitize people, places, and things, in order to visualize, simulate, and analyze any business process. Ecolab, for example, is using these tools to build its own platform to model and optimize water management.

Across Azure, we are seeing growing adoption across every sector. CVS Health, Johnson & Johnson Medical Devices, Kyndryl, and Wells Fargo all chose our cloud as their preferred provider this quarter.

Now, to data.

From best-in-class databases and analytics, to AI and data governance, we have the most comprehensive data stack to help every organization turn its data into predictive and analytical power.

Cosmos DB is the database of choice for cloud-native app development – at any scale. Data volumes and transactions increased over 100 percent year over year.

With Azure Synapse, we're removing traditional barriers between enterprise data warehousing and big data analytics so anyone can collaborate, build, and manage analytics solutions.

Data governance is emerging as an important and growing category. And Azure Purview is leading here, helping thousands of organizations achieve a more complete understanding of their data estate.

In AI, we have one of the most powerful supercomputers in the cloud, and we're using it not only to train new models but to deliver them as platforms to our customers.

Our new Azure Open AI Service is in preview and that brings together advanced language models with the enterprise capabilities of Azure. GitHub Copilot is using this capability to help developers write better code.

More broadly, we continue to see strong usage across our Cognitive Services, with over 30 million hours of speech transcribed last quarter, up nearly 2X compared to a year ago.

Now, to developers.

From GitHub to Visual Studio, to Azure PaaS services, we have the most popular tools to help every developer go from idea to code and code to cloud.

As companies prioritize embedding security into their developers' workflow, we're investing across GitHub to secure open source. Increasingly, every devsecops workflow will start with GitHub Advanced Security, and we're seeing strong demand from both digital natives like Afterpay and Mercari, as well as established companies like 3M and Bosch.

And organizations are increasingly turning to both Visual Studio and our PaaS services, like Container Apps and Chaos Studio, to streamline development and build modern, more resilient cloud-native applications.

Now, to Power Platform.

Low code/no-code tools are rapidly becoming a priority for every organization's digital capability building.

We're innovating to help organizations like Airbus, Centrica, and Johnson Controls rapidly scale their use of Power Platform, using end-to-end suite to automate workflows, create apps, build virtual agents, and analyze data.

At H&M, more than 30,000 employees have used Power Platform to drive productivity gains. They've created more than 1,500 applications, flows, and dashboards to date, for everything from managing office capacity to tracking team goals.

And, at Kroger, more than 420,000 associates are using our Return to Workplace solution, which is built on Power Platform, to verify their health and vaccination status.

Now, on to Dynamics 365.

To counter demand shocks and supply constraints in this economy, every business will need to become a hyperconnected business, unifying data, process, and teams across the organization.

Across Dynamics 365, we continue to take share, as companies turn to our expanding portfolio of business applications to address these and other challenges.

With Dynamics 365 Connected Spaces, we are creating a new software category to help organizations manage physical operations across diverse industries, from real estate, to retail, to factories, and construction.

Companies like Chipotle and Home Depot are relying on our new Customer Experience Platform to take control of their data, connecting customer touchpoints to deliver more personalized experiences.

Daimler Trucks North America is using Dynamics 365 Supply Chain Insights to preempt supply chain issues.

And, just yesterday, we announced a new "logistics as a service" offering with FedEx, combining data and insights from the company's network with Dynamics 365 to help brands better fulfill, ship, and service customer orders.

Now, to industry solutions.

Just over a year ago, we introduced our first industry cloud offering, bringing together industry-specific customizations with our entire stack to help customers improve time to value, increase agility, and lower costs.
We now have six industry clouds, and they're driving significant increases in usage across the Microsoft Cloud.

Our Cloud for Retail was front and center at NRF, with retailers – from Ahold DELEZ and GNC – sharing how they're using our solutions to deliver seamless customer experiences.

Our Cloud for Sustainability unifies data to help customers record, report, and reduce their carbon emissions. Industry leaders, including Nissan Motor, are turning to the offering to help meet sustainability goals.

Now, on to LinkedIn.

We are experiencing a "Great Reshuffle" across the labor market, as more people in more places than ever rethink how, where, and why they work.

In this new economy, LinkedIn has become mission critical to connect creators with their communities, job seekers with employers, learners with skills, and sellers with buyers.

Last quarter, we once again saw record engagement. And LinkedIn has become one of the world's largest platforms for professional events, with more than 24,000 events created and 1.5 million RSVPs each week.

Confirmed hires were up 110 percent year over year, and we added tools to make it easier to discover open roles that align with how and where people want to work.

With entrepreneurship on the rise, our new Service Marketplace has helped nearly 3 million freelancers and small businesses discover new clients.

We also saw strong growth in LinkedIn Sales Solutions, which surpassed $1 billion in revenue over the past 12 months for the first time. Our Sales, Talent, Marketing, and Premium Subscriptions lines of business have now all reached this milestone.

Now, to Microsoft 365 and Teams.

Every organization today needs a digital fabric to connect and empower everyone inside and outside the organization, from knowledge and frontline workers to customers and partners.

At the center of this digital fabric is Teams, which surpassed 270 million monthly active users this quarter.

Organizations are using Teams to run their business with collaborative applications that bring business process data right into the flow of work. Monthly usage of third-party applications and custom-built solutions has grown 10X in the last two years, with new and updated apps this quarter from Atlassian, Monday.com, SAP, and Workday. United Airlines is using bots within Teams to create tighter connections between operations and flight crews. And Marks & Spencer used Power Apps and Teams to streamline internal help desk requests.

As hybrid work becomes the norm, every organization will need to rethink their approach to space. With Teams Rooms, we're bringing Teams to a growing ecosystem of devices to help people stay connected and participate fully in meetings from anywhere. The number of active Teams Rooms devices more than doubled year over year.

And with Mesh for Teams, we're bringing the metaverse to Teams, helping employees at organizations like Accenture access a shared immersive experience where they can have watercooler-type conversations, and even whiteboarding sessions.

Teams is rapidly becoming the standard for unified communications. Over 90 percent of Fortune 500 companies used Teams Phone this quarter, and we continue to take share across PSTN and VOIP as organizations like Bank of Montreal, Chevron, General Motors, LVMH, and NetApp turn to Teams to meet their internal and external collaboration needs.

All-up, we're seeing Teams growth in every segment, from frontline worker usage up 2X year over year. Zebra Technologies will bring Teams "Walkie Talkie" communication to devices used by millions of employees on retail floors. And Walmart chose Teams for their more than 2 million frontline workers this quarter.

And we're expanding our opportunity with Teams Essentials, the first standalone Teams offering specifically designed to meet the needs of small businesses. It's early days, but we're already encouraged by strong demand.

With Microsoft Viva, we're creating a new employee experience category, combining communications, knowledge, learning, resources, and insights to help people feel connected to the company's mission and culture.

Now broadly available, Viva is being used by more than 1,000 paid customers – including Blum, Nationwide, and REI – to help address challenges like employee burnout and retention.

All this innovation is driving growth across Microsoft 365. From Heineken to Hilton, to Zurich Insurance, organizations continue to choose our premium E5 offerings for advanced security, compliance, voice, and analytics.

Now, on to Windows.

We've seen a structural shift in PC demand.

More than ever, people are turning to PCs to exercise their agency and unleash their creativity, whether it's meeting in virtual reality or for remote work, writing code or collaborating in documents, livestreaming video or playing games, or for graphic design and engineering design.

As new use cases are born every day, and existing ones see a resurgence, we're experiencing a PC renaissance, with increases in time spent on PCs, and PCs per household.

Three months in, we're delighted by the response to Windows 11. We're seeing more usage intensity and higher quality than previous versions of our operating system.

And Windows took share this quarter.

We are delivering Windows in new ways to meet evolving customer needs. This quarter, we introduced Windows 11 SE, a cloud-first operating system purpose-built for schools.

And, with Windows 365, we are bringing the operating system to the cloud, helping businesses like Coats North America and Regeneron Pharmaceuticals stream the full Windows experience to any employee device.

There are now more than 1.4 billion monthly active devices running Windows 10 or Windows 11, and they're a powerful on-ramp for both our first-party and third-party

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services. Windows 11 users engage with the Windows app store at nearly 3X the rate as Windows 10.

And, across Bing and Edge, we are creating differentiated, high value experiences for consumers and advertisers in key verticals, including shopping.

Just one year since the launch of coupon and price comparison features, Edge has already surfaced more than $800 million in savings.

More broadly, we are expanding our opportunity in advertising.

Over the past 12 months, our total advertising revenue, inclusive of LinkedIn, surpassed $10 billion ex TAC.

And with our acquisition of Xandr, we will bring to market new advertising solutions that combine our deep audience understanding and customer base with Xandr's large-scale data-driven platforms.

Now, on to security.

Cybercrime is the number one threat facing every business today.

Our aim is to help organizations implement a comprehensive Zero Trust architecture that protects people, devices, applications, and data holistically across their heterogenous cloud and client environments.

We protect our customers in two interconnected ways:

First, we incorporate security by design into every product we sell.

And, second, we deliver advanced end-to-end cross-cloud, cross-platform security solutions, which integrate more than 50 different categories across security, compliance, identity, device management, and privacy, informed by more than 24 trillion threat signals we see each day.

Among analysts, we are a leader in more security categories – now 19 – than any other provider.

Our multi-cloud, multi-platform innovation is driving growth.

Across commercial and consumer, more than 1 billion monthly active users now rely on a Microsoft Account to securely access their favorite products and services with just one login.

More than 15,000 customers now use our cloud-native SIEM, Microsoft Sentinel, to stop threats before they happen, up over 70 percent year over year.

And, all-up, the number of customers that use our advanced security solutions accelerated this quarter to over 715,000. More than half have 4 or more workloads, up

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75 percent year over year, underscoring our end-to-end differentiation. On average, customers save 60 percent compared to multi-vendor solutions.

As a result of our customers' trust, our security business revenue surpassed $15 billion over the past 12 months, up nearly 45 percent year over year.

Now, on to gaming.

The big bets we have made across content, community, and cloud over the past few years are paying off.

We saw record engagement, as well as revenue this quarter.

Game Pass has more than 25 million subscribers across PC and console. Our differentiated content is driving the service's growth, and we released new AAA titles this holiday to rave reviews and record usage. 18 million have played Forza Horizon 5 to date. And more than 20 million have played Halo Infinite, making it the biggest Halo launch in history.

And with our planned acquisition of Activision Blizzard, announced last week, we are investing to make it easier for people to play great games wherever, whenever, and however they want, and also shape what comes next for gaming as platforms like the metaverse develop.

In closing, as digital technology as a percentage of global GDP continues to increase, we are innovating and investing across diverse and growing TAMs with a common underlying technology stack and an operating model that reinforces a common strategy, culture, and sense of purpose.

With that, I'll hand it over to Amy who will cover our financial results in detail and share our outlook.
I look forward to rejoining you for questions.

AMY HOOD: Thank you, Satya, and good afternoon everyone.

This quarter, revenue was $51.7 billion, up 20% year-over-year. Earnings per share was 2.48, increasing 22%.

The US dollar strengthened during the quarter, and as a result, FX had no impact on total company and segment revenue growth, which was a 1-point headwind compared to expectations. Despite this, we delivered another quarter of strong double-digit revenue growth in each of our business segments, reflecting our unique and differentiated market position across a connected portfolio of diverse businesses.

In our commercial business, strong execution by our sales teams and partners combined with continued demand for our Microsoft Cloud offerings drove significant growth in large, long-term Azure contracts, as well as increased usage of Teams and our advanced security and identity offerings. And in LinkedIn, Talent Solutions benefited from a strong job market again this quarter.

In our consumer business, increased PC demand and usage, as Satya highlighted, benefitted our Windows OEM business. Continued advertising market growth drove another strong quarter in LinkedIn Marketing Solutions as well as Search and news advertising. And in a strong holiday quarter for gaming, we saw record revenue and engagement on the platform, with significant growth in Game Pass subscribers and first-party titles, as well as continued demand for Xbox Series X and S consoles.

Now to our overall results. Commercial bookings grew 32% and 37% in constant currency, significantly ahead of expectations, driven by the large, long-term Azure contracts noted earlier and strong execution across our core annuity sales motions. Commercial remaining performance obligation increased 31% and 32% in constant currency to $147 billion. Roughly 45% will be recognized in revenue in the next 12 months, up 26% year-over-year. The remaining portion, which will be recognized beyond the next 12 months, increased 37% year-over-year, highlighting the long-term commitment customers are making to our Microsoft Cloud. And our annuity mix increased 1 point year-over-year to 94%.

Microsoft Cloud revenue grew 32% to $22.1 billion, again ahead of our expectations.

Microsoft Cloud gross margin percentage decreased slightly year-over-year to 70%. Excluding the impact from the change in accounting estimate for the useful life of server and network equipment assets, Microsoft Cloud gross margin percentage increased roughly 3 points driven by improvement across our cloud services, partially offset by sales mix shift to Azure.

As noted earlier, with the strengthening of the US dollar thru the quarter, FX had no company and segment revenue growth impact, and minimal impact on COGS and operating expense growth.

Gross margin dollars increased 20%. Gross margin percentage was 67%, relatively unchanged year-over-year. Excluding the impact of the change in accounting estimate, gross margin percentage increased roughly 2 points driven primarily by the improvement in our cloud services noted earlier.

Operating expense increased 14%, lower than expected, primarily driven by investments that shifted to future quarters. At a total company level, headcount grew 16% year-over-year as we continue to invest in key areas such as cloud engineering, sales, customer deployment, gaming, and LinkedIn.

Operating income increased 24% and operating margins expanded 1 point year-over-year to 43%. Excluding the impact of the change in accounting estimate, operating margins expanded roughly 3 points year-over-year.

Now to our segment results.

Revenue from Productivity and Business Processes was $15.9 billion and grew 19% year-over-year, which included a 1-point FX headwind relative to expectations. Excluding this headwind, revenue exceeded expectations driven by LinkedIn.

Office commercial revenue grew 14%. Office 365 commercial revenue growth of 19% was driven by installed base expansion across all workloads and customer segments, as well as higher ARPU. Demand for our advanced security, compliance, and voice offerings drove continued momentum in E5 revenue this quarter. Paid Office 365 commercial seats increased 16% year-over-year, driven by another strong quarter of growth in our small and medium business and frontline worker offerings.

Office commercial licensing decreased 17%, in line with expectations and consistent with the ongoing customer shift to the cloud.

Office consumer revenue grew 15%, driven by continued momentum in Microsoft 365 subscriptions, which grew 19% to 56.4 million.

Dynamics revenue grew 29% year-over-year driven by Dynamics 365, which grew 45% and 44% in constant currency. Continued demand for our modern, low-code app development solutions drove another strong quarter with 161% revenue growth in Power Apps.

LinkedIn revenue increased 37% and 36% in constant currency, with continued strength in Marketing Solutions, which grew 43% year-over-year and better-than-expected performance in Talent Solutions from the strong job market noted earlier.

Segment gross margin dollars increased 20% and 19% in constant currency and gross margin percentage was relatively unchanged year-over-year. Excluding the impact of the change in accounting estimate, gross margin percentage increased roughly 2 points driven by improvement across all cloud services. Operating expense increased 13%, and operating income increased 24%.

Next, the Intelligent Cloud segment. Revenue was $18.3 billion, increasing 26% year-over-year, which included a 1-point FX headwind relative to expectations. Excluding this headwind, revenue grew ahead of expectations driven by continued customer demand for our differentiated hybrid and cloud offerings.

Overall, server products and cloud services revenue increased 29% year-over-year. Azure and other cloud services growth of 46% was driven by continued strength in our consumption-based services.

In our per-user business, the enterprise mobility and security installed base grew 28% to over 209 million seats.

In our on-premises business, revenue increased 6%, in line with expectations driven by healthy demand for our hybrid offerings that include Windows Server and SQL Server running in multi-cloud environments.

Enterprise Services revenue grew 8% and 7% in constant currency, driven by growth in Enterprise Support Services and Microsoft Consulting Services.

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Segment gross margin dollars increased 21% and 22% in constant currency and gross margin percentage decreased roughly 2 points year-over-year. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly with improvements in Azure partly offset by the sales mix shift to Azure. Operating expense increased 14%, and operating income grew 26%.

Now to More Personal Computing. Revenue was $17.5 billion, increasing 15% year-over-year, with better-than-expected performance in Windows OEM, Surface, and Search and news advertising. Revenue growth included a 1-point FX headwind relative to expectations.

Windows OEM revenue increased 25%, significantly ahead of expectations, driven by the strong PC market noted earlier, particularly in the commercial segment, which has higher revenue per license. As a reminder, these results include roughly 6 points of positive impact from the $210-million revenue deferral related to Windows 11, which shifted revenue from Q1 to Q2.

Windows commercial products and cloud services revenue grew 13% and 14% in constant currency driven by demand for Microsoft 365.

Surface revenue grew 8% year-over-year, ahead of expectations as we were able to ship more devices than anticipated into a strong demand environment.

Search and news advertising revenue ex TAC increased 32%, better than expected, benefiting from the strong advertising market noted earlier. And, we saw share gains in our Edge browser on Windows 10 and 11 devices.

And in Gaming, revenue increased 8%, in line with expectations. Xbox hardware revenue grew 4% and 3% in constant currency driven by continued strong demand and better than expected console supply on a strong prior year comparable that included the launch of the Xbox Series X and S. Xbox content and services revenue increased 10%, lower than expected, as strong growth in first-party titles and Game Pass subscriptions was partially offset by weaker third-party title performance.

Segment gross margin dollars increased 20% year-over-year. Gross margin percentage increased roughly 2 points, driven by a sales mix shift to higher margin businesses and improvement in Search and news advertising. Operating expenses increased 17% driven by investments in Gaming, primarily ZeniMax, search and news advertising, and Windows marketing. Operating income grew 22% and 21% in constant currency.

Now back to total company results.

Capital expenditures including finance leases were $6.8 billion, up 25% year-over-year, lower than expected, primarily due to quarterly spend volatility in the timing of our cloud infrastructure buildout. Cash paid for PP&E was $5.9 billion. Our capital investments, including both new data center regions and expansion in existing regions, continue to be based on significant customer demand and usage signals.

Cash flow from operations was $14.5 billion, increasing 16% year-over-year as strong cloud billings and collections were partially offset by higher supplier payments related to hardware inventory builds. Free cash flow was $8.6 billion, up 3% year-over-year, reflecting higher capital expenditures in support of our growing cloud business.

This quarter, other income and expense was $268 million, higher than anticipated, primarily driven by net gains on investments. As a reminder, we are required to recognize mark-to-market gains or losses on our equity portfolio.

Our effective tax rate was approximately 17%.

And finally, we returned $10.9 billion to shareholders through share repurchases and dividends.

Now, before we turn to our outlook, I'd like to provide a couple of reminders. First, my remarks for the next quarter do not include the impact from the Nuance acquisition, although we do expect it to close during Q3. Second, the outlook we give, unless specifically noted otherwise, is on a US dollar basis.

With that, let's move to our third quarter outlook.

First FX. With the stronger US dollar and based on current rates, we now expect FX to decrease total revenue growth by approximately 2 points and to decrease total COGS and operating expense growth by approximately 1 point. Within the segments, we anticipate roughly 2 points of negative FX impact on revenue growth in Productivity and Business Processes and Intelligent Cloud and 1 point in More Personal Computing.

Next, we expect our differentiated market position, customer demand for our high-value hybrid and cloud offerings, and consistent execution to drive another strong quarter of revenue growth. In commercial bookings, growth should be healthy but will be impacted by the strong prior year comparable as well as low growth in the expiry base. As a reminder, the growing mix of larger long-term Azure contracts, which are more unpredictable in their timing, drive increased quarterly volatility in our bookings growth rate.

Microsoft Cloud gross margin percentage should be roughly flat year-over-year. Excluding the impact of the change in accounting estimate, Q3 gross margin percentage will increase roughly 2 points driven by continued improvement across our cloud services, despite revenue mix shift to Azure.
And, on a dollar basis, we expect capital expenditures to be slightly down sequentially with normal quarterly variability in the timing of cloud infrastructure buildout.

Next to segment guidance.

In Productivity and Business Processes, we expect revenue between $15.6 and $15.85 billion.

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In Office 365, healthy revenue growth will be driven by the same factors as Q2 with similar seat growth across customer segments and continued momentum in E5. In our on-premises business, we expect revenue to decline in the high-teens, with continued customer shift to the cloud.

In Office consumer, we expect revenue to grow in the high single-digits, with continued momentum in Microsoft 365 consumer subscriptions.

For LinkedIn, the strong job market and healthy engagement on the platform should drive revenue growth in the low-30% range.

And in Dynamics, we expect revenue growth in the mid-20% range driven by strength in Dynamics 365, including continued momentum in Power Apps.

For Intelligent Cloud, we expect revenue between $18.75 and $19 billion.

Revenue will continue to be driven by Azure which, as a reminder, can have quarterly variability primarily from our per-user business and from in-period revenue recognition depending on the mix of contracts.

In Azure, we expect revenue growth to be up sequentially in constant currency, driven by our Azure consumption business, with strong growth on a significant base. And our per-user business should continue to benefit from Microsoft 365 suite momentum, though we expect some moderation in growth rates given the size of the installed base. In our on-premises server business continued demand for our differentiated hybrid offerings should drive revenue growth in the low to mid-single digits.

And in Enterprise Services, we expect revenue growth to be in the low to mid-single digits.

In More Personal Computing, we expect revenue between $14.15 and $14.45 billion.

Continued strength in PC shipments, particularly in the commercial segment, should benefit Windows OEM despite ongoing supply chain constraints. We expect Windows OEM revenue growth in the high single-digits.

In Windows commercial products and cloud services, customer demand for Microsoft 365 and our advanced security solutions should drive growth in the low double-digits.

In Surface, revenue should grow in the mid-teens with strength from our premium devices.

In Search and news advertising ex-TAC, we expect revenue growth in the mid to high-teens, against a strong prior year comparable that was driven by a recovery in the advertising market.

And in Gaming, on a prior year comparable that included significant strength in hardware from our new consoles as well as across Xbox content and services, we expect revenue growth in the mid-single digits. Console sales will continue to be

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impacted by supply chain uncertainty. And in Xbox content and services, we expect revenue growth in the mid to high-single digits with strong engagement and continued momentum across the platform.

Now back to company guidance.

We expect COGS of $15.5 to $15.7 billion and operating expense of $13.4 to $13.5 billion driven by headcount investments in high-growth, strategic areas to drive continued long-term revenue growth.

In other income and expense, interest income and expense should offset each other.

And we expect our Q3 effective tax rate to be approximately 18%, slightly higher than our full year expected tax rate of approximately 17%.

And finally, for FY22, given our strong performance in the first half of the fiscal year and our current H2 outlook, full year operating margins should be slightly up year-over-year even with the impact of changes in accounting estimates noted earlier and the significant strategic investments we are making to capture the tremendous opportunities ahead of us.

In closing, digital technologies are increasingly essential to empowering every person and organization on the planet to achieve more and we are well positioned with innovative, high value products. Our diverse, yet connected portfolio of solutions span end markets, customer sizes, and business models uniquely enabling us to deliver long-term revenue and profit growth.

With that, Brett, let's go to Q&A.

BRETT IVERSEN: Thanks, Amy.
We'll now move over to Q&A. Out of respect for others on the call, we request that participants please only ask one question.
(Operator Direction.)

KEITH WEISS, Morgan Stanley: Excellent. Thank you, guys, for taking the questions and congratulations on a very nice quarter.
I wanted to ask you guys a high-level question about the overall demand environment and whether we've seen any changes, given sort of the disruptions we've seen from Omicron and a lot of what's going on in the environment. There's been a narrative among software investors and a lot of time the asset prices seem the narrative. I wanted to check in with you guys on how you feel about the overall demand environment, particularly around digital transformation and how durable is that going to be into calendar year '22? Do you still see a lot of wood to chop, if you will, a lot of activity taking place in that direction. Thank you.

SATYA NADELLA: Thank you, Keith. I'll take that and, Amy, you can add on to it.
Overall, what we see is pretty strong demand signal. And quite frankly, going into the pandemic, we saw demand increase because of the constraints the pandemic put on corporations and the increased consumer activity.

And then coming out of the pandemic, we are seeing actually a lot of constraints in the economy and the only resource, as I said in my remarks, that can help drive productivity, while keeping costs down, is digital tech.
When I think, take something like PowerApps, it's just a great example of something that's right in the middle of our stack, really helps drive that next level of productivity in the labor force for any company in any industry.
The demand signals we see across the stack from security to our cloud infrastructure, to business applications and solutions like Teams is very strong.
And the other area obviously we're seeing strength is in gaming. That's where we have doubled down in terms of our consumer category creation and we see the intensity of usage and the business model diversity around games that increasingly the economics of gaming franchises is also radically becoming much more software like. We sort of overall see good demand signal across the stack.

KEITH WEISS: Got it. And to be clear, the constraints that you talk about for the broader economy, headcount constraints and the like, it doesn't sound like that's constraining your opportunity. You're not kind of running short on people to sell or implement your solutions or not having a hard time finding the people you need to make the investments behind the product. Is that the right read-through?

SATYA NADELLA: There's definitely a very competitive talent market, and we're competitive in that talent market. You see it even in our op-ex projections that Amy shared. We are growing our headcount because we see the opportunity. We are not immune from what happens overall in the labor market, but I think we have a good brand and an attractive brand to both get people and to retain people with everything that we are doing.

But at the same time, we do want to make sure that our channel and our ecosystem remain healthy, and all the signals at least we are getting is that there are no constraints per se, other than at the end of the day, all businesses are going to be subject to the laws of economic growth in the overall economy.

KEITH WEISS: Outstanding. Thank you very much, guys.

BRETT IVERSEN: Thanks, Keith.
Operator, next question, please.
(Operator Direction.)

MARK MOERDLER, Bernstein: Thank you very much for taking my question and congratulations on the strong growth across the overall business and the really nice outlook.
Satya given all the commentary on the metaverse, what are the key components of the metaverse or the multiple metaverses that you're seeing? What does Microsoft have today that they're positioned to be able to deliver to meet those requirements and what do you believe you might be lacking in the partner ecosystem to meet those requirements?
Amy, with the hype cycle underway and increased industry interest in the metaverse, are you changing your investments to meet the potential opportunity?

SATYA NADELLA: Thank you for the question. The way we see this is as an opportunity in a very classic Microsoft sense, both at the platform infrastructure level and on the application level. That's why, I think, even in my remarks, I tried to reference all the places where we are investing today and seeing customer use cases really develop.

The first place where we see this is the increasing digitization of people, places, and things to be able to really help businesses automate processes to the next level. Today, between Azure IoT, digital twins and Mesh, we have many examples where customers are engaged with us. That's what will show up in Azure and we're investing significantly there.

Up the stack, I would say. Dynamics, Dynamics 365 Connected Spaces, that's a solution that's in preview today. That's about really being able to take a retail space or a connected factory or a building and essentially create a complete new software category, which is about managing physical processes. Just like CRM and ERP and supply chain management, we now have a suite which is all driven by Connected Spaces, which is going to automate physical processes.

Teams is going to have Mesh meetings or these immersive meetings, which will start first of all on 2D screens, whether it's PCs or phones, and then lead up to even immersive experiences if you wear your VR or AR goggles. That's another place.

And then, of course, gaming, that will be a natural place for us. And today, if you think about the activity, when I talked about the Forza numbers, right, that's a place where you could say already people are investing in their avatars, people are building Minecraft worlds. And so very naturally, you can see us extend gaming as the metaverse evolves.

On the devices side, one of the things we're very excited to be doing is what we're doing with HoloLens and all the experience we're gaining on the optics, on the silicon side, and all the way to the cloud in terms of some of the foundational services, driven by all the HoloLens use cases in the enterprise.

That's the broad portfolio. We're going to invest across the entire tech stack. The demand will come in different forms for different categories, but we feel very well-positioned to be able to catch what I think is essentially the next wave of the internet, right? Just like the first wave of the internet allowed everybody to build a website, I think the next wave of the internet will be a more open world where people can build their own metaverse worlds, whether they're organizations or game developers or anyone else.

AMY HOOD: And Mark, maybe just add one bit of perspective to Satya's answer, which is, I would bring people's attention to the holistic nature in which he answered the questions starting at the platform layer, all the way up through the importance of content and app layer, and that the investment will show itself in each component as opposed to maybe in one standalone group or team.

It's because, I think, of the transition Satya just talked about. If it's at the platform layer and it applies to all the components, it's better to do that, frankly, across the teams where they can apply it in the right way. I think that's how I would point to the investment showing itself.

MARK MOERDLER: Thank you very much. I really appreciate it. Thanks.

BRETT IVERSEN: Thanks, Mark.
Operator, next question, please.
(Operator Direction.)

BRENT THILL, Jefferies: Amy, you really underscored the strength you had on commercial bookings at 37%. Many are asking where you're seeing the strength, and into your Azure comment, for next quarter, obviously the acceleration. What's giving you the confidence? Thanks.

AMY HOOD: Thanks, Brent. Interestingly, I would not say that there is one location, and I would tie that back to the answer, actually, Satya gave to Keith's first question, which is if the underlying driver is digitization and our belief that it impacts every industry, every end market, then you'd expect it and the nature of the commitments to show themselves on a global basis and across end markets, and that is, in fact, what we saw in Q2.
I continually point out, these can be a little volatile because we really focus on getting the right deal done that matches the customer goals. And while we got a lot of those done in Q2, it can move around a little bit, as I talked about in Q1. But the execution was very good by the sales team this quarter, but I would not characterize any geo or industry as being different or distinct from others.
And for a second, let me then connect that, as you asked, into how to think about the guide for Azure on a constant dollar basis being up sequentially into Q3. I sort of continually remark that these things can move around a few points here and there, and yet have the consistent sign of consumption be steady. We saw that again, frankly, Q1, Q2, Q3, consumption growth by end market, by industry, by customer size has remained quite steady.
And so, while you'll see some volatility in that number, increased data usage, the data products have really been a strong performer. I think Satya mentioned some of those in his comments.
I do think in some ways they are connected, but I tend to put bookings execution on the Azure side into a long-term commitment bucket where customers are picking a partner to help them change the cost structure or the outcome structure that Satya talked about, and I tend to put these trendlines on Azure into a bucket called, you know, are we getting projects and successful projects set up at customers around the world, and both those things were very good by the sales teams.

BRENT THILL: Thanks.

BRETT IVERSEN: Thanks, Brent.
Operator, next question, please.
(Operator Direction.)

KARL KEIRSTEAD, UBS: Thank you. Amy, you started the fiscal year guiding to down margins, including the impact of the accounting change, and two quarters in, you're now guiding to up margins. Even with presumably some reversal of work-from-home related T&E savings, even with what I'm assuming is an uptick in labor costs, can you unpack that a little bit? Is it sales mix where some of the high margin businesses like Windows have outperformed? I'd love to hear a little color. Thank you.

AMY HOOD: Thanks, Karl.

I think it's really a combination of things, as it is when you go through a fiscal year. Really, I believe that our execution in a very good demand environment has given confidence. Revenue performance has been quite consistent, to your point. We have seen some continued upside in OEM, we've seen strength in gaming, we've seen strength in our Microsoft cloud products, we've seen good consistency out of Dynamics. At some level, when you really wanted to look at the trendline, you'd say this has been a very consistent execution by the team across really most of the business units.

And so, if you think about then what goes into confidence is when you start to add headcount and you add headcount with goals of ROI and you look at that accountability, I feel like the teams have done a nice job. Where we've added heads, they've been into strong markets. They've executed well. Sales teams have done the same.

And then on top of that, Karl, I would say there's been good execution on the gross margin numbers. I tend to be an operating margin focused communicator with you all and inside company, but gross margins have also been quite good. The teams have executed well on cost per goals through the year.

KARL KEIRSTEAD: Got it. That's helpful. Congrats.

AMY HOOD: Thanks.

BRETT IVERSEN: Thanks, Karl.

Operator, next question, please.

(Operator Direction.)

PHIL WINSLOW, Credit Suisse: Hi, team, and congrats on another great quarter.

I just wanted to focus in an Office 365 commercial, obviously another strong quarter there, both in terms of revenue, but also seat growth. Amy, in your commentary, you highlighted SMB seat performance, as well as frontline workers, and Satya mentioned a doubling of the frontline workers year over year, which is impressive. But you also commented on revenue per user going up.

I wonder if you could help us to kind of walk through the growth algorithm here, call it the P Times Q, because there are different trends going on both the P and the Q, and just sort of how there might be a change going forward versus what you have seen.

AMY HOOD: Sure, let me take a shot at that one, Phil. This is one where we do have, it is a P times Q that I think we try to disclose, but there's a couple of currents running through that, and maybe take a second to walk you through those.

Absolutely on seat growth, I think we are encouraged as we focus on more products that are more specific to those unique scenarios that face small businesses and frontline workers and really bringing the value of Microsoft 365 to them. I think you're even seeing that in offers like Teams Essentials, right, where it's a concerted effort to realize the challenges can be different in that part of the market and improving our execution. You're seeing that in continued seat growth over, I would say, I feel good about those numbers, over the past probably six quarters, with continued good execution on those.

Now, however, those do often come at lower revenue per month than we would see in our enterprise businesses buying the full suite of products.
In some ways, this very strong seat growth at the frontline worker and small business units do mask some of the progress that we've been making, in particular I'm thinking, offers in the enterprise, value props that are really resonating, and E5, and Satya may bring up some other ones. He mentioned quite a few in his comments, security, compliance, and increasingly voice as a value prop. And so sometimes, to your point, increasing seats at lower average price points can mask a bit of progress that we're making on ARPUs in the enterprise.

PHIL WINSLOW: Great. Thanks. Keep up with the great work.

BRETT IVERSEN: Thanks, Phil.
Operator, next question, please.
(Operator Direction.)

BRAD ZELNICK, Deutsche Bank: Great. Congrats on another record quarter.
Satya, there's a massive skills gap within the IT industry, and it's particularly acute in cybersecurity, where I notice Microsoft's campaign that kicked off in Q2 to help skill and recruit 250,000 cyber jobs by 2025, which is quite a bold undertaking.
Can you comment on the extent to which the gap is filled by people versus products and automation, and also the extent to which Microsoft sees cybersecurity as its responsibility versus it being a commercial opportunity that you can continue to monetize? Thanks.

SATYA NADELLA: A great set of questions. On the first one, I think it's, first and foremost, we absolutely need the skills and the people, and for the people to be sort of more evenly distributed in the broader economy, public sector, private sector, people who are working on behalf of small businesses, because absolutely, as digital tech becomes more pervasive across IT, as well as OT across the economy, I think the cyber threat is just going to be more pervasive.
And so therefore, we need the people and the skills, and we will do everything there in our power to sort of make sure that that happens, in terms of democratizing even how one acquires these skills. That's kind of where not that –we have to take a broader definition of what these skills are and how one can acquire the certifications. And this is where what we're doing even with LinkedIn, I'm very, very bullish on.
On the product side as well, like something like Sentinel, I do believe, for example, we are now doing very large scale AI on all of those signals that go into our cloud-native SIM, and that I think is going to help sift through signal from noise and help the productivity of the cyber-professionals in any organization. We are excited about how that workflow gets more efficient.
To your point, one of the fundamental responsibilities for us as a platform company is by design. It's all about shifting left on security and building it in to the products. If anything, when we think about our monetization, our monetization is about really recognizing that the real world is not some homogenous Microsoft infrastructure world. It is a multi-cloud, multi-platform world, and we will definitely monetize those aspects that we have best of breed solutions and suites and offerings.
And by the way, as I said in my remarks, the people who are adopting the Microsoft solutions are saving 60%. And so, to some degree, there is real time to value and cost

savings for anybody who's using our solution.
We're going to be very, very mindful of our responsibility, as you said, and at the same time, we think we have a security opportunity in being able to secure the entire heterogeneous digital estate of our customers.

BRAD ZELNICK, Deutsche Bank: Thank you very much.

BRETT IVERSEN: Thanks, Brad.
Operator, next question, please.
(Operator Direction.)

RISHI JALURIA, RBC: Wonderful. Thank you so much for taking my questions, and nice to see continued strength in the business.

Maybe I wanted to ask a little bit philosophically, Satya. The pandemic clearly accelerated everyone's timeline to migrate to the cloud, even if there wasn't necessarily a big pull forward there. As we think about a post-Omicron world where there is some level of office re-openings and visibility into that, how should we think about the potential to see maybe another wave or another acceleration of those cloud migrations with that ability to have in office and have hybrid work? Maybe walk us through that. Thank you.

SATYA NADELLA: Yeah, I mean, as I said, some of the contours of demand will change. For example, one of the solutions I highlighted is coming out of the pandemic, we built in Dynamics a Supply Chain Insights module. We were seeing significant demand for what was our Customer Insights module going into the pandemic because everybody needed to deploy essentially their online presence and use customer data to be able to reach customers, and that's how commerce happened during the pandemic. Coming out of the pandemic, we were hit with supply chain issues, so supply chain insights became the most important thing. That's where the demand picked up.
As I look at our portfolio, we are seeing a slightly different set of solutions. Same thing with Power Platform, right? When you are sort of saying, we have a labor force shortage and we need to do more with less, guess what, you turn to more automation tools, and that's where something like Power Platform, especially given you can even train your first-line workers to be able to be app builders and automate workflows, that's proving to be a productivity driver.
We are seeing differences in demand. I think the stable state here would be the structural shift that's happened because of the pandemic, combined with even the some of these constraints, whether there is supply shocks or others, will hopefully go away. But the one thing that isn't going to go away is the need for increasing levels of digitization, both in terms of tools that people use to improve the productivity of your op-ex and the COGS you have in your enterprise will probably now have a digital component to it, because that's where the leverage of cost will come. That's what we are betting on.
I always go back to that simple formula, as a percentage of GDP, what is IT spend, broadly defined, and what is it going to be a year from now, two years from now, five years from now, 10 years from now? It's just going to be more. And we've got to do a

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good job of seeing the trends before that conventional wisdom and gaining share, and so that's where we'll remain focused.

RISHI JALURIA: Wonderful. Thank you so much.

BRETT IVERSEN: Thanks, Rishi.
That wraps up the Q&A portion of today's earnings call. Thank you for joining us today, and we look forward to speaking with all of you soon.

SATYA NADELLA: Thank you

AMY HOOD: Thank you

(Break for direction.)
END

Upcoming Events

November 29, 2022 9:35 AM - MT

Credit Suisse Annual Technology Conference

Alysa Taylor, CVP, Industry, Apps, and Data Marketing

Webcast

Past Events

October 25, 2022 2:30 PM - PT

Microsoft Fiscal Year 2023 First Quarter Earnings Conference Call

Satya Nadella, Chairman and CEO and Amy Hood, EVP & CFO

Webcast

Event

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PRESS RELEASE DETAILS

MODERN WARFARE II CROSSES $1 BILLION SELL-THROUGH IN 10 DAYS, FASTEST IN FRANCHISE HISTORY

November 7, 2022 at 8:51 AM EST

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Over 1 Billion Matches, 200 Million Hours Played in First 10 Days Following October 28 Release

Modern Warfare II Universe Continues with Warzone 2.0 Release November 16

SANTA MONICA, Calif.--(BUSINESS WIRE)--Nov. 7, 2022-- Activision's **Call of Duty®: Modern Warfare® II** continues to smash franchise records as the new blockbuster has crossed $1 billion in worldwide sell-through following the first 10 days from its release on October 28, 2022. The new mark tops the previous franchise record of 15 days set in 2012 by Black Ops® II.

Player engagement continues to soar as **Modern Warfare II** players already have played more than 200 million hours and over 1 billion matches across PlayStation, Xbox and PC platforms in the first 10 days following its release on October 28.

"Our developers, along with our entire Activision Blizzard team, are the backbone of our unwavering commitment to serve our hundreds of millions of players around the world. I am so proud of the extraordinary efforts from our Call of Duty teams and the records they have achieved with Modern Warfare II. Connecting the world through joy, fun and the thrill of competition is the key to our success. Modern Warfare II has provided this to millions of players faster and with greater satisfaction than ever before," said Bobby Kotick, CEO, Activision Blizzard.

The newest records build on **Modern Warfare II**'s momentum:

- Modern Warfare II is the highest grossing entertainment opening of 2022.
- Modern Warfare II is the #1 top selling opening in franchise history topping $800 million in sell-through following its first three days of release.
- On November 16, the run continues with the release of Call of Duty: Warzone™ 2.0.

"The incredible momentum driving Modern Warfare II is a direct reflection of the energy and passion of the Call of Duty community," said Johanna Faries, General Manager, Call of Duty. "As we look ahead to an unprecedented level of support for Modern Warfare II and Warzone 2.0's launch next week, we are motivated to deliver again for the best player community in the world."

Modern Warfare II is available worldwide on PlayStation®5, PlayStation®4, Xbox® Series X|S, Xbox One®, and PC in a fully optimized experience for BATTLE.NET (HTTP://BATTLE.NET), Blizzard Entertainment's online gaming service, and Steam. Modern Warfare II development is led by Infinity Ward alongside an incredible team of studios, including Activision Central Design, Activision Central Tech, Activision Localization Dublin, Activision QA, Activision Shanghai, Beenox, Demonware, High Moon Studios, Raven Software, Sledgehammer Games, Toys for Bob and Treyarch. For more information and the latest details follow @CallofDuty on TWITTER (HTTPS://CTS.BUSINESSWIRE.COM/CT/CT?ID=SMARTLINK&URL=HTTPS%3A%2F%2FTWITTER.COM%2FCALLOFDUTY&ESHEET=52962623&NEWSITEMID=20221107005685&LAN=EN-US&ANCHOR=TWITTER&INDEX=1&MD5=A3396F651F0703BC62B353435EBF8689), INSTAGRAM (HTTPS://CTS.BUSINESSWIRE.COM/CT/CT?ID=SMARTLINK&URL=HTTPS%3A%2F%2FWWW.INSTAGRAM.COM%2FCALLOFDUTY%2F&ESHEET=52962623&NEWSITEMID=20221107005685&LAN=EN-US&ANCHOR=INSTAGRAM&INDEX=2&MD5=E5628FB4CA55ED78B43702FC0B04FC3E), and FACEBOOK (HTTPS://CTS.BUSINESSWIRE.COM/CT/CT?ID=SMARTLINK&URL=HTTPS%3A%2F%2FWWW.FACEBOOK.COM%2FCALLOFDUTYNOR%2F&ESHEET=52962623&NEWSITEMID=20221107005685&LAN=EN-US&ANCHOR=FACEBOOK&INDEX=3&MD5=4D4D9404BBB185CB3FD48127ADE94232).

Worldwide sell-through figures based on reporting received from digital and retail partners and Activision internal estimates. Call of Duty franchise records based on internal company reporting. Box office claims according to BOXOFFICEMOJO.COM (HTTP://BOXOFFICEMOJO.COM).

About Activision

Headquartered in Santa Monica, California, Activision is a leading global producer and publisher of interactive entertainment connecting hundreds of millions of players around the world through the joy, fun and thrill of competition enabled by epic entertainment. Activision maintains operations throughout the world and is a division of Activision Blizzard (NASDAQ: ATVI), an S&P 500 company. More information about Activision and its products can be found on the company's website at WWW.ACTIVISION.COM (HTTPS://CTS.BUSINESSWIRE.COM/CT/CT?ID=SMARTLINK&URL=HTTP%3A%2F%2FWWW.ACTIVISION.COM%2F&ESHEET=52962623&NEWSITEMID=20221107005685&LAN=EN-US&ANCHOR=WWW.ACTIVISION.COM&INDEX=4&MD5=5BBBBF8A7752AB11E275EA0E4FEB67FB) or by following @ACTIVISION (HTTPS://CTS.BUSINESSWIRE.COM/CT/CT?ID=SMARTLINK&URL=HTTP%3A%2F%2FWWW.TWITTER.COM%2FACTIVISION&ESHEET=52962623&NEWSITEMID=20221107005685&LAN=EN-US&ANCHOR=%40ACTIVISION&INDEX=5&MD5=B9C3148EDC93E0C9DA4D10102F8D341C).

Cautionary Note Regarding Forward-looking Statements: Information in this press release that involves Activision Publishing's expectations, plans, intentions or strategies regarding the future, including statements about the availability, pricing, features, and functionality of Call of Duty: Modern Warfare II and Call of Duty: Warzone 2.0 are forward-looking statements that are not facts and involve a number of risks and uncertainties. Factors that could cause Activision Publishing's actual future results to differ materially from those expressed in the forward-looking statements set forth in this press release include unanticipated product delays and other factors identified in the risk factors sections of Activision Blizzard's most recent annual report on Form 10-K and any subsequent quarterly reports on Form 10-Q. The forward-looking statements in this release are based upon information available to Activision Publishing and Activision Blizzard as of the date of this release, and neither Activision Publishing nor Activision Blizzard assumes any obligation to update any such forward-looking statements. Forward-looking statements believed to be true when made may ultimately prove to be incorrect. These statements are not guarantees of the future performance of Activision Publishing or Activision Blizzard and are subject to risks, uncertainties and other factors, some of which are beyond its control and may cause actual results to differ materially from current expectations.

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Play Earnings Call

Microsoft Corporation (NASDAQ:MSFT) Jefferies Interactive Entertainment Virtual Conference November 12, 2020 1:00 PM ET

Company Participants

Tim Stuart - CFO, Xbox

Conference Call Participants

Brent Thill - Jefferies

Alex Giaimo - Jefferies

Brent Thill

Welcome, everyone. My name is Brent Thill. I run the software group at Jefferies. I'm joined by Alex, my partner, who runs the gaming segment for us.

We want to welcome you and bring in Tim Stuart from Microsoft. Tim's the CFO and runs a lot of other things related to the gaming business inside Microsoft. He's been there a short 18 years and 6 months, and he has phenomenal experience. We know the Masters is kicking off on ESPN on the other side of this, so Tim is very confident we'll hold a higher court than Tiger Woods. Tim, thanks for joining.

Question-and-Answer Session

Q - Brent Thill

We're obviously riding the launch here. Maybe just bring us up to speed on the strategy this cycle, what you're seeing so far. You won't take my money right now. So everyone's asking, when are we actually going to be able to get these?

Tim Stuart

Yes, I wish I had some handouts for the show here. No, I think that it's a very unique time in gaming in general, as we know, with the pandemic going on and other things. But also, as you look over the last 4 or 5 years, just a very big change in gaming. We think about subscriptions, when you think about digital, when you think about new consoles. I love where we're at in terms of how we got here.

So your point is exactly right. 2 days ago, we launched Xbox Series X and Xbox Series S. It's our biggest launch we've ever done in terms of units and geographies and our overall footprint and activations. So super excited about where we're at. And I love the price points, I love the SKU profile we picked: $499 on the top end for Xbox Series X, the world's most powerful console; and then we have Xbox Series S, I like to call it the world's best value in gaming, really to bring forward a lot of those purchasers that would normally wait for price points to come down. We feel like we want to remove some of that friction, bring forward a lot of those users, bring forward a lot of those people that would come late in the generation. And maybe that contributes a little bit to your inability to find a console now. But really, out of the gate, launched with the right price point, the right power profile and the right content offerings that differentiate us.

So I like where we're at. I like the launch and I love how it sets up -- and we can talk about this later. I love how it sets up Game Pass and game streaming and really kind of starting where our strategy will go for Microsoft in the future.

Brent Thill

Many ask what makes this round different? You are a lover of golf, it seems like. You're going into this round versus last round. What is different about this round that you've tried I to work on going into this?

Tim Stuart

Yes. We always look for technological shifts to launch new consoles. And when you look at these consoles, it's things like fast load times. I have an Xbox Series S right here next to my PC. I won't play it right now. When we think about getting into games almost instantaneously. When you think about raytracing, you think about RDNA, you think about running a game at 120 frames a second and 4K. It's the technology around these boxes that really is magical.

And unleashes, really, creatives and content creators to really reach new things we haven't seen before in terms of fidelity, in terms of how things look and how things play, number of players you can put on a screen, a number of things you can load much quicker. So, a, I love the technology that we're ushering in; b, it's the experiences. It's things like we have Xbox All Access, which is the ability for us to combine Game Pass plus a hardware purchase into a $24.99 a month, a $34.99 a month subscription. So you can get hardware plus services together, which is something unlike we haven't had in the past.

And so now we can sell through new distribution, we can sell through Telstra in Australia. We can sell through mobile operators here in the U.S. So I love that pricing differentiation.

And then lastly is Game Pass, something we haven't had in the past. With Game Pass, you can get in for $9.99 a month. And if you're a new to the console player, you can get hundreds of great games out of the gate with the console that you've purchased, which is something we haven't had in the past. So the ability for someone to get into a console to play games that you -- look amazing and have never been seen like this before and have access to a content catalog that is bigger than we've ever had, I think, is going to be kind of the 1, 2, 3 punch of why this console's going to be very different than the past.

Brent Thill

There's obviously incredible demand. You had a sold-out of all the preorders. And I think everyone's kind of asking how you think about the ongoing supply that you can bring to the market. Can you just give us a high level -- I know you're not going to give specifics, but just high level, how you're meeting this incredible demand from your side?

Tim Stuart

Yes. It's something we look at all the time. You wish you had supply to meet the huge demand. I think what we've seen over the last generation and then heading into now is -- and part of this demand profile is, frankly, gaming is just exploding. It's a $200 billion a year industry. And so kids, adults, male, female, young, old, whatever it is, are games. And so that drives that demand profile, which we love to see.

From a supply perspective, you're absolutely right. For Q2, we gave guidance at our last earnings call of a zone that we'll be in. And we'll, frankly, be within that zone because we know the supply profile that we're having. I think we'll continue to see supply shortages as we head into the post-holiday quarter, so Microsoft's Q3, calendar Q1. And then when we get to Q4, all of our supply chain continuing to go full speed heading into kind of the pre-summer months.

And that's where I start to -- I expect to see a little bit of the demand -- the supply profile, meeting the demand profile. You'll be outside of a holiday window. We'll have supply cranking over the next, what, 4, 5, 6 months. And that's when I expect to see really that demand profile start to be met, which will be really, really great. And really, what that's going to do is, once we get into that world of a great high end, call it, a great high-powered console, plus that lower-end SKU for value, I think we're going to start to see some real velocity kick up, which I'm really excited to see.

Brent Thill

You got a lot of help with the rest of Microsoft. When you think about the impact that Azure and the rest of the stack is giving you, one of the questions we continue to get is the impact of the cloud and how the cloud is going to play into the future of gaming and in what your parent is doing to enable you to get to where you want.

Can you just talk about where we're at today with the cloud? And where do you think we're at 3 to 5 years out, how impactful is cloud gaming going to be?

Tim Stuart

Yes. Yes. I think -- so number one on the -- I'll say on the Microsoft side, having an Azure cloud, having a first-party cloud is going to give us something that's uniquely differentiated versus anybody else in this space. Kind of the combination of our content pipeline plus Game Pass, plus the cloud, which gives us the ability to stream games to, I'll say, any end points that can take a signal is going to be massively differentiated versus others in the industry. So I love that perspective. And I love having kind of that Microsoft drive with our geographic footprint with Azure. So I think point one is going to be, that's going to be so great.

Azure also gives us the ability to reach something like 80% of the gamers in the world will be within an Azure-served zone. It allows us to go into Africas and Indias and stream games into places that are not console-first and maybe not even PC-first, but they're for sure mobile-first. And that's going to be a very, very unique place to be, which Microsoft gives us the ability to go do.

I'll say in addition to that -- I'm going to kind of jump your question a little bit. Is 5G. 5G, combined with Azure in those regions, will be a huge bonus for us, which is we can now hit those markets with low-latency gaming with compute that's happening pretty close to those gamers with that Azure data center. And that will usher in new distribution models, but more importantly, it will give us that ability to go drive a mobile-first customer or a mobile kind of main customer.

If you think about console market being 200 million or 300 million players; the PC markets, 200 million or 300 million players; that mobile market is billions plus. And Brent, to your question, how important is that audience? I think Microsoft's scale, our ability to go from -- we're 15 million Game Pass subscribers today to 25 million, 50 million, 100 million is going to require that mobile audience to be achieved by us. And that's where we're going to have to have a content pipeline that supports that amount of users. But to your question, having that cloud streaming ability will be needed to go reach customers at that scale for sure.

Brent Thill

Another question just around kind of the content. And you -- your division got the largest acquisition of the year, $7.5 billion, obviously, a key component. Can you just talk to us about what's happening in the content industry? And what you think is happening?

Some of the larger players have said they're going to raise prices. Any thought around just content and then the ability to actually raise prices given all the dynamics that seem right for that type of backdrop to do that?

Tim Stuart

Yes. It's -- from a content perspective, it's a great time to be a content owner, for sure. And you can look at valuations as one example of these companies. But more importantly, it's the -- two things are happening: Number one is gaming has never seen this many players as it does today, okay. So just from an engagement standpoint, it's a great place to be.

Number two is, I like to say in the old days -- which ends up being like 3 years ago. But in the old days, it was us and Sony or Nintendo walking to these content creators and talking about deals or future content pipeline. And now you're in a world with Google and Facebook and Amazon and Tencent, Sony, Nintendo, Microsoft, you're in a world where there's much more demand for content pipeline and which from a -- I'll say, from a publisher perspective, is great when you think about the economics that they can drive. And that's on the point about economics on our side, but it's just ability for us for them to go chase high demand from platform owners.

From a consumer standpoint, if you're a game creator, games are getting more expensive to create. They're driving revenue growth as well, and they're looking for opportunities to go create more monetization for the support of that content creation. And that's when you see a little bit of the game pricing going up. So your example is $60 going to $70 on some games. But also, when we think about Game Pass on our side, it's another outlet for our content creators to go find new users, to find a way to monetize those users that may not have played their games.

So the example I give here is for Grand Theft Auto, which has been in Game Pass. You sell the game for $60. There are users that wouldn't have paid $60 for that game. But now that it's in Game Pass, they are finding new users that otherwise wouldn't have played that game.

And these games are excellent at post-sale monetization, right? They're selling maps and skins and weapons and missions and things like that. They have the ability to find new users. They have an ability to find great monetization models for those new users, and that's driving revenue upside for them as well. So they're expanding their sort of top of funnel through Game Pass offerings.

But Brent, to your point, exactly, I think that they're seeing high demand, high engagement. Content is such a cornerstone of what gaming is, right? We all want to play the games. And they're finding unique opportunities to either raise price or find monetization opportunities as well. The kind of the side joke I'll give is, the last time there was a price increase was, what, 7 or 8 years ago or something. So time value of money says, says it's about time anyway. But that's kind of a side point.

Brent Thill

That's great. I guess last question for you, and I'll turn it over to Alex. Just at a high level, what is, from your perspective, living on the inside, what are the things that you see and feel that we can't feel? Like what is kind of the most exciting thing from your perspective that you would bring?

We get to watch a lot of these great companies like yourself, but we really don't get a sense of what it's like to be at the 12th hole at Augusta, if you will. What's it like? What are you most excited about? And then I'll turn it to Alex.

Tim Stuart

Yes. I think the thing that I'm most excited about from a -- I'll say, from a -- from an Xbox or Microsoft landscape, is our ability to have an offering that can move off console to chase new customers. In the past, where we had just a console lens, the console space, again, you're kind of locked into that console market, if you will.

Game streaming and ability to serve up a AAA-quality game to an Android device, to a PC without a GPU, to a smart screen is going to be, I think, an unlock for gamers unlike what we've seen in the past. The ability for a user who wasn't going to buy a console can now participate in the AAA-console-quality game market I think it's going to be a really, really unique experience.

It's going to create a lot of new gamers, too, that may have been used to playing Candy Crush or something on their phone. They can now play AAA-quality games on their device with a controller just bound to it or whatnot.

So I think from the inside, I see usage happening through our game streaming. Just -- we've only just launched it effectively. But I see users playing more, buying more, playing on the go. And I think that's going to be an awesome experience that will unlock a lot for Microsoft and for our Game Pass subscriber base.

Brent Thill

Great job, Tim. Good luck with the rest of this. And thanks for your time. I'll turn it to the better half of the presentation with Alex.

Alex Giaimo

Yes. Thanks, Brent, and thanks again, Tim, for joining. And to the folks on the line, if you do have a question for Tim, you could ask it directly through the Zoom portal, and we'll make sure to get it relayed. But Tim, I want to go back to your comments on Game Pass, right? You keep expanding the amount of games in the bundle. You have this partnership with EA Play now. So just curious if you're seeing a larger opportunity on the subscription side now than you've had in the past and the processes to lean into that.

Tim Stuart

Yes, that's a great question. Game Pass is our North Star strategy. It's the, how do you get customers in a subscription model? And then how do you have a content pipeline that supports all the games that they want to play? Now of course, we love supporting games outside of Game Pass as well. That's still the Xbox business model.

But we see unique opportunity here. You, probably like me, have 5 or 6 consumer subscriptions, whether it's Hulu or Netflix or Spotify or whatever it is. And we see that to be a world now where consumers are used to and more than happy to pay and play in those kind of examples.

So unlike the past decade, I think we see a world where consumers are ready to go down that business model approach. I don't think we were in a world 10 years ago to really see that. So I think that's number one uniquely important about the time that we live in.

Number two is the partnership that we have with our partners across the industry, inclusive of EA Play. I love EA Play coming into Game Pass, and users get it for free. They get to be able to participate in EA Play as we build out our content pipeline.

And this is going to be a little bit of a bridge to the acquisition that -- with Bethesda. But my point here is, we will need to have a content pipeline that supports future success state. If Netflix, of course, they assume success in Netflix, but if they looked at content pricing or content pipeline today, should or could or would they have been more acquisitive on the first-party side to bring content in sooner from a first-party landscape? But as we see success growing in Game Pass, we're going to need to have a content pipeline, both through a rent, we partner with partners in the industry; and through a buy. We'll need to have first-party content that we can launch day and date, not unlike Orange is the New Black or Stranger Things and House of Cards, boom, boom, boom. We want to have that from our first-party landscape as well. So that's one of the places that we're being a little bit more active in, as you've seen with Bethesda and some of the acquisitions we've done over the last couple of years.

Alex Giaimo

Yes. And how do you balance that mix, right? So on the first-party publishing side, you have a lot of fantastic content. Obviously, Halo, everyone is highly anticipating that launch next year. You've been doing acquisitions. But then you also -- you're also a distribution platform for the third-party publishers out there. So kind of how do you balance the mix between priorities and the shift that dynamic?

Tim Stuart

Yes, that's a great question and something we balance a lot because as a platform -- and this is Microsoft DNA as well, for us to be successful, our partners have to be successful. And so we want to be in a world where something like Game Pass can live alongside stand-alone games or live alongside -- if customers want to buy a $60 or $70 game in that post-sale monetization, that's great. We want our partners to be successful on the platform.

And so it's something we think about a lot. And our conversations in the industry is, do you find more consumers in a Game Pass-type example? And if so, and you can monetize those users better through a deal specifically with us, maybe that's the right windowing opportunity. You have a $60 or $70 launch, and then you window into Game Pass to go hit another revenue stream downstream. Or for first party, we want to have first-party content be a driver of why people want to subscribe to Game Pass. And again, if I can get someone into a $9.99 a month or $14.99 a month subscription and first-party content is the reason they did that, I can monetize the consumer a lot higher. The -- as you say, the economics are better if they're on a subscription for a long-term as opposed to maybe buying a game once a year or otherwise.

And that we share that revenue. I'm not making a point about business model here or our deals. But Game Pass creates a revenue stream from which we can go create a content pipeline through deals or otherwise through our content creators.

But I think the specific answer to your question is, we need the Activisions, the Ubisofts, the EAS, the Take-Twos, the Epics, all the way down to indie creators to be successful on the platform. So we want Game Pass to be net additive to them. And if they choose not to be in Game Pass, we want to create a platform that finds the maximum number of users that can spend the maximum number of dollars for them. And we want Activision, EA, Take-Two, Ubi to be highly successful on the platform regardless of the direction they choose to go.

Alex Giaimo

And even before the Bethesda acquisition, you had been acquiring a handful of smaller, independent studios. Just curious, are you still looking at more studios? What do you look for when you approach these teams? And just what's the overall maybe M&A priority right now?

Tim Stuart

Yes. I think the short answer to still looking is we will continue to be acquisitive. We'll continue to look around the industry to find who has the great IP, who are great leaders, who has great product development, who can we rely on and say, we need a AAA game launching in FY '24 Q1 for Game Pass. Let's line that -- let's line the road map up to go land that -- plan that perspective.

So we'll continue to look at. In the past, Bethesda was a little bit of a different lens to what we've done in the past, whether it's Ninja Theory or Obsidian or inXile, some of the smaller studios that had great IP. Bethesda gave us a great sort of launch with -- I'll say, launch into a big, let's call it, group of content, a big catalog of content that we can use for Game Pass.

And we said this as part of the announcement. When we think about Bethesda, it's going to be the continuing to allow -- I'll say allow, but continue to sell their games on the platforms that they exist today, and we'll determine what that looks over time and will change over time. I'm not making any announcements about exclusivity or something like that. But that model will change.

But really, it's about how do you take that content and put it into a service like Game Pass to drive that subscription of the North Star metric? So I think the long -- the short answer to your question is we'll continue to look at content, we will continue to look at bolstering our first-party studios. And as always, if the right value is there with the right content creators with the right IP, we'll continue to look at opportunities like that.

Alex Giaimo

That's helpful. And then we touched on this earlier, but with the news that some of the third-party publishers are going to be raising pricing on their AAA titles, maybe all titles, does Microsoft follow suit in terms of your first-party published content? How do you think about pricing compared to where it was? I think the last time prices went up was actually 2 console refreshes ago. But what are your thoughts there?

Tim Stuart

Yes. I think we're not making specific announcements on first-party pricing yet. So we'll do that sort of in due time. But again, if -- I think if publishers can find a price point that works for their audience, defines a price point that works for the maximization of, I'll say users and revenue, because you want to drive engagement. I talk about engagement equals currency a lot. Engagement is the ability for you to drive wholesale monetization, to drive activation of your content, to drive sort of hours in your service. Because these games are becoming, as we all know, they're becoming ecosystems under their own -- or onto their own. Call of Duty wants to keep a Call of Duty player and monetize them down the road. FIFA wants to keep a FIFA player in their ecosystem and monetize down the road.

So I think we'll look at publishers to make the right decision for their content. If they can drive a premium price point or a higher price point, I think that's warranted. And I'd say, your point is exactly right. Prices have not gone up in -- what, for a couple of generations now, so it's not unheard of to see things like this going on.

And to the point earlier, content creation costs go up. And these publishers and content creators, including ourselves, want to make sure you're driving the right gross margin profiles, the right earnings profiles of what it takes to build these new, awesome, amazing games. And you want to make sure you have a good top line to support that.

Alex Giaimo

Right. And one of the questions we're getting from the audience is, do you think the future of video games will be 100% cloud gaming? And obviously, you just released a piece of hardware, so that's certainly been your focus. But is there a time frame or a specific amount of years in which you think cloud gaming can really become mainstream? And maybe what are the limitations right now that's preventing that?

Tim Stuart

My joke here is, I think I've said this is the last console generation for 15 years or so, and it always makes sense from an economics and a technology standpoint to launch one. I think it's a question we think about a lot. One of the things that we go through when we're developing a new console is, does the technology makes sense to launch something new? Does the market demand or want something new? So you think about the new ones we've launched just this week, raytracing, RDNA, near instant load times, those kind of things are all ushered in now with the silicon develop -- the silicon that enables that to happen. So we think that it's the right time to launch based on the price points and based on the tech now.

I think as you look forward a decade, cloud streaming will become more mainstream. It will become more about how users play. And this is why I love the connection we have to Azure. It's our ability to go chase that opportunity, to go chase that market as users shift from console-first to, let's call it, we call it mobile-first, but really what I mean is console-unlocked-first. I think that's going to be a more active way that people play.

Now that being said, if there's an opportunity for another console to have local compute under a TV, and that's the best way to play on your 65-inch OLED at 120 frames a second, we will continue to look at that. And if that is still the right and best way for high-value gamers to play or users that want to play with the top fidelity, we'll continue to look at that, of course.

But as I look at the next decade, and this is more of a longer term play, I believe it's going to shift more into a cloud streaming world. When I look at latency now, it's in a place where it makes games fun, you can play.

And I'll make a little bit of a bridge point back to 5G. 5G rollout here allows, I think, game streaming to hit 2 things: One of which is geographic expansion. When you think about going into Africa and India, Southeast Asia, 5G allows that technology stream from the cloud to really be exciting and a great user experience.

And number two is latency. You can play games at a far faster clip. You can have much lower latency with 5G. And partners that we see in the mobile industry, the mobile operator side, are looking for that differentiated experience. They're looking for the things they can upsell to their unlimited data plans or their 5G data plans.

Some of the first calls we got, as I mentioned, were from mobile operators in the world, looking to partner with us on our game streaming tech with Project xCloud to deliver game streaming over their networks. They need that differentiation. Much like YouTube or Netflix ushered in kind of 4G and LTE, I think game streaming is going to usher in that 5G landscape.

So I'm kind of bouncing your question a little bit, but I think the 5G ecosystem is -- presuming success, which I do, is going to usher in a world where the console market will not be as needed to play the games you want to play.

Alex Giaimo

That's helpful. And another question we're getting from the line here is with the acquisition of Bethesda, is the plan to make certain Bethesda franchises, like Fallout and DOOM, exclusive to Xbox? Or will you still support cross-platform play?

Tim Stuart

Yes. The goal here is, we're -- I'll say it from a cross-platform perspective. Microsoft is a platform. We're one of the first to really support Minecraft, Roadblock, Fortnite across platforms. So we highly encourage cross-platform play, simply from this landscape of, if it's good for the gaming ecosystem, it's good for us, classic rising tide lifts all boats.

What we'll do in the long run is we don't have intentions of just pulling all of Bethesda content out of Sony or Nintendo or otherwise. But what we want is we want that content, in the long run, to be either first or better or best or pick your differentiated experience, on our platforms. We will want Bethesda content to show up the best as -- on our platforms.

Yes. That's not a point about being exclusive. That's not a point about we're being -- adjusting timing or content or road map. But if you think about something like Game Pass, if it shows up best in Game Pass, that's what we want to see, and we want to drive our Game Pass subscriber base through that Bethesda pipeline.

So again, I'm not announcing pulling content from platforms one way or the other. But I suspect you'll continue to see us shift towards a first or better or best approach on our platforms.

Alex Giaimo

That helps. And then one question we're getting a lot, and maybe you can just answer from a high level. But folks are just curious how the economics work behind some of these partnerships, right? So a company like EA that you guys put on Game Pass, are they compensated based on usage? Is it sort of a flat fee based on subs. Maybe just from a high level, if you can touch on that a bit.

Tim Stuart

Yes. There's a couple of lenses on this question, which are interesting. I'd day the first is as Xbox, we have revenue streams with these companies across the board. So think about third-party store or advertising or Game Pass, we have ways to monetize our consumers in broader ways than just doing Game Pass relationships.

So the deals will all be different across our partners. Because you could say -- and this isn't me talking about EA specifically, come into Game Pass and you'll get a different rev share or something on the digital transaction side. Or come into Game Pass, and we'll have just a direct payment relationship. Or come into Game Pass, and you'll have the ability to go acquire new customers that you haven't seen before and drive post-sale monetization with those customers.

So there's going to be unique differences between the partner that we're working with and what they want to see out of the relationship. But we do have a -- Game Pass does drive a brand-new revenue stream. Our job as a platform is to create a world where those revenue streams create revenue-sharing opportunities for our publishers, for our developers and for us.

And so while I won't highlight EA or somebody specifically, we do have a world where we create revenue streams. As they're successful, we're successful and vice versa, and we'll continue to go build out higher revenue profiles that we can make sure we participate and share with our publishing partners.

Alex Giaimo

And you have this financing option now for the first time, right? So kind of lowering the upfront cost to acquire one of these consoles. Is there any early observation by maybe the uptick you're seeing there? Is this going to create a situation in which maybe the installed base scales more quickly than previous cycles, just given the fact that it's a bit more affordable?

Tim Stuart

Yes. I think that's a great question. So when you think about -- what you're talking about is Xbox All Access. And so for the audience, that is the ability to buy a piece of hardware plus Xbox Game Pass Ultimate sort of subscription service for a monthly price. So $24.99 a month in the U.S. for Xbox Series S or $34.99 for Xbox Series X.

And what I love about this is a couple of things. Number one is, it differentiates ourselves versus competition. So it's not something that Playstation has in a very material way. Game Pass gives us the ability to provide a content bundle that can be paid off over time. And it's not a financing deal. It's more of a -- thinking about it like a hardware subscription. So I love that perspective from a differentiation lens.

I love the ability for a customer who may not have wanted to spend $500 or $300, or whatever the price point is, to come in and join Xbox for a low monthly rate. So I think we're removing the barriers to entry. We're taking some friction out of the ecosystem there.

And lastly is distribution. We're seeing great uptake from something like Telstra in Australia is a great example. So they're world-class, as many global operators are, about selling hardware plus service bundles. But clearly, they do this with mobile phones plus their subscription service, so their data plans.

So we are going into a much broader footprint from a distribution landscape with these audiences. And so someone that walks into a Telstra or a T-Mobile, a Verizon or AT&T, they can now buy a sort of hardware plus services plan unlike anything they've seen before versus that kind of big outlay upfront.

So excitement's there. I think we're seeing some uptake there, which is great. A little bit of a short-term lens of, if you're someone looking to demand -- or supply is tight right now, demand is high. So you're going to get a lot of people just click and buy, buy, buy. But I think in the long run, this Xbox All Access, hardware plus services bundle is going to be a great opportunity for us to go reach new customers and continue to differentiate versus competition in this space.

Alex Giaimo

Another question we're getting is for an update with the strategic partnership you signed with Sony on the cloud. Maybe just what's the opportunity there?

Tim Stuart

Yes. I think -- and I won't comment specifically about Sony, not to get on a-- not to make the -- not to deflect the question. But what I would say is Microsoft as a platform provider, that's our DNA. If Sony or I'll say Nintendo or EA or I'll pick anybody, frankly, that doesn't have a first-party cloud sees the future of where the business is going -- and I'll call it cloud streaming. You're going to have to have a cloud provider that serves up to those customers.

Again, Microsoft invested billions of dollars in this space to have an some awesome Azure landscape and Azure geo footprint. And if there's something like -- a partner without that, I think you're going to need a cloud to go reach those audiences. Especially if you're -- in this example, like Sony, you're a hardware operator, which doesn't have a cloud and the ability of where the markets -- or where the market is going, I think you're going to need a cloud provider to do that.

So we, as a cloud provider, would happily take publishers or developers or hardware ecosystems into the -- into our ecosystem and serve to our customers. Clearly, Microsoft has heritage in the video game space, so we know what that partnership looks like. Phil Spencer and Scott Guthrie have a great partnership internally at Microsoft between the 2. And I think it's a good place to be. But we can sell -- sell our cloud opportunities for partners that may want to look for that opportunity as well.

Alex Giaimo

That's helpful. And we do have about 5 minutes left, so I'll try to get to the remaining questions I'm seeing. But one question is around the relevance of Game Pass as free to play rises in popularity, right. And obviously, you make money through free-to-play games in other ways. But just curious, does that impact the uptick or the take rate, so to speak, that folks are willing to pay on the subscription side and just the balance between engagement and how that might impact the subscription model?

Tim Stuart

It's a good question. One of the things that's up to us is to make it so Game Pass can coexist in the world of free to play as well. And I would say, interestingly, free to play is more of a -- it's a game mechanic as well. Games are designed to be free to play from the beginning. It's not like, generally speaking, you should take a game that's been designed for an upfront purchase with PSM and just turn it into free to play. The games that work the best are designed that way from the beginning.

What I would say though is, interestingly, many players in Fortnite or other free-to-play games, Rocket League or Roadblocks, et cetera, many of them spend actually more dollars overall than they would have if they bought the game for $30 or $40 or $50 just because of the way they play. And I think free to play is an interesting game mechanic. It's less about playing the game for free. It's just more about how they increase top of funnel.

So it's up to us as a platform and the owners of Game Pass to create a reason where maybe we put a free-to-play game in Game Pass. Maybe you get a certain amount of in-game currency. You get a unique skin or a differentiated experience by being a Game Pass subscriber.

So I think what you'll see from us is the sort of the cohesiveness between a free-to-play world and a Game Pass world, where actually, I want to be a Game Pass subscriber and still play the free-to-play games because I get something that's unique or I get value or I get some in-game currency or whatever. So I think that you'll see from us a world where they exist together, and I think you'll see a net additive place across the platform.

Alex Giaimo

Maybe one last question, but now that the consoles are out, how does your job change or what priorities changed? Where do you shift your focus over the next couple of years as you're sort of in the early stages of the console refresh here?

Tim Stuart

Yes. For us, it's all about growth. It's all about how do you go find new customers. I like to talk about Microsoft-level relevance, and of course, we're relevant today. But it's the going from what is a console ecosystem to expanding into that billions of gamers around the world ecosystem. That's the growth opportunity that we see at Xbox within Microsoft.

And so of course, we're going to play to win in console. Of course, we're going to drive that place. Of course, we're going to make it the best place to place to play for consumers and the best place to monetize for our publishers and partners.

But our job as Xbox and gaming at Microsoft is to look for those growth opportunities. How do you go sell Game Pass to 100 million players? How do you sell it into India and Africa? How do you sell it to mobile-first consumers? That's really how my job changes. Are we getting a content pipeline that can support that? Are we getting an Azure footprint that can support that? Are we getting a go-to-market model, a strategy, price points that can support that.

So I think from us, that's what you should expect is, as we grow to that non-console audience, how do you go chase that -- those hundreds of millions of new gamers that we haven't seen in the past. And that's what gets me most excited. That's what gets me out of bed each morning. That's what I love coming in to work to do is growing the business and finding those consumers that we've never seen before. And how do we partner with players in the industry to go do that.

That's Microsoft's core DNA. That's how we win as a platform. And I think that's really the sort of North Star that we're chasing.

Alex Giaimo

Very good. I think we'll -- we can wrap there. We want to thank Tim for joining. This has been super informative, and we appreciate it for joining the dialogue. And thanks, everyone on the line, for listening.

Tim Stuart

Great. Thanks, Brent. Thanks, Alex, for having me. This is great. I wish we had done this in person, but it's great to talk to your audience here today.

Alex Giaimo

Sounds good. Take care, everyone.

Tim Stuart

Thanks.

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PX9441

Diablo® IV Crosses $666 Million Sell-Through within Five Days of Launch, Setting New Blizzard All-Time Record

June 12, 2023

Within five days of launching, Diablo IV sell-through is the box-office equivalent of the biggest opening week of the year

Players have already clocked more than 276 million hours in Blizzard Entertainment's fastest-selling game ever

The record-setting launch is just the beginning of a compelling live service game, with seasons beginning next month and expansions planned for years to come

IRVINE, Calif.--(BUSINESS WIRE)--Jun. 12, 2023-- ***Diablo IV*** **had the best-selling opening in Blizzard's history, crossing an auspicious $666 million in global sell-through in the first five days following its June 6 launch*.** The latest installment for the Diablo series, and Blizzard's fastest-selling game ever*, is the box-office equivalent of the biggest opening week of the year**.

This press release features multimedia. View the full release here: https://www.businesswire.com/news/home/20230612864402/en/

Diablo IV Logo (Graphic: Business Wire)

The heroes of Sanctuary, the world in which Diablo is set, have already played more than 276 million hours, or more than 30,000 years.

"On behalf of Blizzard, we want to thank the millions of players around the world who are immersing themselves in *Diablo IV*," said Mike Ybarra, President of Blizzard Entertainment. "*Diablo IV* is a result of our incredible teams working together to craft and support genre-defining games, build legendary worlds, and inspire memories that will last a lifetime. We're humbled by the response, proud of the team, and remain committed to listening to our players and ensuring Diablo continues to exceed expectations for years to come."

So what are players doing with all this time spent in Diablo IV?

- *276 billion demons killed since Early Access: nearly 35 times the global population.*
- *Players have been vanquished over 316 million times*
- *…over 5 million of those vanquishings were at the hands of the Butcher.*
- *But they're not falling alone - players have created a party with friends over 166 million times.*
- *163 players have made it to the maximum level in Hardcore mode, where deaths are permanent.*

When players haven't been playing Diablo, they've been watching it – *Diablo IV* was the #1 game on Twitch from Early Access on June 1 through June 9, breaking Blizzard records for both hours streamed and watched over a similar period.

Blessed Mother Lilith is pleased with your devotion, mortals.

Diablo IV is available now, featuring cross-platform play and cross-progression on Windows® PC, Xbox Series X|S, Xbox One, PlayStation®5, PlayStation®4, plus up to four player co-op, including two player couch co-op on consoles.

Learn more at Diablo4.Blizzard.com.

For screenshots, video, and other assets, visit the Blizzard Entertainment press site at https://blizzard.gamespress.com/Diablo-IV.

* Fastest selling based on both units and dollars sold through on all platforms through the first five days after launch (through June 10, 2023 for Diablo IV). Sell-through figures based on reporting received from digital partners, retailers, and Blizzard internal records and estimates.

** Per data according to Box Office Mojo by IMDb Pro, and Variety.

About Blizzard Entertainment, Inc.

Best known for iconic video game universes including Warcraft®, Overwatch®, Diablo®, and StarCraft®, Blizzard Entertainment, Inc. (www.blizzard.com), a division of Activision Blizzard (NASDAQ: ATVI), is a premier developer and publisher of entertainment experiences. Blizzard Entertainment has created some of the industry's most critically acclaimed and genre-defining games over the last 30 years, with a track record that

includes multiple Game of the Year awards. Blizzard Entertainment engages tens of millions of players around the world with titles available on PC via Battle.net®, Xbox, PlayStation, Nintendo Switch, iOS, and Android.

Cautionary Note Regarding Forward-looking Statements:

Information in this press release that involves Blizzard Entertainment's expectations, plans, intentions or strategies regarding the future, including statements about the availability, pricing, features, and functionality of *Diablo® IV* are forward-looking statements that are not facts and involve a number of risks and uncertainties. Factors that could cause Blizzard Entertainment's actual future results to differ materially from those expressed in the forward-looking statements set forth in this release include unanticipated product delays and other factors identified in the risk factors sections of Activision Blizzard's most recent annual report on Form 10-K and any subsequent quarterly reports on Form 10-Q. The forward-looking statements in this release are based upon information available to Blizzard Entertainment and Activision Blizzard as of the date of this release, and neither Blizzard Entertainment nor Activision Blizzard assumes any obligation to update any such forward-looking statements. Forward-looking statements believed to be true when made may ultimately prove to be incorrect. These statements are not guarantees of the future performance of Blizzard Entertainment or Activision Blizzard and are subject to risks, uncertainties and other factors, some of which are beyond its control and may cause actual results to differ materially from current expectations.

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Source: Blizzard Entertainment, Inc.

PUBLIC

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MICR p ECH / XB X

Microsoft is hiking the rice of Xbox Series X and Xbox Game Pass

Pass / Xbox Series X pricing will remain the same in the US and match PS5 pricing in most other markets. Xbox Game Pass prices are going up in most markets.

By **Tom Warren**, a senior editor covering Microsoft, PC gaming, console, and tech. He founded **p** WinRumors, a site dedicated to Microsoft news, before joining The Verge in 2012.

Jun 21, 2023, 10:00 AM PDT

47 Comments / 47 New

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Photo by jer n P i / The er e **p**

Microsoft is i cr si its Xbox S ri s X pric s i most cou tri s i Au ust p rt from th US, J p , Chil , Br zil, Colombi . h Xbox mak r is lso i cr si th mo thly pric s of its Xbox G ame P ss d Xbox G ame P ss Ultimat subscriptio s for th first time xt mo th, which will s th b s G ame P ss subscriptio for co sol mov up to $10.99 mo th from $9.99.

“We’v h ld o our pric s for co sol s for ma y y rs d h v djust d th pric s to r fl ct th comp titiv co ditio s i ch mark t,” s ys K ri P r z, h d of commu ic tio s for Xbox, i st t me t to *The Verge*.

Xbox S ri s X co sol prici will l r ly match th pric hik So y ou c d for th PS5 l st y r, with th Xbox S ri s X movi to £479.99 i th UK, €549.99 cross most Europ mark ts, CAD $649.99 i C d , d AUD $799.99 i Austr li st rti Au ust 1st. h Xbox S ri s S prici will ot b djust d i y mark ts, r mai i t $299.99. T

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ImagE: Microsoft

Xbox Game a timat and Game a for Con o pricing wi incr a tarting Ju y 6th Xbox Game a timat wi mov from 1 99 p r month to 16 99 (€14.99 / £12.99). Th ba Xbox Game a for Con o pricing wi a o mov from 9.99 a month up to 10.99 (€10.99 / £8.99). Micro oft i not changing C Game a pricing, though. $

If you'r an xi ting Game a month y ub crib r, th n th n w r curring pric won't tak ff ct unti Augu t 13th, or S pt mb r 13th in G rmany. N w Xbox Game a memb r wi th n w pric immediat y on Ju y 6th. If you'r ub crib d to Xbox Game a through a y ar y cod , th n w pricing won't tak ff ct unti you go to r n w your ub cription.

Mo t mark t wi b aff ct d by th Xbox Game a pric incr a , with th xc ption of ome Game a con o pricing which wi r main th ame in Norway, Chi , D nmark, Switz r and, and Saudi Arabia.

New Xbox Game Pass pricing

Country	Currency	Xbox Game Pass Ultimate current	Xbox Game Pass Ultimate new	Game Pass for Console current	Game Pass for S Console new
Argentina	ARS	899	1449	599	1199

Country U	Curren y	o Game Pass Ultimate urrent	o Game Pass U Ultimate new	Game Pass for Console Uurrent	Game Pass for U Console new
Australia	A D	15.95	18.95	10.95	11.95
Austria	E R	12.99	14.99	9.99	10.99
Belgium	E R	12.99	14.99	9.99	10.99
Brazil	BRL U	44.99 U	49.99	29.99 U	32.99
Canada U	CAD	16.99	18.99	11.99	12.99
Chile	CLP	7990	8990	5990	5990 U
Colombia U	COP U	29900 U	33900U	19900 U	21900 U
Czech Republic	CZK	339	389	259	269
Denmark U	DKK U	99	109	79	79
Finland	E R	12.99	14.99	9.99	10.99
France	E R	12.99 U	14.99	9.99	10.99U
Germany	E R	12.99	14.99	9.99	10.99
Greece	E R	12.99	14.99 U	9.99	10.99 U
Hong Kong U SAR	HKD U	79	85	59	65
Hungary U	H F U	4190 U	4790	3000 U	3190 U
India U	INR	499	549	349	379
Ireland	E R	12.99	14.99	9.99	10.99
Israel U	ILS U	39.99	44.99 U	27.99 U	30.99
Italy U	E R	12.99	14.99	9.99	10.99
Japan	JPY	1100	1210	850	935
Korea	KRW	11900 U	13500 U	7900 U	8500 U
Mexico U	MXN U	229	249	149	159
The Netherlands	E R	12.99	14.99 U	9.99	10.99 U
New Zealand U	NZD	19.95 U	21.95	12.95 U	13.95
Norway	NOK U	125	139	99	99

Country	Currency	Xbox Game Pass Ultimate current	Xbox Game Pass Ultimate new	Game Pass for Console current	Game Pass for Console new
Poland	PLN	54.99	62.99	40	42.99
Portugal	EEUR	12.99	14.99	9.99	10.99
Saudi Arabia	SAR	39.99	44.99	29.99	29.99
Singapore	SGD	13.99	15.9	9.99	10.9
Slovakia	EUR	12.99	14.99	9.99	10.99
South Africa	ZAR	119	129	79	85
Spain	EUR	12.99	14.99	9.99	10.99
Sweden	SEK	135	155	99	105
Switzerland	CHF	14.99	16.99	12	12
Taiwan	TWD	299	338	199	219
Turkey	TRY	44.99	120.99	29.99	79.99
UAE	USD	9.99	11.99	6.99	
UK	GBP	10.99	12.99	7.99	8.99

Microsoft s t c ged its Xbox G ame P ss prici g si ce l u c i g t e subscriptio i 2017, d t e comp y is ee to stress t is is t rel ted to its proposed cquisitio of Activisio Blizz rd. “T ese G ame P ss price djustme ts re ot rel ted to t e Activisio Blizz rd de l, d re i te ded to matc loc l mar et co ditio s,” s ys Perez.

Microsoft s Xbox subscriptio c ges follow ge er l tre d i price i es over t e p st couple of ye rs for e tert i me t subscriptio s. Netflix r ised prices g i l st ye r followi g gr du l price i es i rece t ye rs, d Dis ey Plus d Hulu s w steep price i es l st ye r, too. Apple Music d Spotify ve bot i cre sed i price i most mar ets i rece t ye rs.

Ni te do s ot yet djusted its Switc O li e subscriptio service si ce l u c i g it i 2018, d So y o ly just upd ted its ow n Pl ySt tio Plus k

subscriptions last year with new PayStation Plus Essential, Plus Extra, and Plus Premium subscriptions for PlayStation owners.

47 COMMENTS (47 NEW)

More from Microsoft

FTC v. Microsoft: all the news from the big Xbox courtroom battle

Microsoft CEO Satya Nadella and many Xbox executives are set to defend its FTC case

Microsoft says June Outlook outages were a DDoS attack

PUBLIC

PX9346

TECHNOLOGY AND THE INTERNET

Sega to Quit Production of Dreamcast Console, Develop Games for Rivals

BY ALEX PHAM

JAN. 31, 2001 12 AM PT

TIMES STAFF WRITER

Sega Enterprises will stop manufacturing its money-losing Dreamcast video game console in March to focus on the company's more lucrative software business, said Peter Moore, president of Sega of America.

Sega instead will create games for a variety of consoles and devices rather than make games only for the Dreamcast.

Moore confirmed that Sega has agreements to make video games for Nintendo's upcoming Game Boy Advance device and for Sony's new PlayStation 2 console. Sega is also in talks with Microsoft Corp. to make games for the Xbox game console, set to debut in the fall, Moore said.

Moore's announcement confirmed widespread rumors in recent weeks that Sega would quit the console market.

Sega's end to its 11-year involvement in the console business amounts to a capitulation to rivals Sony and Nintendo. Sega has sold a little more than 6 million Dreamcasts worldwide, more than half of that in the U.S. But that won Sega a meager 15% console share in the U.S., with Sony and Nintendo claiming the balance.

"It's a sad day whenever the underdog gets licked," said P.J. McNealy, an analyst with Gartner Group Inc. "It's also a sad day for Dreamcast consumers. There's no commitment to making software for the Dreamcast in 2002."

Sega will stop manufacturing the Dreamcast on March 31, the end of its fiscal year. To unload its existing inventory, on Feb. 4, Sega will slash prices of its Dreamcast from $149 to $99 in the U.S. Sega will also release 30 new games this year in the U.S. for the console.

But Dreamcast owners cannot be assured a supply of new games after 2002.

On Monday, Sega announced plans to license its Dreamcast chipset to Pace Micro Technology, a TV set-top box manufacturer in London. Sega will also make games for Motorola cell phones and Palm-based hand-held organizers.

In the next few weeks, Sega will lay off an undisclosed number of employees in its San Francisco office, which currently employs 195 workers, Moore said.

A marketing executive from the footwear industry, Moore also addressed rumors that his own job might be in jeopardy.

He said his fate was in the hands of executives in Japan, where Sega is based. "I don't make that call."

PUBLIC

PX9347

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FILED AS OF DATE:		19960412
SROS:			NASD

FILER:

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		CENTRAL INDEX KEY:			0000802019
		STANDARD INDUSTRIAL CLASSIFICATION:	ELECTRONIC COMPUTERS [3571]
		IRS NUMBER:				770034553
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		FISCAL YEAR END:			1231

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		STATE:			CA
		ZIP:			94086
		BUSINESS PHONE:		4083280900

	MAIL ADDRESS:
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ---------- TO

COMMISSION FILE NUMBER 1-9281
</TABLE>

ATARI CORPORATION
(Registrant)

<TABLE>
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NEVADA	77-0034553
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
455 SOUTH MATHILDA AVENUE SUNNYVALE, CA	94086
(Address of principal executive offices)	(Zip Code)

</TABLE>

Telephone: (408) 328-0900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock (par value $.01)
5 1/4% Convertible Subordinated Debentures

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of its Common Stock on April 4, 1996 on the American Stock Exchange was approximately $69.5 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded and such persons may under certain circumstances be deemed to be affiliates. This determination of officer or affiliate status is not necessarily a conclusive determination for other purposes.

Common Stock (par value $.01) of Registrant outstanding at April 4, 1996 -- 63,727,318 shares.

PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains forward-looking statements within

the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk related factors set forth herein.

This Annual Report on Form 10-K contains registered and other trademarks and tradenames of Atari and other companies.

PROPOSED MERGER WITH JT STORAGE, INC.

On February 12, 1996, Atari Corporation ("Atari" or the "Company") entered into a merger agreement with JT Storage, Inc. ("JTS") providing for the merger of the Company and JTS (the "Merger"). On April 8, 1996, the merger agreement was amended and restated. As a result of the Merger, Atari would be merged with and into JTS, and each outstanding share of Atari Common Stock would be exchanged and converted into one share of JTS Common Stock. JTS was incorporated on February 3, 1994 to develop, market and manufacture hard disk drives. The Merger must be approved by the stockholders of Atari and JTS and is subject to certain other conditions. The Merger is expected to close late in the second quarter of calendar year 1996.

In connection with the Merger, on February 13, 1996, Atari loaned $25.0 million to JTS pursuant to a Subordinated Secured Convertible Promissory Note (the "Note") which is secured by substantially all of the assets of JTS. Interest accrues on the unpaid principal amount of the Note at the rate of 8.5% per annum. The Note provides that JTS shall repay the outstanding principal and interest under the Note on September 30, 1996 if the Merger has not occurred prior to such time. In the event that the Merger Agreement is terminated, either party may, under certain conditions, elect to convert the outstanding indebtedness under the Note into shares of JTS Series A Preferred Stock. The Note is expressly subordinated to outstanding indebtedness in connection with JTS' primary bank loan agreement, up to an amount of $5.0 million at any given time.

Based on the number of shares of outstanding Atari Common Stock, JTS Common Stock and JTS Series A Preferred Stock as of April 5, 1996, immediately after consummation of the Merger, a total of 102,628,429 shares of JTS Common Stock would be issued and outstanding, of which 63,727,318 shares, or 62%, would represent shares issued in the Merger upon conversion of Atari Common Stock.

Upon the closing of the Merger, it is expected that the directors of JTS will be Sirjang L. Tandon, David T. Mitchell, Alain L. Azan, Jean D. Deleage, Roger W. Johnson, Lip-Bu Tan, Jack Tramiel and Michael Rosenberg. Messrs. Tandon, Mitchell, Azan, Deleage, Johnson and Tan are currently directors of JTS, and Messrs. Tramiel and Rosenberg are currently directors of Atari. The executive officers of JTS immediately prior to the Merger are expected to be the executive officers of JTS after the Merger. The parties have also agreed that Jack Tramiel or a person designated by Jack Tramiel shall be a member of each committee of the JTS Board of Directors after the Merger.

BUSINESS

Atari was incorporated under the laws of Nevada in May 1984. From 1984 to 1992, Atari designed, manufactured and marketed proprietary personal computers and video games and related software. Over the past several years, Atari has undergone significant change. In 1992 and 1993, Atari significantly downsized operations, decided to exit the computer business and focused on its video game business. As a result, revenues from computer products as a percentage of total revenues declined from 67% in 1993 to 16% in 1994 and 12% in 1995, while sales of entertainment systems and related software and peripheral products and the receipt of royalties represented the balance of revenues in each such year. These actions resulted in significant restructuring charges for closed

operations and write-downs of computer and certain video game inventories in 1992 and 1993.

While restructuring, Atari developed its 64-bit Jaguar interactive multimedia entertainment system, which was introduced in selected markets in the fourth quarter of 1993. For 1995 and 1994, total sales of Jaguar and related products were $9.9 million and $29.3 million, respectively, and represented 68% and 76% of Atari's net revenues, respectively. These Jaguar sales were substantially below Atari's expectations, and Atari's business and financial results were materially adversely affected in 1995 as Atari continued to invest heavily in Jaguar game development, entered into arrangements to publish certain licensed titles and reduced the retail price for its Jaguar console unit. Atari attributes the poor performance of Jaguar to a number of factors including (i) extensive delays in development of software for the Jaguar which resulted in reduced orders due to consumer concern as to when titles for the platform would be released and how many titles would ultimately be available, and (ii) the introduction of competing products by Sega and Sony in May 1995 and September 1995, respectively. Atari presently has a substantial unsold inventory of Jaguar and related products and there can be no assurance that such inventory can be sold at current prices.

By late 1995, Atari recognized that despite the significant commitment of financial resources that were devoted to the Jaguar and related products, it was unlikely that Jaguar would ever become a broadly accepted video game console or that Jaguar technology would be broadly adopted by software title developers. As a result, Atari decided to significantly downsize its Jaguar operations. This downsizing resulted in significant reductions in Atari's workforce, and significant curtailment of research and development and sales and marketing activities for Jaguar and related products. Accordingly, Atari decided to focus its efforts on selling its inventory of Jaguar and related products and to emphasize its existing licensing and development activities related to multimedia entertainment software for various platforms.

PRODUCTS

Atari's principal products are described below:

Jaguar Entertainment System. Atari introduced its 64-bit Jaguar interactive multimedia entertainment system in late November 1993 into selected markets. During 1994, Atari rolled out a nationwide program and commenced initial shipments into Europe. From its launch through the end of 1994, Jaguar's suggested retail price was $249.99. As a result of competition and cost reductions, during the first quarter of 1995, Atari reduced the retail price of Jaguar to $149.99. The current retail price of Jaguar is $99.99. Despite its substantially lower retail price, sales of Jaguar continue to be disappointing, and Atari is test marketing different price points and software bundles for the Jaguar in an attempt to sell its substantial inventory of such product.

The Jaguar is a 64-bit interactive multimedia system that incorporates two proprietary chips developed by Atari which are specialized for multimedia entertainment. The proprietary chips include four processors (graphics processing unit, object processor, blitter and digital signal processor) and a standard Motorola 68000 microprocessor. The computational speed of the system is approximately 44 MIPS and the bus bandwidth is 106.4 megabytes per second. The video features include 24-bit graphics with up to 16.8 million colors and a 3-D engine which can render 3-D shaded or texture mapped polygons in real time. The sound system is based on a high-speed custom digital signal processor dedicated to audio. The audio is 16-bit compact disk ("CD") quality from cartridge-based software, and can be processed from simultaneous sources of audio data. This allows for very realistic sounds in the software, including human voices. Through the use of a compression

technology customized by Atari (called "JAGPEG"), software developers can compress data to the point that a 100-megabit game can fit into a 16-megabit ROM cartridge. This allows for more exciting experiences both visually and in game play due to the vast amount of data available.

Jaguar Software Titles. From 1994 through 1995, Atari developed titles for the Jaguar primarily under contract with third party software developers. To date, Atari has published approximately 45 software titles for the Jaguar. These titles include an array of licensed and nonlicensed titles, some of which utilize 3-D graphics, high speed animation, 16.8 million colors, full motion video, motion capture techniques and 16-bit stereo sound. Atari's software library includes titles which are cartridge based (ROM chips) and CD based. Since 1995, the development of titles for Jaguar has been curtailed substantially and Atari is currently developing a very limited number of titles which it expects to publish in either cartridge or CD format. In addition to Atari's software development efforts, in 1994 and 1995 Atari licensed independent software vendors ("ISVs") to develop and publish titles for the Jaguar. Atari is not aware of any current development of Jaguar titles by ISVs and does not expect any such development in the foreseeable future.

Jaguar Peripherals. Atari offers a CD-ROM peripheral for the Jaguar that enables software end users to have full motion video clips and more complex games than are available on cartridges. Publishers can take advantage of lower media cost and quicker turnaround on orders with CD-ROM software as compared to a ROM cartridge. The CD-ROM peripheral is a double speed player that can play Jaguar video games, regular audio CD's and CD + G (graphics). The suggested retail price of the CD-ROM peripheral is $149.99. The success of the CD-ROM peripheral is substantially dependent on the size of the installed base of cartridge-based Jaguar consoles.

PC Software. As a result of Atari's investment in game design, art and programming for its Jaguar software, Atari has ported certain of its Jaguar titles to the IBM PC compatible platform. Atari intends to publish and/or license these titles in 1996. In this regard, Atari commenced shipment of the PC CD-ROM version of Tempest 2000 in Europe during the first quarter of 1996.

Library of Titles. In 1996, Atari plans to increase its efforts to license titles from its game library to third party publishers. Atari has over 100 titles in its game library, including the following:

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Asteroids Combat Iron Soldier RealSport Baseball Tempest
Battlezone Crystal Castles Major Havoc RealSport Football Warbird
Bentley Bear Earthworld Millipede Space War Warlords
Breakout Food Fight Missile Command Star Raiders Yar's Revenge
Centipede Pong
</TABLE>

COMPETITION

The video game business is intensely competitive. Since its introduction in late 1993, Jaguar has failed to achieve broad market acceptance. Atari does not expect that Jaguar, even at its substantially reduced price, will ever become a broadly accepted video game console, or that Jaguar technology will be broadly adopted by software title developers. The video game industry is also characterized by unpredictable and rapid shifts in the popularity of certain platforms, by severe price competition, and by frequent new technology and product introductions. In this regard, numerous companies have introduced or have developed and are expected to introduce video game consoles that are or may become competitive with Jaguar. In addition, an increasing number of entertainment titles are being developed for or ported to the PC platform. Most of Atari's competitors have greater experience and expertise in 3D graphics and multimedia technology and have substantially greater engineering, marketing and financial resources than Atari. Jaguar presently competes with products offered

by the following companies:

- Nintendo commenced development, in collaboration with Silicon Graphics, Inc., of the Nintendo 64 player, expected to be released in Autumn 1996 in the United States. Nintendo also sells the 16 bit Super NES at a retail price of $99.95.

- Sega commenced shipment of the Sega Saturn in the United States in May 1995 with a current retail price of $299.00. Sega also sells the 16 bit Genesis at a retail price of $99.95.

- Sony released the Sony PlayStation in the United States in late 1995 with a current retail price of $299.00.

- The 3DO Company licenses the 3DO Interactive Multiplayer System console architecture for retail sale worldwide.

MARKETING AND DISTRIBUTION

Atari distributes its products domestically through various independent channels. Jaguar is sold primarily through national retailers, consumer electronic specialty stores and distributors of electronic products. European sales are conducted from Atari's European headquarters in London, U.K. Jaguar and Atari's PC titles are sold in European markets through substantially the same channels of distribution as those in the United States. Net sales outside North America for fiscal years 1995, 1994 and 1993 constituted approximately 44%, 40% and 75%, respectively, of total net revenues. No single customer accounted for 10% or more of total net revenues for the years ended December 31, 1995, 1994 or 1993.

RESEARCH AND DEVELOPMENT

Most of Atari's products, including Jaguar, were developed by its internal engineering and software groups as well as independent software developers under contract with Atari. Atari's research and development expenses totaled $5.4 million, $5.8 million and $4.9 million in 1995, 1994, and 1993, respectively. Atari has significantly downsized its research and development efforts and currently has five employees dedicated to such efforts. As a result, Atari expects its research and development expenses to decline substantially in 1996.*

Atari's current development efforts are dedicated to developing a limited number of Jaguar software titles and porting certain existing Jaguar titles to the PC platform. As part of this development process, Atari has agreements with third parties to develop and/or license properties. Under these agreements, Atari will make payments to these parties as either development fees and/or advance royalties, and is obligated to make certain minimum royalty guarantees on future sales. There can be no assurance that all payments for development fees and/or advance royalties will be recoverable through future sales of products.

MANUFACTURING

Atari has placed no manufacturing orders for the Jaguar console since mid-1995. Based on current and expected sales and inventory levels, Atari does not intend to pursue additional Jaguar manufacturing. The Jaguar console unit was assembled in the United States by a third-party subcontractor under a manufacturing arrangement. The agreement may be canceled by either party with 90 days' notice. Jaguar software products and accessories are manufactured by several suppliers and are assembled by subcontractors. Atari believes that it could readily replace these sources of supply and assembly, if necessary.

INTELLECTUAL PROPERTY RIGHTS

Atari has exclusive use of its "Atari" name and "Fuji" logo in all areas other than coin-operated arcade video game use. Atari also has a portfolio of other intellectual properties including patents, trademarks, and copyrights associated with its video game and computer businesses. Atari believes its patents, trademarks and other intellectual property are important assets. As of December 31, 1995, Atari held over 150 patents in the United States and other jurisdictions which expire from 1996 to 2010 and had applications pending for three additional patents. There can be no assurance that any of these patent rights will be upheld in the future or that Atari will be able to preserve any of its other intellectual property rights. Atari has in the past received communications from third parties asserting rights to certain of its intellectual property. Atari has also been involved in several major lawsuits regarding its intellectual property, including a suit with Nintendo which was

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* This statement is a forward-looking statement reflecting current expectations. Actual results could differ materially from those projected in the forward-looking statement due to numerous factors, including the risk related factors set forth herein.

settled in March 1994 and a suit with Sega which was settled in September 1994. In the event any third party were to make a valid claim with respect to Atari's intellectual property and a license were not available on commercially reasonable terms, Atari's business, financial condition and results of operations would be materially and adversely affected. Litigation, which has in the past and could in the future result in substantial costs and diversion of resources, may also be necessary to enforce Atari's patents or other intellectual property rights or to defend against third-party infringement claims. The occurrence of litigation relating to patent infringement or other intellectual property matters, regardless of the outcome, could have a material adverse effect on Atari's business, financial condition and results of operations.

BACKLOG

Orders are usually placed by purchasers on an as-needed basis, are sometimes cancelable before shipment, and are usually filled from inventory shortly after receipt. Atari currently has a substantial inventory of finished products and product components for which there are no orders. Although Atari is taking steps to realize revenue from such inventory, Atari recognized substantial inventory write-downs in 1995 and there can be no assurance that substantial additional write-downs will not be required.

EMPLOYEES

Due to disappointing sales of Jaguar and related products, Atari reduced its workforce from 101 persons at December 31, 1994 to 73 persons at December 31, 1995 and 31 persons at March 31, 1996. Atari does not presently anticipate any further reductions in its workforce. As of March 31, 1996, Atari had approximately 25 employees in the U.S., including five in engineering and product development, 12 in marketing, sales and distribution, two in purchasing and six in general administration and management. In addition, Atari had six employees outside the United States at March 31, 1996. None of the employees are represented by a labor union. Atari considers its employee relations to be good.

ITEM 2. PROPERTIES

Atari leases its 7,200 square feet headquarters facility in Sunnyvale, California under a lease which expires in 2001. Atari also leases a 33,600 square feet international sales facility in Slough, England and a 19,400 square

feet vacant facility in Viannen, Holland. Atari also holds certain properties in Southern California and Texas for sale. Some of these properties are currently being leased by Atari. These properties are reported as real estate held for sale in the Consolidated Financial Statements. See Note 7 of Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

Atari is a defendant in a civil action brought in the Superior Court of the State of California in and for the County of Santa Clara by Citizen America Corporation, a former supplier, in February 1994 seeking damages of approximately $900,000 for alleged breach of contract and related claims. Atari believes this action will have no material adverse effect on its business, financial condition or results of operations.*

Atari is a defendant and counter claimant in a civil action for alleged breach of contract brought in U.S. District Court for the Northern District of New York, case number 95 Civ. 1945, by Tradewell, Inc., a New York corporation, seeking specific performance for release of goods having a value of $1.6 million. Atari has counterclaimed seeking specific performance for the purchase of media or, alternatively, damages in the amount of $3.3 million. As a result of a partial settlement, Atari now seeks damages of approximately $1.3 million. Atari believes this action will have no material adverse effect on its business, financial condition or results of operations.*

- ---------------

* This statement is a forward-looking statement reflecting current expectations. Actual results could differ materially from those projected in the forward-looking statement due to numerous factors, including the risk related factors set forth herein.

Atari is a plaintiff in a civil action brought in the Superior Court of the State of California in and for the County of Santa Clara brought against Phillips Laser Magnetic Storage ("Phillips") for breach of contract and breach of implied covenant of good faith and fair dealing arising out of Phillips' failure to deliver goods to Atari. Atari has been advised that Phillips intends to file an unspecified counterclaim. Atari believes this action will have no material adverse effect on its business, financial condition or results of operations.*

Atari is a plaintiff in a civil action brought in the Superior Court of the State of California in and for the County of Santa Clara and removed to the United States District Court, Northern District of California brought against Probe Entertainment Limited and Acclaim Entertainment for breach of contract and related claims. Counterclaims have been filed against Atari for alleged breach of contract. Atari believes this action will have no material adverse effect on its business, financial condition or results of operations.*

Atari is not aware of any other pending legal proceedings against Atari and its consolidated subsidiaries other than routine litigation incidental to their normal business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Atari's Common Stock has traded on the American Stock Exchange under the symbol "ATC" since November 7, 1986. As of the close of business on April 5, 1996, 63,727,318 shares of Atari Common Stock were outstanding and no shares of Preferred Stock were outstanding. As of that date, there were approximately 2,800 stockholders of record of Atari Common Stock. The following table sets forth the high and low sale prices of Atari's Common Stock for the periods indicated as reported on the consolidated transaction system.

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	HIGH	LOW
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FISCAL YEAR 1996		
First Quarter	$ 4 1/8	$1 5/8
FISCAL YEAR 1995		
Fourth Quarter	$ 3 5/16	$1 1/8
Third Quarter	3 5/8	29/16
Second Quarter	3 1/8	2 1/2
First Quarter	4 1/4	2 3/4
FISCAL YEAR 1994		
Fourth Quarter	$ 7 3/8	$39/16
Third Quarter	7 3/4	2 7/8
Second Quarter	6 5/8	2 7/8
First Quarter	8 1/8	5 5/8

</TABLE>

Atari has never paid cash dividends on its Common Stock and does not anticipate a change in this practice in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Atari have been derived from the historical consolidated financial statements of Atari, included elsewhere herein, with the exception of the Consolidated Statement of Operations Data prior to fiscal 1993 and the Consolidated Balance Sheet Data prior to December 31, 1994 which were derived from historical consolidated financial statements not included herein. The information set forth below should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

<TABLE>
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	YEAR ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
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Consolidated Statement of Operations Data:					
Total revenues	$ 14,626	$ 38,748	$ 29,108	$127,340	$257,992
Operating loss	(53,665)	(24,047)	(47,499)	(79,008)	(18,683)
Income (loss) from continuing operations(1)	(50,158)	9,394	(48,866)	(82,719)	23,659
Income (loss) before extraordinary credit	(50,158)	9,394	(48,866)	(73,719)	23,659
Net income (loss)	(49,576)	9,394	(48,866)	(73,615)	25,619
Per common share data:					
Income (loss) from continuing operations	$ (0.79)	$ 0.16	$ (0.85)	$ (1.44)	$ 0.41

Income (loss) before extraordinary credit	(0.79)	0.16	(0.85)	(1.29)	0.41
Net income (loss)	(0.78)	0.16	(0.85)	(1.28)	0.44

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1995	1994	1993	1992	1991
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:					
Current assets	$ 65,126	$113,188	$ 51,388	$109,551	$239,296
Working capital	55,084	92,670	33,896	75,563	159,831
Total assets	77,569	131,042	74,833	138,508	253,486
Current liabilities	10,042	20,518	17,492	33,988	79,465
Long-term obligations	42,354	43,454	52,987	53,937	48,492
Shareholder's equity	25,173	67,070	4,354	50,583	125,529

</TABLE>

- ---

(1) Includes a gain from the settlement of patent litigation of $32.1 million in 1994 and a gain from the sale of a Taiwan manufacturing facility of $40.9 million in 1991.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including the risk related factors set forth herein.

Over the past several years, Atari has undergone significant change. In 1992 and 1993, Atari significantly downsized operations, decided to exit the computer business and focused on its video game business. As a result, revenues from computer products as a percentage of total revenues declined from 67% in 1993 to 16% in 1994 and 12% in 1995, while sales of entertainment systems and related software and peripheral products and the receipt of royalties represented the balance of revenues in each such year. These actions resulted in significant restructuring charges for closed operations and write-downs of computer and certain video game inventories in 1992 and 1993.

While restructuring, Atari developed its 64-bit Jaguar interactive multimedia entertainment system, which was introduced in selected markets in the fourth quarter of 1993. For 1995 and 1994, total sales of Jaguar and related products were $9.9 million and $29.3 million, respectively, and represented 68% and 76% of Atari's net revenues, respectively. These Jaguar sales were substantially below Atari's expectations, and Atari's business and financial results were materially adversely affected in 1995 as Atari continued to invest heavily in Jaguar game development, entered into arrangements to publish certain licensed titles and reduced the retail price for its Jaguar console unit. Atari attributes the poor performance of Jaguar to a number of factors including (i) extensive delays in development of software for the Jaguar which resulted in reduced orders due to consumer concern as to when titles for the platform would be released and how many titles would ultimately be available, and (ii) the introduction of competing products by Sega and Sony in May 1995 and September 1995, respectively. Atari presently has a substantial unsold inventory of Jaguar and related products and there can be no assurance that such inventory can be

sold at current prices.

By late 1995, Atari recognized that despite the significant commitment of financial resources that were devoted to the Jaguar and related products, it was unlikely that Jaguar would ever become a broadly accepted video game console or that Jaguar technology would be broadly adopted by software title developers. As a result, Atari decided to significantly downsize its Jaguar operations. This downsizing resulted in significant reductions in Atari's workforce, and significant curtailment of research and development and sales and marketing activities for Jaguar and related products. Accordingly, Atari decided to focus its efforts on selling its inventory of Jaguar and related products and to emphasize its existing licensing and development activities related to multimedia entertainment software for various platforms.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

Total revenues for 1995 were $14.6 million compared to $38.7 million for 1994. Sales of Jaguar and related products represented 68% and 76% of total revenues for 1995 and 1994, respectively, and sales of other products and royalties represented the balance of revenues in each such year. The reduction in revenues was primarily the result of lower unit volumes of Jaguar products and lower average selling prices of Jaguar and certain of its software titles. In the first quarter of 1995, Atari reduced the suggested retail price of Jaguar from its original price of $249.99 to $149.99. The current suggested retail price of Jaguar is $99.99. As a result of the Jaguar price reductions, the substantial curtailment of sales and marketing activities for Jaguar and the substantial curtailment of efforts by Atari and independent software developers to develop additional software titles for Jaguar, Atari expects sales of Jaguar and related products to decline substantially in 1996 and thereafter.*

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* This statement is a forward-looking statement reflecting current expectations. Actual results could differ materially from those projected in the forward-looking statement due to numerous factors, including the risk related factors set forth herein.

Cost of revenues for 1995 was $44.2 million compared to $35.2 million for 1994. Included in cost of revenues for 1995 were accelerated amortization and write-offs of capitalized game software development costs of $16.6 million and inventory write-downs of $12.6 million primarily relating to Jaguar products. As a result of these charges and lower selling prices for Jaguar products and provisions for returns and allowances and price protection, gross margin for the year was a loss of $29.6 million. For 1994, gross margin was $3.5 million, or 9.2% of revenues. Included in cost of revenues for 1994 were write-downs of inventory of $3.6 million and amortization and the write-off of capitalized game software development costs of $1.5 million. From the introduction of Jaguar in late 1993 through the end of 1995, Atari sold approximately 125,000 units of Jaguar. As of December 31, 1995, Atari had approximately 100,000 units of Jaguar in inventory and the value of Jaguar inventory and related software was approximately $9.9 million. Due to disappointing sales of Jaguar and increased competition from products introduced by Sega and Sony, Atari reduced the suggested retail price of Jaguar to $99.99 and recorded an inventory write-down of $12.6 million in 1995. There can be no assurance that Atari's substantial unsold inventory of Jaguar and related software can be sold at current or reduced prices, if at all. In addition, any further decrease in the value of such inventory could result in substantial additional inventory write-downs by Atari.

Research and development expenses for 1995 were $5.4 million compared to $5.8 million for 1994. During 1995 and 1994, a significant number of Atari employees and consultants were devoted to developing hardware and software for

the Jaguar, and Atari contracted with third-party software developers to develop Jaguar software titles. As a result of Jaguar's poor sales performance, in the third and fourth quarters of 1995, Atari accelerated its amortization of contracted software development which resulted in charges in those quarters of $6.0 million and $10.6 million, respectively. At December 31, 1995 and 1994, Atari had capitalized software development costs of $758,000 and $5.1 million, respectively. In the fourth quarter of 1995, Atari eliminated its internal Jaguar development teams and other development staff as titles for Jaguar were completed. As a result, Atari expects research and development expenses will be substantially lower for the foreseeable future.*

Marketing and distribution expenses for 1995 were $12.7 million compared to $14.7 million for 1994. Such costs included television and print media, promotions and other activities to promote Jaguar. Due to the substantial curtailment of the Jaguar marketing program, Atari expects these expenses will be substantially lower for the foreseeable future.*

General and administrative expenses for 1995 were $5.9 million compared to $7.2 million for 1994. The decrease in such expenses was primarily a result of staff reductions, reduced legal fees and other operating costs. Due to the substantial reduction in general and administrative personnel in 1995 and the first quarter of 1996, Atari expects these expenses will be substantially lower for the foreseeable future.*

Atari experienced a gain on foreign currency exchange of $13,000 for 1995 compared to a gain of $1.2 million for 1994. These changes were a result of lower foreign asset exposure and a greater percentage of sales made in U.S. dollars which further reduced exposure to foreign currency transaction fluctuations.

In 1994, Atari received $2.2 million in connection with the settlement of litigation between Atari, Atari Games Corporation and Nintendo. In 1994, Atari also reached an agreement with Sega, which resulted in a gain of $29.8 million, after contingent legal fees, and the sale of 4,705,883 shares of Atari Common Stock to Sega at $8.50 per share for an aggregate of $40.0 million.

During 1995, Atari sold a portion of its holdings in Dixon PLC, a retailer in England, and realized a gain of $2.4 million, of which $1.8 million was realized in the fourth quarter of 1995. In the first quarter of 1996, Atari sold the remaining portion of its holdings and realized a gain of $6.1 million. The 1995 gain of $2.4 million together with other income items resulted in a total other income of $2.7 million compared to $484,000 for 1994.

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* This statement is a forward-looking statement reflecting current expectations. Actual results could differ materially from those projected in the forward-looking statement due to numerous factors, including the risk related factors set forth herein.

For each of 1995 and 1994, interest expense was approximately $2.3 million on the Atari Convertible Subordinated Debentures (the "Atari Debentures"). In 1995, Atari repurchased a portion of the Atari Debentures and realized a gain of $582,000. As of December 31, 1995, the outstanding balance of these debentures was $42.4 million.

Interest income for 1995 and 1994 was $3.1 million and $2.0 million, respectively. The increase in interest income was primarily attributable to higher average cash balances in 1995.

As a result of Atari's operating losses, there was no provision for income taxes in 1995. See Note 11 to the Consolidated Financial Statements.

As a result of the factors discussed above, Atari reported a net loss for 1995 of $49.6 million compared to net income of $9.4 million in 1994.

In connection with the restructuring of Atari's business in 1992 and 1993 and Atari's decision in late 1995 to significantly downsize its Jaguar operations, Atari has terminated and plans to terminate numerous contracts and business relationships, including several related to software development activities. The termination of contracts and relationships has, from time to time, resulted in litigation, diverting management and financial resources. There can be no assurance that the parties to such contracts will not commence or threaten to commence litigation related to such contracts. Any such litigation or threatened litigation would further divert management and financial resources and could have a material adverse effect on Atari's business, operating results and financial condition. In addition, Atari holds several properties for sale, some of which are currently being leased. The ownership and use of such properties subjects Atari to numerous risks, including risks of environmental and personal injury liabilities. Although Atari is attempting to sell certain of such properties, such sales are not expected to eliminate all the risks associated with Atari's ownership of such properties.

YEAR ENDED DECEMBER 31, 1994 COMPARED TO YEAR ENDED DECEMBER 31, 1993

Total revenues for 1994 were $38.7 million compared to $29.1 million for 1993. The increased revenues were primarily a result of Atari's national rollout of the Jaguar and related products. Sales of Jaguar products represented 76% of revenues in 1994 compared to 13% of revenues in 1993. Jaguar was introduced in selected markets in late 1993, and approximately 100,000 units were sold by the end of 1994 at a suggested retail price of $249.99. Sales of Atari's proprietary personal computers and certain discontinued video game products represented 24% of revenues for 1994 compared to 87% of revenues for 1993.

Gross margin for 1994 was $3.5 million, or 9.2% of revenues, compared to a gross loss of $13.7 million for 1993. Included in cost of revenues are inventory write-downs of $3.6 million and $18.1 million for 1994 and 1993, respectively, and a write-off of capitalized game software development costs of $804,000 in 1994. These write-downs of proprietary personal computers and video game products to estimated realizable values were made concurrently with the introduction and change in marketing focus to Jaguar products.

Research and development expenses for 1994 were $5.8 million compared to $4.9 million for 1993. The increase resulted from increased expenditures for the Jaguar product line.

Marketing and distribution expenses for 1994 were $14.7 million compared to $9.0 million for 1993. The increase in expenditures was primarily the result of the national rollout in 1994 of the Jaguar. Such costs included television and print media promotions and other activities.

General and administrative expenses for 1994 were $7.2 million compared to $7.6 million for 1993. The marginally lower general and administrative expenses were primarily due to Atari's restructuring program in 1993. During 1993, Atari made provisions for restructuring totaling $12.4 million, which included closing many of Atari's operations in Europe, Asia and Australia, including, but not limited to, severance payments, rental commitments and other closure costs.

For 1994, Atari experienced a gain on foreign currency exchange of $1.2 million compared to a loss on exchange of $2.2 million in 1993. This change was a result of fluctuation in exchange rates, a lower foreign asset exposure and a greater percentage of sales made in U.S. dollars, thereby further reducing exposure to foreign currency transaction fluctuations.

For each of 1994 and 1993, interest expense was approximately $2.3 million on the Atari Debentures.

Atari utilized net operating loss carryforwards and, as a result, there was no provision for income taxes in 1994.

As a result of the factors discussed above, Atari reported net income for 1994 of $9.4 million compared to a net loss of $48.9 million in 1993.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1995, Atari held cash and marketable securities of $50.6 million compared to $81.0 million at December 31, 1994. The decrease in cash and marketable securities was primarily the result of operating losses incurred during 1995.

During 1995, Atari sold a portion of its holding in Dixon PLC., a U.K. retailer, and realized a gain on the sale of these securities in the amount of $2.4 million. In the first quarter of 1996, Atari sold its remaining interest in Dixon PLC. and realized a gain of $6.1 million. As of December 31, 1995, Atari's balance sheet reflected an unrealized gain on marketable securities of $7.1 million.

In February 1996, Atari loaned $25.0 million to JTS in connection with the Merger. The loan is due to be repaid by JTS in September 1996 and is secured by substantially all of the assets of JTS. Atari's security interest in such assets is junior to existing security interests in favor of a bank and certain equipment lessors. In the event the Merger is not consummated, there can be no assurance that Atari's security interest in such assets will adequately protect Atari in the event JTS is unable to repay the loan. In addition, the loan is convertible into shares of JTS Series A Preferred Stock at the option of Atari or JTS upon the occurrence of certain conditions, including a breach of the Merger Agreement by the other party. In the event such conversion occurs, Atari would hold a significant percentage of JTS' outstanding equity securities and would be subject to the numerous risks associated with JTS' business. There can be no assurance that such securities would be freely tradeable at the time of conversion, if ever.

As of December 31, 1995, Atari had $42.4 million of its 5 1/4% convertible subordinated debentures due April 29, 2002 outstanding. The market value of the Atari Debentures was approximately $20.0 million at December 31, 1995. The Atari Debentures may be redeemed at Atari's option, upon payment of a premium. The debentures, at the option of the holders, are convertible into Atari Common Stock at $16.3125 per share. A default with respect to other indebtedness of Atari in an aggregate amount exceeding $5 million would result in an event of default whereby the Atari Debentures would be due and payable immediately.

Atari believes its existing cash balances are sufficient to meet its requirements at least through 1996.*

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* This statement is a forward-looking statement reflecting current expectations. Actual results could differ materially from those projected in the forward-looking statement due to numerous factors, including the risk related factors set forth herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ATARI CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>

All other schedules are omitted because they are not required or the required information is shown in the financial statements or the notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
of Atari Corporation:

We have audited the accompanying consolidated balance sheets of Atari Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Atari Corporation and subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

San Jose, California
March 1, 1996

(April 8, 1996 as to Note 16)

ATARI CORPORATION

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1995	1994
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents (including $700 and $4,450 held as restricted balances in 1995 and 1994)	$ 28,941	$ 22,592
Marketable securities	21,649	58,432
Accounts receivable (less allowances for returns and doubtful accounts: 1995, $4,221; 1994, $1,957)	2,468	9,262
Inventories	10,934	18,185
Other current assets	1,134	4,717
Total current assets	65,126	113,188
GAME SOFTWARE DEVELOPMENT COSTS -- Net	758	5,145
EQUIPMENT AND TOOLING -- Net	671	1,315
REAL ESTATE HELD FOR SALE	10,468	10,741
OTHER ASSETS	546	653
TOTAL	$ 77,569	$ 131,042

</TABLE>

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>

<S>	<C>	<C>
CURRENT LIABILITIES:		
Accounts payable	$ 4,954	$ 15,341
Accrued liabilities	5,088	5,177
Total current liabilities	10,042	20,518
LONG-TERM OBLIGATIONS	42,354	43,454
COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value -- authorized, 10,000,000 shares; none outstanding	--	--
Common stock, $.01 par value -- authorized, 100,000,000 shares; outstanding: 1995, 63,687,118 shares; 1994, 63,648,535 shares	637	636
Additional paid-in capital	196,209	196,138
Unrealized net gain on marketable securities	7,088	542
Accumulated translation adjustments	(663)	(1,724)
Accumulated deficit	(178,098)	(128,522)
Total shareholders' equity	25,173	67,070
TOTAL	$ 77,569	$ 131,042

</TABLE>

</TABLE>

See notes to consolidated financial statements.

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ATARI CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
<S>	<C>	<C>	<C>
REVENUES	$ 14,626	$ 38,748	$ 29,108
COST AND EXPENSES:			
Cost of revenues	44,234	35,200	42,768
Research and development	5,410	5,775	4,876
Marketing and distribution	12,726	14,651	8,980
General and administrative	5,921	7,169	7,558
Restructuring charges	--	--	12,425
Total operating expenses	68,291	62,795	76,607
OPERATING LOSS	(53,665)	(24,047)	(47,499)
Settlements of patent litigation	--	32,062	--
Exchange gain (loss)	13	1,184	(2,234)
Other income	2,670	484	854
Interest income	3,133	2,015	2,039
Interest expense	(2,309)	(2,304)	(2,290)
Income (loss) before income taxes	(50,158)	9,394	(49,130)
Income tax credit	--	--	264
INCOME (LOSS) BEFORE EXTRAORDINARY CREDIT	(50,158)	9,394	(48,866)
Extraordinary credit -- gain on extinguishment of 5 1/4% convertible subordinated debentures	582	--	--
NET INCOME (LOSS)	$(49,576)	$ 9,394	$(48,866)
EARNINGS (LOSS) PER COMMON SHARE:			
Income (loss) before extraordinary credit	$ (0.79)	$ 0.16	$ (0.85)
Net income (loss)	$ (0.78)	$ 0.16	$ (0.85)
Number of shares used in computations	63,697	58,962	57,148

</TABLE>

See notes to consolidated financial statements.

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ATARI CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>
<CAPTION>

	NOTES RECEIVABLE	UNREALIZED

	COMMON STOCK		ADDITIONAL PAID-IN	NET GAIN FROM SALE OF COMMON	ACCUMULATED TRANSLATION	NET GAIN ON MARKETABLE	ACCUMULATED	
	SHARES	AMOUNT	CAPITAL	STOCK	ADJUSTMENTS	SECURITIES	DEFICIT	TOTAL
BALANCES, JANUARY 1, 1993.....	57,137	$571	$142,315	$(19)	$(3,234)	$ --	$ (89,050)	$ 50,583
Stock options exercised.....	89	1	191					192
Common stock repurchased.....	(11)		(9)	9				--
Collection of notes receivable.....				7				7
Translation adjustments.....					2,438			2,438
Net loss.....							(48,866)	(48,866)
BALANCES, DECEMBER 31, 1993.....	57,215	572	142,497	(3)	(796)	--	(137,916)	4,354
Sale of common stock.....	6,277	63	53,270					53,333
Stock options exercised.....	157	1	371					372
Collection of notes receivable.....				3				3
Translation adjustments.....					(928)			(928)
Unrealized net gain on marketable securities.....						542		542
Net income.....							9,394	9,394
BALANCES, DECEMBER 31, 1994.....	63,649	636	196,138	--	(1,724)	542	(128,522)	67,070
Stock options exercised.....	82	1	109					110
Stock repurchased.....	(44)		(38)					(38)
Translation adjustments.....					1,061			1,061
Unrealized net gain								

on marketable securities.....							6,546	6,546
Net loss.....							(49,576)	(49,576)
BALANCES, DECEMBER 31, 1995.....	63,687	$637	$196,209	$ --	$ (663)	$7,088	$(178,098)	$ 25,173

See notes to consolidated financial statements.

ATARI CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31,	1995	1994	1993
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income (loss).....	$(49,576)	$ 9,394	$(48,866)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Gain from extinguishment of 5 1/4% convertible subordinated debentures.....	(582)	--	--
Depreciation and amortization.....	1,970	2,619	361
Provision for production tooling.....	300	--	--
Provision for doubtful accounts.....	50	194	232
Provision for sales returns and allowances.....	5,028	1,563	457
Provision for restructuring.....	--	--	12,425
Gain on sale of marketable securities.....	(2,377)	--	(324)
Provision for inventory valuation.....	12,640	5,362	18,100
Utilization of advertising barter credits.....	3,179	--	--
Write-off of game software development costs.....	16,578	804	--
Changes in operating assets and liabilities:			
Accounts receivable.....	1,637	(5,383)	16,863
Inventories.....			

(5,389)	(14,177)	951
Other assets		
395	(336)	3,178
Accounts payable		
(10,372)	3,763	(4,925)
Accrued liabilities		
(42)	(660)	(15,881)
--	--------	--------
Net cash provided (used) by operations		
(26,561)	3,143	(17,429)
--	--------	--------
INVESTING ACTIVITIES:		
Sales and maturities of marketable securities		
55,703	--	2,525
Purchase of marketable securities		
(9,997)	(50,000)	--
Purchases of property, equipment and tooling		
(782)	(1,207)	(663)
Sale of property		
29	7,543	--
Game software development costs		
(12,791)	(5,810)	(789)
Other assets		
107	482	541
--	--------	--------
Net cash provided (used) by investing activities		
32,269	(48,992)	1,614
--	--------	--------
FINANCING ACTIVITIES:		
5 1/4% convertible subordinated debentures extinguished		
(518)	--	--
Repayments of borrowings		
--	(7,642)	(259)
Issuance of common stock, net		
72	53,708	199
--	--------	--------
Net cash provided (used) by financing activities		
(446)	46,066	(60)
--	--------	--------
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS		
1,087	(684)	(356)
--	--------	--------
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS		
6,349	(467)	(16,231)
CASH AND EQUIVALENTS:		
Beginning of year		
22,592	23,059	39,290
--	--------	--------
End of year		$
28,941	$ 22,592	$ 23,059
========	========	========
OTHER CASH FLOW INFORMATION:		
Interest paid		$
2,309	$ 2,303	$ 3,023
========	========	========

Income taxes refunded	$ --	$ (426)	$ (225)
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Exchange of inventory for advertising services	$ --	$ 3,179	$ --
Exchange of property for retirement of debt	$ --	$ 1,891	$ --

</TABLE>

See notes to consolidated financial statements.

ATARI CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY

Nature of Operations -- The Company designs and markets interactive multimedia entertainment systems and related software and peripheral products. Manufacture of these products is performed by third parties. The principal methods of distribution are through mass market retailers, consumer electronic specialty stores and distributors of electronic products.

Product Focus -- Since 1992, the Company has focused its research and development effort on its 64-bit Jaguar interactive multimedia entertainment system. This product was introduced in 1993 and, in 1995 and 1994, 68% and 76% of revenues, respectively, were associated with this product. Sales of the Jaguar in 1995 were disappointing and the Company is currently test marketing different price points and software bundles for the Jaguar in an attempt to sell its substantial inventory of such products.

In December 1994, the Company planned price reductions beginning in early 1995 and recognized the impact of this decision on finished and in-process inventory through a write down of inventory of $3.6 million, which is included in cost of sales in the fourth quarter of 1994. In December 1995, the Company planned further price reductions beginning in early 1996 and recognized the impact of this decision through a $10.9 million write down of inventory, which is included in cost of sales in the fourth quarter of 1995.

The Company continues to carry limited quantities of its older 8-bit and 16-bit video games and computer product lines. As a result of rapid technological change and intense competition, the Company wrote down inventories of these products by $18.1 million in 1993 which was included in cost of sales.

Estimates -- The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect recorded amounts of assets, liabilities, revenues and expenses as of the dates and for the periods presented. In connection with the change of the Company's focus, measurement of assets and liabilities is dependent upon management's ability to accurately predict future operating results. Actual results could differ from these estimates.

Restructuring -- The Company has active operations in the United States and the United Kingdom. During 1993 and 1992, the Company significantly restructured its operations around the world, closing operations in Australia and the Far East, in several European countries and in Canada and Mexico. These operational closures resulted in the bankruptcy of subsidiaries in Australia and Germany and may result in the voluntary or involuntary liquidation or bankruptcy of other

subsidiary companies. Charges for restructuring have been separately reported in the consolidated statements of operations for 1993. The remaining accruals of $351,000 at December 31, 1995 relate to employee benefits in Italy and lease obligations in the Netherlands.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation -- The consolidated financial statements include the Company and its subsidiaries. All transactions and balances between the companies are eliminated.

Cash and Equivalents -- Cash equivalents are stated at cost, which approximates market value, have maturities not exceeding ninety days upon acquisition and generally consist of certificates of deposit, time deposits, treasury notes and commercial paper.

Marketable Securities -- Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Marketable securities are carried as available-for-sale securities and reported at the fair market value. The cumulative effect of adoption of SFAS 115 as of January 1, 1994 was not material. Unrealized gains and losses are reported as a separate component of shareholders' equity. Realized gains and losses are recorded in the statements of operations and realized gains were $2.4 million in 1995. The cost of securities sold is based on average cost.

Inventories -- Inventories are stated at the lower of cost or market. Cost is computed using standard costs which approximate actual cost on a first-in, first-out basis. Market for each of the Company's product lines is determined by reference to expected sales prices less direct selling expenses.

Prepaid Advertising -- Included in other current assets at December 31, 1994 is $3.2 million of prepaid advertising resulting from a barter transaction. The amount recorded as prepaid advertising equals the carrying value of certain inventory exchanged for advertising credits. The Company expensed the prepaid advertising as utilized during 1995.

Equipment and Tooling -- Equipment and tooling are stated at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives of the assets of two to five years. Tooling is depreciated on a units of production basis. Leasehold improvements are amortized over the estimated useful life or lease term, as appropriate. Fully depreciated assets, and related depreciation, are excluded from the consolidated financial statements.

Real Estate Held for Sale -- Real property associated with closed operations in the U.S. is stated at estimated market value as determined by recent valuations, appraisals or pending sales offers.

Revenue Recognition -- Sale of consoles, software game cartridges and related products are recorded as revenue at the time of shipment to customers. Concurrently, the Company establishes reserves for estimated returns, which are recorded as a reduction of sales, and for cooperative advertising allowances, which are recorded as marketing and distribution expense. Royalty revenues are recognized when earned and collection is probable.

Income Taxes -- The Company adopted SFAS No. 109 "Accounting for Income Taxes" in the first quarter of 1993 which requires an asset and liability method

for financial accounting and reporting of income taxes. The impact of the adoption of SFAS 109 was not material.

Foreign Currency Translation -- Assets and liabilities of operations outside the United States are translated into United States dollars using current exchange rates, and the effects of foreign currency translation adjustments are deferred and included as a component of shareholders' equity.

Income (Loss) per Common Share -- Per share amounts are computed based on the weighted average number of common and dilutive common equivalent shares (stock options) outstanding during each period. The effect of the assumed conversion of the 5 1/4% convertible subordinated debentures was antidilutive for all periods presented and excluded from the computation.

Fiscal Year -- The Company uses a 52/53 week fiscal year which ends on the Saturday closest to December 31. All fiscal years presented contain 52 weeks. For simplicity of presentation, the date December 31 is used to represent the fiscal year end.

Reclassifications -- Certain items have been reclassified in the 1994 and 1993 financial statements to conform to the 1995 presentation and had no effect on operating results or shareholders' equity.

Recently Issued Pronouncements -- In October 1995, the Financial Accounting Standards Board issued FASB No. 123, "Accounting for Stock-Based Compensation." The new standard defines a fair value method of accounting for stock options and other equity instruments, such as stock purchase plans. Under this method, compensation cost is measured based on the fair value of the stock award when granted and is recognized as an expense over the service period, which is usually the vesting period. This standard will be effective for the Company beginning in 1996, and requires measurement of awards made beginning in 1995. The new standard permits companies to continue to account for equity transactions with employees under existing accounting rules, but requires disclosure in a note to the financial statements of the pro forma net income and earnings per share as if the Company had applied the new method of accounting. The Company intends to follow these

disclosure requirements for its employee stock plans. As a result, adoption of the new standard will not impact reported earnings or earnings per share, and will have no effect on the Company's cash flows.

3. FINANCIAL INSTRUMENTS

Marketable Securities -- Marketable securities available for sale consist of (in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31, 1995			DECEMBER 31, 1994	
ISSUE	AMORTIZED COST	MARKET VALUE	GROSS UNREALIZED GAINS	AMORTIZED COST	MARKET VALUE	GROSS UNREALIZED GAINS

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Equity securities --						
Dixon common stock.....	$ 4,565	$11,606	$7,041	$ 7,890	$ 8,432	$ 542
Government securities --						
Federal Home Loan Bank.....	4,993	5,026	33	--	--	--
Federal Home Loan Mortgage Corp.....	5,003	5,017	14	--	--	--
Foreign government debt securities --						
Eurodollar notes.....	--	--	--	50,000	50,000	--
Total marketable securities.....	$14,561	$21,649	$7,088	$57,890	$58,432	$ 542

The contractual maturities of the government securities range from two to four years. The Eurodollar notes matured during 1995.

Concentration of Credit Risk -- The Company sells to mass market retailers, consumer electronic specialty stores and to distributors of electronic products throughout the United States and Europe. The Company makes ongoing credit evaluations of customers and, at times, requires letters of credit from some foreign customers. Sales to foreign customers are generally stated in the currency of the customer. To date, the Company has not entered into hedges of these foreign currency exposures.

Fair Value of Financial Instruments -- In accordance with the provisions of SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," which requires the disclosure of fair value information about both on and off balance sheet financial instruments where it is practicable to estimate the value, the Company has estimated the fair value of its financial instruments. The estimated fair value of the 5 1/4% convertible subordinated debentures at December 31, 1995 was approximately $20 million based primarily on quoted market prices. The carrying amounts of the remainder of the Company's financial instruments, including cash and equivalents, marketable securities, accounts receivable and accounts payable, approximate fair values due to their short maturities.

4. INVENTORIES

Inventories at December 31 consist of the following (in thousands):

	1995	1994
<S>	<C>	<C>
Finished goods.....	$ 9,927	$15,799
Raw materials and work-in-process.....	1,007	2,386
Total.....	$10,934	$18,185

5. GAME SOFTWARE DEVELOPMENT COSTS

Internal game software development costs are expensed as incurred as these costs relate primarily to development tools. External development costs are capitalized once technological feasibility has been determined. During 1995 and 1994, the Company capitalized $12.8 million and $5.8 million, respectively, of

amounts paid to third parties, primarily as prepaid licenses, in connection with game development for the Jaguar. The Company amortizes such costs over the shorter of 12 months from game introduction or the estimated unit sales of the game title. The Company assesses the recoverability of capitalized games software development costs in light of many factors, including, but not limited to, anticipated future revenues, estimated economic useful lives and changes in software and hardware technologies. Amortization expense and adjustments for management's assessment of recoverability were $17.1 million (including a write-off of $16.6 million) and $1.5 million (including a write-off of $804,000) for the years ended December 31, 1995 and 1994, respectively.

6. EQUIPMENT AND TOOLING

Equipment and tooling at December 31 consists of the following (in thousands):

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Equipment and tooling	$1,526	$ 1,874
Furniture and fixtures	198	708
Leasehold improvements	--	43
Total	1,724	2,625
Accumulated depreciation and amortization	(753)	(1,310)
Reserve for production tooling	(300)	--
Equipment and tooling -- net	$ 671	$ 1,315

</TABLE>

7. REAL ESTATE HELD FOR SALE

Property held for sale at December 31, 1995 consists of nine properties in California and Texas, from the discontinued consumer electronics and home entertainment products operation. Certain of the properties have rental tenants, although all properties are available for sale. Rental income, net of rental expense and depreciation, is included in other income (expense) and was not material. Disposals in 1994 represented the Company's building in Germany and land and building in France, which were disposed of with no significant gain or loss.

8. ACCRUED LIABILITIES

Accrued liabilities at December 31 consist of the following (in thousands):

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Accrued interest	$1,483	$1,513
Accrued game software development costs	1,525	--
Accrued restructuring charge	351	719
Accrued royalties	28	320

Other	1,701	2,625
Total	$5,088	$5,177

</TABLE>

9. LETTERS OF CREDIT AND RESTRICTED CASH

At December 31, 1995, cash balances of $700,000 were collateral for outstanding commercial letters of credit associated with inventory components and software development. At December 31, 1994, cash balances of $4.5 million were collateral for outstanding letters of credit.

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10. LONG-TERM DEBT OBLIGATIONS

Convertible Subordinated Debentures -- The Company has $42.4 million of 5 1/4% convertible subordinated debentures due April 29, 2002. The debentures may be redeemed at the Company's option, upon payment of a premium. The debentures, at the option of the holders, are convertible into common stock at $16.3125 per share. At December 31, 1995, 2,596,414 shares of common stock were reserved for issuance upon conversion. Default with respect to other indebtedness of Atari Corporation in an aggregate amount exceeding $5 million would result in an event of default whereby the outstanding debentures would be due and payable immediately.

In 1995, the Company reacquired in the open market and extinguished $1.1 million face value of these debentures for $500,000, resulting in an extraordinary credit of $582,000.

Term Loans on Real Estate in Europe -- At December 31, 1993, the Company had two secured term loans outstanding totaling $7.5 million for its building in Germany and a term loan of $2.0 million for its land and building in France. These loans were repaid or exchanged in 1994 from the sale or transfer of the properties.

11. SETTLEMENTS OF PATENT LITIGATION

During the first quarter of 1994, the Company received $2.2 million with respect to the settlement of litigation between the Company, Atari Games Corporation and Nintendo. Although not part of the litigation, the Company sold 1,500,000 shares of its common stock to Time Warner (parent company of Atari Games Corporation), Inc. for $12.8 million.

During the fourth quarter of 1994, the Company completed a comprehensive agreement ("Agreement") with Sega Enterprises, Ltd. ("Sega") concerning resolution of disputes, equity investment and patent and product licensing agreements. The results of the Agreement were as follows: (i) Sega acquired 4,705,883 shares of the Company's common stock for $40.0 million; (ii) the Company received a payment of $29.8 million ($50.0 million from Sega, net of $20.2 million of legal fees and associated costs) in exchange for a license from Atari covering the use of a library of Atari patents issued between 1977 through 1984 (excluding patents which exclusively claim elements of the Company's Jaguar and Lynx products) through the year 2001; and (iii) the Company and Sega agreed to cross-license up to five software game titles each year through the year 2001.

12. INCOME TAXES

The credit for income taxes consists of the following (in thousands):

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Current:			
Federal	$--	$--	$ --
Foreign	--	--	(264)
State	--	--	--
	--	--	
Income tax credit	$--	$--	$(264)

</TABLE>

At December 31, 1995, the Company has a U.S. income tax operating loss carryforward of $165 million which expires in 2006 through 2010, a research and development tax credit carryforward of $1.8 million which expires in 2002 through 2010, and a California income tax operating loss carryforward of $60 million which expires as follows: $16.4 million in 1997, $16.7 million in 1998, $1.6 million in 1999 and $21.8 million in 2000.

ATARI CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The effective income tax rates for 1995, 1994 and 1993 were 0%, 0%, and (1)%, respectively, and differ from the federal statutory rate of 35% as follows (in thousands):

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Computed at federal statutory rates	$(17,402)	$ 3,288	$(17,103)
Valuation allowance	18,604	(3,288)	16,821
Effect of foreign tax rates different than statutory rates and utilization of foreign loss carrybacks	--	--	16
Other	(1,202)	--	2
Income tax credit	$ --	$ --	$ (264)

</TABLE>

The components of the net deferred tax asset at December 31 consist of (in thousands):

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Deferred tax assets:		
U.S. operating loss carryforwards	$ 57,706	$ 42,149
State operating loss carryforwards	3,820	2,321
Capital loss carryforwards	1,035	1,804
Research and development tax credit carryforwards	1,813	1,370
Inventory reserves	3,237	2,781

</TABLE>

Restructuring charges	50	239
Capitalized game software development costs	3,022	--
Other items	4,411	5,826
Subtotal	75,094	56,490
Valuation allowance	(75,094)	(56,490)
Net deferred tax asset	$ --	$ --

</TABLE>

Due to the uncertainty surrounding the timing and realization of the benefits of its favorable tax attributes in future years, the Company has established a valuation allowance to offset its net deferred tax assets.

Current federal and state tax law includes certain provisions limiting the use of net operating loss carryforwards in the event of certain defined changes in stock ownership. The annual use of the Company's net operating loss carryforwards could be limited according to these provisions, and there can be no assurance that such limitations will not result in the loss of carryforward benefits during the carryforward period.

13. STOCK OPTIONS

The Company's stock option plan and restricted stock plan provide for the issuance of up to 3,000,000 shares of common stock through the issuance of incentive stock options to employees and nonqualified stock options and restricted stock to employees, directors and consultants. Under the plans, stock options or restricted stock may be granted at not less than fair market value as determined by the Board of Directors. Stock options become exercisable as established by the Board (generally ratably over five years) and expire up to ten years from date of grant. The Company's right to repurchase restricted stock lapses over a maximum period of five years. At December 31, 1995, options for 551,925 shares were exercisable and options for 602,310 shares were available for future grant. At December 31, 1995, no restricted stock under the restricted stock plan had been issued.

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Additional information with respect to the stock option plan is as follows:

<TABLE>
<CAPTION>

	NUMBER OF OPTIONS	OPTION PRICE RANGE PER SHARE LOW		OPTION PRICE RANGE PER SHARE HIGH	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Outstanding, January 1, 1993	970,400	$1.500	-	$7.50	$ 3,131,450
Granted	535,583	0.875	-	4.75	1,045,093
Exercised	(89,300)	0.875	-	3.00	(195,463)
Cancelled	(222,500)	0.875	-	6.00	(831,625)
Outstanding, December 31, 1993	1,194,183	0.875	-	7.50	3,149,455
Granted	289,500	2.250	-	7.00	1,467,750
Exercised	(157,065)	0.875	-	6.25	(372,403)
Cancelled	(18,160)	1.675	-	7.50	(93,980)
Outstanding, December 31, 1994	1,308,458	0.875	-	7.00	4,150,822

Granted	1,487,000	1.438	- 3.81	3,970,814
Exercised	(82,333)	0.875	- 2.00	(110,250)
Cancelled	(615,600)	0.875	- 7.00	(2,135,175)
Outstanding, December 31, 1995	2,097,525	$0.875	- $5.25	$ 5,876,211

</TABLE>

14. SEGMENT INFORMATION

The Company operates in one industry segment -- the design and sale of consumer electronic products.

The Company's foreign operations at December 31, 1995 consist of sales and distribution facilities in Europe. Transfers between geographic areas are accounted for at amounts generally above cost and in accordance with the rules and regulations of the respective governing tax authorities. Corporate assets are primarily cash and equivalents, marketable securities and real estate held for sale.

The following tables present a summary of operations by geographic region (in thousands):

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers:			
North America	$ 8,163	$ 23,158	$ 7,390
Export sales from North America	1,868	8,538	--
Europe	4,595	7,052	18,548
Other	--	--	3,170
Total	$ 14,626	$ 38,748	$ 29,108
Transfer between geographic areas (eliminated in consolidation):			
North America	$ 4,041	$ 1,046	$ 17,781
Europe	68	1,895	25,284
Other	--	--	102
Total	$ 4,109	$ 2,941	$ 43,167

</TABLE>

ATARI CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Operating loss:			
North America	$(51,036)	$(21,600)	$(14,025)
Europe	(2,629)	(2,447)	(19,741)
Other	--	--	(13,733)

</TABLE>

Total	$(53,665)	$(24,047)	$(47,499)
Identifiable assets at December 31:			
North America	$ 14,588	$ 37,627	$ 17,369
Europe	1,856	1,650	5,801
Corporate assets	61,125	91,765	51,663
Total	$ 77,569	$131,042	$ 74,833

</TABLE>

No single customer accounted for more than 10% of total revenues for the years ended December 31, 1995, 1994 or 1993.

15. COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases various facilities and equipment under noncancellable operating lease arrangements. These leases generally provide renewal options of five additional years. Minimum future lease payments under noncancellable operating leases as of December 31, 1995 are as follows (in thousands):

<TABLE>

<S>	<C>
1996	$ 670
1997	460
1998	183
1999	85
2000	74
Total minimum lease payments	$1,472

</TABLE>

Rent expense for operating leases was $1,193,000, $1,218,000 and $1,251,000 for the years 1995, 1994 and 1993, respectively.

Certain claims and suits arising in the ordinary course of business have been filed or are pending against the Company. The number of such claims has increased as the Company significantly downsized its development operations. In the opinion of management, all such matters have been adequately provided for, are without merit, or are such that if settled unfavorably would not have a material adverse effect on the Company's consolidated financial position and results of operations.

16. SUBSEQUENT EVENT

On February 12, 1996, the Company entered into a merger agreement with JT Storage, Inc. (JTS) providing for the merger of the Company and JTS. On April 8, 1996, the merger agreement was amended and restated. JTS was incorporated on February 3, 1994 to develop, market and manufacture hard disk drives. The merger requires shareholder approval and is expected to be consummated in the second quarter of 1996. In connection with the merger, the Company extended a bridge loan to JTS in the amount of $25.0 million maturing on September 30, 1996 with a stated interest rate of 8 1/2% per annum. If the merger is not consummated, the bridge loan is convertible at the option of Atari or JTS into shares of JTS Series A Preferred Stock and warrants to acquire JTS Series A Preferred Stock, subject to certain conditions.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table lists the names, ages and positions held by all directors and executive officers of Atari as of March 31, 1996.

<TABLE>
<CAPTION>

NAME	AGE	POSITION(S) WITH ATARI
<S>	<C>	<C>
Jack Tramiel	67	Chairman of the Board
Sam Tramiel	45	Director, President, Chief Executive Officer and Chief Financial Officer
Leonard I. Schreiber	81	Director
Michael Rosenberg	68	Director
August J. Liguori	44	Director
Laurence M. Scott, Jr.	50	Vice President, Manufacturing and Operations
Leonard Tramiel	41	Vice President, Advanced Software Development

</TABLE>

JACK TRAMIEL and a group of associates purchased the assets and liabilities of Atari from Warner Communications in May 1984 and Mr. Tramiel has served as Chairman of Atari's Board of Directors since such time. Mr. Tramiel served as Atari's Chief Executive Officer from May 1984 through May 1988.

SAM TRAMIEL has served as President and as a member of the Board of Directors of Atari since June 1984, as Chief Executive Officer of Atari since May 1988 and as Chief Financial Officer of Atari since March 1996.

LEONARD I. SCHREIBER has served as a member of the Board of Directors of Atari since May 1984. Mr. Schreiber was a partner of Schreiber & McBride, a private law firm, from 1980 to 1995.

MICHAEL ROSENBERG has served as a member of the Board of Directors of Atari since May 1987. Mr. Rosenberg has served as Chief Executive Officer of Ross & Roberts, Inc., a plastics company, since September 1987. Mr. Rosenberg is a Certified Public Accountant.

AUGUST J. LIGUORI has served as a member of the Board of Directors of Atari since 1992. Since March 1996, Mr. Liguori has served as Vice President, Finance of Marvel Entertainment Group, Inc. From October 1986 to February 1996, Mr. Liguori served in several positions with Atari, including Vice President and General Manager of Atari U.S. Corp., an Atari subsidiary, from October 1986 to October 1989, Vice President of Atari Corporation from October 1989 to October 1990, and Vice President, Finance, Treasurer and Chief Financial Officer from October 1990 to February 1996.

LAURENCE M. SCOTT, JR. has served as Vice President, Manufacturing and Operations of Atari since 1992. Prior to joining Atari, Mr. Scott served as President of Radofin Electronics (FE) Ltd., a contract manufacturing firm, from 1978 to 1991.

LEONARD TRAMIEL has served Vice President, Advanced Software Development of Atari since March 1991. Mr. Tramiel served as Vice President, Software Development of Atari from July 1984 to March 1991.

All directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. Executive officers of Atari are appointed by and serve at the discretion of the Atari Board of Directors. Jack Tramiel is the father of Sam Tramiel and Leonard Tramiel.

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SECTION 16(A) REPORTING DELINQUENCIES

Based solely on its review of copies of filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, received by it, or written representations from certain reporting persons, the Company believes that during fiscal 1995 all Section 16 filing requirements were met.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth all compensation earned during the past three fiscal years by the Chief Executive Officer of the Company and the three current and former executive officers of the Company other than the Chief Executive Officer that were most highly compensated for services rendered to the Company during the last fiscal year (collectively, "Executive Officers"):

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	OPTIONS(#)
<S>	<C>	<C>	<C>	<C>	<C>
Sam Tramiel.....	1995	$150,000	--	$ 351	--
President and	1994	150,000	$250,000	206	25,000
Chief Executive Officer	1993	166,346	--	239	25,000
August J. Liguori.....	1995	150,000	--	206	--
Chief Financial Officer(2)	1994	142,834	50,000	190	--
	1993	134,856	--	175	36,250
Laurence Scott, Jr.	1995	140,000	--	524	--
Vice President,					
Manufacturing	1994	133,425	--	291	--
and Operations	1993	131,250	--	2,247	10,500
Theodore Hoff.....	1995	116,827	--	3,374	1,000,000
President, North America Operations(3)					

</TABLE>

- ---------------
(1) Represents payments for group term life insurance benefits.

(2) Mr. Liguori left the Company effective March 1, 1996.

(3) Mr. Hoff joined the Company in June 1995 and left the Company effective December 31, 1995.

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STOCK OPTIONS

The following table sets forth information as to options to purchase Common Stock granted to each of the Executive Officers during 1995.

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(3)	EXERCISE PRICE (PER SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM 5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sam Tramiel.....	--	--	--	--	--	--
August J. Liguori.....	--	--	--	--	--	--
Laurence Scott, Jr.....	--	--	--	--	--	--
Theodore Hoff (1).....	1,000,000	86.1%	$2.625	--	--	--

</TABLE>

- ---------------
(1) This option was granted to Mr. Hoff pursuant to the Company's 1986 Stock Option Plan, as amended. The exercise price of the option was equal to the fair market value of the Company's Common Stock on the date of grant. These options expired unexercisable when Mr. Hoff left the Company effective December 31, 1995.

The following table is a summary of the stock options exercised by each of the Executive Officers during fiscal 1995, and the number and value of stock options held by each of the Executive Officers as of December 31, 1995.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF IN-THE-MONEY OPTIONS AT FISCAL YEAR END(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sam Tramiel.....	--	--	185,000	40,000	$ --	$ --
August J. Liguori.....	11,250	$29,721	10,000	15,000	--	

Laurence Scott, Jr.	30,500	61,534	10,000	20,000	--
Theodore Hoff.....	--	--	--	1,000,000	--

- ---------------
(1) The exercise price of each of the options was greater than the market value of the Common Stock at year end ($1.375 on December 29, 1995).

COMPENSATION OF DIRECTORS

Each of the non-employee directors of Atari, Messrs. Jack Tramiel, Rosenberg and Schreiber, receives $500 for each meeting of the Atari Board of Directors which such individual attends. In 1995, each non-employee director also received an option to purchase 20,000 shares of the Company's Common Stock pursuant to the Company's 1986 Stock Option Plan, as amended. The exercise price of the options was $2.69 per share, which was equal to the fair market value of the Company's Common Stock on the date of grant. Each such option vests as to 20% of the shares on the anniversary of the date of grant such that the option shall be vested in full on the fifth anniversary of the grant date. Each such option expires six years after the date of grant, unless terminated earlier due to such director's resignation or removal from the Company's Board of Directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors consists of Messrs. Jack Tramiel, Rosenberg and Schreiber, none of whom was an officer or employee of the Company during fiscal 1995. Mr. Tramiel

served as the Company's Chief Executive Officer from 1984 through 1988, and Mr. Schreiber served as a Vice President of the Company from 1984 through 1986. No member of the Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of April 5, 1996, with respect to beneficial ownership of Atari Common Stock owned by (a) each person (or group of affiliated persons) known by Atari to be the beneficial owners of more than 5% of Atari's Common Stock, (b) each of Atari's directors, (c) each of Atari's Executive Officers and (d) all directors and executive officers as a group.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT BENEFICIALLY OWNED(1)
Jack Tramiel(2)(3)..... 455 South Mathilda Avenue Sunnyvale, California 94086	12,490,616	19.6%
Time Warner, Inc.(4)..... 75 Rockefeller Plaza New York, New York 10019	8,670,000	13.6
Sam Tramiel(3)(5)..... 455 South Mathilda Avenue	5,662,567	8.9

PUBLIC

Sunnyvale, California 94086		
Leonard Tramiel(3)(6).....	5,263,946	8.2
455 South Mathilda Avenue Sunnyvale, California 94086		
Bear Stearns & Co., Inc.(7).....	4,710,000	7.4
245 Park Avenue New York, New York 10167		
Sega Holdings USA Inc	4,705,883	7.4
303 Twin Dolphin Drive, Suite 200 Redwood City, California 94065		
Garry Tramiel(3)(8).....	4,055,000	6.4
455 South Mathilda Avenue Sunnyvale, California 94086		
August J. Liguori(9).....	262,000	*
Michael Rosenberg(10).....	37,000	*
Leonard I. Schreiber(11).....	206,000	*
Laurence M. Scott, Jr.(12).....	10,000	*
All directors and executive officers as a group (seven persons)(13).....	23,932,129	37.3

</TABLE>

- ---------------

* Less than 1%

(1) Based on 63,727,318 shares of Atari Common Stock outstanding as of April 5, 1996.

(2) Includes 11,597,315 shares held by Jack Tramiel's wife. Also includes 155,690 shares held by Mr. Tramiel's wife as trustee of trusts for the benefit of Mr. Tramiel's minor grandchildren.

(3) In connection with the proposed Merger with JTS, Messrs. Jack Tramiel, Sam Tramiel, Leonard Tramiel and Garry Tramiel have entered into Voting Agreements with JTS. The terms of such Voting Agreements provide (i) that such stockholders will not transfer (except as may be specifically required by court order), sell, exchange, pledge (except in connection with a bona fide loan transaction) or otherwise dispose of or encumber the shares of Atari Common Stock beneficially owned by them, or any new shares of such stock they may acquire, at any time prior to the effective time or earlier termination of the Merger, and (ii) that such stockholders will vote all shares of Atari Common Stock beneficially owned by them in favor of the approval of the Merger Agreement and the Merger. Such voting

agreements are accompanied by irrevocable proxies whereby such stockholders provided to JTS the right to vote their shares on the proposals relating to the Merger Agreement and the Merger at the Atari Shareholders Meeting which will be called to vote on such matters.

(4) Includes 7,100,000 shares held by Warner Communications Investors, Inc., 1,500,000 shares held by Warner Communications, Inc., and 70,000 shares held by Atari Games, a subsidiary of Time Warner, Inc.

(5) Includes 352,062 shares held by Sam Tramiel as custodian on behalf of his children, 8,100 shares held by Mr. Tramiel's wife and an aggregate of 97,416 shares held by Mr. Tramiel's minor children. Also includes 225,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(6) Includes 40,000 shares held by Leonard Tramiel's wife and 10,000 shares held by Mr. Tramiel's minor children.

(7) Based on a Schedule 13 G filed with the Securities and Exchange Commission on February 7, 1996.

(8) Includes 55,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(9) Includes 165,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(10) Includes 12,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(11) Includes 12,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(12) Represents shares subject to options which are vested or become vested within 60 days following March 31, 1996.

(13) Includes 479,000 shares subject to options which are vested or become vested within 60 days following March 31, 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report:

1. Financial Statements

The financial statements required to be filed hereunder are listed in the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule on page 12 hereof.

2. Financial Statement Schedule

The financial statement schedule required to be filed hereunder are listed in the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule on page 12 hereof.

3. Exhibits

The exhibits listed under Item 14(c) are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K: None.

(c) Exhibits

<TABLE>
<CAPTION>

EXHIBIT	NOTES	DESCRIPTION
<S>	<C>	<C>
3.1	(1)	Articles of Incorporation of Registrant, as filed May 17, 1984.
3.2	(1)	Certificate of Amendment of Articles of Incorporation as filed July 11, 1984.
3.3	(1)	Certificate of Amendment of Articles of Incorporation, as filed September 12, 1986.
3.4	(1)	Amended and Restated Bylaws of Registrant.

4.1	(1)	Form of Indenture.
10.1	(1)	OEM Software License Agreement with Digital Research (California) Inc. dated August 22, 1984.
10.2	(1)	License Funding and Sale Agreement with Epyx Inc. dated January 5, 1990.
10.3	(2)	Hardware Technology Assignment and License Agreement with Epyx Inc. dated June 3, 1989.
10.4	(2)	Software Production and Distribution License Agreement with Epyx Inc. dated June 3, 1989.
10.5	(2)	Manufacturing Services Agreement with Epyx Inc. dated June 21, 1989.
10.6	(2)	OEM Purchase and Distribution Agreement with Epyx Inc. dated June 12, 1989.
10.7		Lease by and between the Registrant and Victor H. Owen and Judith Owen Burns 1990 Revocable Trust, dated December 27, 1990, Judith Owen Burns trustee.
10.8	(1)	Industrial Lease Agreement for Warehouse at 360 Caribbean Drive, Sunnyvale, California, dated May 10, 1986.
10.9	(1)	Industrial Lease Agreement for Warehouse at 390 Caribbean Drive, Sunnyvale, California, dated December 17, 1986.
10.10	(3)	Agreement and Plan of Merger with The Federated Group, Inc. dated August 28, 1987.
10.11	(2)	Agreement for Sale of Assets dated November 8, 1989 among Silo California Inc., The Federated Group, Inc. and Atari Corporation.
10.12*	(1)	Amended 1986 Stock Option Plan.
10.13*	(1)	Amended form of Incentive Stock Option Agreement.
10.14*	(4)	Amended Stock Option Plan.
10.15	(1)	Memorandum of Agreement among Registrant, Jack Tramiel, Atari Holdings, Inc., Productions et Editions Cinematographiques Francais S.A.R.L., Atari International (UK) Inc., Warner Communications Inc. and certain subsidiaries of Atari Holdings, Inc., dated August 29, 1986.
10.16	(1)	Assets Purchase Agreement with Atari, Inc. and certain subsidiaries and affiliates of Atari, Inc. dated July 1, 1984.
10.17	(1)	Agreement with Atari, Inc. and Jack Tramiel dated July 1, 1984.
10.18	(1)	Intellectual Property Rights Heads of Agreement with Atari, Inc. dated July 1, 1984.
10.19	(5)	Agreement for Purchase and Sale of Real Estate -- Taiwan.
10.20	(5)	General Agreement of Sale -- Irish Facility.
10.21	(6)	Stock Purchase Agreement with Time Warner, Inc. dated March 24, 1994.
10.22	(7)	Stock Purchase Agreement with Sega Holdings USA, Inc. dated September 26, 1994.
10.23		Amended and Restated Agreement and Plan of Reorganization by and between the Registrant and JT Storage, Inc. ("JTS") dated as of April 8, 1996.
10.24		Subordinated Secured Convertible Promissory Note dated February 13, 1996 executed by JTS.
10.25		Security Agreement by and between the Registrant and JTS dated as of February 13, 1996.
22.1		Subsidiaries of the Company.
25.1		Power of Attorney (see page 34).
27.1		Financial Data Schedule.

</TABLE>

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* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) of this report.

(1) Incorporated by reference to the Company's Form S-1 Registration Statement (File No. 33-12753) filed with the Commission on July 2, 1987.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989.

(3) Incorporated by reference to the Company's Form 14D-1 and 13D Statement, filed with the Commission on August 28, 1987.

(4) Incorporated by reference to the Company's Proxy Statement relating to its Annual Meeting of Shareholders held on May 16, 1989.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the fiscal period ended March 31, 1994.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the fiscal period ended September 30, 1994.

SCHEDULE II

ATARI CORPORATION

VALUATION AND QUALIFYING ACCOUNTS
(AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>
December 31, 1993:				
Allowance for doubtful accounts	$2,533	$ 232	$2,293(1)	$ 472
Accrued sales returns and allowances	4,300	457	4,181(2)	576
December 31, 1994:				
Allowance for doubtful accounts	$ 472	$ 194	$ 72(1)	$ 594
Accrued sales returns and allowances	576	1,563	776(2)	1,363
December 31, 1995:				
Allowance for doubtful accounts	$ 594	$ 50	$ 317(1)	$ 327
Accrued sales returns and allowances	1,363	5,028	2,497(2)	3,894

</TABLE>

- ---------------
(1) Amounts written off, net

(2) Customer returns allowed

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 11th day of April 1996.

ATARI CORPORATION

By: /s/ SAM TRAMIEL

Sam Tramiel, President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Jack Tramiel and Sam Tramiel, and each of them acting individually, as his attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<S> <C>
/s/ JACK TRAMIEL April 11, 1996
- ---
Jack Tramiel
Chairman of the Board
/s/ SAM TRAMIEL April 11, 1996
- ---
Sam Tramiel
President, Chief Executive Officer,
Chief Financial Officer and Director
/s/ MICHAEL ROSENBERG April 11, 1996
- ---
Michael Rosenberg
Director
/s/ LEONARD I. SCHREIBER April 11, 1996
- ---
Leonard I. Schreiber
Director
/s/ AUGUST J. LIGUORI April 11, 1996
- ---
August J. Liguori
Director
</TABLE>

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.7
<SEQUENCE>2
<DESCRIPTION>LEASE BETWEEN REGISTRANT & OWEN & BURNS 1990 TRUST
<TEXT>

<PAGE> 1

EXHIBIT 10.7

PUBLIC

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE--NET
(Do not use this form for Multi-Tenant Property)

1. BASIC PROVISIONS ("Basic Provisions")

1.1 PARTIES: This Lease ("Lease"), dated for reference purposes only, February 16, 1996, is made by and between Victor H. Owen and Judith Owen Burns 1990 Revocable Trust, dated December 27, 1990, Judith Owen Burns Trustee ("Lessor") and Atari Corporation, a Nevada corporation ("Lessee"), (collectively, the "Parties," or individually a "Party").

1.2 PREMISES: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known by the street address of 455 South Mathilda Avenue, Sunnyvale, located in the County of Santa Clara, State of California and generally described as (describe briefly the nature of the property) a 7,208 square foot freestanding concrete office building with at least 29 parking spaces in the adjacent common parking area. The property is within a C-3 zoning ("Premises"). (See Paragraph 2 for further provisions.)

1.3 TERM: Five (5) years and no months ("Original Term") commencing March 1, 1996 ("Commencement Date") and ending February 28, 2001 ("Expiration Date"). (See Paragraph 3 for further provisions.)

1.4 EARLY POSSESSION: Tenant may occupy two weeks prior to Lease Commencement ("Early Possession Date"). (See Paragraphs 3.2 and 3.3 for further provisions.)

1.5 BASE RENT: $6,126.80 per month ("Base Rent"), payable on the 1st day of each month commencing March 1, 1996. (See Addendum Paragraph 53 for rental escalation in the 37th month). (See Paragraph 4 for further provisions.) / / If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 BASE RENT PAID UPON EXECUTION: $6,126.80 as Base Rent for the period March 1-31, 1996.

1.7 SECURITY DEPOSIT: $6,000.00 ("Security Deposit"). (See Paragraph 5 for further provisions.)

1.8 PERMITTED USE: General office and related legal uses. (See Paragraph 6 for further provisions.)

1.9 INSURING PARTY: Lessor is the "Insuring Party" unless otherwise stated herein. (See Paragraph 8 for further provisions.)

1.10 REAL ESTATE BROKERS: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes): CPS represents:

<TABLE>
<S> <C>
/x/ Lessor exclusively ("Lessor's Broker"); / / both Lessor and Lessee, and KG Real Estate, Inc. represents:

/x/ Lessee exclusively ("Lessee's Broker"); / / both Lessor and Lessee. (See Paragraph 15 for further provisions.)
</TABLE>

1.11 GUARANTOR: The obligations of the Lessee under this Lease are to be guaranteed by _____
_____
("Guarantor"). (See Paragraph 37 for further provisions.)

1.12 ADDENDA: Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 54 and Exhibits _____
_____ all of which constitute a part of this Lease.

2. PREMISES.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental, is an approximation which Lessor and Lessee agree is reasonable and the rental based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, fire sprinkler system, lighting, air conditioning, heating, and loading doors, if any. In the Premises, other than those constructed by Lessee, shall be in good operating condition for a period of ninety (90) days after the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within one hundred twenty (120) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE WITH COVENANTS, RESTRICTIONS AND BUILDING CODE. Lessor warrants to Lessee that the Improvements on the Premises comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give

Lessor written notice of a non-compliance with this warranty within six (6) months following the Commencement Date, correction of that non-compliance shall be the obligation of Lessee's sole cost and expense.

2.4 ACCEPTANCE OF PREMISES. Lessee hereby acknowledges: (a) that it has been advised by the Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, compliance with Applicable Law, as defined in Paragraph 6.3) and the present and future suitability of the Premises for Lessee's intended use, (b) that Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to Lessee's occupancy of the

Premises and/or the term of this Lease, and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to the said matters other than as set forth in this Lease.

2.5 LESSEE PRIOR OWNER/OCCUPANT. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease, however, (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

3.3 DELAY IN POSSESSION. If for any reason Lessor cannot deliver possession of the Premises to Lessee as agreed herein by the Early Possession Date, if one is specified in Paragraph 1.4, or, if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder; provided, however, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. RENT.

4.1 BASE RENT. Lessee shall cause payment of Base Rent and other rent or charges, as the same may be adjusted from time to time, to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of the calendar month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

5. SECURITY DEPOSIT.

Lessee shall deposit with Lessor upon execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or

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other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit moneys with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any moneys to be paid by Lessee under this Lease.

6. USE.

6.1 USE. Lessee shall use and occupy the Premises only for the purposes set forth in Paragraph 1.8, or any other use which is comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to, neighboring premises or properties. Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of the Lessee, its assigns and subtenants, for a modification of said permitted purpose for which the premises may be used or occupied, so long as the same will not impair the structural integrity of the improvements on the Premises, the mechanical or electrical systems therein, is not significantly more burdensome to the Premises and the improvements thereon, and

is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use. Lessee is permitted to use general office equipment, laser printers, copying machines, etc.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "Hazardous Substance as used in this Lease, shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in, on or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Law (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the

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generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority. Reportable Use shall also include Lessee's being responsible for the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but in compliance with all Applicable Law, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of Lessee's business permitted on the Premises, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to the use or presence of any Hazardous Substance, activity or storage tank by Lessee upon Lessee's giving Lessor such additional assurances as Lessor in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefrom or therefor, including, but not limited to, the installation (and removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor. Lessee shall also immediately give Lessor a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Premises, including but not limited to all such documents as may be involved in any Reportable Uses involving the Premises.

(c) INDEMNIFICATION. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Lessee or under Lessee's control. Lessee's obligations under this Paragraph 6 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 LESSEE'S COMPLIANCE WITH LAW. Except as otherwise provided in this Lease, Lessee, shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Law," which term is used in this Lease to include all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal,

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transportation, storage, spill or release of any Hazardous Substance or storage tank), now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Law specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Law.

6.4 INSPECTION; COMPLIANCE. Lessor and Lessor's Lender(s) (as defined in Paragraph 8.3(a)) shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of inspecting the condition of the Premises and/or verifying compliance by Lessee with this Lease and all Applicable Laws (as defined in Paragraph 6.3) and to employ experts and/or consultants in connection therewith and/or to advise Lessor with respect to Lessee's activities, including but not limited to the installation, operation, use, monitoring, maintenance or removal of any Hazardous Substance or storage tank on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease, violation of Applicable Law, or a contamination, caused or materially contributed to by Lessee is found to exist

or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination.

7. MAINTENANCE; REPAIRS; UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Paragraphs 2.2 (Lessor's warranty as to condition), 2.3 (Lessor's warranty as to compliance win covenants, etc.), 7.2 (Lessor's obligations to repair), 9 (damage and destruction), and 4 (condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair, and non-structural (whether or not such portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including without limiting the generality of the foregoing, all equipment or facilities serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire sprinkler and/or standpipe and hose or other automatic fire extinguishing system, including fire alarm and/or smoke detection systems and equipment, fire hydrants, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, about, or adjacent to the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises, the elements surrounding same, or neighboring properties, that was caused or

materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance and/or storage tank brought onto the Premises by or for Lessee or under its control. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. If Lessee occupies the Premises for seven (7) years or more, Lessor may require Lessee to repaint the exterior of the buildings on the Premises as reasonably required, but not more frequently than once every seven (7) years.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in, the inspection, maintenance and service of the following equipment and improvements, if any, located on the Premises: (i) heating, air conditioning and ventilation equipment, (ii) boiler, fired or unfired pressure vessels, (iii) fire sprinkler and/or standpipe and hose or other automatic fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drain maintenance and (vi) asphalt and parking lot maintenance.

7.2 LESSOR'S OBLIGATIONS. Except for the warranties and agreements of Lessor contained in Paragraphs 2.2 (relating to condition of the Premises), 2.3 (relating to compliance with covenants, restrictions and building code, 9 (relating to destruction of the Premises) and 14 (relating to condemnation of the Premises), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, the improvements located thereon, or the equipment therein, whether structural or non-structural, all of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises. Lessee and Lessor expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease with respect to, or which affords Lessee the right to make repairs at the expense of Lessor or to terminate this Lease by reason of any needed repairs.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "Utility Installations" is used in this Lease to refer to all carpeting, window coverings, air lines, power panels, electrical distribution, security, fire protection systems, communication systems, lighting fixtures, heating, ventilating, and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises from that which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor as defined in Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations in, on under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof), as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during the term of this Lease as extended does not exceed $25,000. For purposes of this Lease, Lessor plans to replace the existing landscape and parking lot at Lessor's expense. Lessee shall be responsible for its share of maintenance after completion of the improvements.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be

presented to Lessor in written form with proposed detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities, (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility installation to Lessor prior to commencement of the work thereon, and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and in compliance with all Applicable Law. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs $10,000 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated

cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor under Paragraph 36 hereof.

(c) INDEMNIFICATION. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorney's fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require their removal or become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Additions made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per subparagraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon and be surrendered by Lessee with the Premises.

(b) REMOVAL. Unless otherwise agreed in writing, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent of Lessor.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, with all of the improvements, parts and surfaces thereof clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified in writing by Lessor, the Premises, as surrendered, shall include the Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Alterations and/or Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Law and/or good service practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT FOR INSURANCE. Regardless of whether the Lessor or Lessee is the Insuring Party, Lessee shall pay for all insurance required under this Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor in excess of $1,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice for any amount due.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee and Lessor (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an "Additional Insured-Managers or Lessor of Premises" Endorsement and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. In the event Lessor is the Insuring Party, Lessor shall also maintain liability insurance described in Paragraph 8.2(a), above in addition to, and not in lieu of, the insurance required to be maintained by Lessee, Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE--BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. The Insuring Party shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lender(s)"), insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by Lenders, but in no event more than the commercially reasonable and available insurance value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. If Lessor is the Insuring Party, however, Lessee Owned Alternations and Utility Installations shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Premises required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered cause of loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss, as defined in Paragraph 9.1(c).

(b) RENTAL VALUE. The Insuring Party shall, in addition, obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and Lender(s), insuring the loss of the full rental and other charges payable by Lessee to Lessor under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any, otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. If the Premises are part of a larger building, or if the Premises are part of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) TENANT'S IMPROVEMENTS. If the Lessor is the Insuring Party, the Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease. If Lessee is the Insuring Party, the policy carried by Lessee under this Paragraph 8.3 shall insure Lessee Owned Alterations and Utility Installations.

8.4 LESSEE'S PROPERTY INSURANCE. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Lessee Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that

carried by the Insuring Party under Paragraph 8.3. Such insurance shall be full replacement cost coverage with a deducible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property or the restoration of Lessee Owned Alterations and Utility Installations. Lessee shall be the Insuring Party with respect to the insurance required by this Paragraph 8.4 and shall provide Lessor with written evidence that such insurance is in force.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. If Lessee is the Insuring Party, Lessee shall cause to be delivered to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of such insurance with the insureds and loss payable clauses as required by this Lease. No such policy shall be cancellable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. If the Insuring Party shall fail to procure and maintain the insurance required to be carried by the Insuring Party under this Paragraph 8, the other Party may, but shall not be required to, procure and maintain the same, but at Lessee's expense.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor ("Waiving Party") each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss of or damage to the Waiving Party's property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

8.7 INDEMNITY. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, permits, attorney's and consultant's fees, expenses and/or liabilities arising out of, involving, or in dealing with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall

include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment, and whether well founded or not. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Except for Lessor's negligence and/or breach of express warranties, Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not, Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the Improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than 50% of the then Replacement Cost of the Premises immediately prior to such damage or destruction, excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations the repair cost of which damage or destruction is 50% or more of the then Replacement Cost of the Premises immediately prior to such damage or destruction, excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations.

(c) "INSURED LOSS" shall mean damage or destruction to Improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the Improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PARTIAL DAMAGE--INSURED LOSS. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make the insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, the shortage in proceeds was due to the

fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If in such case Lessor does not so elect, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE--UNINSURED LOSS. If a Premises Partial damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13), Lessor may at Lessor's option, either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expenses and without

reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 8.6.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may,

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at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, within twenty (20) days following the occurrence of the damage, or before the expiration of the time provided in such option for its exercise, whichever is earlier ("Exercise Period"), (i) exercising such option and (ii) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs. If Lessee duly exercises such option during said Exercise Period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during said Exercise Period, then Lessor may at Lessor's option terminate this Lease as of the expiration of said sixty (60) day period following the occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of the Exercise Period, notwithstanding any term or provision in the grant of option to the contrary.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of damage described in Paragraph 9.2 (Partial Damage--Insured), whether or not Lessor or Lessee repairs or restores the Premises, the Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, payable by Lessee hereunder for the period during which such damage, its repair or the restoration continues (not to exceed the period for which rental value insurance is required under Paragraph 8.3(b)), shall be abated in proportion to the degree to which Lessee's use of the Premises is Impaired. Except for abatement of Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Law and this Lease shall continue in full force and effect; but subject to Lessor's rights under Paragraph 13), Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to

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terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the investigation and remediation of such Hazardous Substance Condition totally at Lessee's expense and without reimbursement from Lessor except to the extent of an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination. If a Hazardous Substance Condition occurs for which Lessee is not legally responsible, there shall be abatement of Lessee's obligations under this Lease to the same extent as provided in Paragraph 9.6(a) for a period of not to exceed twelve (12) months.

9.8 TERMINATION--ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 WAIVE STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 (a) PAYMENT OF TAXES. Lessee shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Premises during the term of this Lease. Subject to Paragraph 10.1(b), all such payments shall be made to Lessor at least twenty (20) calendar days prior to the delinquency date of the applicable installment. Check to be made out to the appropriate taxing agency. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes to be paid by Lessee shall cover any period of time prior to or after the expiration or earlier termination of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment after such proration. If Lessee shall fail to pay any Real Property Taxes required by this Lease to be paid by Lessee, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

10.2 DEFINITION OF "REAL PROPERTY TAXES." As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Premises or in the real property of which the Premises are a part, Lessor's right to rent or other income therefrom,

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and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in applicable law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Premises or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

10.3 JOINT ASSESSMENT. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and Improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.4 PERSONAL PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause its Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property or, at Lessor's option, as provided in Paragraph 10.1(b).

11. UTILITIES.

Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered with other premises.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given and subject to the terms of Paragraph 36.

See Addendum Paragraph 54, Subleasing Profits.

(b) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent or performance shall constitute a

waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent

to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or sublease.

(d) In the event of any Default or Breach of Lessee's obligations under this Lease, Lessor may proceed directly against Lessee, any Guarantors or any one else responsible for the performance of the Lessee's obligations under this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment structure of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment structure for property similar to the Premises as then constituted.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein;

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to

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such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary, Lessee shall have no right or claim against said sublessee, or until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior Defaults or Breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), $350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said Default. A "Default" is defined as a failure by the Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "Breach" is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a

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period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Law per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1(b), (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, that are to be observed, complied with or performed by Lessee, other than those described in subparagraphs (a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's Interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee or any Guarantor of Lessee's obligations hereunder was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or

approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee, as defined in Paragraph 13.1, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of the leasing commission paid by Lessor applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the prior sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve therein the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under subparagraphs 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by

subparagraphs 13.1(b), (c) or (d). In such case, the applicable grace period under subparagraphs 13.1(b), (c) or (d) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and abandonment and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. See Paragraphs 12 and 36 for the limitations on assignment and subletting which limitations Lessee and Lessor agree are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under the Lease, shall not constitute a termination of the Lessee's right to possession.

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(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE IN EVENT OF BREACH. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach of this Lease by Lessee, as defined in Paragraph 13.1, any such inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph shall not be deemed a waiver by Lessor of the provisions of this Paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground Lease, mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 BREACH BY LESSOR. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by the holders of any ground Lease, mortgage or deed of trust covering the Premises whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

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14. CONDEMNATION.

If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs, if more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the land area not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the building located on the Premises. No reduction of Base Rent shall occur if the only portion of the Premises taken is land on which there is no building. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by

such condemnation, except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. BROKER'S FEE.

15.1 The Brokers named in Paragraph 1.10 are the procuring causes of this Lease.

15.2 Upon execution of this Lease by both Parties, Lessor shall pay to said Brokers jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Brokers (or in the event there is no separate written agreement between Lessor and said Brokers, the sum of $PER LISTING AGREEMENT for brokerage services rendered by said Brokers to Lessor in this transaction.

15.3 Unless Lessor and Brokers have otherwise agreed in writing, Lessor further agrees that: (a) If Lessee exercises any Option (as defined in Paragraph 39.1) or any Option subsequently granted which is substantially similar to an Option granted to Lessee in this Lease, or (b) if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other Lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an

interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.4 Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be a third party beneficiary of the provisions of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.5 Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any, named in Paragraph 1.10) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Brokers is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

15.6 Lessor and Lessee hereby consent to and approve all agency relationships, including any dual agencies, indicated in Paragraph 1.10.

16. TENANCY STATEMENT.

16.1 Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party, a statement in writing in form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 If Lessor desires to finance, refinance, or sell the Premises, any part thereof, or the building of which the Premises are a part, Lessee and all Guarantors of Lessee's performance hereunder shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY.

The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior Lease. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. SEVERABILITY.

The invalidity of any provision of this Lease, as determined by a court of

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competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS.

Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due at the rate of 12% per annum, but not exceeding the maximum rate allowed by law, in addition to the late charge provided for in Paragraph 13.4.

20. TIME OF ESSENCE.

Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. RENT DEFINED.

All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER.

This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. NOTICES.

23.1 All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone confirmation of receipt of the

transmission thereof, provided a copy is also delivered via delivery or mail. It notice is received on a Sunday or legal holiday, it shall be deemed received on the next business day.

24. WAIVERS.

No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any preceding Default or Breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING.

Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. NO RIGHT TO HOLDOVER.

Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease.

27. CUMULATIVE REMEDIES.

No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS.

All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. BINDING EFFECT; CHOICE OF LAW.

This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground Lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or

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hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default and allow such Lender thirty (30) days following receipt of such notice for the cure of said default before invoking any remedies Lessee may have by reason thereof. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. ATTORNEY'S FEES.

If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) or Broker in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred. Lessor shall be entitled to attorney's fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS.

Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purposes of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part, as Lessor may reasonably

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deem necessary. Lessor may at any time place on or about the Premises or building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred twenty (120) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. AUCTIONS.

Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS.

Lessee shall not place any sign upon the Premises, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof and the right to install, and all revenues from the installation of, such advertising signs on the Premises, including the roof, as do not unreasonably interfere with the conduct of Lessee's business.

35. TERMINATION; MERGER.

Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' or other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises. Including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, practice or storage tank, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. Subject to Paragraph 12.2(e) (applicable to assignment or subletting), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Except as otherwise provided, any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment

of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. GUARANTOR.

37.1 If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each said Guarantor shall have the same obligations as Lessee under this Lease, including but not limited to the obligation to provide the Tenancy Statement and information called for by Paragraph 16.

37.2 It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and including in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signature of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION.

Upon payment by Lessee of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. OPTIONS.

39.1 DEFINITION. As used in this Paragraph 39 the word "Option" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any Lease that Lessee has on other property of Lessor; (b) the right of first refusal to Lease the Premises or the right of first offer to Lease the Premises or the right of first refusal to Lease other property of Lessor or the right of first offer to Lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises; and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any Multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the

noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of Default under Paragraph 13.1, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of Default under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. MULTIPLE BUILDINGS.

If the Premises are part of a group of buildings controlled by Lessor, Lessee agrees that it will abide to, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of such other buildings and their invitees, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. SECURITY MEASURES.

Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS.

Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and

restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST.

If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY.

If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. CONFLICT.

Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER.

Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lease to Lessee. This Lease is not intended to be binding until executed by all Parties hereto.

47. AMENDMENTS.

This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional, insurance company, or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. MULTIPLE PARTIES.

Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such Multiple Parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND

PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY AS TO THE POSSIBLE PRESENCE OF ASBESTOS, STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER(S) OR THEIR AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place on the dates specified above to their respective signatures.

<TABLE>

<S>	<C>
Executed at Santa Clara, CA	Executed at Sunnyvale, CA
on 2-22-96	on 2-22-96
by LESSOR:	by LESSEE:
Victor H. Owen & Judith Owen Burns	Atari Corporation, a Nevada corporation
1990 Revocable Trust, dated 12-27-90,	
Judith Owen Burns, Trustee	
By /s/ Judith Owen Burns, Trustee	By /s/ Laurence M. Scott
Name Printed: Judith Owen Burns	Name Printed: Laurence M. Scott
Title: Co-owner	Title: Vice President, Operations
By	By
Name Printed:	Name Printed:

Title:	Title:
Address:	Address:
Tel. No. ( ) Fax No. ( )	Tel. No. ( ) Fax No. ( )

</TABLE>

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. always write or call to make sure you are utilizing the most current form: American Industrial Real Estate Association, 345 South Figueroa Street, Suite M-1, Los Angeles, CA 90071. (213) 687-8777, Fax. No. (213) 687-8616.

ADDENDUM

49. CARPET REPLACEMENT: Lessor, at Lessee's request, shall provide Lessee a carpet replacement allowance of up to $14,416.00 to replace the existing floor coverings. The installation of carpet shall be professionally done.

50. PAINT: Lessor shall paint and repair all walls prior to Commencement Date.

51. REMOVAL OF SHELVING IN SAFE: Lessor agrees to remove all shelving in the vault at Lessor's expense prior to Commencement Date, and to either remove or box in the safe door.

52. RECEPTION AREA: Lessor agrees, at Lessor's expense and at Lessee's request, to provide a reception area at the entry to the north end of the building, which would include carpeting, a door and hard walls. The configuration and expense to be mutually agreed upon by Lessor and Lessee.

53. RENT ESCALATION: The base rent will be adjusted beginning the 1st day of the 37th month of the Lease term, based on the change in the Consumer Price Index as determined by the Department of Labor, Bureau of Labor Statistics: All Items, for the San Francisco-Oakland Metropolitan Area. The minimum rental adjustment will be the cumulative increase of three percent (3%) per annum with a ceiling of seven percent (7%) per annum.

54. SUBLEASING/ASSIGNMENT: Lessee shall have the right to sublease/assign all or any portion of its Premises during the term of the Lease to a qualified tenant or tenants, subject to Lessor's approval, which shall not be unreasonably withheld or delayed. No response within ten (10) days shall be deemed as Lessor's approval. Any premium earned via sublease will be divided 50/50 between Lessor and Lessee. Any costs associated with Lessee's subleasing of the Premises shall be borne by Lessee. Any improvements to the Premises shall be approved by Lessor and be at the expense of Lessee.

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55. CALIFORNIA TITLE 24 DISABLED ACCESS REGULATION: Lessor agrees, at Lessor's expense and at Lessee's request, to upgrade the existing restrooms to ADA standards.

56. SIGNAGE: Lessor and Lessee shall work toward an agreement to allow Lessee to place a sign on the building which shall meet the City of Sunnyvale's sign ordinance and be consistent with other signage Lessor has within the building complex.

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<SEQUENCE>3
<DESCRIPTION>AMENDED & RESTATED AGRMT B/T ATARI & JT STORAGE
<TEXT>

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AMENDED AND RESTATED

AGREEMENT AND PLAN OF REORGANIZATION

BY AND BETWEEN

ATARI CORPORATION

AND

JT STORAGE, INC.

APRIL 8, 1996

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SCHEDULES

EXHIBITS

AMENDED AND RESTATED

AGREEMENT AND PLAN OF REORGANIZATION

This AMENDED AND RESTATED AGREEMENT AND PLAN OF REORGANIZATION (the "Agreement") is made and entered into as of April 8, 1996, by and between Atari Corporation, a Nevada corporation ("Atari"), and JT Storage, Inc., a Delaware corporation ("JTS").

RECITALS

A. Atari is in the business of designing, manufacturing and selling computers, computer peripheral products and video games.

B. JTS is in the business of designing, manufacturing and selling computer peripheral products including mass storage computer disc drives.

C. The Boards of Directors of JTS and Atari believe it is in the best interests of their respective companies and the stockholders of their respective companies that JTS and Atari combine into a single company through the statutory merger of Atari with and into JTS (the "Merger") and, in furtherance thereof, have approved the Merger.

D. In connection with the Merger, among other things, the outstanding shares of Atari Common Stock, $.01 par value ("Atari Common Stock"), shall be converted into shares of JTS Common Stock, $.000001 par value ("JTS Common Stock"), at the rate set forth herein.

E. JTS and Atari desire to make certain representations and warranties and other agreements in connection with the Merger.

F. The parties intend, by executing this Agreement, to adopt a plan of reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"), and to cause the Merger to qualify as a reorganization under the provisions of Section 368(a)(1)(A) of the Code.

G. This Agreement amends and restates that certain Agreement and Plan of

Reorganization by and among Atari, JTS and JTS Acquisition Corporation dated as of February 12, 1996.

NOW, THEREFORE, in consideration of the covenants and representations set forth herein, and for other good and valuable consideration, the parties agree as follows:

ARTICLE I

THE MERGER

1.1 The Merger. At the Effective Time (as defined in Section 1.2) and subject to and upon the terms and conditions of this Agreement, a Certificate of Merger prepared in accordance with Delaware Law (as defined herein) and Nevada Law (as defined herein) and reasonably acceptable to counsel to JTS and counsel to Atari (the "Certificate of Merger"), and the applicable provisions of the Delaware General Corporation Law ("Delaware Law") and Nevada General Corporation Law ("Nevada Law"), Atari shall be merged with and into JTS, the separate corporate existence of Atari shall cease and JTS shall continue as the surviving corporation. JTS as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

1.2 Closing; Effective Time. The closing of the transactions contemplated hereby (the "Closing") shall take place as soon as practicable after the satisfaction or waiver of each of the conditions set forth in Article VI hereof or at such other time as the parties hereto agree (the "Closing Date"). The Closing shall take place at the offices of Wilson Sonsini Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California, or at such other location as the parties hereto agree. In connection with the Closing, the parties hereto shall cause the Merger to be consummated by filing the Certificate of Merger with (i) the Secretary of State of the State of Delaware and with the Recorder of the County in which the registered office of JTS is located, in
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accordance with the relevant provisions of Delaware Law and (ii) the Secretary of State of the State of Nevada, in accordance with the relevant provisions of Nevada Law (the time of such filings being the "Effective Time").

1.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificate of Merger and the applicable provisions of Delaware Law and Nevada Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of Atari shall vest in the Surviving Corporation, and all debts, liabilities and duties of Atari shall become the debts, liabilities and duties of the Surviving Corporation.

1.4 Certificate of Incorporation; Bylaws.

(a) At the Effective Time, the Certificate of Incorporation of JTS, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by Delaware Law and such Certificate of Incorporation; provided, however, that the Certificate of Incorporation of the Surviving Corporation shall be amended and restated in the form attached hereto as Exhibit A.

(b) The Bylaws of JTS, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation until thereafter amended; provided, however, that the Bylaws of the Surviving Corporation shall be amended and restated in the form attached hereto as Exhibit B.

1.5 Directors and Executive Officers. At the Effective Time, the directors of the Surviving Corporation shall be Sirjang Lal Tandon, David T. Mitchell, Jean D. Deleage, Alan Azan, Roger W. Johnson, LipBu Tan, Jack Tramiel and Michael Rosenberg. The executive officers of JTS immediately prior to the Effective Time shall constitute the only executive officers of the Surviving

Corporation as of the Effective Time, unless otherwise designated by JTS.

1.6 Effect on Capital Stock. By virtue of the Merger and without any action on the part of JTS, Atari or the holders of any of the following securities:

(a) Conversion of Atari Common Stock. At the Effective Time, each share of Atari Common Stock issued and outstanding immediately prior to the Effective Time (other than any shares of Atari Common Stock to be canceled pursuant to Section 1.6(b)) will be canceled and extinguished and be converted automatically into the right to receive one (1) share of JTS Common Stock (the "Exchange Ratio").

(b) Cancellation of Certain Stock. At the Effective Time, each share of Atari Common Stock owned by JTS or any direct or indirect wholly-owned subsidiary of JTS immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof.

(c) Atari Stock Options. At the Effective Time, all options to purchase Atari Common Stock then outstanding under the Atari Amended 1986 Stock Option Plan (the "Atari Stock Option Plan") shall be assumed by JTS in accordance with Section 5.11.

(d) Atari Debentures. At the Effective Time, JTS shall assume all obligations of Atari under Atari's 5 1/4% Convertible Subordinated Debentures Due 2002 (the "Atari Debentures"), and such debentures shall be convertible into shares of JTS Common Stock in accordance with Section 5.12.

(e) Federated Debentures. To the extent required by that certain Indenture dated as of April 15, 1985 from the The Federated Group, Inc. to Security Pacific National Bank, as trustee, together with the first supplemental indenture thereto dated as of September 24, 1987, at the Effective Time, JTS shall assume any obligations of Atari under the 7 1/2% Convertible Subordinated Debentures due April 15, 2010 of The Federated Group, Inc. (the "Federated Debentures").

(f) Adjustments to Exchange Ratio. The Exchange Ratio shall be adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Atari Common Stock or JTS Common Stock), reorganization, recapitalization or other like change with

respect to Atari Common Stock, JTS Common Stock or JTS Series A Preferred Stock, $.000001 par value ("JTS Series A Preferred Stock"), occurring after the date hereof and prior to the Effective Time.

(g) Fractional Shares. No fraction of a share of JTS Common Stock will be issued, but in lieu thereof each holder of shares of Atari Common Stock who would otherwise be entitled to a fraction of a share of JTS Common Stock (after aggregating all fractional shares of JTS Common Stock to be received by such holder) shall receive from JTS an amount of cash (rounded to the nearest whole cent) equal to the product of (i) such fraction, multiplied by (ii) the closing price of a share of Atari Common Stock on the trading day immediately prior to the Effective Time, as reported by the American Stock Exchange.

1.7 Surrender of Certificates.

(a) Exchange Agent. Registrar and Transfer Company, Cranford, NJ, shall act as exchange agent (the "Exchange Agent") in the Merger.

(b) JTS to Provide Common Stock and Cash. Promptly after the Effective

Time, JTS shall make available to the Exchange Agent for exchange in accordance with this Article I, through such procedures as JTS may reasonably adopt, (i) the shares of JTS Common Stock issuable pursuant to Section 1.6(a) in exchange for shares of Atari Common Stock outstanding immediately prior to the Effective Time and (ii) cash in an amount sufficient to permit payment of cash in lieu of fractional shares pursuant to Section 1.6(g).

(c) Exchange Procedures. Promptly after the Effective Time, the Surviving Corporation shall cause to be mailed to each holder of record of a certificate or certificates (the "Certificates") which immediately prior to the Effective Time represented outstanding shares of Atari Common Stock, whose shares were converted into the right to receive shares of JTS Common Stock (and cash in lieu of fractional shares) pursuant to Section 1.6, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon receipt of the Certificates by the Exchange Agent, and shall be in such form and have such other provisions as JTS may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of JTS Common Stock (and cash in lieu of fractional shares). Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by JTS, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing the number of whole shares of JTS Common Stock and payment in lieu of fractional shares which such holder has the right to receive pursuant to Section 1.6, and the Certificate so surrendered shall forthwith be canceled. Until so surrendered, each outstanding Certificate that, prior to the Effective Time, represented shares of Atari Common Stock will be deemed from and after the Effective Time, for all corporate purposes, other than the payment of dividends, to evidence the ownership of the number of full shares of JTS Common Stock into which such shares of Atari Common Stock shall have been so converted and the right to receive an amount in cash in lieu of the issuance of any fractional shares in accordance with Section 1.6.

(d) Distributions With Respect to Unexchanged Shares. No dividends or other distributions with respect to JTS Common Stock with a record date after the Effective Time will be paid to the holder of any unsurrendered Certificate with respect to the shares of JTS Common Stock represented thereby until the holder of record of such Certificate shall surrender such Certificate. Subject to applicable law, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of JTS Common Stock issued in exchange therefor, without interest, at the time of such surrender, the amount of any such dividends or other distributions with a record date after the Effective Time theretofore payable (but for the provisions of this Section 1.7(d)) with respect to such shares of JTS Common Stock.

(e) Transfers of Ownership. If any certificate for shares of JTS Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it will be a condition of the issuance thereof that the Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the person requesting such exchange will have paid to JTS or any agent designated by it any transfer or other taxes required by reason of the issuance of a certificate for shares of JTS

Common Stock in any name other than that of the registered holder of the Certificate surrendered, or established to the satisfaction of JTS or any agent designated by it that such tax has been paid or is not payable.

(f) No Liability. Notwithstanding anything to the contrary in this Section 1.7, none of the Exchange Agent, the Surviving Corporation or any party hereto shall be liable to any person for any amount properly paid to a public official

pursuant to any applicable abandoned property, escheat or similar law.

1.8 No Further Ownership Rights in Atari Stock. All shares of JTS Common Stock issued upon the surrender for exchange of shares of Atari Common Stock in accordance with the terms hereof (including any cash paid in lieu of fractional shares) shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Atari Common Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Atari Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

1.9 Lost, Stolen or Destroyed Certificates. In the event any Certificates shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, such shares of JTS Common Stock (and cash in lieu of fractional shares) as may be required pursuant to Section 1.6; provided, however, that JTS may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against JTS, the Surviving Corporation or the Exchange Agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

1.10 Tax Consequences. It is intended by the parties hereto that the Merger shall constitute a reorganization within the meaning of Section 368 of the Code.

1.11 Taking of Necessary Action; Further Action. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of Atari, the officers and directors of Atari are fully authorized in the name of the corporation or otherwise to take, and will take, all such lawful and necessary action, so long as such action is not inconsistent with this Agreement.

1.12 Dissenting JTS Shares.

(a) Notwithstanding any provision of this Agreement to the contrary, any shares of JTS Common Stock or JTS Series A Preferred Stock held by a holder who has exercised dissenters' rights for such shares in accordance with Delaware Law or California General Corporation Law to the extent such law is applicable by virtue of Section 2115 thereof ("California Law") and who, as of the Effective Time, has not effectively withdrawn or lost such dissenters' rights ("Dissenting Shares"), shall be entitled to such rights as are granted by Delaware Law or California Law.

(b) JTS shall give Atari (i) prompt notice of any written demands received by JTS for an appraisal of shares of capital stock of JTS pursuant to Section 262 of Delaware Law or Chapter 13 of California Law, withdrawals of such demands, and any other related instruments served pursuant to Delaware Law or California Law and received by JTS and (ii) the opportunity to participate in all negotiations and proceedings with respect to such demands. JTS shall not, except with the prior written consent of Atari, voluntarily make any payment with respect to any such demands or offer to settle or settle any such demands.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF JTS

In this Agreement, any reference to any event, change, condition or effect being "material" with respect to any entity or group of entities means any material event, change, condition or effect related to the condition

(financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of such entity or group of entities. In this Agreement, any reference to a "Material Adverse Effect" with respect to any entity or group of entities means any event, change or effect that is materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations, results of operations or prospects of such entity and its subsidiaries, taken as a whole.

In this Agreement, any reference to a party's "knowledge" means such party's actual knowledge after due and diligent inquiry.

Except as disclosed in a document of even date herewith and delivered by JTS to Atari prior to the execution and delivery of this Agreement and referring to the representations and warranties in this Agreement (the "JTS Disclosure Schedule"), JTS represents and warrants to Atari as follows:

2.1 Organization, Standing and Power. Each of JTS and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Each of JTS and its subsidiaries has the corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole. JTS has delivered a true and correct copy of the Certificate of Incorporation and Bylaws or other charter documents, as applicable, of JTS and each of its subsidiaries, each as amended to date, to Atari. Neither JTS nor any of its subsidiaries is in violation of any of the provisions of its Certificate of Incorporation or Bylaws or equivalent organizational documents. JTS is the owner of all outstanding shares of capital stock of each of its subsidiaries and all such shares are duly authorized, validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock of each such subsidiary are owned by JTS free and clear of all liens, charges, claims or encumbrances or rights of others. There are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements of any character relating to the issued or unissued capital stock or other securities of any such subsidiary, or otherwise obligating JTS or any such subsidiary to issue, transfer, sell, purchase, redeem or otherwise acquire any such securities. Except as disclosed in the JTS Disclosure Schedule, JTS does not directly or indirectly own any equity or similar interest in, or any interest convertible or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

2.2 Capital Structure. The authorized capital stock of JTS consists of 90,000,000 shares of Common Stock, $.000001 par value, and 70,000,000 shares of Preferred Stock, $.000001 par value, all of which is designated Series A Preferred Stock, of which there were issued and outstanding as of the close of business on April 5, 1996, 9,204,741 shares of Common Stock and 29,696,370 shares of Series A Preferred. The JTS Disclosure Schedule contains a true and complete list of the holders of JTS Common Stock and JTS Series A Preferred Stock and the number of shares held by each such holder on April 5, 1996. There are no other outstanding shares of capital stock or voting securities. Each outstanding share of JTS Series A Preferred Stock is convertible into one (1) share of JTS Common Stock. All outstanding shares of JTS Common Stock and JTS Series A Preferred Stock are duly authorized, validly issued, fully paid and non-assessable and are free of any liens or encumbrances other than any liens or encumbrances created by or imposed upon the holders thereof, and are not subject to preemptive rights or rights of first refusal created by statute, the Certificate of Incorporation or Bylaws of JTS or any agreement to which JTS is a party or by which it is bound. As of the close of business on April 5, 1996, JTS has reserved (i) 4,300,000 shares of JTS Common Stock for issuance to employees

and consultants pursuant to the JTS 1995 Stock Option Plan (the "JTS Stock Option Plan"), of which 37,554 shares have been issued pursuant to option exercises and 3,680,358 shares are subject to outstanding, unexercised options, (ii) 600,000 shares of JTS Common Stock for issuance upon the exercise of outstanding, unexercised JTS Warrants and (iii) 32,500,000 shares of JTS Series A Preferred Stock and JTS Common Stock for issuance upon conversion of the note issued to Atari on February 13, 1996 and upon exercise of the warrants issuable to Atari pursuant to such note. Since April 5, 1996, JTS has not issued or granted additional options under the JTS Stock Option Plan. Other than pursuant to this Agreement, there are no other options, warrants, calls, rights, commitments or agreements of any character to which JTS is a party or by which it is bound obligating JTS to issue, deliver, sell, repurchase or redeem, or cause to be

issued, delivered, sold, repurchased or redeemed, any shares of capital stock of JTS or obligating JTS to grant, extend, accelerate the vesting of, change the price of, or otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. The terms of the JTS Stock Option Plan and the JTS Warrants permit the assumption or substitution of options or warrants, as applicable, to purchase Atari Common Stock as provided in this Agreement, without the consent or approval of the holders of such securities, the JTS stockholders, or otherwise. True and complete copies of all agreements and instruments relating to or issued under the JTS Stock Option Plan or JTS Warrants have been made available to Atari and such agreements and instruments have not been amended, modified or supplemented, and there are no agreements to amend, modify or supplement such agreements or instruments in any case from the form made available to Atari. The shares of JTS Common Stock to be issued pursuant to the Merger will be duly authorized, validly issued, fully paid, and non-assessable.

2.3 Authority. JTS has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of JTS, subject only to the approval of the Merger by JTS's stockholders as contemplated by Section 6.1(a). This Agreement has been duly executed and delivered by JTS and constitutes the valid and binding obligation of JTS. The execution and delivery of this Agreement by JTS does not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (i) any provision of the Certificate of Incorporation or Bylaws of JTS or any of its subsidiaries, as amended, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to JTS or any of its subsidiaries or any of their properties or assets. No consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality ("Governmental Entity") is required by or with respect to JTS or any of its subsidiaries in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) the filing of the Certificate of Merger as provided in Section 1.2, (ii) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable state securities laws and the securities laws of any foreign country; (iii) such filings as may be required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"); and (iv) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, would not have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole, and would not prevent, alter or materially delay any of the transactions contemplated by this Agreement. The JTS Disclosure Schedule sets forth a full

and complete list of all necessary consents, waivers and approvals of third parties applicable to the operations of JTS that are required to be obtained by JTS in connection with the execution and delivery of this Agreement or the Merger Agreement by JTS or the consummation by JTS of the transactions contemplated hereby or thereby, except any such consents, waivers and approvals, which, if not obtained, would not have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole. Prior to the Closing Date, JTS will obtain all such consents.

The Stock Purchase Agreement dated as of April 4, 1996 between JTS and Lunenburg, S.A., a Panama corporation, together with all documents executed in connection therewith (the "Moduler Agreement"), has been duly executed and delivered by JTS, the transactions contemplated thereby have been consummated, and the Moduler Agreement constitutes a valid and binding obligation of JTS. JTS has provided to Atari a true, correct and complete copy of the Moduler Agreement, and has performed all obligations required to be performed by it to date under the Moduler Agreement. To JTS' best knowledge, (a) the other parties to the Moduler Agreement have performed all obligations required to be performed by them to date under such agreement, (b) as to such other parties, the Moduler Agreement is valid, binding and enforceable in accordance with its terms and (c) the Moduler Agreement is in full force and effect with no default or dispute or basis therefor existing with respect thereto.

2.4 Financial Statements. JTS has furnished to Atari its audited consolidated balance sheet, consolidated statements of operations and consolidated statements of stockholders equity and cash flows as of and for the year ended January 28, 1996, and the audited statement of assets and liabilities, statement of revenues and expenses and cash flows of The Hard Disk Drive Division of Moduler as of and for the year ended January 28, 1996 (collectively, the "JTS Financial Statements"). The JTS Financial Statements, including the notes thereto, were complete and correct in all material respects as of their respective dates, complied as to form in all material respects with applicable accounting requirements as of their respective dates, and have been prepared in accordance with generally accepted accounting principles applied on a basis consistent throughout the periods indicated and consistent with each other (except as may be indicated in the notes thereto). The JTS Financial Statements are in accordance with the books and records of JTS and fairly present the consolidated financial condition and operating results of JTS and its subsidiaries at the dates and during the periods indicated therein. There has been no change in JTS accounting policies except as described in the notes to the JTS Financial Statements.

2.5 Absence of Certain Changes. Since January 28, 1996, (the "JTS Balance Sheet Date"), JTS has conducted its business in the ordinary course consistent with past practice and there has not occurred: (i) any change, event or condition (whether or not covered by insurance) that has resulted in, or might reasonably be expected to result in, a Material Adverse Effect to JTS and its subsidiaries, taken as a whole; (ii) any acquisition, sale or transfer of any material asset of JTS or any of its subsidiaries other than in the ordinary course of business and consistent with past practice; (iii) any change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by JTS or any revaluation by JTS of any of its or any of its subsidiaries' assets; (iv) any issuance or agreement to issue or any commitment to issue any equity security, bond, note or other security of JTS or any of its subsidiaries; (v) any declaration, setting aside, or payment of a dividend or other distribution with respect to the shares of JTS, or any direct or indirect redemption, purchase or other acquisition by JTS of any of its shares of capital stock; (vi) any material contract entered into by JTS or any of its subsidiaries, other than in the ordinary course of business and as provided to Atari, or any amendment or termination of, or default under, any material contract to which JTS or any of its subsidiaries is a party or by which it is bound; or (vii) any negotiation or agreement by JTS or any of its

subsidiaries to do any of the things described in the preceding clauses (i) through (vii) (other than negotiations with Atari regarding the transactions contemplated by this Agreement).

2.6 Absence of Undisclosed Liabilities. JTS has no material obligations or liabilities of any nature (matured or unmatured, fixed or contingent) other than (i) those set forth or adequately provided for in the JTS balance sheet and the Moduler statement of assets and liabilities, each as included in the JTS Financial Statements, and true, correct and complete copies of which have been provided to Atari, (collectively, the "JTS Balance Sheet"), (ii) those incurred in the ordinary course of business and not required to be set forth in the JTS Balance Sheet under generally accepted accounting principles, and (iii) those incurred in the ordinary course of business since the JTS Balance Sheet Date and consistent with past practice.

2.7 Litigation. There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of JTS or any of its subsidiaries, threatened against JTS or any of its subsidiaries or any of their respective properties or any of their respective officers or directors (in their capacities as such) that, individually or in the aggregate, could have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole. There is no judgment, decree or order against JTS or any of its subsidiaries, or, to the knowledge of JTS and its subsidiaries, any of their respective directors or officers (in their capacities as such), that could prevent, enjoin, alter or delay any of the transactions contemplated by this Agreement, or that could have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole.

2.8 Restrictions on Business Activities. There is no agreement, judgment, injunction, order or decree binding upon JTS or any of its subsidiaries which has or could have the effect of prohibiting or materially impairing any current or future business practice of JTS or any of its subsidiaries, any acquisition of property by JTS or any of its subsidiaries or the conduct of business by JTS or any of its subsidiaries as currently conducted or as proposed to be conducted by JTS or any of its subsidiaries.

2.9 Governmental Authorization. JTS and each of its subsidiaries have obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (i) pursuant to which JTS or any of its subsidiaries currently operates or holds any interest in any of its properties or (ii) which is required for the operation of JTS's or any of its subsidiaries' business or the holding of any such interest (herein collectively called "JTS Authorizations"), and all of such JTS Authorizations are in full force and effect, except where the failure to obtain or have any of such JTS Authorizations could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole.

2.10 Title to Property. JTS and its subsidiaries have good and marketable title to all of their respective properties, interests in properties and assets, real and personal, reflected in the JTS Balance Sheet or acquired after the JTS Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the JTS Balance Sheet Date thereof in the ordinary course of business), free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except (i) the lien of current taxes not yet due and payable, (ii) such imperfections of title, liens and easements as do not and will not materially detract from or interfere with the use of the properties subject thereto or affected thereby, or otherwise materially impair business operations involving such properties and (iii) liens securing debt which is reflected on the JTS Balance Sheet. The plants, property and equipment of JTS and its subsidiaries that are used in the operations of their businesses are in good operating condition and repair. All properties used in the operations of JTS and its subsidiaries are reflected in the JTS Balance

Sheet to the extent generally accepted accounting principles require the same to be reflected. The JTS Disclosure Schedule identifies each parcel of real property owned or leased by JTS or any of its subsidiaries.

2.11 Intellectual Property. JTS and its subsidiaries own, or are licensed or otherwise possess legally enforceable rights to use all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, maskworks, net lists, schematics, technology, know-how, computer software programs or applications (in both source code and object code form), and tangible or intangible proprietary information or material ("Intellectual Property") that are used or proposed to be used in the business of JTS and its subsidiaries as currently conducted or as proposed to be conducted by JTS and its subsidiaries. To the knowledge of JTS and its subsidiaries, there is no material unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property rights of JTS or any of its subsidiaries, any trade secret material to JTS or any of its subsidiaries, or any Intellectual Property right of any third party to the extent licensed by or through JTS or any of its subsidiaries, by any third party, including any employee or former employee of JTS or any of its subsidiaries. Neither JTS nor any of its subsidiaries has entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, other than indemnification provisions (i) listed on the JTS Disclosure Schedule or (ii) contained in purchase orders arising in the ordinary course of business.

2.12 Environmental Matters.

(a) To the knowledge of JTS and its subsidiaries, no substance that is regulated by any foreign, federal, state or local governmental authority or that has been designated by any such authority to be radioactive, toxic, hazardous or otherwise a danger to health or the environment (herein a "Hazardous Material") is present in, on or under any property that JTS or any of its subsidiaries has at any time owned, operated, occupied or leased (herein a "JTS Facility"), except to the extent that such presence has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole.

(b) To the knowledge of JTS and its subsidiaries, neither JTS nor any of its subsidiaries has transported, stored, used, disposed of, manufactured, released or exposed its employees or any other person to Hazardous Materials ("Hazardous Materials Activity") in material violation of any applicable foreign, federal, state or local statute, rule, regulation, order or law.

(c) To the knowledge of JTS and its subsidiaries, each of JTS and its subsidiaries is and at all times has been in compliance with all foreign, federal, state and local laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials, except to the extent noncompliance with such laws has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole.

(d) No action, proceeding, permit revocation, writ, injunction or claim is pending, or to the knowledge of JTS and its subsidiaries threatened, concerning the Hazardous Materials Activities of JTS or any of its subsidiaries and/or any JTS Facilities. Neither JTS nor any of its subsidiaries is aware of any fact or circumstance which could impose any material environmental liability upon JTS or any of its subsidiaries.

2.13 Taxes. JTS and each of its subsidiaries, and any consolidated, combined, unitary or aggregate group for Tax purposes of which JTS or any of its subsidiaries is or has been a member have timely filed all Tax Returns required to be filed by it, have paid all Taxes shown thereon to be due and has provided adequate accruals in accordance with generally accepted accounting principles in its financial statements for any Taxes that have not been paid, whether or not

shown as being due on any Tax Returns. Except as disclosed in the JTS Disclosure Schedule, (i) no material claim for Taxes has become a lien against the property of JTS or any of its subsidiaries or is being asserted against JTS or any of its subsidiaries other than liens for Taxes not yet due and payable, (ii) no audit of any Tax Return of JTS or any of its subsidiaries is being conducted by a Tax authority, (iii) no extension of the statute of limitations on the assessment of any Taxes has been granted by JTS or any of its subsidiaries and is currently in effect, and (iv) there is no agreement, contract or arrangement to which JTS or any of its subsidiaries is a party that may result in the payment of any amount that would not be deductible by reason of Sections 280G, 162 or 404 of the Code. Neither JTS nor any of its subsidiaries is a party to any tax sharing or tax allocation agreement nor does JTS or any of its subsidiaries owe any amount under any such agreement. As used herein, "Taxes" shall mean all taxes of any kind, including, without limitation, those on or measured by or referred to as income, gross receipts, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority, domestic or foreign. As used herein, "Tax Return" shall mean any return, report or statement required to be filed with any governmental authority with respect to Taxes. JTS and each of its subsidiaries are in full compliance with all terms and conditions of any Tax exemptions or other Tax-sharing agreement or order of a foreign government and the consummation of the Merger shall not have any adverse effect on the continued validity and effectiveness of any such Tax exemptions or other Tax-sharing agreement or order.

2.14 Employee Benefit Plans.

(a) The JTS Disclosure Schedule lists, with respect to JTS, any trade or business (whether or not incorporated) which is treated as a single employer with JTS (an "ERISA Affiliate") within the meaning of Section 414(b), (c), (m) or (o) of the Code or any subsidiary of JTS (i) all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) all loans to employees in excess of $50,000, loans to officers, and any stock option, stock purchase, phantom stock, stock appreciation right, supplemental retirement, severance, sabbatical, disability, employee relocation, cafeteria (Code section 125), life insurance or accident insurance plans, programs or arrangements, (iii) all bonus, deferred compensation or incentive plans, programs or arrangements, (iv) other material fringe or employee benefit plans, programs or arrangements that apply to senior management of JTS and that do not generally apply to all employees, and (v) any current or former employment or executive compensation or severance agreements, written or otherwise, as to which current or contingent obligations of JTS of greater than $50,000 exist for the benefit of, or relating to, any current or former employee, consultant or director of JTS (together, the "JTS Employee Plans"), and a copy of each such JTS Employee Plan and each summary plan description and annual report on the Form 5500 series required to be filed with any government agency for each JTS Employee Plan for the three most recent Plan years has been delivered to Atari.

(b) (i) None of the JTS Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person; (ii) there has been no "prohibited transaction," as such term is defined in Section 406 of ERISA and Section 4975 of the Code, with respect to any JTS Employee Plan, which could reasonably be expected to have, in the aggregate, a Material Adverse Effect on JTS or its subsidiaries; (iii) all JTS Employee Plans have been administered in compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code, orders, or governmental rules and regulations currently in effect with respect thereto and including all applicable requirements for notification to participants

or to the Department of Labor, Internal Revenue Service or Secretary of the Treasury), except as would not have, in the aggregate, a Material Adverse Effect on JTS or its subsidiaries, and JTS and each of its subsidiaries have performed all obligations required to be performed by them under, are not in any material respect in default under or violation of, and have no knowledge of any material default or violation by any other party to, any of the JTS Employee Plans; (iv) each JTS Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code has received a favorable determination letter from the Internal Revenue Service (the "IRS") as to such qualification, and nothing has occurred which could reasonably be expected to cause the loss of such qualification or exemption; (v) all material contributions required to be made by JTS or any of its subsidiaries to any JTS Employee Plan have been made on or before their due dates and a reasonable amount has been accrued for contributions to each JTS Employee Plan for the current plan years; and (vi) no JTS Employee Plan is covered by, and neither JTS nor any subsidiary has incurred or expects to incur any liability under Title IV of ERISA or Section 412 of the Code.

(c) With respect to each JTS Employee Plan that constitutes a group health plan within the meaning of Section 5000(b)(1) of the Code or Section 607(1) of ERISA, JTS and each of its United States subsidiaries have complied with the applicable health care continuation and notice provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), and the proposed regulations thereunder, except to the extent that such failure to comply would not, in the aggregate, have a Material Adverse Effect on JTS and its subsidiaries.

2.15 Certain Agreements Affected by the Merger. Neither the execution and delivery of this Agreement nor the consummation of the transaction contemplated hereby will (i) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute, bonus or otherwise) becoming due to any director or employee of JTS or any of its subsidiaries, (ii) increase any benefits otherwise payable by JTS or (iii) result in the acceleration of the time of payment or vesting of any such benefits.

2.16 Employee Matters. Except as to matters which could not, in the aggregate, have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole, JTS and each of its subsidiaries are in compliance in all respects with all currently applicable laws and regulations respecting employment, discrimination in employment, terms and conditions of employment, wages, hours and occupational safety and health and employment practices, and is not engaged in any unfair labor practice. There are no pending claims against JTS or any of its subsidiaries under any workers compensation plan or policy or for long term disability. Neither JTS nor any of its subsidiaries has any material obligations under COBRA with respect to any former employees or qualifying beneficiaries thereunder. There are no controversies pending or, to the knowledge of JTS or any of its subsidiaries, threatened, between JTS or any of its subsidiaries and any of their respective employees, which controversies have or could have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole. Neither JTS nor any of its subsidiaries is a party to any collective bargaining agreement or other labor unions contract nor does JTS nor any of its subsidiaries know of any activities or proceedings of any labor union or organize any such employees.

2.17 Interested Party Transactions. Except as disclosed in the JTS Disclosure Schedule, neither JTS nor any of its subsidiaries is indebted to any director, officer, employee or agent of JTS or any of its subsidiaries (except for amounts due as normal salaries and in reimbursement of ordinary expenses), and no such person is indebted to JTS or any of its subsidiaries. Except as disclosed in the JTS Disclosure Schedule, no officer, director or stockholder of JTS or any affiliate of such person has, either directly or indirectly, (i) an interest in any corporation, partnership, firm or other person or entity which furnishes or sells services or products which are similar to those furnished or sold by JTS or (ii) a beneficial interest in a contract or agreement to which

JTS is a party or by which JTS may be bound. For purposes of this Section 2.17, there shall be disregarded any interest which arose solely from the ownership of less than a one percent (1%) equity interest in a corporation whose stock is regularly traded on a national securities exchange or over-the-counter market.

2.18 Insurance. JTS and each of its subsidiaries have policies of insurance and bonds of the type and in amounts customarily carried by persons conducting businesses or owning assets similar to those of JTS and its

subsidiaries. There is no claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid and JTS and its subsidiaries are otherwise in compliance with the terms of such policies and bonds. JTS has no knowledge of any threatened termination of, or premium increase with respect to, any of such policies.

2.19 Compliance With Laws. Each of JTS and its subsidiaries has complied with, are not in violation of, and have not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for such violations or failures to comply as could not be reasonably expected to have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole.

2.20 Minute Books. The minute books of JTS and its subsidiaries made available to Atari contain a complete and accurate summary of all meetings of directors and stockholders or actions by written consent since the time of incorporation of JTS and the respective subsidiaries through the date of this Agreement, and reflect all transactions referred to in such minutes accurately in all material respects.

2.21 Complete Copies of Materials. JTS has delivered or made available true and complete copies of each document which has been requested by Atari or its counsel in connection with their legal and accounting review of JTS and its subsidiaries.

2.22 Brokers' and Finders' Fees. JTS has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

2.23 Registration Statement; Proxy Statement/Prospectus. The information supplied by JTS for inclusion in the registration statement on Form S-4 (or such other or successor form as shall be appropriate, the "Registration Statement") pursuant to which the shares of JTS Common Stock to be issued in the Merger will be registered with the Securities and Exchange Commission (the "SEC") shall not at the time the Registration Statement (including any amendments or supplements thereto) is declared effective by the SEC contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by JTS for inclusion in the proxy statement/prospectus to be sent to the stockholders of JTS and Atari in connection with the meeting of JTS's stockholders to consider the Merger (the "JTS Stockholders Meeting") and in connection with the meeting of Atari's stockholders to consider the Merger (the "Atari Stockholders Meeting") (such proxy statement/prospectus as amended or supplemented is referred to herein as the "Proxy Statement") shall not, on the date the Proxy Statement is first mailed to JTS's stockholders and Atari's stockholders, at the time of the JTS Stockholders Meeting, at the time of the Atari Stockholders Meeting and at the Effective Time, contain any statement which, at such time and in light of the circumstances under which it is made, is

false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements made therein not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the JTS Stockholders Meeting or the Atari Stockholders Meeting which has become false or misleading. If at any time prior to the Effective Time any event or information should be discovered by JTS which should be set forth in an amendment to the Registration Statement or a supplement to the Proxy Statement, JTS shall promptly inform Atari. Notwithstanding the fore going, JTS makes no representation, warranty or covenant with respect to any information supplied by Atari which is contained in any of the foregoing documents.

2.24 Vote Required. The affirmative votes of the holders of (i) a majority of the shares of JTS Common Stock and JTS Series A Preferred Stock outstanding on the record date set for the JTS Stockholders Meeting, voting together, (ii) a majority of the shares of JTS Common Stock outstanding on the record date set for the JTS Stockholders Meeting, voting separately as a class, and (iii) at least two-thirds of the shares of JTS Series A Preferred outstanding on the record date set for the JTS Stockholders Meeting, voting separately as a class, are the only votes of the holders of any of JTS's capital stock necessary to approve this Agreement and the transactions contemplated hereby.

2.25 Board Approval. The Board of Directors of JTS has unanimously (i) approved this Agreement and the Merger, (ii) determined that the Merger is in the best interests of the stockholders of JTS and is on terms that are fair to such stockholders and (iii) recommended that the stockholders of JTS approve this Agreement and the Merger.

2.26 Underlying Documents. True and complete copies of all underlying documents set forth on the JTS Disclosure Schedule or described as having been disclosed or delivered to Atari pursuant to this Agreement have been furnished to Atari.

2.27 Representations Complete. None of the representations or warranties made by JTS herein or in any Schedule hereto, including the JTS Disclosure Schedule, or certificate furnished by JTS pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain at the Effective Time any untrue statement of a material fact, or omits or will omit at the Effective Time to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF ATARI

Except as disclosed in the Atari SEC Documents (as defined in Section 3.4) or in a document of even date herewith and delivered by Atari to JTS prior to the execution and delivery of this Agreement and referring to the representations and warranties in this Agreement (the "Atari Disclosure Schedule"), Atari represents and warrants to JTS as follows:

3.1 Organization, Standing and Power. The Atari Disclosure Schedule identifies each subsidiary of Atari that is a "significant subsidiary" of Atari as defined by Rule 1-02(v) of Regulation S-X (the "Significant Subsidiaries"). Atari and each of its Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Each of Atari and its Significant Subsidiaries has the corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Material Adverse Effect on Atari and its

subsidiaries, taken as a whole. Atari has delivered a true and correct copy of the Articles of Incorporation and Bylaws or other charter documents, as applicable, of Atari and each of its Significant Subsidiaries, each as amended to date, to JTS. Neither Atari nor any of its Significant Subsidiaries is in violation of any of the provisions of its Articles of Incorporation or Bylaws or equivalent organizational documents. Atari is the owner of all outstanding shares of capital stock of each of its subsidiaries and all such shares are duly authorized, validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock of each such subsidiary are owned by Atari free and clear of all liens, charges, claims or encumbrances or rights of others. There are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements of any character relating to the issued or unissued capital stock or other securities of any such subsidiary, or otherwise obligating Atari or any such subsidiary to issue, transfer, sell, purchase, redeem or otherwise acquire any such securities. Except as disclosed in the Atari SEC Documents (as defined in Section 3.4), Atari does not directly or indirectly own any equity or similar interest in, or any interest convertible or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

3.2 Capital Structure. The authorized capital stock of Atari consists of 100,000,000 shares of Common Stock, $.01 par value, and 10,000,000 shares of Preferred Stock, $.01 par value, of which there were issued and outstanding as of the close of business on March 29, 1996, 63,727,318 shares of Common Stock and no shares of Preferred Stock. There are no other outstanding shares of capital stock or voting securities of Atari, other than shares of Atari Common Stock issued after March 29, 1996 upon the exercise of options issued under the Atari 1986 Stock Option Plan (the "Atari Stock Option Plan"). All outstanding shares of Atari have been duly authorized, validly issued, fully paid and are nonassessable and free of any liens or encumbrances other than any liens or encumbrances created by or imposed upon the holders thereof, and are not subject to

preemptive rights or rights of first refusal created by statute, the Articles of Incorporation or Bylaws of Atari or any agreement to which Atari is a party or by which it is bound. As of the close of business on March 29, 1996, Atari has reserved 3,000,000 shares of Common Stock for issuance to employees, directors and consultants pursuant to the Atari Stock Option Plan, of which 599,674 shares have been issued pursuant to option exercises, and 899,125 shares are subject to outstanding, unexercised options. Since March 29, 1996, Atari has not issued or granted additional options under the Atari Stock Option Plan. There are no other options, warrants, calls, rights, commitments or agreements of any character to which Atari is a party or by which it is bound obligating Atari to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of Atari or obligating Atari to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

3.3 Authority. Atari has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Atari, subject only to the approval of the Merger by the Atari stockholders as contemplated by Section 6.1(a). This Agreement has been duly executed and delivered by Atari and constitutes the valid and binding obligations of Atari. The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (i) any provision of the Articles of Incorporation or Bylaws of

Atari or any of its Significant Subsidiaries, as amended, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Atari or any of its Significant Subsidiaries or any of their properties or assets. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, is required by or with respect to Atari or any of its Significant Subsidiaries in connection with the execution and delivery of this Agreement by Atari or the consummation by Atari of the transactions contemplated hereby, except for (i) the filing of the Certificate of Merger as provided in Section 1.2, (ii) the filing with the SEC and the American Stock Exchange of the Proxy Statement relating to the Atari Stockholders Meeting, (iii) the filing of a Form 8-K and Form 10-C with the SEC and the American Stock Exchange within 15 days and 10 days, respectively, after the Closing Date, (iv) any filings as may be required under applicable state securities laws and the securities laws of any foreign country, (v) such filings as may be required under HSR, (vi) such filings as may be required under the rules and regulations of the American Stock Exchange, and (vii) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, would not have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole, and would not prevent, alter or materially delay any of the transactions contemplated by this Agreement. The Atari Disclosure Schedule sets forth a full and complete list of all necessary consents, waivers and approvals of third parties applicable to the operations of Atari that are required to be obtained by Atari in connection with the execution and delivery of this Agreement or the Merger Agreement by Atari or the consummation by Atari of the transactions contemplated hereby or thereby, except any such consents, waivers and approvals, which, if not obtained, would not have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole. Prior to the Closing Date, Atari will obtain all such consents.

3.4 SEC Documents; Financial Statements. Atari has furnished to JTS a true and complete copy of each report, registration statement, definitive proxy statement, and other filings filed with the SEC by Atari since January 1, 1993 (other than filings pursuant to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any registration statement on Form S-8), and prior to the Effective Time, Atari will have furnished JTS with true and complete copies of any additional documents (other than filings pursuant to Section 16 of the Exchange Act, and any registration statement on Form S-8) filed with the SEC by Atari prior to the Effective Time (collectively, the "Atari SEC Documents"). As of their respective filing dates, the Atari SEC Documents complied in all material respects with the requirements of the Exchange Act and the Securities Act, and none of the Atari SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the

extent corrected by a subsequently filed Atari SEC Document. The financial statements of Atari, including the notes thereto, included in the Atari SEC Documents (the "Atari Financial Statements") were complete and correct in all material respects as of their respective dates, complied as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto as of their respective dates, and have been prepared in accordance with generally accepted accounting principles applied on a basis consistent throughout the periods indicated and consistent with each other (except as may be indicated in the notes thereto or, in the case of unaudited statements included in Quarterly Reports on Form 10-Qs, as permitted by Form 10-Q of the SEC). The Atari Financial Statements are in accordance with the books and records of Atari and fairly present the consolidated financial condition and operating results of Atari and its subsidiaries at the dates and during the periods indicated therein (subject, in the case of unaudited statements, to normal, recurring year-end adjustments).

There has been no change in Atari accounting policies except as described in the notes to the Atari Financial Statements.

3.5 Absence of Certain Changes. Since December 31, 1995 (the "Atari Balance Sheet Date"), Atari has conducted its business in the ordinary course consistent with past practice and there has not occurred: (i) any change, event or condition (whether or not covered by insurance) that has resulted in, or might reasonably be expected to result in, a Material Adverse Effect to Atari and its subsidiaries, taken as a whole; (ii) any acquisition, sale or transfer of any material asset of Atari or any of its subsidiaries other than in the ordinary course of business and consistent with past practice; (iii) any change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by Atari or any revaluation by Atari of any of its assets; (iv) any issuance or agreement to issue or any commitment to issue any equity security, bond, note or other security of Atari or any of its subsidiaries; (v) any declaration, setting aside, or payment of a dividend or other distribution with respect to the shares of Atari, or any direct or indirect redemption, purchase or other acquisition by Atari of any of its shares of capital stock; (vi) any material contract entered into by Atari, other than in the ordinary course of business and as provided to JTS, or any amendment or termination of, or default under, any material contract to which Atari is a party or by which it is bound; or (vii) any negotiation or agreement by Atari or any of its subsidiaries to do any of the things described in the preceding clauses (i) through (vii) (other than negotiations with JTS regarding the transactions contemplated by this Agreement).

3.6 Absence of Undisclosed Liabilities. Atari has no material obligations or liabilities of any nature (matured or unmatured, fixed or contingent) other than (i) those set forth or adequately provided for in the Balance Sheet included in Atari's Annual Report on Form 10-K for the period ended December 31, 1995 (the "Atari Balance Sheet"), (ii) those incurred in the ordinary course of business and not required to be set forth in the Atari Balance Sheet under generally accepted accounting principles, and (iii) those incurred in the ordinary course of business since the Atari Balance Sheet Date and consistent with past practice.

3.7 Litigation. There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of Atari or any of its subsidiaries, threatened against Atari or any of its subsidiaries or any of their respective properties or any of their respective officers or directors (in their capacities as such) that, individually or in the aggregate, could have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole. There is no judgment, decree or order against Atari or any of its subsidiaries or, to the knowledge of Atari or any of its subsidiaries, any of their respective directors or officers (in their capacities as such) that could prevent, enjoin, alter or delay any of the transactions contemplated by this Agreement, or that could have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole. The outcome of the matter In re The Federated Group, Inc. Alleged Debtor U.S.B.C. (N.D.Cal. Div. 5) No. 92-50412-JRG Chapter 7, is not reasonably likely to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole.

3.8 Restrictions on Business Activities. There is no agreement, judgment, injunction, order or decree binding upon Atari or any of its subsidiaries which has or could have the effect of prohibiting or materially impairing any current or future business practice of Atari or any of its subsidiaries, any acquisition of property by Atari or any of its subsidiaries or the conduct of business by Atari or any of its subsidiaries as currently conducted or as proposed to be conducted by Atari or any of its subsidiaries.

3.9 Governmental Authorization. Atari and each of its subsidiaries have

obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (i) pursuant to which Atari or any of its subsidiaries currently operates or holds any interest in any of its properties or (ii) which is required for the operation of Atari's or any of its subsidiaries' business or the holding of any such interest (herein collectively called "Atari Authorizations"), and all of such Atari Authorizations are in full force and effect, except where the failure to obtain or have any of such Atari Authorizations could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole.

3.10 Title to Property. Atari and its Significant Subsidiaries have good and marketable title to all of their respective properties, interests in properties and assets, real and personal, reflected in the Atari Balance Sheet or acquired after the Atari Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the Atari Balance Sheet Date thereof in the ordinary course of business), free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except (i) the lien of current taxes not yet due and payable, (ii) such imperfections of title, liens and easements as do not and will not materially detract from or interfere with the use of the properties subject thereto or affected thereby, or otherwise materially impair business operations involving such properties and (iii) liens securing debt which is reflected on the Atari Balance Sheet. The plants, property and equipment of Atari and its Significant Subsidiaries that are used in the operations of their businesses are in good operating condition and repair. All properties used in the operations of Atari and its Significant Subsidiaries are reflected in the Atari Balance Sheet to the extent generally accepted accounting principles require the same to be reflected. The Atari Disclosure Schedule identifies each parcel of real property owned or leased by Atari or any of its Significant Subsidiaries

3.11 Intellectual Property. Atari and its Significant Subsidiaries own, or are licensed or otherwise possess legally enforceable rights to use all Intellectual Property that are used or proposed to be used in the business of Atari and its Significant Subsidiaries as currently conducted or as proposed to be conducted by Atari and its subsidiaries, except to the extent that the failure to have such rights have not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole. To the knowledge of Atari and its Significant Subsidiaries, there is no material unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property rights of Atari or any of its subsidiaries, any trade secret material to Atari or any of its subsidiaries, or any Intellectual Property right of any third party to the extent licensed by or through Atari or any of its subsidiaries, by any third party, including any employee or former employee of Atari or any of its subsidiaries. Neither Atari nor any of its subsidiaries has entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, other than indemnification provisions (i) listed on the Atari Disclosure Schedule or (ii) contained in purchase orders arising in the ordinary course of business.

3.12 Environmental Matters.

(a) To the knowledge of Atari and its Significant Subsidiaries, no Hazardous Material is present in, on or under any property that Atari or any of its subsidiaries has at any time owned, operated, occupied or leased (herein an "Atari Facility"), except to the extent that such presence has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole.

(b) To the knowledge of Atari and its Significant Subsidiaries, neither Atari nor any of its subsidiaries has engaged in a Hazardous Materials Activity in material violation of any applicable foreign, federal, state or local statute, rule, regulation, order or law.

(c) To the knowledge of Atari and its Significant Subsidiaries, each of

Atari and its subsidiaries is and at all times has been in compliance with all foreign, federal, state and local laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials, except to the extent noncompliance with such laws has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole.

(d) No action, proceeding, permit revocation, writ, injunction or claim is pending, or to the knowledge of Atari and its subsidiaries threatened, concerning the Hazardous Materials Activities of Atari or any of its

subsidiaries and/or any Atari Facilities. Neither Atari nor any of its Significant Subsidiaries is aware of any fact or circumstance which could impose any material environmental liability upon Atari or any of its subsidiaries.

3.13 Taxes. Atari and each of its subsidiaries, and any consolidated, combined, unitary or aggregate group for Tax purposes of which Atari or any of its subsidiaries is or has been a member have timely filed all Tax Returns required to be filed by it, have paid all Taxes shown thereon to be due and has provided adequate accruals in accordance with generally accepted accounting principles in its financial statements for any Taxes that have not been paid, whether or not shown as being due on any Tax Returns. Except as disclosed in the Atari SEC Documents, (i) no material claim for Taxes has become a lien against the property of Atari or any of its subsidiaries or is being asserted against Atari or any of its subsidiaries other than liens for Taxes not yet due and payable, (ii) no audit of any Tax Return of Atari or any of its subsidiaries is being conducted by a Tax authority, (iii) no extension of the statute of limitations on the assessment of any Taxes has been granted by Atari or any of its subsidiaries and is currently in effect, and (iv) there is no agreement, contract or arrangement to which Atari or any of its subsidiaries is a party that may result in the payment of any amount that would not be deductible by reason of Sections 280G, 162 or 404 of the Code. Neither Atari nor any of its subsidiaries is a party to any tax sharing or tax allocation agreement nor does Atari or any of its subsidiaries owe any amount under any such agreement. As used herein, "Taxes" shall mean all taxes of any kind, including, without limitation, those on or measured by or referred to as income, gross receipts, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority, domestic or foreign. As used herein, "Tax Return" shall mean any return, report or statement required to be filed with any governmental authority with respect to Taxes. Atari and each of its subsidiaries are in full compliance with all terms and conditions of any Tax exemptions or other Tax-sharing agreement or order of a foreign government and the consummation of the Merger shall not have any adverse effect on the continued validity and effectiveness of any such Tax exemption or other Tax-sharing agreement or order.

3.14 Employee Benefit Plans.

(a) The Atari Disclosure Schedule lists, with respect to Atari, any ERISA affiliate of Atari or any subsidiary of Atari (i) all employee benefit plans (as defined in Section 3(3) of ERISA), (ii) all loans to employees in excess of $50,000, loans to officers, and any stock option, stock purchase, phantom stock, stock appreciation right, supplemental retirement, severance, sabbatical, disability, employee relocation, cafeteria (Code section 125), life insurance or accident insurance plans, programs or arrangements, (iii) all bonus, deferred compensation or incentive plans, programs or arrangements, (iv) other material fringe or employee benefit plans, programs or arrangements that apply to senior management of Atari and that do not generally apply to all employees, and (v) any current or former employment or executive compensation or severance agreements, written or otherwise, as to which current or contingent obligations

of Atari of greater than $50,000 exist for the benefit of, or relating to, any current or former employee, consultant or director of Atari (together, the "Atari Employee Plans"), and a copy of each such Atari Employee Plan and each summary plan description and annual report on the Form 5500 series required to be filed with any government agency for each Atari Employee Plan for the three most recent Plan years has been delivered to JTS.

(b) (i) None of the Atari Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person; (ii) there has been no "prohibited transaction," as such term is defined in Section 406 of ERISA and Section 4975 of the Code, with respect to any Atari Employee Plan, which could reasonably be expected to have, in the aggregate, a Material Adverse Effect on Atari or its subsidiaries; (iii) all Atari Employee Plans have been administered in compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code, orders, or governmental rules and regulations currently in effect with respect thereto and including all applicable requirements for notification to participants or to the Department of Labor, Internal Revenue Service or Secretary of the Treasury), except as would not have, in the aggregate, a Material Adverse Effect on Atari or its subsidiaries, and Atari and each of its subsidiaries have performed all obligations required to be performed by them under, are not in any material

respect in default under or violation of, and have no knowledge of any material default or violation by any other party to, any of the Atari Employee Plans; (iv) each Atari Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code has received a favorable determination letter from the IRS as to such qualification, and nothing has occurred which could reasonably be expected to cause the loss of such qualification or exemption; (v) all material contributions required to be made by Atari or any of its subsidiaries to any Atari Employee Plan have been made on or before their due dates and a reasonable amount has been accrued for contributions to each Atari Employee Plan for the current plan years; and (vi) no Atari Employee Plan is covered by, and neither Atari nor any subsidiary has incurred or expects to incur any liability under Title IV of ERISA or Section 412 of the Code.

(c) With respect to each Atari Employee Plan that constitutes a group health plan within the meaning of Section 5000(b)(1) of the Code or Section 607(1) of ERISA, Atari and each of its United States subsidiaries have complied with the applicable health care continuation and notice provisions of COBRA and the proposed regulations thereunder, except to the extent that such failure to comply would not, in the aggregate, have a Material Adverse Effect on Atari and its subsidiaries.

3.15 Certain Agreements Affected by the Merger. Neither the execution and delivery of this Agreement nor the consummation of the transaction contemplated hereby will (i) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute, bonus or otherwise) becoming due to any director or employee of Atari or any of its subsidiaries, (ii) increase any benefits otherwise payable by Atari or (iii) result in the acceleration of the time of payment or vesting of any such benefits.

3.16 Employee Matters. Except as to matters which could not, in the aggregate, have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole, Atari and each of its Significant Subsidiaries are in compliance in all respects with all currently applicable laws and regulations respecting employment, discrimination in employment, terms and conditions of employment, wages, hours and occupational safety and health and employment practices, and is not engaged in any unfair labor practice. There are no pending claims against Atari or any of its subsidiaries under any workers compensation plan or policy or for long term disability. Neither Atari nor any of its subsidiaries has any material obligations under COBRA with respect to any former employees or

qualifying beneficiaries thereunder. There are no controversies pending or, to the knowledge of Atari or any of its subsidiaries, threatened, between Atari or any of its subsidiaries and any of their respective employees, which controversies have or could have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole. Neither Atari nor any of its subsidiaries is a party to any collective bargaining agreement or other labor unions contract nor does Atari nor any of its subsidiaries know of any activities or proceedings of any labor union or organize any such employees.

3.17 Interested Party Transactions. Except as disclosed in the Atari Disclosure Schedule or the Atari SEC Documents, neither Atari nor any of its subsidiaries is indebted to any director, officer, employee or agent of Atari or any of its subsidiaries (except for amounts due as normal salaries and in reimbursement of ordinary expenses), and no such person is indebted to Atari or any of its subsidiaries. Except as disclosed in the Atari Disclosure Schedule or the Atari SEC Documents, no officer, director or shareholder of Atari or any affiliate of such person has, either directly or indirectly, (i) an interest in any corporation, partnership, firm or other person or entity which furnishes or sells services or products which are similar to those furnished or sold by Atari or (ii) a beneficial interest in a contract or agreement to which Atari is a party or by which Atari may be bound. For purposes of this Section 3.17, there shall be disregarded any interest which arose solely from the ownership of less than a one percent (1%) equity interest in a corporation whose stock is regularly traded on a national securities exchange or over-thecounter market.

3.18 Insurance. Atari and each of its Significant Subsidiaries have policies of insurance and bonds of the type and in amounts customarily carried by persons conducting businesses or owning assets similar to those of Atari and its subsidiaries. There is no claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid and Atari and its Significant Subsidiaries are otherwise in compliance with the terms of such policies and bonds. Atari has no knowledge of any threatened termination of, or premium increase with respect to, any of such policies.

3.19 Compliance With Laws. Each of Atari and its Significant Subsidiaries has complied with, are not in violation of, and have not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for such violations or failures to comply as could not be reasonably expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole.

3.20 Minute Books. The minute books of Atari and its subsidiaries made available to JTS contain a complete and accurate summary of all meetings of directors and stockholders or actions by written consent since the time of incorporation of Atari and the respective subsidiaries through the date of this Agreement, and reflect all transactions referred to in such minutes accurately in all material respects.

3.21 Complete Copies of Materials. Atari has delivered or made available true and complete copies of each document which has been requested by JTS or its counsel in connection with their legal and accounting review of Atari and its subsidiaries.

3.22 Broker's and Finders' Fees. Atari has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

3.23 Registration Statement; Proxy Statement/Prospectus. The information

supplied by Atari for inclusion in the Registration Statement shall not, at the time the Registration Statement (including any amendments or supplements thereto) is declared effective by the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by Atari for inclusion in the Proxy Statement shall not, on the date the Proxy Statement is first mailed to JTS's stockholders and Atari's stockholders, at the time of the JTS Stockholders Meeting, at the time of the Atari Stockholders Meeting and at the Effective Time, contain any statement which, at such time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the JTS Stockholders Meeting or the Atari Stockholders Meeting which has become false or misleading. If at any time prior to the Effective Time any event or information should be discovered by Atari which should be set forth in an amendment to the Registration Statement or a supplement to the Proxy Statement, Atari will promptly inform JTS. Notwithstanding the foregoing, Atari makes no representation, warranty or covenant with respect to any information supplied by JTS which is contained in any of the foregoing documents.

3.24 Opinion of Financial Advisor. Atari has been advised in writing by its financial advisor, Montgomery Securities, that in such advisor's opinion, as of the date hereof, the consideration to be paid by Atari hereunder is fair, from a financial point of view, to Atari.

3.25 Board Approval. The Board of Directors of Atari has unanimously (i) approved this Agreement and the Merger, (ii) determined that the Merger is in the best interests of its stockholders and is on terms that are fair to such stockholders and (iii) recommended that its stockholders approve this Agreement and the Merger.

3.26 Vote Required. The affirmative vote of the holders of a majority of the shares of Atari Common Stock outstanding on the record date set for the Atari Stockholders Meeting is the only vote of the holders of any of Atari's capital stock necessary to approve this Agreement and the transactions contemplated hereby. No shareholder of Atari will be entitled to statutory dissenters rights under Nevada Law as a result of the Merger.

3.27 Underlying Documents. True and complete copies of all underlying documents set forth on the Atari Disclosure Schedule or described as having been disclosed or delivered to JTS pursuant to this Agreement have been furnished to JTS.

3.28 Representations Complete. None of the representations or warranties made by Atari herein or in any Schedule hereto, including the Atari Disclosure Schedule, or certificate furnished by Atari pursuant to this Agreement, or the Atari SEC Documents, when all such documents are read together in their entirety, contains or will contain at the Effective Time any untrue statement of a material fact, or omits or will omit at the Effective Time to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE IV

CONDUCT PRIOR TO THE EFFECTIVE TIME

4.1 Conduct of Business of JTS and Atari. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, each of JTS and Atari agrees (except to the

extent expressly contemplated by this Agreement or as consented to in writing by the other), to carry on its and its subsidiaries' business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, to pay and to cause its subsidiaries to pay debts and taxes when due (subject to good faith disputes over such debts or taxes) and to pay or perform other obligations when due. Each of JTS and Atari agrees to promptly notify the other of any event or occurrence not in the ordinary course of its or its subsidiaries' business, and of any event which could have a Material Adverse Effect on it and its subsidiaries, taken as a whole. Without limiting the foregoing, except as expressly contemplated by this Agreement, neither JTS nor Atari shall do, cause or permit any of the following, or allow, cause or permit any of its subsidiaries to do, cause or permit any of the following, without the prior written consent of the other:

(a) Charter Documents. Cause or permit any amendments to its Certificate of Incorporation or Bylaws (except as contemplated by Section 1.4 hereof);

(b) Issuance of Securities. Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue any such shares or other convertible securities, other than the issuance of shares of its Common Stock pursuant to the exercise of stock options, warrants or other rights therefor outstanding as of the date of this Agreement; provided, however, that in addition to any grants specifically described on the JTS Disclosure Schedule, JTS may, in the ordinary course of business consistent with past practice, grant options for the purchase of up to 250,000 shares of JTS Common Stock under the JTS Stock Option Plan and issue shares of JTS Common Stock upon the exercise of such options; and provided, further, that Atari may issue securities under the Atari Option Plan.

(c) Dividends; Changes in Capital Stock. Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its capital stock, or split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or repurchase or otherwise acquire, directly or indirectly, any shares of its capital stock except from former employees, directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service to it or its subsidiaries;

(d) Acquisitions. Acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to its and its parent's/subsidiaries' business, taken as a whole;

(e) Taxes. Other than in the ordinary course of business, make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any material Return or any amendment to a material Return, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(f) Stock Option Plans, Etc. Accelerate, amend or change the period

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of exercisability of options, warrants or other rights granted under its employee stock plans or authorize cash payments in exchange for any options, warrants or other rights granted under any of such plans;

(g) Other. Take, or agree in writing or otherwise to take, any of the actions described in Sections 4.1(a) through (f) above, or any action which would make any of its representations or warranties contained in this Agreement untrue or incorrect or prevent it from performing or cause it not to perform its covenants hereunder.

4.2 Conduct of Business of JTS. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, except as expressly contemplated by this Agreement, JTS shall not do, cause or permit any of the following, or allow, cause or permit any of its subsidiaries to do, cause or permit any of the following, without the prior written consent of Atari:

(a) Material Contracts. Enter into any material contract or commitment, or violate, amend or otherwise modify or waive any of the terms of any of its material contracts, other than in the ordinary course of business consistent with past practice;

(b) Intellectual Property. Transfer to any person or entity any rights to its Intellectual Property other than in the ordinary course of business consistent with past practice;

(c) Dispositions. Sell, lease, license or otherwise dispose of or encumber any of its properties or assets which are material, individually or in the aggregate, to its and its subsidiaries' business, taken as a whole, except in the ordinary course of business consistent with past practice;

(d) Indebtedness. Incur any indebtedness for borrowed money (except amounts borrowed under JTS's existing revolving credit line or drawdowns of existing credit facilities for working capital or construction purposes only) or guarantee any such indebtedness or issue or sell any debt securities or guarantee any debt securities of others;

(e) Revaluation. Revalue any of its assets, including without limitation writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary course of business and other than as disclosed in the JTS Disclosure Schedule;

(f) Payment of Obligations. Pay, discharge or satisfy in an amount in excess of $50,000 in any one case or $250,000 in the aggregate, any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) arising other than in the ordinary course of business, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the JTS Financial Statements;

(g) Termination or Waiver. Terminate or waive any right of substantial value, other than in the ordinary course of business;

(h) Employee Benefit Plans. Adopt or amend any employee benefit or stock purchase or option plan;

(i) Lawsuits. Commence a lawsuit other than (i) for the routine collection of bills, (ii) in such cases where it in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that it consults with Atari prior to the filing of such a suit, (iii) in such cases in which the damages or legal fees are not reasonably expected to material, or (iv) for a breach of this Agreement; or

(j) Other. Take, or agree in writing or otherwise to take, any of the

actions described in Sections 4.2(a) through (i) above, or any action which would make any of its representations or warranties contained in this Agreement untrue or incorrect or prevent it from performing or cause it not to perform its covenants hereunder.

4.3 Conduct of Business of Atari. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, except as expressly contemplated

by this Agreement, Atari shall not do, cause or permit any of the following, or allow, cause or permit any of its subsidiaries to do, cause or permit any of the following, without the prior written consent of JTS:

(a) Material Contracts. Enter into any material contract or commitment, or violate, amend or otherwise modify or waive any of the terms of any of its material contracts, other than in the ordinary course of business consistent with past practice;

(b) Intellectual Property. Transfer to any person or entity any rights to its Intellectual Property other than in the ordinary course of business consistent with past practice;

(c) Dispositions. Sell, lease, license or otherwise dispose of or encumber any of its properties or assets which are material, individually or in the aggregate, to its and its subsidiaries' business, taken as a whole, except in the ordinary course of business consistent with past practice;

(d) Indebtedness. Incur any indebtedness for borrowed money (except amounts borrowed under JTS's existing revolving credit line or drawdowns of existing credit facilities for working capital or construction purposes only) or guarantee any such indebtedness or issue or sell any debt securities or guarantee any debt securities of others;

(e) Revaluation. Revalue any of its assets, including without limitation writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary course of business and other than as disclosed in the Atari Disclosure Schedule;

(f) Payment of Obligations. Pay, discharge or satisfy in an amount in excess of $50,000 in any one case or $250,000 in the aggregate, any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) arising other than in the ordinary course of business, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the Atari Financial Statements;

(g) Capital Expenditures. Make any capital expenditures, capital additions or capital improvements except in the ordinary course of business and consistent with past practice, and in any event not to exceed $25,000 per quarter;

(h) Termination or Waiver. Terminate or waive any right of substantial value, other than in the ordinary course of business;

(i) Employee Benefit Plans. Adopt or amend any employee benefit or stock purchase or option plan;

(j) Lawsuits. Commence a lawsuit other than (i) for the routine collection of bills, (ii) in such cases where it in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that it consults with JTS prior to the filing of such a suit, (iii) in such cases in which the damages or

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legal fees are not reasonably expected to material, or (iv) for a breach of this Agreement; or

(k) Other. Take, or agree in writing or otherwise to take, any of the actions described in Sections 4.3(a) through (j) above, or any action which would make any of its representations or warranties contained in this Agreement untrue or incorrect or prevent it from performing or cause it not to perform its covenants hereunder.

4.4 No Other JTS Negotiations. From and after the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement in accordance with its terms, JTS shall not, directly or indirectly (i) solicit, initiate discussion or engage in negotiations with any person (whether such negotiations are initiated by JTS or otherwise) or take any other action intended or designed to facilitate the efforts of any person, other than Atari, relating to the possible acquisition of JTS or any of its subsidiaries (whether by way of merger, purchase of capital stock, purchase of assets of otherwise) or any of its or their capital stock or any material portion of its or their assets (with any such efforts by any such person, including a firm proposal to make such an acquisition, to be referred to as a "JTS Acquisition Proposal") (ii) provide non-public information with respect to JTS or any of its subsidiaries to any person, other than Atari, relating to a possible

JTS Acquisition Proposal by any person, other than Atari, (iii) enter into an agreement with any person, other than Atari, providing for a possible JTS Acquisition Proposal, or (iv) make or authorize any statement, recommendation or solicitation in support of any possible JTS Acquisition Proposal by any person other than Atari. If JTS or any of its subsidiaries receives any unsolicited offer or proposal to enter negotiations relating to a JTS Acquisition Proposal, JTS shall immediately notify Atari thereof, including information as to the identity of the party making any such offer or proposal and the specific terms of such offer or proposal, as the case may be. JTS recognizes and acknowledges that a breach of this Section 4.4 may cause irreparable and material loss and damage to Atari as to which Atari may not have an adequate remedy at law or in damages and that, accordingly, JTS agrees that the issuance of an injunction or other equitable remedy is the appropriate remedy for any such breach.

4.5 No Other Atari Negotiations. From and after the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement in accordance with its terms, Atari shall not, directly or indirectly (i) solicit, initiate discussion or engage in negotiations with any person (whether such negotiations are initiated by Atari or otherwise) or take any other action intended or designed to facilitate the efforts of any person, other than JTS, relating to the possible acquisition of Atari (whether by way of merger, purchase of capital stock, purchase of assets of otherwise) or any of its capital stock or any material portion of its assets (with any such efforts by any such person, including a firm proposal to make such an acquisition, to be referred to as an "Atari Acquisition Proposal") (ii) provide non-public information with respect to Atari to any person, other than JTS, relating to a possible Atari Acquisition Proposal by any person, other than JTS, (iii) enter into an agreement with any person, other than JTS, providing for a possible Atari Acquisition Proposal, or (iv) make or authorize any statement, recommendation or solicitation in support of any possible Atari Acquisition Proposal by any person other than JTS. If Atari receives any unsolicited offer or proposal to enter negotiations relating to an Atari Acquisition Proposal, Atari shall immediately notify JTS thereof, including information as to the identity of the party making any such offer or proposal and the specific terms of such offer or proposal, as the case may be. Atari recognizes and acknowledges that a breach of this Section 4.5 may cause irreparable and material loss and damage to JTS as to which JTS may not have an adequate remedy at law or in damages and that, accordingly, JTS agrees that the issuance of an injunction or other equitable remedy is the appropriate remedy for any such breach.

Notwithstanding the foregoing, nothing contained in this Agreement (i) shall prevent the Board of Directors of Atari from referring any third party to this Section 4.5 or providing a copy of this Agreement (other than the JTS Disclosure Schedule) to any third party, (ii) shall prevent the Board of Directors of Atari from considering, negotiating, approving and recommending to the shareholders of Atari an unsolicited bona fide written Atari Acquisition Proposal which the Board of Directors of Atari determines in good faith (after consultation with its financial advisors and after consultation with outside counsel as to whether the Board of Directors is required to do so in order to discharge properly its fiduciary duties to shareholders under applicable law) would result in a transaction more favorable to the Company's shareholders from a financial point of view than the transaction contemplated by this Agreement (any such Atari Acquisition Proposal being referred to herein as a "Superior Atari Proposal").

ARTICLE V

ADDITIONAL AGREEMENTS

5.1 Proxy Statement/Prospectus; Registration Statement. As promptly as practicable after the execution of this Agreement, JTS and Atari shall prepare, and Atari shall file with the SEC, preliminary proxy materials relating to the approval of the Merger and the transactions contemplated hereby by the stockholders of each of JTS and Atari and, as promptly as practicable following receipt of SEC comments thereon, JTS and Atari shall file with the SEC a Registration Statement on Form S-4 (or such other or successor form as shall be appropriate), which complies in form with applicable SEC requirements and shall use all reasonable efforts to cause the Registration Statement to become effective as soon thereafter as practicable. The Proxy Statement shall include the recommendation of the Board of Directors of JTS in favor of the Merger; provided that such recommendation may not be included or may be withdrawn if previously included if JTS's Board of Directors, upon written advice of its outside legal counsel, shall determine that to include such recommenda-

tion or not withdraw such recommendation if previously included would constitute a breach of the Board's fiduciary duty under applicable law. The Proxy Statement shall include the recommendation of the Board of Directors of Atari in favor of the Merger; provided that such recommendation may not be included or may be withdrawn if previously included if Atari's Board of Directors, upon written advice of its outside legal counsel, shall determine that to include such recommendation or not withdraw such recommendation if previously included would constitute a breach of the Board's fiduciary duty under applicable law.

5.2 Meetings of Stockholders.

(a) JTS shall promptly after the date hereof take all action necessary in accordance with Delaware Law and its Certificate of Incorporation and Bylaws to convene the JTS Stockholders Meeting on or prior to June 30, 1996 or as soon thereafter as is practicable. JTS shall consult with Atari and use all reasonable efforts to hold the JTS Stockholders Meeting on the same day as the Atari Stockholders Meeting and shall not postpone or adjourn (other than for the absence of a quorum) the JTS Stockholders Meeting without the consent of Atari. JTS shall use its best efforts to solicit from stockholders of JTS proxies in favor of the Merger and shall take all other action necessary or advisable to secure the vote or consent of stockholders required to effect the Merger.

(b) Atari shall promptly after the date hereof take all action necessary in accordance with Nevada Law and its Articles of Incorporation and Bylaws to convene the Atari Stockholders Meeting on or prior to June 30, 1996 or as soon thereafter as is practicable. Atari shall consult with JTS and shall use all reasonable efforts to hold the Atari Stockholders Meeting on the same day as the JTS Stockholders Meeting and shall not postpone or adjourn (other than for the absence of a quorum) the Atari Stockholders Meeting without the consent of JTS.

Atari shall use its best efforts to solicit from stockholders of Atari proxies in favor of the Merger and shall take all other action necessary or advisable to secure the vote or consent of stockholders required to effect the Merger.

5.3 Access to Information. JTS shall afford Atari and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Effective Time to (i) all of JTS's and its subsidiaries' properties, books, contracts, commitments and records, and (ii) all other information concerning the business, properties and personnel of JTS and its subsidiaries as Atari may reasonably request. JTS agrees to provide to Atari and its accountants, counsel and other representatives copies of internal financial statements promptly upon request. Atari shall afford JTS and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Effective Time to (i) all of Atari's and its subsidiaries' properties, books, contracts, commitments and records, and (ii) all other information concerning the business, properties and personnel of Atari and its subsidiaries as JTS may reasonably request. Atari agrees to provide to JTS and its accountants, counsel and other representatives copies of internal financial statements promptly upon request. No information or knowledge obtained in any investigation pursuant to this Section 5.3 shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger.

5.4 Public Disclosure. Atari and JTS shall consult with each other before issuing any press release or otherwise making any public statement or making any other public (or non-confidential) disclosure regarding the terms of this Agreement and the transactions contemplated hereby, and neither shall issue any such press release or make any such statement or disclosure without the prior approval of the other (which approval shall not be unreasonably withheld), except as may be required by law.

5.5 Consents; Cooperation. Each of Atari and JTS shall promptly apply for or otherwise seek, and use its best efforts to obtain, all consents and approvals required to be obtained by it for the consummation of the Merger, including those required under HSR, and shall use its best efforts to obtain all necessary consents, waivers and approvals under any of its material contracts in connection with the Merger for the assignment thereof or otherwise. The parties hereto will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to HSR or any other federal or state antitrust or fair trade law.

5.6 Continuity of Interest Certificates.

(a) Schedule 5.6(a) sets forth those persons who hold one percent (1%) or more of the outstanding shares of JTS capital stock (the "JTS Significant Stockholders"). JTS shall provide Atari such information and documents as Atari shall reasonably request for purposes of reviewing such list. JTS shall use its best efforts to deliver or cause to be delivered to Atari, concurrently with the execution of this Agreement (and in each case prior to the Effective Time) from each of the JTS Significant Stockholders, an executed Continuity of Interest Certificate in a form reasonably satisfactory to counsel to Atari. The Surviving Company shall be entitled to place appropriate legends on the certificates evidencing any JTS Common Stock held by such JTS Significant Stockholders, and to issue appropriate stop transfer instructions to the transfer agent for JTS Common Stock, consistent with the terms of such Continuity of Interest Certificates.

(b) Schedule 5.6(b) sets forth those persons who hold five percent (5%) or more of the outstanding shares of Atari capital stock (the "Atari Significant

Stockholders"). Atari shall provide JTS such information and documents as JTS shall reasonably request for purposes of reviewing such list. Atari shall use its best efforts to deliver or cause to be delivered to JTS, concurrently with the execution of this Agreement (and in each case prior to the Effective Time) from each of the Atari Significant Stockholders, an executed Continuity of Interest Certificate in a form reasonably satisfactory to counsel to JTS. The Surviving Company shall be entitled to place appropriate legends on the certificates evidencing any JTS Common Stock to be received by such Atari Significant Stockholders pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for JTS Common Stock, consistent with the terms of such Continuity of Interest Certificates.

5.7 Voting Agreements.

(a) Prior to or concurrently with the execution of this Agreement, each JTS stockholder named in Schedule 5.7(a) shall have executed and delivered to Atari a Voting Agreement substantially in the form of Exhibit C-1 attached hereto.

(b) Prior to or concurrently with the execution of this Agreement, each Atari stockholder named in Schedule 5.7(b) shall have executed and delivered to JTS a Voting Agreement substantially in the form of Exhibit C-2 attached hereto.

5.8 FIRPTA. Promptly following the Closing, JTS and Atari shall deliver to the IRS appropriate notices that their capital stock is not a "U.S. Real Property Interest" as defined in and in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2).

5.9 Legal Requirements. Each of Atari and JTS will, and will cause their respective subsidiaries to, take all reasonable actions necessary to comply promptly with all legal requirements which may be imposed on them with respect to the consummation of the transactions contemplated by this Agreement and will promptly cooperate with and furnish information to any party hereto necessary in connection with any such requirements imposed upon such other party in connection with the consummation of the transactions contemplated by this Agreement and will take all reasonable actions necessary to obtain (and will cooperate with the other parties hereto in obtaining) any consent, approval, order or authorization of, or any registration, declaration or filing with, any Governmental Entity or other person, required to be obtained or made in connection with the taking of any action contemplated by this Agreement.

5.10 Blue Sky Laws. JTS shall take such steps as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable to the issuance of the JTS Common Stock in connection with the Merger. Atari shall use its best efforts to assist JTS as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable in connection with the issuance of JTS Common Stock in connection with the Merger.

5.11 Atari Employee Benefit Plans. At the Effective Time, each outstanding option to purchase shares of Atari Common Stock under the Atari Stock Option Plan whether vested or unvested, will be assumed by JTS. Each such option so assumed by JTS under this Agreement shall continue to have, and be subject to, the same terms and conditions set forth in the Atari Stock Option Plan immediately prior to the Effective Time,

except that (i) such option will be exercisable for that number of whole shares of JTS Common Stock equal to the product of the number of shares of Atari Common Stock that were issuable upon exercise of such option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of JTS Common Stock, and (ii) the per share exercise price for the shares of JTS Common Stock issuable upon exercise of such assumed option will be equal to the quotient determined by dividing the exercise price

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per share of Atari Common Stock at which such option was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent. It is the intention of the parties that the options so assumed by JTS qualify following the Effective Time as incentive stock options as defined in Section 422 of the Code to the extent such options qualified as incentive stock options prior to the Effective Time.

5.12 Atari Debentures. Each Atari Debenture, upon its surrender to JTS at any time at or following the Closing, shall be exchanged for a debenture in substantially identical form (i) representing the right to convert into that number of shares of JTS Common Stock equal to the number of shares of Atari Common Stock for which such debenture was previously convertible multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of JTS Common Stock, and (ii) with a per share conversion price for the shares of JTS Common Stock issuable upon exercise of such assumed debenture equal to the quotient determined by dividing the conversion price per share of JTS Common Stock at which such debenture was convertible immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent.

5.13 Form S-8. JTS agrees to file, no later than five (5) days after the Closing, a registration statement on Form S-8 covering the shares of JTS Common Stock issuable pursuant to outstanding options under the Atari Stock Option Plan assumed by JTS.

5.14 Tax-Free Reorganization; Tax Returns. Atari and JTS shall each use its best efforts to cause the Merger to be treated as a "reorganization" within the meaning of Section 368(a)(1)(A) of the Code and shall report the Merger as such in all federal and, to the extent permitted, all state and local tax returns filed after the Effective Time of the Merger.

5.15 Registration Rights. At or prior to the Closing, JTS shall provide to the holders of Atari Common Stock listed on Schedule 5.15 hereto, the registration rights set forth in that certain Registration Rights Agreement dated as of February 3, 1995 by and among JTS and the entities listed on Exhibit A thereto, by amending such agreement in a form reasonably acceptable to counsel to Atari.

5.16 Indemnification of Officers and Directors. After the Effective Time, the Surviving Corporation shall (to the extent not prohibited by law) indemnify and hold harmless, and pay in advance expenses, costs, damages, settlements and fees to each director or officer of Atari serving as such as of the date hereof as provided in the Nevada law or the Articles of Incorporation or bylaws of Atari or any indemnification agreement to which Atari and such officer or director is a party, in each case as in effect at the date hereof, which provisions shall survive the Merger and shall continue in full force and effect after the Effective Time.

5.17 Listing of JTS Common Stock. Atari and JTS shall each use its best efforts to cause the JTS Common Stock to be approved for listing on the Nasdaq National Market or the American Stock Exchange, such that trading in JTS Common Stock shall commence on the first trading day following the Closing.

5.18 Atari Consent to JTS Transaction with Moduler. JTS covenants and agrees with Atari that JTS will not amend or modify the Moduler Agreement without the prior written consent of Atari.

5.19 Atari SEC Documents. Atari covenants and agrees with JTS that from and after the date hereof, Atari will timely file all reports which it is required to file with the SEC pursuant to the Exchange Act.

5.20 Best Efforts and Further Assurances. Each of the parties to this Agreement shall use its best efforts to effectuate the transactions contemplated hereby and to fulfill or cause to be fulfilled the conditions to closing under this Agreement. Each party hereto, at the reasonable request of another party hereto, shall execute and deliver such other instruments and do and perform such

other acts and things as may be necessary

or desirable for effecting completely the consummation of this Agreement and the transactions contemplated hereby.

ARTICLE VI

CONDITIONS TO THE MERGER

6.1 Conditions to Obligations of Each Party to Effect the Merger. The respective obligations of each party to this Agreement to consummate and effect this Agreement and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by agreement of all the parties hereto:

(a) Stockholder Approval. This Agreement and the Merger shall have been approved and adopted by (i) the holders of a majority of the shares of JTS Common Stock and JTS Series A Preferred Stock outstanding as of the record date set for the JTS Stockholders Meeting, voting together, (ii) a majority of the shares of JTS Common Stock outstanding on the record date set for the JTS Stockholders Meeting, voting separtely as a class, (iii) the holders of at least two-thirds of the shares of JTS Series A Preferred outstanding as of the record date set for the JTS Stockholders Meeting, voting separately as a class, and (iv) the holders of a majority of the shares of Atari Common Stock outstanding as of the record date set for the Atari Stockholders Meeting.

(b) Registration Statement Effective. The SEC shall have declared the Registration Statement effective. No stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose, and no similar proceeding in respect of the Proxy Statement, shall have been initiated or threatened by the SEC; and all requests for additional information on the part of the SEC shall have been complied with to the reasonable satisfaction of the parties hereto.

(c) Exchange Act Registration Statement Effective. JTS shall have filed a Registration Statement on Form 8-A with the SEC pursuant to the Exchange Act (the "Form 8-A"). The SEC shall have declared the Form 8-A effective. No stop orders suspending the effectiveness of the Form 8-A or any part thereof shall have been issued and no proceeding for that purpose, shall have been initiated or threatened by the SEC.

(d) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger, nor shall any proceeding brought by an administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, seeking any of the foregoing be pending; nor shall there be any action taken, or any statute, rule, regulation or order enacted, entered, enforced or deemed applicable to the Merger, which makes the consummation of the Merger illegal. In the event an injunction or other order shall have been issued, each party agrees to use its reasonable diligent efforts to have such injunction or other order lifted.

(e) Governmental Approval. Atari and JTS and their respective subsidiaries shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of or in connection with the Merger and the several transactions contemplated hereby, including such approvals, waivers and consents as may be required

under the Securities Act, under state Blue Sky laws, and under HSR.

(f) Tax Opinion. Atari and JTS shall have received substantially identical written opinions of Wilson Sonsini Goodrich & Rosati, P.C., and Cooley Godward Castro Huddleson & Tatum, in form and substance reasonably satisfactory to them, to the effect that the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code, and such opinions shall not have been withdrawn. In rendering such opinions, counsel shall be entitled to rely upon representations of Atari and JTS and certain stockholders of Atari and JTS.

(g) Listing of JTS Common Stock. The JTS Common Stock shall have been approved for quotation on the Nasdaq National Market or the American Stock Exchange.

(h) Limit on JTS Dissenting Shares. No more than 5.0% of the shares of JTS Common Stock and JTS Series A Preferred Stock shall be Dissenting Shares or entitled to exercise any dissenters or appraisal rights with respect to the Merger.

(i) Continuity of Interest Certificates. Atari shall have received from each of the JTS Significant Stockholders an executed Continuity of Interest Certificate as contemplated by Section 5.6 hereof. JTS shall have received from each of the Atari Significant Shareholders an executed Continuity of Interest Certificate as contemplated by Section 5.6 hereof.

(j) Supplemental Indentures. To the extent required by the indenture related to the Atari Debentures or the indenture related to the Federated Debentures, Atari and JTS shall have entered into supplemental indentures with the trustees for such debentures, such supplemental indentures to be in a form reasonably satisfactory to counsel to Atari and counsel to JTS.

6.2 Additional Conditions to Obligations of JTS. The obligations of JTS to consummate and effect this Agreement and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by JTS:

(a) Representations, Warranties and Covenants. (i) The representations and warranties of Atari in this Agreement shall be true and correct in all respects on and as of the Effective Time as though such representations and warranties were made on and as of such time, except to the extent that the failure of such representations and warranties to be true and accurate in such respects has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries and (ii) Atari shall have performed and complied in all respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Effective Time, except to the extent that the failure to so perform or comply has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries.

(b) Certificate of Atari. JTS shall have been provided with a certificate executed on behalf of Atari by its President and its Chief Financial Officer to the effect that, as of the Effective Time:

(i) all representations and warranties made by Atari under this Agreement are true and complete in all respects except to the extent that the failure of such representations and warranties to be true and accurate in such respects has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries; and

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(ii) all covenants, obligations and conditions of this Agreement to be performed by Atari on or before such date have been so performed in all respects except to the extent that the failure to so perform or comply has not had and could not reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries.

(c) Third Party Consents. JTS shall have been furnished with evidence satisfactory to it of the consent or approval of those persons whose consent or approval shall be required in connection with the Merger under any material contract of Atari or any of its Significant Subsidiaries or otherwise.

(d) Injunctions or Restraints on Conduct of Business. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint provision limiting or restricting JTS' conduct or operation of the business of Atari and its subsidiaries, following the Merger shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other Governmental Entity, domestic or foreign, seeking the foregoing be pending.

(e) Legal Opinions. JTS shall have received legal opinions from Wilson Sonsini Goodrich & Rosati, P.C. and Atari's Nevada counsel, which opinions shall be reasonably satisfactory to counsel to JTS.

(f) No Material Adverse Changes. There shall not have occurred any material adverse change in the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of Atari and its subsidiaries, taken as a whole.

6.3 Additional Conditions to the Obligations of Atari. The obligations of Atari to consummate and effect this Agreement and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by Atari:

(a) Representations, Warranties and Covenants. (i) The representations and warranties of JTS in this Agreement shall be true and correct in all respects on and as of the Effective Time as though such representations and warranties were made on and as of such time, except to the extent that the failure of such representations and warranties to be true and accurate in such respects has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries and (ii) JTS shall have performed and complied in all respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Effective Time, except to the extent that the failure to so perform or comply has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries.

(b) Certificate of JTS. Atari shall have been provided with a certificate executed on behalf of JTS by its Chief Executive Officer and Chief Financial Officer to the effect that, as of the Effective Time:

(i) all representations and warranties made by JTS under this Agreement are true and complete in all respects; except to the extent that the failure of such representations and warranties to be true and accurate in such respects has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries; and

(ii) all covenants, obligations and conditions of this Agreement to be performed by JTS on or before such date have been so performed in all respects except to the extent that the failure to so perform or comply has not had and could not reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries.

(c) Third Party Consents. Atari shall have been furnished with evidence satisfactory to it of the consent or approval of those persons whose consent or approval shall be required in connection with the Merger under any material contract of JTS or any of its subsidiaries or otherwise.

(d) Injunctions or Restraints on Conduct of Business. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint provision limiting or restricting JTS' conduct or operation of the business of JTS and its subsidiaries, following the Merger shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other Governmental Entity, domestic or foreign, seeking the foregoing be pending.

(e) Legal Opinion. Atari shall have received a legal opinion from Cooley Godward Castro Huddleson & Tatum, which opinion shall be reasonably satisfactory to counsel to Atari.

(f) No Material Adverse Changes. There shall not have occurred any material adverse change in the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of JTS and its subsidiaries, taken as a whole.

(g) Conversion of JTS Series A Preferred Stock. Each outstanding share of JTS Series A Preferred Stock shall be converted into one (1) share of JTS Common Stock.

(h) Right of First Refusal and Co-Sale Agreement. The provisions of the Right of First Refusal and Co-Sale Agreement dated as of February 3, 1995 by and among JTS and certain other parties, as amended, shall have terminated.

ARTICLE VII

TERMINATION, AMENDMENT AND WAIVER

7.1 Termination. Notwithstanding approval of this Agreement by the stockholders of JTS or Atari, this Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time:

(a) by mutual written consent of JTS and Atari;

(b) by Atari if (i) it is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of JTS, which has or can reasonably be expected to have a Material Adverse Effect on JTS and its subsidiaries, taken as a whole, and such breach has not been cured within five (5) days after written notice to JTS (provided that, no cure period shall be required for a breach which by its nature cannot be cured) or (ii) there shall be any final action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger by any Governmental Entity, which would prohibit JTS's ownership or operation of all or a material portion of the business of Atari or any of its subsidiaries, or compel Atari or any of Atari's subsidiaries or JTS or any of JTS's subsidiaries to dispose of or hold

separate or otherwise relinquish all or a material portion of the business or assets of JTS or any of JTS's subsidiaries or Atari or any of Atari's subsidiaries as a result of the Merger.

(c) by JTS if (i) it is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Atari, which has or can reasonably be expected to have a Material Adverse Effect on Atari and its subsidiaries, taken as a whole, and such breach has not been cured within five (5) days after written notice to Atari (provided that, no cure period shall be required for a breach which by its nature cannot be cured) or (ii) there shall be any final action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger by any Governmental Entity, which would prohibit JTS's ownership or operation of all or a material portion of the business of JTS or any of its subsidiaries, or compel Atari or any of Atari's subsidiaries or JTS or any of JTS's subsidiaries to dispose of or hold separate or otherwise relinquish all or a material portion of the business or assets of JTS or any of JTS's subsidiaries or Atari or any of Atari's subsidiaries as a result of the Merger.

(d) by any party hereto if: (i) the Closing has not occurred by July 31, 1996, (ii) there shall be a final, non-appealable order of a federal or state court in effect preventing consummation of the Merger; (iii) there shall be any final action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger by any Governmental Entity which would make consummation of the Merger illegal; (iv) if JTS's stockholders do not approve the Merger and this Agreement by the requisite vote at JTS Stockholders Meeting; (v) if Atari's stockholders do not approve the Merger and this Agreement by the requisite vote at the Atari Stockholders Meeting; or (vi) if the Atari Board of Directors shall have accepted, approved or recommended to the shareholders of Atari a Superior Atari Proposal.

Where action is taken to terminate this Agreement pursuant to this Section 7.1, it shall be sufficient for such action to be authorized by the Board of Directors of the party taking such action and for such party to then notify the other parties in writing of such action.

7.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 7.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Atari and JTS or their respective officers, directors, stockholders or affiliates, except to the extent that such termination results from the breach by a party hereto of any of its representations, warranties or covenants set forth this Agreement; provided that, the provisions of Section 7.3 (Expenses) and this Section 7.2 shall remain in full force and effect and survive any termination of this Agreement.

7.3 Expenses. Whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expense, except that expenses incurred in connection with printing the Proxy Materials and the S-4

Registration Statement, registration and filing fees incurred in connection with the S-4 Registration Statement and the Proxy Materials and fees, costs and expenses associated with compliance with applicable state securities laws, listing of the JTS Common Stock on the Nasdaq National Market or the American Stock Exchange, and with HSR in connection with the Merger shall be shared equally by JTS and Atari.

7.4 Amendment. The boards of directors of the parties hereto may cause

this Agreement to be amended at any time by execution of an instrument in writing signed on behalf of each of the parties hereto; provided that an amendment made subsequent to adoption of the Agreement by the stockholders of JTS or Atari shall not (i) alter or change the amount or kind of consideration to be received on conversion of the Atari Common Stock, (ii) alter or change any term of the Certificate of Incorporation of the Surviving Corporation to be effected by the Merger, or (iii) alter or change any of the terms and conditions of the Agreement if such alteration or change would adversely affect the holders of Atari Common Stock.

7.5 Extension; Waiver. At any time prior to the Effective Time any party hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE VIII

GENERAL PROVISIONS

8.1 Non-Survival at Effective Time. The representations, warranties and agreements set forth in this Agreement shall terminate at the Effective Time, except that the agreements set forth in Article I, Section 5.8 (FIRPTA), Section 5.11 (Employee Benefit Plans), Section 5.12 (Atari Debentures), Section 5.13 (Form S-8), Section 5.14 (Tax Free Reorganization; Tax Returns), Section 5.16 (Indemnification), Section 5.20 (Best Efforts and Further Assurances), 7.3 (Expenses), and this Article VIII shall survive the Effective Time.

8.2 Absence of Third Party Beneficiary Rights. No provisions of this Agreement are intended, nor will be interpreted, to provide or create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, stockholder, partner or employee of any party hereto or any other person or entity unless specifically provided otherwise herein, and, except as so provided, all provisions hereof will be personal solely between the parties to this Agreement.

8.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with confirmation of receipt) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Atari, to:

Atari Corporation
455 South Mathilda Avenue
Sunnyvale, California 94086
Attention: Jack Tramiel
Facsimile No.: (408) 328-0909
Telephone No.: (408) 328-0900

with a copy to:

Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, California 94304-1050
Attention: Jeffrey D. Saper, Esq.

Facsimile No.: (415) 493-6811
Telephone No.: (415) 493-9300

(b) if to JTS, to:

JTS Corporation
166 Baypointe Parkway
San Jose, California 95134
Attention: David T. Mitchell
Facsimile No.: (408) 468-1619
Telephone No.: (408) 468-1800

with a copy to:

Cooley Godward Castro Huddleson & Tatum
Five Palo Alto Square
Palo Alto, California 94306
Attention: Andrei M. Manoliu, Esq.
Facsimile No.: (415) 857-0663
Telephone No.: (415) 843-5000

8.4 Interpretation. When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

8.5 Counterparts. This Agreement may be executed in counterparts, both of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

8.6 Entire Agreement; Nonassignability; Parties in Interest. This Agreement and the documents and instruments and other agreements specifically referred to herein or delivered pursuant hereto, including the Exhibits, the Schedules, including the JTS Disclosure Schedule and the Atari Disclosure Schedule (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof; (b) are not intended to confer upon any other person any rights or remedies hereunder; and (c) shall not be assigned by operation of law or otherwise.

8.7 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

8.8 Remedies Cumulative. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

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8.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of law. Each of the parties hereto irrevocably consents to the exclusive jurisdiction of any court located in the County of Santa Clara, California, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

8.10 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

8.11 Amendment and Restatement. The parties hereto hereby consent and agree that this Agreement shall constitute an amendment and restatement of that certain Agreement and Plan of Reorganization by and among Atari, JTS and JTS Acquisition Corporation dated as of February 12, 1996.

IN WITNESS WHEREOF, JTS and Atari have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized, all as of the date first written above.

JT STORAGE, INC.

By: /s/ David T. Mitchell

President

ATARI CORPORATION

By: /s/ Sam Tramiel

President

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.24
<SEQUENCE>4
<DESCRIPTION>SUBORDINATED SECURED CONVERTIBLE PROMISSORY NOTE
<TEXT>

<PAGE> 1

EXHIBIT 10.24

THIS NOTE AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

SUBORDINATED SECURED CONVERTIBLE PROMISSORY NOTE

PUBLIC

$25,000,000.00 February 13, 1996
San Jose, California

FOR VALUE RECEIVED, JT Storage, Inc., a Delaware corporation (the "Company"), promises to pay to Atari Corporation, a Nevada corporation (the "Holder"), or its assigns, the principal sum of Twenty Five Million Dollars ($25,000,000.00), or such lesser amount as shall equal the outstanding principal amount hereof, together with interest from the date of this Note on the unpaid principal balance at a rate equal to eight and one-half percent (8.5%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days. All unpaid principal, together with any then unpaid and accrued interest and other amounts payable hereunder, shall be due and payable on the "Maturity Date" which date shall be the earlier of (i) September 30 , 1996, or (ii) when such amounts are declared due and payable by the Holder (or made automatically due and payable) upon or after the occurrence of an Event of Default (as defined below).

THE OBLIGATIONS DUE UNDER THIS NOTE ARE SECURED BY A SECURITY AGREEMENT (THE "SECURITY AGREEMENT") DATED AS OF THE DATE HEREOF AND EXECUTED BY THE COMPANY IN FAVOR OF THE HOLDER. ADDITIONAL RIGHTS OF THE HOLDER ARE SET FORTH IN THE SECURITY AGREEMENT.

The following is a statement of the rights of the Holder and the conditions to which this Note is subject, and to which the Holder, by the acceptance of this Note, agrees:

1. DEFINITIONS. As used in this Note, the following capitalized terms have the following meanings:

(a) the "Company" includes the corporation initially executing this Note and any Person which shall succeed to or assume the obligations of the Company under this Note.

(b) "Certificate" shall mean the Restated Certificate of Incorporation of Company as in effect on the date hereof.

(c) "Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

(d) "Event of Default" has the meaning given in Section 7 hereof.

(e) "Financial Statements" shall mean, with respect to any accounting period for any Person, statements of operations, retained earnings and cash flows of such Person for such period, and balance sheets of such Person as of the end of such period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year if such period is less than a full fiscal year or, if such period is a full fiscal year, corresponding figures from the preceding fiscal year, all prepared in reasonable detail and in accordance with generally accepted accounting principles (except, with respect to monthly or quarterly financials, for footnotes and year end adjustments). Unless otherwise indicated, each reference to Financial Statements of any Person shall be deemed to refer to Financial Statements prepared on a consolidated basis.

(f) "Holder" shall mean the Person specified in the introductory paragraph of this Note or any Person who shall at the time be the holder of this Note.

(g) "Indebtedness" shall mean and include the aggregate amount of, without duplication (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations to pay the deferred purchase price of property or services (other than accounts payable incurred in the ordinary course of business determined in accordance with generally accepted accounting principals), (d) all obligations with respect to capital leases, (e) all guaranty obligations; (f) all obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, (g) all reimbursement and other payment obligations, contingent or otherwise, in respect of letters of credit.

(h) "Investment" of any Person shall mean any loan or advance of funds by such Person to any other Person (other than advances to employees of such Person for moving and travel expense, drawing accounts and similar expenditures in the ordinary course of business), any purchase or other acquisition of any Equity Securities or Indebtedness of any other Person, any capital contribution by such Person to or any other investment by such Person in any other Person (including, without limitation, any Indebtedness incurred by such Person of the type described in clauses (a) and (b) of the definition of "Indebtedness" on behalf of any other Person); provided, however, that Investments shall not include accounts receivable or other indebtedness owed by customers of such Person which are current assets and arose from sales or non-exclusive licensing in the ordinary course of such Person's business.

(i) "Lien" shall mean, with respect to any property, any security interest, mortgage, pledge, lien, claim, charge or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, capital lease or other title retention agreement, or any agreement to provide any of the foregoing, and the filing

of any financing statement or similar instrument under the Uniform Commercial Code or comparable law of any jurisdiction.

(j) "Material Adverse Effect" shall mean a material adverse effect on (a) the business, assets, operations, or financial or other condition of the Company; (b) the ability of the Company to pay or perform the Obligations in accordance with the terms of this Note and the other Transaction Documents and to avoid a default or Event of Default under any Transaction Document; or (c) the rights and remedies of Holder under this Note, the other Transaction Documents or any related document, instrument or agreement.

(k) "Merger Agreement" shall mean that certain Agreement and Plan of Reorganization dated as of February 12, 1996 by and between the Company and the Holder.

(l) "Obligations" has the meaning given in Section 1 of the Security Agreement.

(m) "Permitted Indebtedness" means:

(i) Indebtedness of Company in favor of the Holder arising under this Note;

(ii) The existing Indebtedness disclosed on the JTS Disclosure Schedule (as defined in the Merger Agreement) (the "Schedule");

(iii) Indebtedness to trade creditors, including, without limitation, affiliates of Company, incurred in the ordinary course of business, provided that the amount of such Indebtedness related to Moduler Electronics (India) Pvt. Ltd. shall not exceed $30.0 million at any time;

(iv) Other Indebtedness of Company, not exceeding $1.0 million in the aggregate outstanding at any time;

(v) Contingent obligations of Company consisting of guarantees (and other credit support) of the obligations of vendors and suppliers of Company in respect of transactions entered into in the ordinary course of business;

(vi) Indebtedness with respect to capital lease obligations and Indebtedness secured by Permitted Liens;

(vii) Extensions, renewals, refundings, refinancings, modifications, amendments and restatements of any of the items of Permitted Indebtedness (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Company.

(n) "Permitted Investments" shall mean and include: (a) deposits with commercial banks organized under the laws of the United States or a state thereof to the extent such deposits are fully insured by the Federal Deposit Insurance Corporation; (b) Investments in marketable obligations issued

or fully guaranteed by the United States and maturing not more than one (1) year from the date of issuance; (c) Investments in open market commercial paper rated at least "A1" or "P1" or higher by a national credit rating agency and maturing not more than one (1) year from the creation thereof; (d) Investments pursuant to or arising under currency agreements or interest rate agreements entered into in connection with bona fide hedging arrangements; (e) Investments consisting of deposit accounts of the Company in which the Holder has a perfected security interest and deposit accounts of its Subsidiaries maintained in the ordinary course of business; (f) Investments existing on the Closing Date disclosed in the Schedule; (g) Extensions of credit in the nature of accounts receivable or notes receivable arising from the same or lease of goods or services in the ordinary course of business; (h) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; (i) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; (j) Investments consisting of (i) compensation of employees, officers and directors of borrower so long as the Board of Directors of Company determines that such compensation is in the best interests of Company, (ii) travel advances, employee relocation loans and other employee loans and advances in the ordinary course of business, (iii) loans to employees, officers or directors relating to the purchase of equity securities of Company, (iv) other loans to officers and employees approved by the Board of Directors; and (k) other Investments aggregating not in excess of $1,000,000 at any time.

(o) "Permitted Liens" shall mean and include: (i) Liens for taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith, provided provision is made to the reasonable satisfaction of Holder for the eventual payment thereof if subsequently found payable; (ii) Liens of carriers, warehousemen, mechanics, materialmen, vendors, and landlords incurred in the

ordinary course of business for sums not overdue or being contested in good faith, provided provision is made to the reasonable satisfaction of Holder for the eventual payment thereof if subsequently found payable; (iii) deposits under workers' compensation, unemployment insurance and social security laws or to secure the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or to secure statutory obligations of surety or appeal bonds or to secure indemnity, performance or other similar bonds in the ordinary course of business; (iv) Liens securing obligations under a capital lease if such lease is permitted under the Security Agreement and such Liens do not extend to property other than the property leased under such capital lease; (v) Liens upon any equipment acquired or held by Company or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition of such equipment; (vi) easements, reservations, rights of way, restrictions, minor defects or irregularities in title and other similar charges or encumbrances affecting real property in a manner not materially or adversely affecting the value or use of such property; (vii) Liens in favor of the Holder; (viii) Liens existing on the date hereof in favor of holders of Senior Indebtedness; (ix) any liens existing as of the date hereof and disclosed in the Schedule; (x) liens on equipment leased by Company pursuant to an operating lease in the ordinary course of business (including proceeds thereof and accessions thereto) incurred solely for the purpose of financing the lease of such equipment (including Liens arising from UCC financing statements regarding such leases); (xi) liens arising from judgements, decrees or attachments to the extent and only so long as such judgment, decree or attachment does not constitute an Event of Default under 7(h); (xii) liens in favor of customs and revenue authorities arising as a matter of law to secure payment

of customs duties in connection with the importation of goods; (xiii) liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights off setoff or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; and (xiv) liens incurred in connection with the extension, renewal, refunding, refinancing, modification, amendment or restatement of the indebtedness secured by Liens of the type described in clauses (i) and (xiii) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

(p) "Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(q) "Senior Indebtedness" shall mean the principal of, unpaid interest on and other amounts due in connection with the Company's Business Loan Agreement dated as of December 18, 1995 with Silicon Valley Bank in an amount not to exceed $5.0 million at any time.

(r) "Series A Preferred" shall mean the Company's presently authorized Series A Preferred Stock.

(s) "Subsidiary" shall mean (a) any corporation of which more than 50% of the issued and outstanding equity securities having ordinary voting power to elect a majority of the Board of Directors of such corporation is at the time directly or indirectly owned or controlled by Company, (b) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or

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indirectly owned and controlled by Company (c) any other entity included in the financial statements of Company on a consolidated basis.

(t) "Transaction Documents" shall mean this Note, the Security Agreement, the Warrant (as defined in Section 11 hereof) and the Merger Agreement.

2. REPRESENTATIONS AND WARRANTIES OF COMPANY. The Company represents and warrants to the Holder that except as disclosed in the JTS Disclosure Schedule (as defined in the Merger Agreement) delivered concurrently herewith:

(a) Due Incorporation and Qualification. Each of Company and its Subsidiaries (i) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation; (ii) has the power and authority to own, lease and operate its properties and carry on its business as now conducted and as proposed to be conducted; and (iii) is duly qualified, licensed to do business and in good standing as a foreign corporation in each jurisdiction where the failure to be so qualified or licensed could reasonably be expected to have a Material Adverse Effect.

(b) Authority. The execution, delivery and performance by Company of each Transaction Document to be executed by Company and the consummation of the transactions

contemplated thereby (i) are within the power of Company and (ii) have been duly authorized by all necessary actions on the part of Company.

(c) Enforceability. Each Transaction Document executed, or to be executed, by Company has been, or will be, duly executed and delivered by Company and constitutes, or will constitute, a legal, valid and binding obligation of Company, enforceable against Company in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity.

(d) Non-Contravention. The execution and delivery by Company of the Transaction Documents executed by Company and the performance and consummation of the transactions contemplated thereby do not and will not (i) violate the Certificate of Incorporation or Bylaws of the Company or any material judgment, order, writ, decree, statute, rule or regulation applicable to Company; (ii) violate any provision of, or result in the breach or the acceleration of, or entitle any other Person to accelerate (whether after the giving of notice or lapse of time or both), any material mortgage, indenture, agreement, instrument or contract to which Company is a party or by which it is bound; or (iii) result in the creation or imposition of any Lien upon any property, asset or revenue of Company (other than any Lien arising under the Transaction Documents) or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization or approval applicable to Company, its business or operations, or any of its assets or properties.

(e) Approvals. No consent, approval, order or authorization of, or registration, declaration or filing with, any governmental authority or other Person (including, without limitation, the shareholders of any Person) is required in connection with the execution and delivery of the Transaction Documents executed by Company and the performance and consummation of the transactions contemplated thereby, except such as may be required pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as

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amended, in connection with any conversion of the principal balance of this Note pursuant to Section 10 hereof.

(f) No Violation or Default. None of the Company or the Company's Subsidiaries is in violation of or in default with respect to (i) its Certificate of Incorporation or Bylaws or equivalent charter document or any material judgment, order, writ, decree, statute, rule or regulation applicable to such Person; (ii) any material mortgage, indenture, agreement, instrument or contract to which such Person is a party or by which it is bound (nor is there any waiver in effect which, if not in effect, would result in such a violation or default), where, in each case, such violation or default, individually, or together with all such violations or defaults, could reasonably be expected to have a Material Adverse Effect.

(g) Litigation. No actions (including, without limitation, derivative actions), suits, proceedings or investigations are pending or, to the knowledge of the Company, threatened against the Company or the Company's Subsidiaries at law or in equity in any court or before any other governmental authority which if adversely determined (i) would (alone or in the aggregate) have a Material Adverse Effect or (ii) seeks to enjoin, either directly or indirectly, the execution, delivery or performance by the Company of the Transaction Documents or the transactions contemplated thereby.

(h) Title. The Company and the Company's Subsidiaries own and have good and marketable title in fee simple absolute to, or a valid leasehold interest in, all their respective real properties and good title to their other respective assets and properties as reflected in the most recent Financial Statements delivered to Purchasers (except those assets and properties disposed of in the ordinary course of business since the date of such Financial Statements) and all respective assets and properties acquired by Company and Company's Subsidiaries since such date (except those disposed of in the ordinary course of business). Such assets and properties are subject to no Lien, except for Permitted Liens.

(i) Equity Securities. The authorized capital stock of the Company consists of 90,000,000 shares of Common Stock, $.000001 par value, and 70,000,000 shares of Preferred Stock, $.000001 par value, all of which is designated Series A Preferred Stock, of which there are issued and outstanding, 7,466,729 shares of Common Stock and 28,696,370 shares of Series A Preferred. There are no other outstanding shares of capital stock or voting securities. Each outstanding share of the Company's Series A Preferred Stock is convertible into one (1) share of the Company's Common Stock. All outstanding shares of the Company's Common Stock and the Company's Series A Preferred Stock are duly authorized, validly issued, fully paid and non-assessable and are free of any Liens other than any Liens created by or imposed upon the holders thereof, and are not subject to preemptive rights or rights of first refusal created by statute, the Certificate of Incorporation or Bylaws of the Company or any agreement to which the Company is a party or by which it is bound. The Company has reserved (i) 4,300,000 shares of Common Stock for issuance to employees and consultants pursuant to the Company's 1995 Stock Option Plan, of which 16,729 shares have been issued pursuant to option exercises, and 3,885,747 shares are subject to outstanding, unexercised options, and (ii) 600,000 shares of Common Stock for issuance upon the exercise of outstanding, unexercised warrants. There are no other options, warrants, calls, rights, commitments or agreements of any character to which the Company is a party or by which it is bound obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of capital stock of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, or otherwise amend or enter into any such

option, warrant, call, right, commitment or agreement. Except as set forth in the Registration Rights Agreement dated as of February 3, 1995 by and among the Company and certain other persons and as contemplated by Section 11(g) hereof, no Person has the right to demand or other rights to cause Company to file any registration statement under the Securities Act of 1933, as amended (the "Securities Act"), relating to any Equity Securities of Company presently outstanding or that may be subsequently issued, or any right to participate in any such registration statement.

3. REPRESENTATIONS AND WARRANTIES OF HOLDER. The Holder represents and warrants to the Company that such Holder has been advised that neither this Note nor the securities which may be issued upon the conversion hereof have been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. Such Holder is aware that the Company is under no obligation to effect any such registration with respect to the Note or to file for or comply with any exemption from registration. Such Holder has not been formed solely for the purpose of making this investment and is purchasing the Note to be acquired by such Holder hereunder for its own account for investment, not as a nominee or agent, and not with a view to, or for resale in connection

with, the distribution thereof. Such Holder has such knowledge and experience in financial and business matters that such Purchaser is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time. Such Holder is an accredited investor as such term is defined in Rule 501 of Regulation D under the Securities Act.

4. INTEREST. Accrued interest on the outstanding principal balance on this Note shall be payable on the Maturity Date.

5. PREPAYMENT. Upon fifteen (15) days prior written notice to the Holder, the Company may prepay this Note in whole or in part; provided that any such prepayment will be applied first to the payment of expenses due under this Note, second to interest accrued on this Note and third, if the amount of prepayment exceeds the amount of all such expenses and accrued interest, to the payment of principal of this Note.

6. CERTAIN COVENANTS. While any amount is outstanding under the Note, without the prior written consent of the Holder:

(a) Indebtedness. Neither Company nor any of its Subsidiaries shall create, incur, assume or permit to exist any Indebtedness except Senior Indebtedness and Permitted Indebtedness.

(b) Liens. Neither the Company nor any of its Subsidiaries shall create, incur, assume or permit to exist any Lien on or with respect to any of its assets or property of any character, whether now owned or hereafter acquired, except for Permitted Liens.

(c) Asset Dispositions. Neither the Company nor any of its Subsidiaries shall sell, lease, transfer, license or otherwise dispose of any of its assets or property (collectively, a "Transfer"), whether now owned or hereafter acquired, except (i) transfers in the ordinary course of its business consisting of the sale of inventory and sales of worn-out or obsolete equipment and (ii) transfers not in excess of $3.0 million for fair value and other than to any affiliate of the Company.

(d) Mergers, Acquisitions, Etc. Neither the Company nor any of its Subsidiaries shall consolidate with or merge into any other Person or permit any other Person to merge into it, or acquire all or substantially all of the assets or capital stock of any other Person.

(e) Investments. Neither the Company nor any of its Subsidiaries shall make any Investment except for Permitted Investments.

(f) Dividends, Redemptions, Etc. Neither the Company nor any of its Subsidiaries shall (i) pay any dividends or make any distributions on its equity securities; (ii) purchase, redeem, retire, decease or otherwise acquire for value any of its equity securities; (iii) return any capital to any holder of its equity securities; (iv) make any distribution of assets, Equity Securities, obligations or securities to any holder of its Equity Securities; or (v) set apart any sum for any such purpose; other than payments of principal and interest on outstanding bridge loans and repurchases of shares from terminated employees

pursuant to the terms of restricted stock purchase agreements, and provided, however, that any Subsidiary may pay cash dividends to Company.

(g) Indebtedness Payments. Except as set forth on JTS Disclosure Schedule (as defined in the Merger Agreement), neither the Company nor any of its Subsidiaries shall (i) prepay, redeem, purchase, decrease or otherwise satisfy in any manner prior to the scheduled repayment thereof any Indebtedness for borrowed money (other than (A) amounts due under this Note and (B) Senior Indebtedness) or lease obligations, (ii) amend, modify or otherwise change the terms of any Indebtedness for borrowed money (other than (A) Obligations under this Note and (B) Senior Indebtedness) or lease obligations so as to accelerate the scheduled repayment thereof or (iii) repay any notes to officers, directors or stockholders.

(h) Information Rights; Notices. The Company shall furnish to the Holder the following:

(i) Monthly Financial Statements. Within thirty (30) days after the last day of each month, a copy of the Financial Statements of the Company for such quarter and for the fiscal year to date, certified by the chief financial officer or controller of the Company to present fairly the financial condition, results of operations and other information presented therein and to have been prepared in accordance with generally accepted accounting principals consistently applied, subject to normal year end adjustments and except that no footnotes need be included with such Financial Statements;

(ii) Annual Financial Statements. Within ninety (90) days after the close of each fiscal year of the Company, (i) copies of the audited Financial Statements of Company for such year, audited by nationally recognized independent certified public accountants, (ii) copies of the unqualified opinions and management letters delivered by such accountants in connection with such Financial Statements, and (iii) a report containing a description of projected business prospects (including capital expenditures) and management's discussion and analysis of financial condition and results of operation of Company and its Subsidiaries;

(iii) SEC Reports. At such time as the Company is

subject to the reporting requirement of the Exchange Act, as soon as possible and in no event later than five (5) days after they are sent, made available or filed, copies of all registration statements and reports filed by Company with the Securities and Exchange Commission and all reports, proxy statements and financial statements sent or made available by Company to its stockholders generally; and

(iv) Notice of Defaults. Promptly upon the occurrence thereof, written notice of the occurrence of any Event of Default hereunder or any event of default with respect to any Senior Indebtedness.

(i) Inspection Rights. The Holder and its representatives shall have the right, at any time during normal business hours, upon reasonable prior notice, to visit and inspect the properties of the Company and its corporate, financial and operating records, and make abstracts therefrom, and to discuss

the Company's affairs, finances and accounts with its directors, officers and independent public accountants.

(j) Use of Proceeds. The Company shall use the proceeds from all borrowings under this Note solely for (A) interim financing for capital equipment prior to obtaining lease financing for such equipment, (B) leasehold improvements, tooling and other fixed assets in an aggregate amount not to exceed $5.3 million, (C) repayment of the Bridge Notes (as defined in the JTS Disclosure Schedule) in the aggregate principal amount of $2,005,000, and (D) working capital purposes.

7. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Note and the other Transaction Documents:

(a) Failure to Pay. The Company shall fail to pay (i) when due any principal payment on the due date hereunder or (ii) any interest or other payment required under the terms of this Note or any other Transaction Document on the date due and such payment shall not have been made within five (5) days of Company's receipt of the Holder's written notice to Company of such failure to pay; or

(b) Breaches of Certain Covenants. The Company or any of its Subsidiaries shall fail to observe or perform any covenant, obligation, condition or agreement set forth in Section 6(d), 6(f) or 6(j) of this Note; or

(c) Breaches of Other Covenants. The Company or any of its Subsidiaries shall fail to observe or perform any other covenant, obligation, condition or agreement contained in this Note or the other Transaction Documents (other than those specified in Sections 7(a) and 7(b)) and (i) such failure shall continue for fifteen (15) days, or (ii) if such failure does not result from the payment of money or the failure to pay money and is not curable within such fifteen (15) day period, but is reasonably capable of cure within forty-five (45) days, either (A) such failure shall continue for forty-five (45) days or (B) the Company or its Subsidiary shall not have commenced a cure in a manner reasonably satisfactory to the Holder within the initial fifteen (15) day period; or

(d) Representations and Warranties. Any representation, warranty, certificate, or other statement (financial or otherwise) made or

furnished by or on behalf of the Company to the Holder in writing in connection with this Note or any of the other Transaction Documents, or as an inducement to the Holder to enter into this Note and the other Transaction Documents, shall be false, incorrect, incomplete or misleading in any respect when made or furnished, except any such false, incorrect, incomplete or misleading statement which will not result in a Material Adverse Effect on the Company; or

(e) Other Payment Obligations. Except pursuant to the Company's Business Loan Agreement with Silicon Valley Bank and the capital equipment loan from Venture Lending and Leasing, Inc., each as described in the JTS Disclosure Schedule (as defined in the Merger Agreement), the Company or any of its Subsidiaries shall (i)(A) fail to make any payment when due under the terms of any bond, debenture, note or other evidence of Indebtedness, including the Senior Indebtedness, to be paid by such Person (excluding this Note and the other Transaction Documents but including any other

evidence of Indebtedness of Company or any of its Subsidiaries to the Holder) and such failure shall continue beyond any period of grace provided with respect thereto, or (B) default in the observance or performance of any other agreement, term or condition contained in any such bond, debenture, note or other evidence of Indebtedness, and (ii) the effect of such failure or default is to cause, or permit the holder or holders thereof to cause, Indebtedness in an aggregate amount of Two Hundred Fifty Thousand Dollars ($250,000) or more to become due prior to its stated date of maturity, unless such acceleration shall have been rescinded and such failure to pay cured within thirty (30) days from the date of such acceleration; or

(f) Voluntary Bankruptcy or Insolvency Proceedings. The Company or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated in full or in part, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing; or

(g) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within sixty (60) days of commencement; or

(h) Judgments. A final judgment or order for the payment of money in excess of Two Hundred Fifty Thousand Dollars ($250,000) (exclusive of amounts covered by insurance issued by an insurer not an affiliate of Company) shall be rendered against the Company or any of its Subsidiaries and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be

issued or levied against a substantial part of the property of the Company or any of its Subsidiaries and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within thirty (30) days after issue or levy; or

(i) Transaction Documents. Any Transaction Document (other than the Merger Agreement) or any material term thereof shall cease to be, or be asserted by the Company not to be, a legal, valid and binding obligation of Company enforceable in accordance with its terms or if the Liens of the Holder in any of the assets of Company or its Subsidiaries shall cease to be or shall not be valid and perfected Liens or the Company or any Subsidiary shall assert that such Liens are not valid and perfected Liens.

8. RIGHTS OF HOLDER UPON DEFAULT. Upon the occurrence or existence of any Event of Default (other than an Event of Default referred to in Sections 7(f) and 7(g)) and at any time thereafter during the continuance of such Event of Default, the Holder may, by written notice to the Company, declare all outstanding Obligations payable by the Company hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the other Transaction Documents to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Sections 7(f) and 7(g), immediately and without notice, all outstanding Obligations payable by Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the other Transaction Documents to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, the Holder may exercise any other right, power or remedy granted to it by the Transaction Documents or otherwise permitted to it by law, either by suit in equity or by action at law, or both.

9. SUBORDINATION. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of the Senior Indebtedness.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, (i) no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of Holder of this Note which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding.

(b) Default on Senior Indebtedness. If there shall occur an event of default which has been declared in writing with respect to any Senior Indebtedness, as defined therein, or in the instrument under which it is outstanding, permitting the holder to accelerate the maturity thereof and the Holder shall have received written notice thereof from the holder of such Senior Indebtedness, then, unless and until such event of default shall have

been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within one hundred eighty (180) days after the happening of such event of default, the maturity of such Senior Indebtedness shall not have been accelerated. Not more than one notice may be given to Holder pursuant to the terms of this Section 9(b) during any 360 day period.

(c) Further Assurances. By acceptance of this Note, the Holder agrees to execute and deliver customary forms of subordination agreement requested from time to time by holders of Senior Indebtedness, and as a condition to the Holder's rights hereunder, the Company may require that the

Holder execute such forms of subordination agreement; provided that such forms shall not impose on the Holder terms less favorable than those provided herein and in the Security Agreement.

(d) Other Indebtedness. No indebtedness which does not constitute Senior Indebtedness shall be senior in any respect to the indebtedness represented by this Note.

(e) Subrogation. Subject to the payment in full of all Senior Indebtedness, the Holder shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 9) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 9 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

(f) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 9 to receive cash, securities or other properties otherwise payable or deliverable to the Holder, nothing contained in this Section 9 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(g) Lien Subordination. Any Lien of the Holder, whether now or hereafter existing in connection with the amounts due under this Note, on any assets or property of the Company or any proceeds or revenues therefrom which the Holder may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all Liens now or hereafter granted to a holder of Senior Indebtedness by Company or by law, notwithstanding the date, order or method of attachment or perfection of any such Lien or the provisions of any applicable law.

(h) Reliance of Holders of Senior Indebtedness. The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an

inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

10. CONVERSION.

(a) Conversion by Holder. In the event that the Merger Agreement is terminated pursuant to Section 8(a), 8(b) or 8(d) (i) through 8(d)(iv) thereof or upon the occurrence of an Event of Default hereunder, then from and after such date, the Holder shall have the right, at such Holder's option, at any time prior to payment in full of the principal balance of this Note, to convert this Note, in accordance with the provisions of Section 10(c) hereof, in whole or in part, into fully paid and nonassessable shares of Series A Preferred, provided that the Holder shall provide at least thirty (30) days notice to the Company of Holder's election to convert this Note into shares of Series A Preferred upon the occurrence of an Event of Default. The number of shares of Series A Preferred into which this Note may be converted shall be determined by dividing the aggregate amount of this Note to be converted by the Conversion Price (as defined below) in effect at the time of such conversion. The initial "Conversion Price" shall be equal to $1.00 per share. The Conversion Price shall be subject to adjustment from time to time pursuant to Section 12 hereof and the terms of the Company's Certificate.

(b) Conversion by the Company. In the event that the Merger Agreement is terminated pursuant to Section 8(c), 8(d)(v) or 8(d)(vi) thereof, the Company shall have the right, at the Company's option, to convert this Note, in accordance with the provisions of Section 10(c) hereof, in whole or in part, into fully paid and nonassessable shares of Series A Preferred. The number of shares of Series A Preferred into which this Note may be converted shall be determined by dividing the aggregate amount of this Note to be converted by the Conversion Price in effect at the time of such conversion.

(c) Conversion Procedure.

(i) Conversion Pursuant to Section 10(a). Before the Holder shall be entitled to convert this Note into shares of Series A Preferred, it shall surrender this Note, duly endorsed, at the office of the Company and shall give written notice, postage prepaid, to the Company at its principal corporate office, of the election to convert the same pursuant to Section 10(a), and shall state therein the amount of the unpaid principal amount of this Note to be converted and the name or names in which the certificate or certificates for shares of Series A Preferred are to be issued. The Company shall, as soon as practicable thereafter (but in any event within ten (10) days thereafter), issue and deliver to the Holder of this Note a certificate or certificates for the number of shares of Series A Preferred to which the Holder shall be entitled upon conversion (bearing such legends as are required by applicable state and federal securities laws), together with a replacement Note (if any principal amount is not converted) and any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to Holder for any cash amounts payable as described in Section 10(d). The conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note, and the Person or Persons entitled to receive the shares of Series A Preferred upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Series A Preferred as of such date.

(ii) Conversion Pursuant to Section 10(b). If this Note is converted by the Company pursuant to Section 10(b), written notice shall be delivered to the Holder notifying the Holder

of the conversion to be effected, specifying the Conversion Price, the principal amount of the Note to be converted, the date on which such conversion is expected to occur and calling upon such Holder to surrender to Company, in the manner and at the place designated, the Note. Upon such conversion of this Note, the Holder shall surrender this Note, duly endorsed, at the principal office of Company. At its expense, the Company shall, as soon as practicable thereafter (but in any event within ten (10) days thereafter), issue and deliver to such Holder a certificate or certificates for the number of shares to which Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described in Section 10(d). Any conversion of this Note pursuant to Section 10(b) shall be deemed to have been made immediately prior to the closing of the issuance and sale of shares as described in Section 10(b) and on and after such date the Person entitled to receive the shares issuable upon such conversion shall be treated for all purpose as the record Holder of such shares as of such date.

(d) Fractional Shares; Interest; Effect of Conversion. No fractional shares shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder an amount equal to the product obtained by multiplying the Conversion Price by the fraction of a share not issued pursuant to the previous sentence. In addition, the Company shall pay to the Holder any interest accrued on the amount converted and on the amount to be paid to the Company pursuant to the previous sentence. Upon conversion of this Note in full and the payment of the amounts specified in this Section 10(d), the Company shall be forever released from all its obligations and liabilities under this Note.

11. ISSUANCES OF WARRANTS. In the event that the Holder elects to convert all or any portion of this Note into shares of Series A Preferred pursuant to Section 10(a) hereof, or in the event the Company elects to convert all or any portion of this Note into shares of Series A Preferred pursuant to Section 10(b) hereof the Company hereby agrees to issue to the Holder warrants to purchase shares of Series A Preferred (the "Warrant") as set forth below:

(a) No Warrant shall be issued if the principal amount of this Note to be converted together with any principal amount of this Note previously converted is less than $5,000,001.

(b) If the principal amount of this Note to be converted together with any principal amount of this Note previously converted is more than $5,000,000, the Company shall issue to the Holder concurrent with the issuance of the shares of Series A Preferred to be issued upon such conversion, a Warrant to purchase up to 7,500,000 shares of Series A Preferred. The number of shares subject to the first Warrant to be issued shall be determined by multiplying 7,500,000 times a fraction, the numerator of which is the amount by which the aggregate principal amount to be converted exceeds $5,000,000 and the denominator of which is $20,000,000. The number of shares subject to any subsequent Warrant to be issued shall be determined by multiplying 7,500,000 times a fraction, the numerator of which is the aggregate principal amount to be converted and the denominator of which is $20,000,000.

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(c) Each Warrant to be issued by the Company pursuant to this Section 11 shall have an exercise price of $2.00 per share, a term of five (5) years and such other terms as are set forth in the form of Warrant attached hereto as Exhibit A.

(d) The shares of Series A Preferred issuable upon the exercise of any Warrants issued pursuant to this Section 11 shall be entitled to registration rights which are pari passu with the registration rights held by the holders of the Company's Series A Preferred Stock.

12. CONVERSION PRICE ADJUSTMENTS.

(a) Adjustments for Stock Splits and Subdivisions. In the event the Company should at any time or from time to time after the date of issuance hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Series A Preferred or the determination of holders of Series A Preferred entitled to receive a dividend or other distribution payable in additional shares of Series A Preferred or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Series A Preferred (hereinafter referred to as "Series A Preferred Equivalents") without payment of any consideration by such holder for the additional shares of Series A Preferred or the Series A Preferred Equivalents (including the additional shares of Series A Preferred issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price of this Note shall be appropriately decreased so that the number of shares of Series A Preferred issuable upon conversion of this Note shall be increased in proportion to such increase of outstanding shares.

(b) Adjustments for Reverse Stock Splits. If the number of shares of Series A Preferred outstanding at any time after the date hereof is decreased by a combination of the outstanding shares of Series A Preferred, then, following the record date of such combination, the Conversion Price for this Note shall be appropriately increased so that the number of shares of Series A Preferred issuable on conversion hereof shall be decreased in proportion to such decrease in outstanding shares.

(c) Conversion or Redemption of Series A Preferred Stock. Should all of Company's Series A Preferred Stock be, or if outstanding would be, at any time prior to full payment of this Note, redeemed or converted into shares of Company's Common Stock in accordance with the Certificate, then this Note shall immediately become convertible into that number of shares of Company's Common Stock equal to the number of shares of the Common Stock that would have been received if this Note had been converted in full and the Series A Preferred Stock received thereupon had been simultaneously converted immediately prior to such event, and the Conversion Price shall be immediately adjusted to equal the quotient obtained by dividing (x) the aggregate Conversion Price of the maximum number of shares of Series A Preferred Stock into which this Note was convertible immediately prior to such conversion or redemption, by (y) the number of shares of Common Stock for which this Note is convertible immediately after such conversion or redemption.

(d) Notices of Record Date, etc. In the event of:

(i) Any taking by the Company of a record of the holders of any class of securities of the Company for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend payable out of earned surplus at the same rate as that of the last such cash dividend theretofore paid) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right; or

(ii) Any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all of the assets of the Company to any other Person or any consolidation or merger involving the Company; or

(iii) Any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

the Company will mail to Holder of this Note at least ten (10) days prior to the earliest date specified therein, a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right; and (B) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding-up is expected to become effective and the record date for determining stockholders entitled to vote thereon.

(e) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Series A Preferred solely for the purpose of effecting the conversion of this Note such number of its shares of Series A Preferred (and shares of its Common Stock for issuance on conversion of such Series A Preferred) as shall from time to time be sufficient to effect the conversion of the Note; and if at any time the number of authorized but unissued shares of Series A Preferred (and shares of its Common Stock for issuance on conversion of such Series A Preferred) shall not be sufficient to effect the conversion of the entire outstanding principal amount of this Note, without limitation of such other remedies as shall be available to the holder of this Note, the Company will use its best efforts to take such corporate action as may, in the opinion of counsel, be necessary to increase its authorized but unissued shares of Series A Preferred (and shares of its Common Stock for issuance on conversion of such Series A Preferred) to such number of shares as shall be sufficient for such purposes.

13. SUCCESSORS AND ASSIGNS. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by the Company without the prior written consent of the Holder or, prior to the termination of the Merger Agreement, by the Holder without the prior written consent of the Company. Subject to the foregoing and the restrictions on transfer described in Section 15 below, the rights and obligations of the Company and the Holder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

14. WAIVER AND AMENDMENT. Any provision of this Note may be

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amended, waived or modified upon the written consent of the Company and the Holder.

15. TRANSFER OF THIS NOTE OR SECURITIES ISSUABLE ON CONVERSION HEREOF. With respect to any offer, sale or other disposition of this Note or any securities into which this Note may be converted, the Holder will give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of the Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification under any federal or state law then in effect. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested and subject to Section 13, the Company, as promptly as practicable, shall notify the Holder that the Holder may sell or otherwise dispose of this Note or such securities, all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this Section 15 that the opinion of counsel for the Holder is not reasonably satisfactory to the Company, the Company shall so notify the Holder promptly after such determination has been made. Each Note thus transferred and each certificate representing the securities thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

16. NOTICES. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery, addressed (i) if to the Holder, at such Holder's address set forth at the end of this Agreement, or at such other address as such Holder shall have furnished the Company in writing, or (ii) if to the Company, at its address set forth at the end of this Agreement, or at such other address as the Company shall have furnished to the Holder in writing. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when received.

17. PAYMENT. Payment shall be made in lawful tender of the United States.

18. DEFAULT RATE; USURY. During any period in which an Event of Default has occurred and is continuing, the Company shall pay interest on the unpaid principal balance hereof at a rate per annum equal to the rate otherwise applicable hereunder plus two percent (2%). In the event any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

19. EXPENSES; WAIVERS. If action is instituted to collect this Note, the Company promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. The Company hereby waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument. The Company shall pay on demand all reasonable fees and expenses, including reasonable attorneys' fees and expenses, incurred by the Holder with respect to the enforcement or attempted enforcement of any of the obligations of the Company to the Holder under the Transaction

Documents or in preserving any of the Holder's rights and remedies (including, without limitation, all such fees and expenses incurred in connection with any "workout" or restructuring affecting the Transaction Documents or the obligations thereunder or any bankruptcy or similar proceeding involving Company or any of its Subsidiaries).

20. FINANCING STATEMENTS. The Company agrees to execute all UCC-1 financing statements and other documents and instruments which the Holder may reasonably request to perfect its security interest in the collateral described in the Security Agreement.

21. REPLACEMENT NOTE. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note and (a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it; or (b) in the case of mutilation, upon surrender thereof; the Company, at its expense, will execute and deliver in lieu thereof a new Note executed in the same manner as the Note being replaced, in the same principal amount as the unpaid principal amount of such Note and dated the date to which interest shall have been paid on such Note or, if no interest shall have yet been so paid, dated the date of such Note.

22. GOVERNING LAW. This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California or of any other state.

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first written above.

JT STORAGE, INC.
a Delaware corporation

By: /s/David T. Mitchell

Title: President

Accepted and Agreed to:

ATARI CORPORATION
a Nevada corporation

By: /s/Sam Tramiel

Title: President

EXHIBIT A TO
SUBORDINATED CONVERTIBLE SECURED PROMISSORY NOTE

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY

BE EFFECTED WITHOUT (i) AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED, (iii) RECEIPT OF A NO-ACTION LETTER FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR (iv) OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THIS WARRANT.

JT STORAGE, INC.

WARRANT TO PURCHASE _____ SHARES
OF SERIES A PREFERRED STOCK

THIS CERTIFIES THAT, for value received, Atari Corporation, a Nevada Corporation, is entitled to subscribe for and purchase up to _____ shares of the fully paid and nonassessable Series A Preferred Stock, $0.00001 par value (as adjusted pursuant to Section 4 hereof, the "Shares"), of JT Storage, Inc., a Delaware corporation (the "Company"), at a price of $2.00 per share (such price and such other price as shall result, from time to time, from the adjustments specified in Section 4 hereof is herein referred to as the "Warrant Price"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, (a) the term "Series A Preferred" shall mean the Company's presently authorized Series A Preferred Stock, and any stock into or for which such Series A Preferred Stock may hereafter be converted or exchanged, (b) the term "Date of Grant" shall mean _____, 1996 and (c) the term "Other Warrants" shall mean any other warrants issued by the Company in connection with the transaction with respect to which this Warrant was issued, and any warrant issued upon transfer or partial exercise of this Warrant. The term "Warrant" as used herein shall be deemed to include Other Warrants unless the context clearly requires otherwise.

1. Term. The purchase right represented by this Warrant is exercisable, in whole or in part, at any time and from time to time from the Date of Grant through five (5) years after the Date of Grant.

2. Method of Exercise: Payment: Issuance of New Warrant. Subject to Section 1 hereof, the purchase right represented by this Warrant may be exercised by the holder hereof, in whole or in part and from time to time, by either, at the election of the holder hereof, (a) the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A-1 duly executed) at the principal office of the Company and by the payment to the Company, by check, of an amount equal to the then applicable Warrant Price multiplied by the number of Shares then being purchased, or (b) if in connection with a registered public offering of the Company's securities, the surrender of this Warrant (with the notice of

exercise form attached hereto as Exhibit A-2 duly executed) at the principal office of the Company together with notice of arrangements reasonably satisfactory to the Company and the managing underwriters of any such public offering for payment to the Company either by check or from the proceeds of the sale of shares to be sold by the holder in such public offering of an amount equal to the then applicable Warrant Price per share multiplied by the number of Shares then being purchased. The person or persons in whose name(s) any certificate(s) representing shares of Series A Preferred shall be issuable upon exercise of this Warrant shall be deemed to have become the holder(s) of record of, and shall be treated for all purposes as the record holder(s) of, the shares represented thereby (and such shares shall be deemed to have been issued) immediately prior to the close of business on the date or dates upon which this Warrant is exercised. In the event of any exercise of the rights represented by this Warrant, certificates for the shares of stock so purchased shall be delivered to the holder hereof as soon as possible and in any event within ten (10) days after such exercise and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the

Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the holder hereof as soon as possible and in any event within such ten (10)-day period.

3. Stock Fully Paid: Reservation of Shares. All Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance pursuant to the terms and conditions herein, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of the issue upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of shares of its Series A Preferred to provide for the exercise of the rights represented by this Warrant and a sufficient number of shares of its Common Stock to provide for the conversion of the Series A Preferred into Common Stock.

4. Adjustment of Warrant Price and Number of Shares. The number and kind of securities purchasable upon the exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(a) Reclassification or Merger. In case of any reclassification, change or conversion of securities of the class issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in case of any merger of the Company with or into another corporation (other than a merger with another corporation in which the Company is the acquiring and the surviving corporation and which does not result in any reclassification or change of outstanding securities issuable upon exercise of this Warrant), or in case of any sale of all or substantially all of the assets of the Company, the Company, or such successor or purchasing corporation, as the case may be, shall duly execute and deliver to the holder of this Warrant a new Warrant (in form and substance reasonably satisfactory to the holder of this Warrant), so that the holder of this Warrant shall have the right to receive, at a total purchase price not to exceed that payable upon the exercise of the unexercised portion of this Warrant, and in lieu of the shares of Series A Preferred theretofore issuable upon exercise of this Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such reclassification, change or merger by a holder of the number of shares of Series A Preferred then purchasable under this Warrant. Such new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable

to the adjustments provided for in this Section 4. The provisions of this subparagraph (a) shall similarly apply to successive reclassifications, changes, mergers, consolidations and transfers.

(b) Subdivision or Combination of Shares. If the Company at any time while this Warrant remains outstanding and unexpired shall subdivide or combine its outstanding shares of Series A Preferred, the Warrant Price shall be proportionately decreased in the case of a subdivision or increased in the case of a combination, effective at the close of business on the date the subdivision or combination becomes effective.

(c) Stock Dividends and Other Distributions. If the Company at any time while this Warrant is outstanding and unexpired shall (i) pay a dividend with respect to Series A Preferred payable in Series A Preferred, or (ii) make any other distribution with respect to Series A Preferred (except any distribution specifically provided for in the foregoing

subparagraphs (a) and (b)) then the Warrant Price shall be adjusted, from and after the date of determination of shareholders entitled to receive such dividend or distribution, to that price determined by multiplying the Warrant Price in effect immediately prior to such date of determination by a fraction (i) the numerator of which shall be the total number of shares of Series A Preferred outstanding immediately prior to such dividend or distribution, and (ii) the denominator of which shall be the total number of shares of Series A Preferred outstanding immediately after such dividend or distribution.

(d) Adjustment of Number of Shares. Upon each adjustment in the Warrant Price pursuant to this Section 4, the number of Shares of Series A Preferred purchasable hereunder shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Shares purchasable immediately prior to such adjustment in the Warrant Price by a fraction, the numerator of which shall be the Warrant Price immediately prior to such adjustment and the denominator of which shall be the Warrant Price immediately thereafter.

(e) Antidilution Rights. The other antidilution rights applicable to the Series A Preferred are set forth in Section 4(d) of Article III of the Company's Restated Certificate of Incorporation, as amended through the Date of Grant (the "Charter"), a true and complete copy of which is attached hereto as Exhibit C. Such antidilution rights shall not be restated, amended, modified or waived in any manner without the prior written consent of the holders of a majority of the shares of Series A Preferred, including, for purposes of this Section 4(e), shares of Series A Preferred issuable upon exercise of this Warrant. The Company shall promptly provide the holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

5. Notice of Adjustments. Whenever the Warrant Price or the number of Shares purchasable hereunder shall be adjusted pursuant to Section 4 hereof, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Warrant Price and the number of Shares purchasable hereunder after giving effect to such adjustment, which shall be mailed to the holder of this Warrant. In addition, whenever the conversion price or conversion ratio of the Series A Preferred shall be adjusted, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the

method by which such adjustment was calculated, and the conversion price or ratio of the Series A Preferred after giving effect to such adjustment, and shall cause copies of such certificate to be mailed to the holder of this Warrant.

6. Fractional Shares. No fractional shares of Series A Preferred will be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment therefor based on the fair market value of the Series A Preferred on the date of exercise as reasonably determined in good faith by the Company's Board of Directors.

7. Compliance with Securities Act: Disposition of Warrant or Shares of Series A Preferred.

(a) Compliance with Securities Act. The holder of this Warrant, by acceptance hereof, agrees that this Warrant, and the shares of

Series A Preferred to be issued upon exercise hereof and any Common Stock issued upon conversion thereof are being acquired for investment and that such holder will not offer, sell or otherwise dispose of this Warrant, or any shares of Series A Preferred to be issued upon exercise hereof or any Common Stock issued upon conversion thereof except under circumstances which will not result in a violation of the Act. Upon exercise of this Warrant, unless the Shares being acquired are registered under the Act or an exemption from such registration is available, the holder hereof shall confirm in writing, by executing the form attached as Exhibit B hereto, that the shares of Series A Preferred so purchased (and any shares of Common Stock issued upon conversion thereof) are being acquired for investment and not with a view toward distribution or resale. This Warrant and all shares of Series A Preferred issued upon exercise of this Warrant and all shares of Common Stock issued upon conversion thereof (unless registered under the Act) shall be stamped or imprinted with a legend in substantially the following form:

"THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT (i) AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED, (iii) RECEIPT OF A NO-ACTION LETTER FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THE WARRANT UNDER WHICH THESE SECURITIES WERE ISSUED, DIRECTLY OR INDIRECTLY."

In addition, in connection with the issuance of this Warrant, the holder specifically represents to the Company by acceptance of this Warrant as follows:

(1) The holder is aware of the Company's business affairs and financial condition, and has acquired information about the Company sufficient to reach an informed and knowledgeable decision to acquire this Warrant. The holder is acquiring this Warrant for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Act.

(2) The holder understands that this Warrant has not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the holder's investment intent as expressed herein. In this connection, the holder understands that, in the view of the SEC, the statutory basis for such exemption may be unavailable if the holder's representation was predicated solely upon a present intention to hold the Warrant for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Warrant, or for a period of one year or any other fixed period in the future.

(3) The holder further understands that this Warrant must be held indefinitely unless subsequently registered under the Act and any applicable state securities laws, or unless exemptions from registration are otherwise available.

(4) The holder is aware of the provisions of Rule 144 and 144A, promulgated under the Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: The availability of certain public information

about the Company, the resale occurring not less than two years after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

(5) The holder further understands that at the time it wishes to sell this Warrant there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144 and 144A, and that, in such event, the holder may be precluded from selling this Warrant under Rule 144 and 144A even if the two-year minimum holding period had been satisfied.

(6) The holder further understands that in the event all of the requirements of Rule 144 and 144A are not satisfied, registration under the Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 and 144A are not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 and 144A will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

(b) Disposition of Warrant or Shares. With respect to any offer, sale or other disposition of this Warrant or any shares of Series A Preferred acquired pursuant to the exercise of this Warrant or any shares of Common Stock issued upon conversion of the Series A Preferred, in each case prior to registration of such Warrant or shares, the holder hereof and each subsequent holder of this Warrant agrees to give written notice to the Company prior thereto, describing the manner thereof, together with a written opinion of such holder's counsel, if reasonably requested by the Company, to the

effect that such offer, sale or other disposition may be effected without registration or qualification (under the Act as then in effect or any federal or state law then in effect) of this Warrant or such shares of Series A Preferred or Common Stock and indicating whether or not under the Act certificates for this Warrant or such shares of Series A Preferred to be sold or otherwise disposed of require any restrictive legend as to applicable restrictions on transferability in order to ensure compliance with such laws. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested, the Company, as promptly as practicable, shall notify such holder that such holder may sell or otherwise dispose of this Warrant or such shares of Series A Preferred or Common Stock, all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this subsection (b) that the opinion of counsel for the holder is not reasonably satisfactory to the Company, the Company shall so notify the holder promptly after such determination has been made and shall specify its reasons for any such conclusion. Notwithstanding the foregoing, this Warrant or such shares of Series A Preferred or Common Stock may, as to such federal laws, be offered, sold or otherwise disposed of in accordance with Rule 144 or 144A under the Act, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide assurance that the provisions of Rule 144 or 144A have been satisfied. Each certificate representing this Warrant or the shares of Series A Preferred or Common Stock

thus transferred (except a transfer pursuant to Rule 144 or 144A) shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with such laws, unless in the aforesaid opinion of counsel for the holder, such legend is not required in order to ensure compliance with such laws. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(c) Excepted Transfers. Neither any restrictions of any legend described in this Warrant nor the requirements of Section 7(b) above shall apply to any transfer without any additional consideration of, or grant of a security interest in, this Warrant or any part hereof (i) to a partner of the holder if the holder is a partnership, (ii) by the holder to a partnership of which the holder is a general partner, or (iii) to any affiliate of the holder if the holder is a corporation; provided, however in any such transfer, the transferee shall on the Company's request agree in writing to be bound by the terms of this Warrant as if an original signatory hereto.

8. Rights as Shareholders: Information. No holder of this Warrant, as such, shall be entitled to vote or receive dividends or be deemed the holder of Series A Preferred or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein. Notwithstanding the foregoing, the Company will transmit to the holder of this Warrant such information, documents, notices and reports as are generally distributed to the holders of any class or series of the securities of the Company concurrently with the distribution thereof to the shareholders.

9. Registration Rights. The Company covenants and agrees as follows:

9.1 Definitions. For purposes of this Section 9:

(a) The term "Registrable Shares" means (i) the Common Stock issuable or issued upon conversion of the Series A Preferred issuable or issued upon exercise or conversion of this Warrant or upon exercise or conversion of the Other Warrants, and (ii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such Common Stock or Series A Preferred; provided, however, that Registrable Shares shall not include any (A) shares of Common Stock which have previously been registered, or (B) shares of Common Stock which have previously been sold to the public;

(b) The term "Shareholder" means any person owning or having the right to acquire Registrable Shares or any assignee thereof; and

(c) The term "Registration Rights Agreement" means that certain Registration Rights Agreement, dated as of February 3, 1995, as amended, by and among the Company and certain persons named therein.

9.2 Grant of Rights. The Company hereby grants to the Shareholders the rights set forth in the Registration Rights Agreement. A true

and complete copy of the Registration Rights Agreement is attached hereto as Exhibit D. The Company represents and warrants to the Shareholders that the Company has obtained all consents of parties to the Registration Rights Agreement and of any other persons that are required in order for the Registrable Shares to be included in the definition of "Registrable Securities" and for the Shareholders to be included in the definition of "Holders," as such terms are used in the Registration Rights Agreement.

9.3 No Conflicting Agreements. The Company represents and warrants to the Shareholders that the Company is not a party to any agreement that conflicts in any manner with the Shareholders' rights to cause the Company to register Registrable Shares pursuant to the Registration Rights Agreement and this Section 9. The Company covenants and agrees that it shall not, without the prior written consent of the Shareholders holding a majority of the outstanding Registrable Shares, amend, modify or restate the Registration Rights Agreement if the rights of the Shareholders would be subordinated, diminished or otherwise adversely affected.

9.4 Rights and Obligations Survive Exercise and Expiration of Warrant. The rights and obligations of the Company, of the holder of this Warrant and of the Registrable Shares contained in the Registration Rights Agreement and this Section 9 shall survive exercise, conversion and expiration of this Warrant.

10. Right to Convert Warrant into Common Stock: Net Issuance.

10.1 Right to Convert. In addition to and without limiting the rights of the holder under the terms of this Warrant, but only to the extent this Warrant has not otherwise been exercised, the holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Series A Preferred (or Common Stock if the Series A Preferred has been automatically converted into Common Stock) as provided in this Section 10 at any time or from time to time during the term of this Warrant. Upon exercise of the Conversion Right with respect to a particular number of shares subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the holder (without payment by the holder of any exercise price or any cash or other consideration) (X) that number of shares of fully paid and nonassessable Series A Preferred (or Common Stock if the Series A Preferred has been automatically converted into Common Stock) equal to the quotient obtained by dividing the value of this Warrant (or the specified portion hereof) on the Conversion Date (as defined in Section 10.2 hereof), which value shall be determined by subtracting (A) the aggregate Warrant Price of the Converted Warrant Shares immediately prior to the exercise of the Conversion Right from (B) the aggregate fair market value of the Converted Warrant Shares issuable upon exercise of this Warrant (or the specified portion hereof) on the Conversion Date (as herein defined) by (Y) the fair market value of one share of Series B Preferred (or Common Stock if the Series A Preferred has been automatically converted into Common Stock) on the Conversion Date (as herein defined).

Expressed as a formula, such conversion shall be computed as follows:

$$X = \frac{B - A}{Y}$$

Where: X = the number of shares of Series A Preferred (or Common Stock) that may be issued to holder

Y = the fair market value (FMV) of one share of Series A Preferred (or Common Stock)

A = the aggregate Warrant Price (i.e., Converted Warrant Shares x Warrant Price)

B = the aggregate FMV (i.e., FMV x Converted Warrant Shares)

No fractional shares shall be issuable upon exercise of the Conversion Right, and, if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as hereinafter defined).

10.2 Method of Exercise. The Conversion Right may be exercised by the holder by the surrender of this Warrant at the principal office of the Company together with a written statement

specifying that the holder thereby intends to exercise the Conversion Right and indicating the number of shares subject to this Warrant which are being surrendered (referred to in Section 10.1 hereof as the Converted Warrant Shares) in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), and, at the election of the holder hereof, may be made contingent upon the closing of the sale of the Company's Common Stock to the public in a public offering pursuant to a Registration Statement under the Act (a "Public Offering"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the holder within ten (10) days following the Conversion Date. Any conversion from Series A Preferred to Common Stock shall be in a ratio of one (1) share of Common Stock for each share of Series A Preferred (as adjusted herein and in the Charter).

10.3 Determination of Fair Market Value. For purposes of this Section 10.3, "fair market value" of a share of Series A Preferred (or Common Stock if the Series A Preferred has been automatically converted into Common Stock) as of a particular date (the "Determination Date") shall mean:

(a) If the Conversion Right is exercised in connection with and contingent upon a Public Offering, and if the Company's Registration Statement relating to such Public Offering ("Registration Statement") has been declared effective by the SEC, then the initial "Price to Public" specified in the final prospectus with respect to such offering multiplied by the number of shares of Common Stock into which each share of Series A Preferred is then convertible.

(b) If the Conversion Right is not exercised in connection with and contingent upon a Public Offering, then as follows:

(i) If traded on a securities exchange, the fair market value of the Common Stock shall be deemed to be the closing price of the Common Stock on such exchange on the trading day prior to the Determination Date, and the fair market value of the Series A Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series A Preferred is then convertible;

(ii) If traded over-the-counter, the fair market value of the Common Stock shall be deemed to be the closing bid price of the Common Stock on the trading day prior to the Determination Date, and the fair market value of the Series A Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series A Preferred is then convertible; and

(iii) If there is no public market for the Common Stock, then fair market value shall be determined by mutual agreement of the holder of this Warrant and the Company, and if the holder and the Company are unable to so agree, by an appraiser approved by both the Company and the holder of this Warrant, such approvals not to be unreasonably withheld. The fees and expenses of such appraiser shall be borne equally by the parties.

11. Representations and Warranties. The Company represents and warrants to the holder of this Warrant as follows:

(a) This Warrant has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and the rules of law or principles at equity governing specific performance, injunctive relief and other equitable remedies;

(b) The Shares have been duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and nonassessable;

(c) The rights, preferences, privileges and restrictions granted to or imposed upon the Series A Preferred and the holders thereof are as set forth in the Charter, as amended to the Date of the Grant, a true and complete copy of which has been delivered to the original holder of this Warrant and is attached hereto as Exhibit C;

(d) The shares of Common Stock issuable upon conversion of the Shares have been duly authorized and reserved and, when issued in accordance with the terms of the Charter, as amended, will be validly issued, fully paid and nonassessable; and

(e) The execution and delivery of this Warrant are not, and the issuance of the Shares upon exercise of this Warrant in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation or by-laws, do not and will not contravene any material law, governmental rule or regulation, judgment or order applicable to the Company, and do not and will not conflict with or contravene any provision of, or constitute a default under, any material indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or require the consent or approval of, the giving of notice to, the registration or filing with or the taking of any action in respect of or by, any federal, state or local government authority or agency or other person, except for the filing of notices pursuant to federal and state securities laws, which filings will be effected by the time required thereby.

(f) There are no actions, suits, audits, investigations or proceedings pending or, to the knowledge of the Company, threatened against the Company in any court or before any governmental commission, board or authority which, if adversely determined, will have a material adverse effect on the ability of the Company to perform its obligations under this Warrant.

12. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

13. Notices. Any notice, request, communication or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered, or shall be sent by certified or registered mail, postage prepaid, to each such holder at its address as shown on the books

of the Company or to the Company at the address indicated therefor on the signature page of this Warrant.

14. Binding Effect on Successors. Except as otherwise set forth herein, this Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Series A Preferred issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof. The Company will, at the time of the exercise or conversion of this Warrant, in whole or in part, upon request of the holder hereof but at the Company's expense, acknowledge in writing its continuing obligation to the holder hereof in respect of any rights (including, without limitation, any right to registration of the Registrable Shares) to which the holder hereof shall continue to be entitled after such exercise or conversion in accordance with this Warrant; provided, that the failure of the holder hereof to make any such request shall not affect the continuing obligation of the Company to the holder hereof in respect of such rights.

15. Lost Warrants or Stock Certificates. The Company covenants to the holder hereof that, upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant or any stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant.

17. Governing Law. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

18. Survival of Representations, Warranties and Agreements. All representations and warranties of the Company and the holder hereof contained herein shall survive the Date of Grant, the exercise or conversion of this Warrant (or any part hereof) or the termination or expiration of rights hereunder. All agreements of the Company and the holder hereof contained herein shall survive indefinitely until, by their respective terms, they are no longer operative.

19. Remedies. In case any one or more of the covenants and agreements contained in this Warrant shall have been breached, the holders

hereof (in the case of a breach by the Company), or the Company (in the case of a breach by a holder), may proceed to protect and enforce their or its rights either by suit in equity and/or by action at law, including, but not limited to, an action for damages as a result of any such breach and/or an action for specific performance of any such covenant or agreement contained in this Warrant.

20. No Impairment of Rights. The Company will not, by amendment of its Certificate of Incorporation or through any other means, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

JT STORAGE, INC.

By: ----------

Title: ----------

Address: ----------

Date: _____, 1996

Accepted and Agreed to:

ATARI CORPORATION

By: ----------

Title: ----------

EXHIBIT A-1

NOTICE OF EXERCISE

To: JT Storage, Inc.

1. The undersigned hereby elects to purchase _____ shares of

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Series A Preferred Stock of JT Storage, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below:

(Name)

(Address)

3. The undersigned represents that the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares. In support thereof, the undersigned has executed an Investment Representation Statement attached hereto as Schedule 1.

(Signature)

- ---
(Date)

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EXHIBIT A-2

NOTICE OF EXERCISE

To: JT Storage, Inc. (the "Company")

1. Contingent upon and effective immediately prior to the closing (the "Closing") of the Company's public offering contemplated by the Registration Statement on Form S-_____-_____ filed _____, 199_, the undersigned hereby elects to purchase _____ shares of Series A Preferred Stock of the Company (or such lesser number of shares as may be sold on behalf of the undersigned at the Closing) pursuant to the terms of the attached Warrant.

2. Please deliver to the custodian for the selling shareholders a stock certificate representing such _____ shares.

3. The undersigned has instructed the custodian for the selling shareholders to deliver to the Company $_____ or, if less, the net proceeds due the undersigned from the sale of shares in the aforesaid public offering. If such net proceeds are less than the purchase price for such shares, the undersigned agrees to deliver the difference to the Company prior to the Closing at which time the shares of Series A Preferred Stock will be purchased.

(Signature)

- ---
(Date)
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EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

Purchaser:

Company: JT Storage, Inc.

Security: Series A Preferred Stock

Amount:

Date:

In connection with the purchase of the above-listed securities and underlying Common Stock issuable upon conversion of the securities (collectively, the "Securities"), the undersigned (the "Purchaser") represents to the Company as follows:

(a) The Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. The Purchaser is purchasing the Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Act").

(b) The Purchaser understands that the Securities have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein. In this connection, the Purchaser understands that, in the view of the Securities and Exchange Commission ("SEC"), the statutory basis for such exemption may be unavailable if the Purchaser's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) The Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Act or unless an exemption from registration is otherwise available. Moreover, the Purchaser understands that the Company is under no obligation to register the Securities except as set forth in the Warrant under which the Securities are being acquired. In addition, the Purchaser understands that the certificate evidencing the Securities will be imprinted with the legend referred to in the Warrant under which the Securities are being purchased.

(d) The Purchaser is aware of the provisions of Rule 144 and 144A, promulgated under the Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer

thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: The availability of

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certain public information about the Company, the resale occurring not less than two years after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

(e) The Purchaser further understands that at the time it wishes to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144 and 144A, and that, in such event, the Purchaser may be precluded from selling the Securities under Rule 144 and 144A even if the two-year minimum holding period had been satisfied.

(f) The Purchaser further understands that in the event all of the requirements of Rule 144 and 144A are not satisfied, registration under the Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Purchaser:

Date: 199 ------

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EXHIBIT 10.25

SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of February 12, 1996, is executed by JT Storage, Inc., a Delaware corporation ("Debtor"), in favor of Atari

Corporation, a Nevada corporation ("Secured Party").

RECITALS

A. Debtor has executed a Subordinated Secured Convertible Promissory Note (the "Note") in favor of Secured Party. Terms not otherwise defined herein shall have the meanings given to such terms in the Note.

B. In order to induce Secured Party to extend the credit evidenced by the Note, Debtor has agreed to enter into this Security Agreement and to grant Secured Party the security interest in the Collateral described below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Debtor hereby agrees with Secured Party as follows:

1. Definitions and Interpretation. When used in this Security Agreement, the following terms shall have the following respective meanings:

"Account Debtor" shall have the meaning given to that term in Section 3 hereof.

"Collateral" shall have the meaning given to that term in Section 2 hereof.

"Equipment" shall have the meaning given to that term in Attachment 1 hereto.

"Inventory" shall have the meaning given to that term in Attachment 1 hereto.

"Obligations" shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Debtor to the Secured Party of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of the Note and the other Transaction Documents, including, all interest, fees, charges, expenses, reasonable attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Debtor hereunder and thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

"Receivables" shall have the meaning given to that term in Attachment 1 hereto.

"UCC" shall mean the Uniform Commercial Code as in effect in the State of California from time to time.

All capitalized terms not otherwise defined herein shall have the respective meanings given in the Note. Unless otherwise defined herein, all terms defined in the UCC shall have the respective meanings given to those terms in the UCC.

2. Grant of Security Interest. As security for the Obligations, Debtor hereby pledges and assigns to Secured Party and grants to Secured Party a security interest in all right, title and interests of Debtor in and to the

property described in Attachment 1 hereto (collectively and severally, the "Collateral"), which Attachment 1 is incorporated herein by this reference.

3. Representations and Warranties. Debtor represents and warrants to Secured Party that (a) Debtor is the owner of the Collateral (or, in the case of after-acquired Collateral, at the time Debtor acquires rights in the Collateral, will be the owner thereof) and that no other Person has (or, in the case of after-acquired Collateral, at the time Debtor acquires rights therein, will have) any right, title, claim or interest (by way of Lien or otherwise) in, against or to the Collateral, other than Permitted Liens; (b) Secured Party has (or in the case of after-acquired Collateral, at the time Debtor acquires rights therein, will have) a perfected security interest in the Collateral to the extent that Lien can be perfected by the filing of a UCC-1 financing statement, except for Permitted Liens; (c) all Inventory has been (or, in the case of hereafter produced Inventory, will be) produced in compliance with applicable laws, including the Fair Labor Standards Act; (d) each Receivable is genuine and enforceable against the party obligated to pay the same (an "Account Debtor"); and (e) all information set forth in Attachment 2 hereto, when delivered, shall be true and correct.

4. Covenants Relating to Collateral. Debtor hereby agrees from time to time (a) to perform all acts that may be necessary to maintain, preserve, protect and perfect the Collateral, the Lien granted to Secured Party therein and the first priority of such Lien, except for Permitted Liens; (b) not to use or permit any Collateral to be used (i) in violation of any provision of any Transaction Document, (ii) in violation of any applicable law, rule or regulation, or (iii) in violation of any policy of insurance covering the Collateral; (c) to pay promptly when due all taxes and other governmental charges, all Liens and all other charges now or hereafter imposed upon or affecting any Collateral except for the Permitted Liens; (d) without prior written notice to Secured Party, (i) not to change Debtor's name or place of business (or, if Debtor has more than one place of business, its chief executive office), or the office in which Debtor's records relating to Receivables are kept, (ii) not to keep Collateral consisting of chattel paper at any location other than its chief executive office set forth in item 1 of Attachment 2 hereto, and (iii) not to keep Collateral consisting of Equipment or Inventory at any location other than the locations set forth in item 6 of Attachment 2 hereto, (e) to deposit, or cause to be deposited, all remittances and checks received with respect to Receivables to an account of Debtor at a bank or other depository institution which has been given notice of Secured Party's security interest in such account in substantially the form of the Notice of Security Interest which is attached hereto as Attachment 3, and in which account Secured Party has a perfected security interest; (f) to procure, execute and deliver from time to time any endorsements, assignments, financing statements and other writings reasonably deemed necessary or appropriate by Secured Party to perfect, maintain and protect its Lien hereunder and the priority thereof and, at Secured Party's request, to deliver promptly to Secured Party all originals of Collateral consisting of instruments other than negotiable instruments received in the ordinary course of business; (g) to appear in and defend any action or proceeding which may affect its title to or Secured Party's interest in the Collateral; (h) if Secured Party gives value to enable Debtor to acquire rights in or the use of any Collateral, to use such value for such purpose; (i) to keep separate, accurate and complete records of the Collateral and to provide Secured Party with such records and such other reports and information relating to the Collateral as Secured Party may reasonably request from time to time; (j) except as permitted under the terms of the Note, not to surrender or lose possession of (other than to Secured Party), sell, encumber, lease, rent, or otherwise dispose of or transfer any Collateral or right or interest therein, and to keep the Collateral free of all Liens except Permitted Liens; (k) upon request by Secured Party, to type, print or stamp conspicuously on

the face of all original copies of all Collateral consisting of chattel paper a legend satisfactory to Secured Party indicating that such chattel paper is subject to the security interest granted hereby; (m) to collect, enforce and receive delivery of the Receivables in accordance with past practice until otherwise notified by Secured Party; (n) to comply with all material requirements of law relating to the production, possession, operation, maintenance and control of the Collateral (including the Fair Labor Standards Act); and (o) to complete and deliver Attachment 2 to Secured Party as promptly as practicable after the date hereof, and in any event within ten (10) days following the date hereof.

5. Authorized Action by Agent. Debtor hereby irrevocably appoints Secured Party as its attorney-in-fact and agrees that Secured Party may perform (but Secured Party shall not be obligated to and shall incur no liability to Debtor or any third party for failure so to do) any act which Debtor is obligated by this Security Agreement to perform, and to exercise such rights and powers as Debtor might exercise with respect to the Collateral, including the right to (a) collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Collateral; (b) enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or deposit, surrender, accept, hold or apply other property in exchange for the Collateral; (c) insure, process and preserve the Collateral; (d) make any compromise or settlement, and take any action it deems advisable, with respect to the Collateral; (e) pay any Indebtedness of Debtor relating to the Collateral; and (f) execute UCC financing statements and other documents, instruments and agreements required hereunder; provided, however, that Secured Party shall not exercise any such powers prior to the occurrence of an Event of Default and shall only exercise such powers during the continuance of an Event of Default. Debtor agrees to reimburse Secured Party upon demand for any reasonable costs and expenses, including reasonable attorneys' fees, Secured Party may incur while acting as Debtor's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations. It is further agreed and understood between the parties hereto that such care as Secured Party gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in Secured Party's possession; provided, however, that Secured Party shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Collateral.

6. Default and Remedies. Debtor shall be deemed in default under this Security Agreement upon the occurrence and during the continuance of an Event of Default (as defined in the Note). Upon the occurrence and during the continuance of any such Event of Default, Secured Party shall have the rights of a secured creditor under the UCC, all rights granted by this Security Agreement and by law, including the right to: (a) require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party; and (b) prior to the disposition of the Collateral, store, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent Secured Party deems appropriate and in connection with such preparation and disposition, without charge, use any trademark, trade name, copyright, patent or technical process used by Debtor. Debtor hereby agrees that ten (10) days' notice of any intended sale or disposition of any Collateral is reasonable. In furtherance of Secured Party's rights hereunder, Debtor hereby grants to Secured Party an irrevocable, non-exclusive license (exercisable without royalty or other payment by Secured Party, but only in connection with the exercise of remedies hereunder) to use, license or sublicense any patent, trademark, trade name, copyright or other intellectual property in which Debtor now or hereafter has any right, title or interest together with the right of access to all media in which any of the

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foregoing may be recorded or stored.

7. Miscellaneous.

(a) Notices. Except as otherwise provided herein, all notices, requests, demands, consents, instructions or other communications to or upon Debtor or Secured Party under this Security Agreement shall be

by telecopy or in writing and telecopied, mailed or delivered to each party at telecopier number or its address set forth below (or to such other telecopy number or address as the recipient of any notice shall have notified the other in writing). All such notices and communications shall be effective (a) when sent by Federal Express or other overnight service of recognized standing, on the Business Day following the deposit with such service; (b) when mailed, by registered or certified mail, first class postage prepaid and addressed as aforesaid through the United States Postal Service, upon receipt; (c) when delivered by hand, upon delivery; and (d) when telecopied, upon confirmation of receipt.

Secured Party: Atari Corporation
1196 Borregas Avenue
Sunnyvale, CA 94089-1302
Attn: Jack Tramiel
Telephone No.: (408) 745-2000
Telecopier No.: (408) 745-8800

Debtor: JT Storage, Inc.
166 Baypointe Parkway
San Jose, CA 95134
Attn: David T. Mitchell
Telephone No.: (408) 468-1800
Telecopier No.: (408) 468-1619

(b) Nonwaiver. No failure or delay on Secured Party's part in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right.

(c) Amendments and Waivers. This Security Agreement may not be amended or modified, nor may any of its terms be waived, except by written instruments signed by Debtor and Secured Party. Each waiver or consent under any provision hereof shall be effective only in the specific instances for the purpose for which given.

(d) Assignments. This Security Agreement shall be binding upon and inure to the benefit of Secured Party and Debtor and their respective successors and assigns; provided, however, that Debtor may not sell, assign or delegate its rights and obligations hereunder without the prior written consent of Secured Party, and prior to the termination of the Merger Agreement, Secured Party may not sell, assign, or delegate its rights and obligations hereunder without the written consent of Debtor.

(e) Cumulative Rights, etc. The rights, powers and remedies of Secured Party under this Security Agreement shall be in addition to all rights, powers and remedies given to Secured Party by virtue of any applicable law, rule or regulation of any Governmental Authority, any Transaction Document or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or concurrently without impairing Secured Party's rights hereunder. Debtor waives any right to

require Secured Party to proceed against any Person or to exhaust any Collateral or to pursue any remedy in Secured Party's power.

(f) Payments Free of Taxes, Etc. All payments made by Debtor under this Security Agreement shall be made by Debtor free and clear of and without deduction for any and all present and future taxes, levies, charges, deductions and withholdings. In addition, Debtor shall pay upon demand any stamp or

other taxes, levies or charges of any jurisdiction with respect to the execution, delivery, registration, performance and enforcement of this Security Agreement. Upon request by Secured Party, Debtor shall furnish evidence satisfactory to Secured Party that all requisite authorizations and approvals by, and notices to and filings with, governmental authorities and regulatory bodies have been obtained and made and that all requisite taxes, levies and charges have been paid.

(g) Partial Invalidity. If at any time any provision of this Security Agreement is or becomes illegal, invalid or unenforceable in any respect under the law or any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Security Agreement nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

(h) Expenses. Debtor shall pay on demand all reasonable fees and expenses, including reasonable attorneys' fees and expenses, incurred by Secured Party in connection with custody, preservation or sale of, or other realization on, any of the Collateral or the enforcement or attempt to enforce any of the Obligations which is not performed as and when required by this Security Agreement.

(i) Headings. Headings in this Security Agreement and each of the other Transaction Documents are for convenience of reference only and are not part of the substance hereof or thereof.

(j) Plural Terms. All terms defined in this Security Agreement or any other Transaction Document in the singular form shall have comparable meanings when used in the plural form and vice versa.

(k) Construction. Each of this Security Agreement and the other Transaction Documents is the result of negotiations among, and has been reviewed by, Debtor, Secured Party and their respective counsel. Accordingly, this Security Agreement and the other Transaction Documents shall be deemed to be the product of all parties hereto, and no ambiguity shall be construed in favor of or against Debtor or Secured Party.

(l) Entire Agreement. This Security Agreement and each of the other Transaction Documents, taken together, constitute and contain the entire agreement of Debtor and Secured Party and supersede any and all prior agreements, negotiations, correspondence, understandings and communications among the parties, whether written or oral, respecting the subject matter hereof.

(m) Other Interpretive Provisions. References in this Security Agreement and each of the other Transaction Documents to any document, instrument or agreement (a) shall include all exhibits, schedules and other attachments thereto, (b) shall include all documents, instruments or agreements issued or executed in replacement thereof, and (c) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended,

modified and supplemented from time to time and in effect at any given time. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Security Agreement or any other Transaction Document shall refer to this Security Agreement or such other Transaction Document, as the case may be, as a whole and not to any particular provision of this Security Agreement or such other Transaction Document, as the case may be. The words "include" and "including" and words of similar import when used in this Security Agreement or any other Transaction Document shall not be construed to be limiting or exclusive.

(n) Governing Law. This Security Agreement shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules (except to the extent governed by the UCC).

(o) Jury Trial. EACH OF DEBTOR AND SECURED PARTY, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AS TO ANY ISSUE RELATING HERETO IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT.

IN WITNESS WHEREOF, Debtor has caused this Security Agreement to be executed as of the day and year first above written.

JT STORAGE, INC.,
a Delaware corporation

By: /s/David T. Mitchell

Name: David T. Mitchell
Title: President

AGREED:

ATARI CORPORATION,
a Nevada corporation

By: /s/Sam Tramiel

Name: Sam Tramiel
Title: President

ATTACHMENT 1
TO SECURITY AGREEMENT

All right, title and interest of Debtor now owned or hereafter acquired in and to the following:

(a) All equipment and fixtures (including, without limitation, furniture, vehicles and other machinery and office equipment), together with all additions and accessions thereto and replacements therefor (collectively, the "Equipment");

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(b) All inventory (including, without limitation, (i) all raw materials, work in process and finished goods and (ii) all such goods which are returned to or repossessed by Debtor), together with all additions and accessions thereto, replacements therefor, products thereof and documents therefor (collectively, the "Inventory");

(c) All accounts, chattel paper, contract rights and rights to the payment of money (collectively, the "Receivables");

(d) All general intangibles, including, without limitation, (i) customer and supplier lists and contracts, books and records, insurance policies, tax refunds, contracts for the purchase of real or personal property; (ii) all patents, copyrights, trademarks, trade names, service marks and other intellectual property rights, (iii) all licenses to use, applications for, and other rights to, such patents, copyrights, trademarks, trade names and service marks, and (iv) all goodwill of Debtor;

(e) All deposit accounts, money, certificated securities (but excluding securities of foreign Subsidiaries), uncertificated securities, instruments and documents; and

(f) All proceeds of the foregoing (including, without limitation, whatever is receivable or received when Collateral or proceeds is sold, collected, exchanged, returned, substituted or otherwise disposed of, whether such disposition is voluntary or involuntary, including rights to payment and return premiums and insurance proceeds under insurance with respect to any Collateral, and all rights to payment with respect to any cause of action affecting or relating to the Collateral).
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ATTACHMENT 2
TO SECURITY AGREEMENT

DEBTOR PROFILE

1. The legal name of Debtor is and its the address of its chief executive office is: JT Storage, Inc..

2. Debtor was incorporated on _____, 19__ in the state of Delaware. Since its incorporation Debtor has had the following legal names (other than its current legal name):

<TABLE>
<CAPTION>

Prior Name	Date Debtor's Name Was Changed From Such Name
<S>	<C>

</TABLE>

3. Debtor does business under the following trade names:

<TABLE>
<CAPTION>

Trade Name	Is This Name Registered?	Registration No.	Registration Date
<S>	<C>	<C>	<C>

</TABLE>

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4. Since Debtor's incorporation the following companies have been merged into Debtor (provide names, dates and brief description of transactions):

5. The following assets of Debtor were acquired in a bulk sale or another transaction not in the ordinary course of business of the seller (provide description of collateral, date and description of transaction, and name of seller):

<PAGE> 9

6. Debtor has the following places of business:

<TABLE>
<CAPTION>

Address	Owner of Location	Brief Description of Assets and Value
<S>	<C>	<C>

</TABLE>

7. Debtor has assets at the following other locations that are not places of business of Debtor:

<TABLE>
<CAPTION>

Address	Owner of Location	Brief Description of Assets and Value
<S>	<C>	<C>

</TABLE>

8. The following locations listed in items 6 and 7 are public warehouses issuing warehouse receipts:

<TABLE>
<CAPTION>

Address	Owner of Location	Brief Description of Assets and Value
<S>	<C>	<C>

</TABLE>

9. Debtor had the following other locations within the past four months:

<TABLE>
<CAPTION>

Address	Owner of Location	Brief Description of Assets and Value
<S>	<C>	<C>

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</TABLE>

<PAGE> 10

10. Debtor imports assets from outside the United States through the following ports of entry (list location by state and county):

11. The following Persons have possession of inventory of Debtor for the purpose of processing or finishing it:

<TABLE>
<CAPTION>

Name and Address	Processing Services	Description of Inventory
<S>	<C>	<C>

</TABLE>

12. Debtor is qualified to do business in the following states:

13. Does Debtor regularly receive letters of credit from customers to secure payments of sums owed to Debtor? Yes ____. No____.

14. Debtor holds notes payable from the following persons:

<TABLE>
<CAPTION>

Name of Obligor	Amount
<S>	<C>

</TABLE>

15. Does Debtor regularly have accounts receivable due from, or contracts with, the United States government or any agency or department thereof? Yes _____. No _____.

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If yes, indicate the percentage of Debtor's total outstanding accounts receivable that are due from the United States government or such agency or department: _____%

16. Does Debtor regularly receive advance deposits from customers for goods not yet delivered to such customers? Yes ____. No ____.

17. Debtor's federal employer identification number is:_____

18. Debtor's assets are subject to the following security interest of Persons other than the Secured Party:

<TABLE>
<CAPTION>

Assets	Name of Secured Party
<S>	<C>

</TABLE>

19. The following tax assessments are currently outstanding and unpaid:

<TABLE>
<CAPTION>

Assessing	Amount and Description
<S>	<C>

</TABLE>

20. Debtor has directly or indirectly guaranteed the following obligations of third parties:

<TABLE>
<CAPTION>

Secured Party	Amount	Debtor
<S>	<C>	<C>

</TABLE>

21. Debtor owns the following material intellectual property rights (including patents, trademarks and copyrights, whether or not registered):

22. The following is a list of all software or other copyrighted material which is licensed to third parties and generates accounts receivable:

23. Debtor has the following subsidiaries (list jurisdiction and date of incorporation, federal employer identification number, type and value of assets):

ATTACHMENT 3
TO SECURITY AGREEMENT

NOTICE OF SECURITY INTEREST
IN
DEPOSIT ACCOUNT

February __, 1996

[Name of Depositary Bank]
[Address of Depositary Bank]
_____
_____

JT Storage, Inc. ("Debtor") and Atari Corporation ("Secured Party"), under that certain Security Agreement dated as of February __, 1996, executed by Debtor in favor of Secured Party, hereby notify you that Debtor has granted to Secured Party a security interest in all deposit accounts maintained by Debtor with you including, without limitation, the deposit accounts described below:

<TABLE>
<CAPTION>

Account Number	Depositor's Name	Account Type
<S>	<C>	<C>

</TABLE>

Debtor and Secured Party authorize you to continue to allow Debtor to make deposits to, draw checks upon and otherwise withdraw funds from such deposit accounts (the "Deposit Accounts") without the consent of Secured Party until Secured Party shall instruct you otherwise.

Debtor has authorized Secured Party to inform you when an Event of Default has occurred and is continuing and at such time instruct you to cease to permit any further payments or withdrawals from the Deposit Accounts by Debtor and/or to pay any or all amounts in the Deposit Accounts to Secured Party. Debtor authorizes

and directs you to comply with all such instructions received by you from Secured Party without further inquiry on your part and hereby agrees to indemnify and hold harmless you and your officers, directors and employees from and for any compliance by you with such instructions.

JT STORAGE, INC.

By:

Name:
Title:

ATARI CORPORATION

By: _____

Name:
Title:

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ACKNOWLEDGMENT AND AGREEMENT
OF DEPOSITARY BANK

The undersigned depositary bank hereby acknowledges receipt of the above notice and agrees with Debtor and Secured Party to comply with any instruction it may receive from Secured Party in accordance therewith. The undersigned confirms to Secured Party that the information set forth above regarding the Deposit Accounts is accurate, that such Deposit Accounts are currently open and that the undersigned has no prior notice of any other security interest, lien or interest in such Deposit Accounts.

_____

By: _____

Name: _____

Title: _____

</TEXT>
</DOCUMENT>
<DOCUMENT>
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<SEQUENCE>6
<DESCRIPTION>SUBSIDIARIES OF THE COMPANY
<TEXT>

<PAGE> 1

EXHIBIT 22.1

SUBSIDIARIES OF THE COMPANY

<TABLE>
<CAPTION>

NAME	JURISDICTION
<S>	<C>
Atari (Benelux) B.V.	Holland
Atari Corp. (U.K.) Ltd.	England
Atari Computer Corporation	Nevada

</TABLE>

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```
</TEXT>
</DOCUMENT>
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<SEQUENCE>7
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<S>                             <C>
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<PERIOD-START>                             JAN-01-1995
<PERIOD-END>                               DEC-31-1995
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<SECURITIES>                                21,649,000
<RECEIVABLES>                                6,689,000
<ALLOWANCES>                                 4,221,000
<INVENTORY>                                 10,934,000
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<COMMON>                                       637,000
<OTHER-SE>                                  24,536,000
<TOTAL-LIABILITY-AND-EQUITY>                77,569,000
<SALES>                                     14,626,000
<TOTAL-REVENUES>                            14,626,000
<CGS>                                       44,234,000
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<INTEREST-EXPENSE>                           2,309,000
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<INCOME-TAX>                                         0
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<EXTRAORDINARY>                                582,000
<CHANGES>                                            0
<NET-INCOME>                              (49,576,000)
<EPS-PRIMARY>                                   (0.78)
<EPS-DILUTED>                                   (0.78)


</TABLE>
</TEXT>
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</SEC-DOCUMENT>
-----END PRIVACY-ENHANCED MESSAGE-----
```

CERTIFICATE OF SERVICE

I hereby certify that on October 2, 2023, I filed the foregoing document electronically using the FTC's E-Filing System, which will send notification of such filing to:

April Tabor
Secretary
Federal Trade Commission
600 Pennsylvania Ave., NW, Rm. H-113
Washington, DC 20580
ElectronicFilings@ftc.gov

The Honorable D. Michael Chappell
Administrative Law Judge
Federal Trade Commission
600 Pennsylvania Ave., NW, Rm. H-110
Washington, DC 20580

I also certify that I caused the foregoing document to be served via email to:

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Alysha Bohanon
Anastasia Pastan
Grace Hill
Sarah Neuman
Kieran Gostin
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megan.granger@weil.com

Counsel for Microsoft Corporation

bradley.pierson@skadden.com

Counsel for Activision Blizzard, Inc.

By: *s/ James H. Weingarten*
James H. Weingarten

Counsel Supporting the Complaint