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Activision Blizzard, Inc.

Form 10-Q

May 02, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.

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(Exact name of registrant as specified in its charter)

Delaware

95-4803544

(State or other jurisdiction of
incorporation or organization)

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

3100 Ocean Park Boulevard, Santa Monica, CA 90405

(Address of principal executive offices)

(Zip Code)

(310) 255-2000

(Registrant's telephone number, including area code)

Title of each class

Trading Symbol(s) Name of each exchange on which registered

Common Stock, par value \$0.000001 per share

ATVI

The Nasdaq Global Select Market

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

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

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

Large Accelerated Filer Non-accelerated Filer Accelerated Filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

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

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

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

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Amounts in millions, except share data)

	At March 31, 2019	At December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,696	\$ 4,225
Accounts receivable, net of allowances of \$106 and \$190, at March 31, 2019 and December 31, 2018, respectively	594	1,035
Inventories, net	45	43
Software development	184	264
Other current assets	518	539
Total current assets	6,037	6,106
Software development	80	65
Property and equipment, net	264	282
Deferred income taxes, net	373	458
Other assets	751	482
Intangible assets, net	680	735
Goodwill	9,763	9,762
Total assets	\$ 17,948	\$ 17,890
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 166	\$ 253
Deferred revenues	931	1,493
Accrued expenses and other liabilities	1,198	896
Total current liabilities	2,295	2,642
Long-term debt, net	2,672	2,671
Deferred income taxes, net	22	18
Other liabilities	1,363	1,167
Total liabilities	6,352	6,498
Commitments and contingencies (Note 19)		
Shareholders' equity:	—	—

Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,194,600,733 and 1,192,093,991 shares issued at March 31, 2019 and December 31, 2018, respectively				
Additional paid-in capital	11,004		10,963	
Less: Treasury stock, at cost, 428,676,471 shares at March 31, 2019 and December 31, 2018	(5,563	)	(5,563)
Retained earnings	6,757		6,593	
Accumulated other comprehensive loss	(602	)	(601)
Total shareholders' equity	11,596		11,392	
Total liabilities and shareholders' equity	\$	17,948	\$	17,890

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

Table of Contents**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

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

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Amounts in millions)

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

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

Table of Contents**ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

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

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

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

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

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

(Unaudited)

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	1,192	\$ —	(429)	\$(5,563)	\$ 10,963	\$ 6,593	\$ (601)	\$ 11,392
Components of comprehensive income:								
Net income	—	—	—	—	—	447	—	447
Other comprehensive loss	—	—	—	—	—	—	(1)	(1)
Issuance of common stock pursuant to employee stock options	2	—	—	—	30	—	—	30
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(45)	—	—	(45)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	56	—	—	56
Dividends (\$0.37 per common share)	—	—	—	—	—	(283)	—	(283)
Balance at March 31, 2019	1,195	\$ —	(429)	\$(5,563)	\$ 11,004	\$ 6,757	\$ (602)	\$ 11,596
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	1,186	\$ —	(429)	\$(5,563)	\$ 10,747	\$ 4,916	\$ (638)	\$ 9,462
Cumulative impact from adoption of new revenue accounting standard	—	—	—	—	—	88	3	91
Components of comprehensive income:								
Net income	—	—	—	—	—	500	—	500
Other comprehensive loss	—	—	—	—	—	—	(14)	(14)
Issuance of common stock pursuant to employee stock options	3	—	—	—	47	—	—	47
Issuance of common stock pursuant to restricted stock units	2	—	—	—	—	—	—	—
Restricted stock surrendered for employees' tax liability	(1)	—	—	—	(64)	—	—	(64)
Share-based compensation expense related to employee stock options and restricted stock units	—	—	—	—	56	—	—	56
Dividends (\$0.34 per common share)	—	—	—	—	—	(259)	—	(259)
Balance at March 31, 2018	1,190	\$ —	(429)	\$(5,563)	\$ 10,786	\$ 5,245	\$ (649)	\$ 9,819

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

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Consolidation and Presentation

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

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

Our Segments

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

(i) Activision Publishing, Inc.

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

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

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (“Blizzard”) is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net®, which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity, and the creation of user-generated content. Blizzard also includes the activities of the Overwatch League™, the first major global professional esports league with city-based teams, and our Major League Gaming (“MLG”) business, which is responsible for various esports events and serves as a multi-platform network for Activision Blizzard esports content.

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

(iii) King Digital Entertainment

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

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

Other

We also engage in other businesses that do not represent reportable segments, including: the Activision Blizzard Studios (“Studios”) business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in September 2018, released the third season of the animated TV series *Skylanders™ Academy* on Netflix; and the Activision Blizzard Distribution (“Distribution”) business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Basis of Consolidation and Presentation

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

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

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

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

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

Supplemental Cash Flow Information

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

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

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

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

2. Summary of Significant Accounting Policies*Adoption of Accounting Standards Codification (“ASC”) 842: Leases*

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

Leases

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

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

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

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

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

Table of Contents**3. Recently Issued Accounting Pronouncements*****Recently Adopted Accounting Pronouncements****Leases*

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted*Goodwill*

In January 2017, the FASB issued new guidance that eliminates Step 2 from the goodwill impairment test. Instead, if an entity forgoes a Step 0 test, an entity will be required to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit, as determined in Step 1 from the goodwill impairment test, with its carrying amount and recognize an impairment charge, if any, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, and should be applied prospectively. Early adoption is permitted. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. We are evaluating the impact, if any, of adopting this new accounting guidance on our consolidated financial statements.

Cloud Computing Arrangements

In August 2018, the FASB issued new guidance related to a customer's accounting for implementation costs incurred in a cloud computing arrangement (i.e. hosting arrangement) that is a service contract. The new guidance requires customers to capitalize implementation costs for these arrangements by applying the same criteria that are utilized for

existing internal-use software guidance. The capitalized costs are required to be amortized over the associated term of the arrangement, generally on a straight-line basis, with amortization of these costs presented in the same financial statement line item as other costs associated with the arrangement. The new standard is effective for fiscal years beginning after December 15, 2019, and can be applied retrospectively or prospectively. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Table of Contents**4. Inventories, Net**

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

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

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

5. Software Development and Intellectual Property Licenses

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

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

As of both March 31, 2019 and December 31, 2018, capitalized intellectual property licenses were not material.

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

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

6. Intangible Assets, Net

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

	At March 31, 2019			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				

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Internally-developed franchises	3-11 years	\$ 1,154	\$ (1,052)	\$ 102
Developed software	2-5 years	601	(490)	111
Trade names	7-10 years	54	(24	)	30
Other	1-15 years	19	(15	)	4
Total definite-lived intangible assets (1)		\$ 1,828	\$ (1,581	)	\$ 247

Acquired indefinite-lived intangible assets:

Activision trademark	Indefinite	386
Acquired trade names	Indefinite	47
Total indefinite-lived intangible assets		\$ 433
Total intangible assets, net		\$ 680

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

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	At December 31, 2018			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
Internally-developed franchises	3-11 years	\$ 1,154	\$ (1,032)	\$ 122
Developed software	2-5 years	601	(456)	145
Customer base	2 years	617	(617)	—
Trade names	7-10 years	54	(23)	31
Other	1-15 years	19	(15)	4
Total definite-lived intangible assets		\$ 2,445	\$ (2,143)	\$ 302
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				\$ 433
Total intangible assets, net				\$ 735

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

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

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

7. Goodwill

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

	Activision	Blizzard	King	Total
Balance at December 31, 2018	\$ 6,897	\$ 190	\$ 2,675	\$ 9,762
Other	1	—	—	1
Balance at March 31, 2019	\$ 6,898	\$ 190	\$ 2,675	\$ 9,763

8. Fair Value Measurements

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

value are as follows:

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

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

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

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Table of Contents**Fair Value Measurements on a Recurring Basis**

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

	As of March 31, 2019	Fair Value Measurements at March 31, 2019 Using Quoted Prices in Significant Active Other Markets Observable Identical Inputs Assets (Level 2) (Level 1)			Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:						
Recurring fair value measurements:						
Money market funds	\$ 3,991	\$ 3,991	\$ —	\$ —		Cash and cash equivalents
Foreign government treasury bills	34	34	—	—		Cash and cash equivalents
U.S. treasuries and government agency securities	139	139	—	—		Other current assets
Foreign currency forward contracts designated as hedges	21	—	21	—		Other current assets
Foreign currency forward contracts not designated as hedges	1	—	1	—		Other current assets
Total recurring fair value measurements	\$ 4,186	\$ 4,164	\$ 22	\$ —		
Financial liabilities:						
Foreign currency forward contracts not designated as hedges	\$ (3)	\$ —	\$ (3)	\$ —		Accrued expenses and other liabilities

	As of December 31, 2018	Fair Value Measurements at December 31, 2018 Using Quoted Prices in Significant Active Other Markets Observable Identical Inputs Assets (Level 2) (Level 1)			Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Financial Assets:						
Recurring fair value measurements:						
Money market funds	\$ 3,925	\$ 3,925	\$ —	\$ —		Cash and cash equivalents
Foreign government treasury bills	32	32	—	—		Cash and cash equivalents
U.S. treasuries and government agency securities	150	150	—	—		Other current assets
Foreign currency forward contracts designated as hedges	13	—	13	—		Other current assets
Foreign currency forward contracts not designated as hedges	1	—	1	—		Other current assets
Total recurring fair value measurements	\$ 4,121	\$ 4,107	\$ 14	\$ —		

Financial liabilities:

Foreign currency forward contracts designated as hedges	\$ (1)	\$—	\$ (1)	\$	—	Accrued expenses and other liabilities
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Table of Contents**Foreign Currency Forward Contracts***Foreign Currency Forward Contracts Designated as Hedges (“Cash Flow Hedges”)*

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

As of March 31, 2019	Fair Notional amount (loss)	As of December 31, 2018	Fair Notional amount (loss)
----------------------------	--------------------------------------	-------------------------------	--------------------------------------

Foreign Currency:

Buy USD, Sell Euro \$530\$ 21 \$ 723 \$ 12

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

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

For the Three Months Ended March 31, 2019	2018	Statement of Operations Classification
--	------	--

Cash Flow Hedges \$ 11 \$(10) Net revenues

Foreign Currency Forward Contracts Not Designated as Hedges

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

As of March 31, 2019	Fair Notional amount (loss)	As of December 31, 2018	Fair Notional amount (loss)
----------------------------	--------------------------------------	-------------------------------	--------------------------------------

Foreign Currency:

Buy USD, Sell SEK \$396 \$(1) \$ —
Buy USD, Sell EUR 64 1 — —
Buy EUR, Sell USD 64 (1) — —
Buy USD, Sell GBP 43 (1) 55 1

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

Fair Value Measurements on a Non-Recurring Basis

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

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

Table of Contents**9. Deferred revenues**

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

As of March 31, 2019, the aggregate amount of contracted revenues allocated to our unsatisfied performance obligations is \$2.2 billion, which includes our deferred revenues balances and amounts to be invoiced and recognized as revenue in future periods. We expect to recognize approximately \$1.1 billion over the next 12 months, \$0.4 billion in the subsequent 12 month period, and the remainder thereafter. This balance does not include an estimate for variable consideration arising from sales-based royalty license revenue in excess of the contractual minimum guarantee.

10. Leases

Our lease arrangements are primarily for: (1) corporate, administrative, and development studio offices; (2) data centers and server equipment; and (3) live event production equipment. Our existing leases have remaining lease terms ranging from one to 10 years. In certain instances, such leases include one or more options to renew, with renewal terms that generally extend the lease term by one to five years for each option. The exercise of lease renewal options is generally at our sole discretion. Additionally, the majority of our leases are classified as operating leases; our financing leases are not material.

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

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

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

For the years ending December 31,
2019 (remaining nine months) \$56

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2020	67
2021	51
2022	46
2023	38
Thereafter	60
Total future lease payments	\$318
Less imputed interest	(35)
Total lease liabilities	\$283

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

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

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

For the years ending December 31,

2019	\$80
2020	70
2021	53
2022	45
2023	38
Thereafter	60
Total	\$346

11. Debt***Credit Facilities***

As of March 31, 2019 and December 31, 2018, we had \$1.5 billion available under a revolving credit facility (the “Revolver”) pursuant to a credit agreement entered into on October 11, 2013 (as amended thereafter and from time to time, the “Credit Agreement”). To date, we have not drawn on the Revolver, and we were in compliance with the terms of the Credit Agreement as of March 31, 2019.

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

Unsecured Senior Notes

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

\$650 million of 2.3% unsecured senior notes due September 2021 (the “2021 Notes”) and \$850 million of 3.4% unsecured senior notes due September 2026 (the “2026 Notes”); and

\$400 million of 2.6% unsecured senior notes due June 2022 (the “2022 Notes”), \$400 million of 3.4% unsecured senior notes due June 2027 (the “2027 Notes”), and \$400 million of 4.5% unsecured senior notes due June 2047 (the “2047 Notes”), and together with the 2021 Notes, the 2022 Notes, the 2026 Notes, and the 2027 Notes, the “Notes”).

The Notes are general senior obligations of the Company and rank *pari passu* in right of payment to all of the Company’s existing and future senior indebtedness, including the Revolver described above. The Notes are not secured

and are effectively junior to any of the Company's existing and future indebtedness that is secured to the extent of the value of the collateral securing such indebtedness. We were in compliance with the terms of the Notes as of March 31, 2019.

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

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

Interest Expense and Financing Costs

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

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

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

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

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

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

For the year ending December 31,

2019 (remaining nine months)	\$—
2020	—
2021	650
2022	400
2023	—
Thereafter	1,650
Total	\$2,700

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

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

12. Accumulated Other Comprehensive Income (Loss)

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

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

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

13. Operating Segments and Geographic Region

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

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

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

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

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

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

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

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

Consolidated income before income tax expense

\$567 \$567

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- (1) Includes other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Also includes unallocated corporate income and expenses.
- (2) Reflects the net effect from recognition (deferral) of deferred net revenues, along with related cost of revenues, on certain of our online-enabled products.
- (3) Intersegment revenues reflect licensing and service fees charged between segments.
- (4) Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

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

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

Table of Contents**Three Months Ended March 31, 2018**

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

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

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

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

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Geographic information presented below is based on the location of the paying customer. Net revenues by geographic region, including a reconciliation to each of our reportable segment's net revenues, for the three months ended March 31, 2019 and 2018, were as follows (amounts in millions):

Three Months Ended March 31, 2019						
	Activision	Blizzard	King	Non-reportable	Elimination	Total
				segments	of	
					intersegment	
					revenues (2)	
Net revenues by geographic region:						
Americas	\$458	\$ 207	\$326	\$ —	\$ (3)	\$988
EMEA (1)	243	148	144	80	(1)	614
Asia Pacific	62	106	56	—	(1)	223
Total consolidated net revenues	\$763	\$ 461	\$526	\$ 80	\$ (5)	\$1,825
Change in deferred revenues:						
Americas	\$(267)	\$(54)	\$3	\$ —	\$ —	\$(318)
EMEA (1)	(146)	(47)	—	(7)	—	(200)
Asia Pacific	(33)	(16)	—	—	—	(49)
Total change in deferred revenues	\$(446)	\$(117)	\$3	\$ (7)	\$ —	\$(567)
Segment net revenues:						
Americas	\$191	\$ 153	\$329	\$ —	\$ (3)	\$670
EMEA (1)	97	101	144	73	(1)	414
Asia Pacific	29	90	56	—	(1)	174
Total segment net revenues	\$317	\$ 344	\$529	\$ 73	\$ (5)	\$1,258
Three Months Ended March 31, 2018						
	Activision	Blizzard	King	Non-reportable	Elimination	Total
				segments	of	
					intersegment	
					revenues (2)	
Net revenues by geographic region:						
Americas	\$510	\$ 234	\$322	\$ —	\$ (1)	\$1,065
EMEA (1)	305	169	160	53	—	687
Asia Pacific	57	105	51	—	—	213
Total consolidated net revenues	\$872	\$ 508	\$533	\$ 53	\$ (1)	\$1,965
Change in deferred revenues:						
Americas	\$(328)	\$(6)	\$1	\$ —	\$ —	\$(333)
EMEA (1)	(198)	(8)	—	6	—	(200)
Asia Pacific	(34)	(14)	—	—	—	(48)
Total change in deferred revenues	\$(560)	\$(28)	\$1	\$ 6	\$ —	\$(581)
Segment net revenues:						
Americas	\$182	\$ 228	\$323	\$ —	\$ (1)	\$732
EMEA (1)	107	161	160	59	—	487
Asia Pacific	23	91	51	—	—	165
Total segment net revenues	\$312	\$ 480	\$534	\$ 59	\$ (1)	\$1,384

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

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

The Company’s net revenues in the U.S. were 49% and 47% of consolidated net revenues for the three months ended March 31, 2019 and 2018, respectively. The Company’s net revenues in the U.K. were 10% and 11% of consolidated net revenues for the three months ended March 31, 2019 and 2018, respectively. No other country’s net revenues exceeded 10% of consolidated net revenues for either the three months ended March 31, 2019 or 2018.

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

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

Table of Contents**Three Months Ended March 31, 2018**

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

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

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

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

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

	At March 31, 2019	At December 31, 2018
Long-lived assets (1) by geographic region:		
Americas	\$ 192	\$ 203
EMEA	58	62
Asia Pacific	14	17
Total long-lived assets by geographic region	\$ 264	\$ 282

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

Table of Contents**14. Restructuring**

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

• increasing our investment in development for our largest, internally-owned franchises—across upfront releases, in-game content, mobile, and geographic expansion;

• reducing certain non-development and administrative-related costs across our business; and

• integrating our global and regional sales and “go-to-market,” partnerships, and sponsorships capabilities across the business, which we believe will enable us to provide better opportunities for talent, and greater expertise and scale on behalf of our business units.

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

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

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

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

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

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

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

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

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

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

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

15. Interest and Other Expense (Income), Net

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

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

16. Income Taxes

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

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

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

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Activision Blizzard's 2009 through 2018 tax years remain open to examination by certain major taxing jurisdictions to which we are subject. The IRS is currently examining our federal tax returns for the 2012 through 2016 tax years. We also have several state and non-U.S. audits pending, including the French and Swedish audits discussed below. In addition, we are currently in negotiations with the tax authorities in the UK, Sweden and other relevant jurisdictions, with respect to King's transfer pricing for tax years dating back to 2013. While the outcome of these negotiations remains uncertain, they could result in an agreement that changes the allocation of profits and losses between these and other relevant jurisdictions or a failure to reach an agreement that results in unilateral adjustments to the amount and timing of taxable income in the jurisdictions in which King operates.

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

In December 2017, we received a Notice of Reassessment from the French Tax Authority ("FTA") related to transfer pricing for intercompany transactions involving one of our French subsidiaries for the 2011 through 2013 tax years. The total assessment, including penalties and interest, was approximately €571 million (approximately \$640 million). We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all remedies available to us to successfully resolve this matter, including administrative remedies with the FTA and, if necessary, judicial remedies. While we believe our tax provisions at March 31, 2019, are appropriate, until such time as this matter is ultimately resolved we could be subject to significant additional tax liabilities. In addition to the risk of additional tax for the 2011 through 2013 tax years, if litigation regarding this matter were adversely determined and/or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities.

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

We regularly assess the likelihood of adverse outcomes resulting from these examinations and monitor the progress of ongoing discussions with tax authorities in determining the appropriateness of our tax provisions. The final resolution of the Company's global tax disputes is uncertain. There is significant judgment required in the analysis of disputes, including the probability determination and estimation of the potential exposure. Based on current information, in the opinion of the Company's management, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations, except as noted above.

Table of Contents**17. Computation of Basic/Diluted Earnings Per Common Share**

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

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

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

Approximately 3 million and 6 million shares are not included in the computation of diluted earnings per share for the three months ended March 31, 2019 and 2018, respectively, as their underlying performance measures had not yet been met.

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

18. Capital Transactions***Repurchase Program***

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

Dividends

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

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

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19. Commitments and Contingencies

Legal Proceedings

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

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

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

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

Our Segments

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

(i) Activision Publishing, Inc.

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

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

(ii) Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (“Blizzard”) is a leading global developer and publisher of interactive software products and entertainment content, particularly for the PC platform. Blizzard primarily delivers content through retail and digital channels, including subscriptions, full-game, and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Blizzard products. Blizzard also maintains a proprietary online gaming service, Blizzard Battle.net®, which facilitates digital distribution of Blizzard content and selected Activision content, online social connectivity, and the creation of user-generated content. Blizzard also includes the activities of the Overwatch League™, the first major global professional esports league with city-based teams, and our Major League Gaming (“MLG”) business, which is responsible for various esports events and serves as a multi-platform network for Activision Blizzard esports content.

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

(iii) King Digital Entertainment

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

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

Other

We also engage in other businesses that do not represent reportable segments, including: the Activision Blizzard Studios (“Studios”) business, which is devoted to creating original film and television content based on our library of globally recognized intellectual properties, and which, in September 2018, released the third season of the animated TV series *Skylanders™ Academy* on Netflix; and the Activision Blizzard Distribution (“Distribution”) business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

Business Results and Highlights

Financial Results

For the three months ended March 31, 2019:

consolidated net revenues decreased 7% to \$1.83 billion, and consolidated operating income decreased 4% to \$570 million, as compared to consolidated net revenues of \$1.97 billion and consolidated operating income of \$595 million for the three months ended March 31, 2018;

revenues from digital online channels were \$1.39 billion, or 76% of consolidated net revenues, as compared to \$1.46 billion, or 74% of consolidated net revenues, for the three months ended March 31, 2018;

operating margin was 31.2%, which includes \$57 million in restructuring and related costs, as compared to 30.3% for the three months ended March 31, 2018;

cash flows from operating activities were \$450 million, a decrease of 15%, as compared to \$529 million for the three months ended March 31, 2018;

consolidated net income decreased 11% to \$447 million, as compared to \$500 million for the three months ended March 31, 2018; and

diluted earnings per common share decreased 11% to \$0.58, as compared to \$0.65 for the three months ended March 31, 2018.

Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. Net revenues and operating income for the three months ended March 31, 2019, include a net effect of \$567 million and \$441 million, respectively, from the recognition of deferred net revenues and related cost of revenues.

Content Release and Event Highlights

During the three months ended March 31, 2019, Activision released *Sekiro™: Shadows Die Twice*, a new intellectual property developed in collaboration with FromSoftware, a third-party game developer. Additionally, Blizzard

commenced the second season of the Overwatch League, which included eight new teams now competing in the league, bringing the total to 20 teams.

Table of Contents**Operating Metrics**

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

Net Bookings

We monitor net bookings as a key operating metric in evaluating the performance of our business. Net bookings is the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others. Net bookings is equal to net revenues excluding the impact from deferrals.

Net bookings was as follows (amounts in millions):

March 31, 2019	March 31, 2018	Increase (Decrease)
-------------------------------	-------------------------------	--------------------------------

Net bookings

Three Months Ended \$1,258 \$1,384 \$ (126)

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

lower net bookings from *World of Warcraft*, primarily due to the prior year including net bookings associated with in-game content delivered to customers upon pre-purchase of *World of Warcraft: Battle for Azeroth™*, with no comparable net bookings in the current period; and

- lower net bookings from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

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

Monthly Active Users

We monitor monthly active users (“MAUs”) as a key measure of the overall size of our user base. MAUs are the number of individuals who accessed a particular game in a given month. We calculate average MAUs in a period by adding the total number of MAUs in each of the months in a given period and dividing that total by the number of months in the period. An individual who accesses two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who accesses the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who accesses the same game on two platforms or devices in the relevant period would generally be counted as a single user.

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

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

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

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

- decreases across King's various franchises, primarily from less engaged users leaving the network, partially offset by an increase in average MAUs for the Candy Crush franchise;

- lower average MAUs for Activision, primarily due to lower average MAUs from the Call of Duty franchise and the absence of Destiny MAUs in our operating metric; and

- lower average MAUs for Blizzard, primarily due to lower average MAUs for *Hearthstone* and *Overwatch*.

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

Management's Overview of Business Trends

Interactive Entertainment and Mobile Gaming Growth

Our business participates in the global interactive entertainment industry. Games have become an increasingly popular form of entertainment, and we estimate the total industry has grown, on average, 18% annually from 2015 to 2018. The industry continues to benefit from additional players entering the market as interactive entertainment becomes more commonplace across age groups and as more developing regions gain access to this form of entertainment. The wide adoption of smart phones globally and the free-to-play business model on those platforms has increased the total addressable audience for gaming significantly by introducing gaming to new age groups and new regions and allowing gaming to occur more widely outside the home. Mobile gaming is estimated to be larger than console and PC gaming, and continues to grow at a significant rate. King is a leading developer of mobile and free-to-play games and our other business units have mobile efforts underway that present the opportunity for us to expand the reach of, and drive additional player investment from, our franchises.

Opportunities to Expand Franchises Outside of Games

Our fans spend significant time investing in our franchises through purchases of our game content, whether through purchases of full games or downloadable content or via microtransactions. Given the passion our players have for our franchises, we believe there are emerging opportunities to drive additional engagement and investment in our franchises outside of games. Our efforts to build these adjacent opportunities are still relatively nascent, but we view them as potentially significant sources of future revenues.

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

Concentration of Sales Among the Most Popular Franchises

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

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

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

Recurring Revenue Business Models

Increased consumer online connectivity has allowed us to offer players new investment opportunities and to shift our business further towards a more consistently recurring and year-round model. Offering downloadable content and microtransactions, in addition to full games, allows our players to access and invest in new content throughout the year. This incremental content not only provides additional high-margin revenues, it can also increase player engagement. Also, mobile games, and free-to-play games more broadly, are generally less seasonal than games developed primarily for the console or PC platforms.

Table of Contents**Consolidated Statements of Operations Data**

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

	For the Three Months Ended March 31,			
	2019		2018	
Net revenues				
Product sales	\$65636	%	\$72037	%
Subscription, licensing, and other revenues	1,16964		1,24563	
Total net revenues	1,825100		1,965100	
Costs and expenses:				
Cost of revenues—product sales:				
Product costs	152	23	162	23
Software royalties, amortization, and intellectual property licenses	111	17	146	20
Cost of revenues—subscription, licensing, and other revenues:				
Game operations and distribution costs	239	20	270	22
Software royalties, amortization, and intellectual property licenses	61	5	84	7
Product development	249	14	259	13
Sales and marketing	207	11	251	13
General and administrative	179	10	198	10
Restructuring and related costs	57	3	—	—
Total costs and expenses	1,25569		1,37070	
Operating income	570	31	595	30
Interest and other expense (income), net	3	—	28	1
Income before income tax expense	567	31	567	29
Income tax expense	120	7	67	3
Net income	\$44724	%	\$50025	%

Consolidated Net Revenues

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

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

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Consolidated Net Revenues

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

Change in Deferred Revenues Recognized

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

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

Foreign Exchange Impact

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

Operating Segment Results

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

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

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

	Three Months Ended March 31, 2019				\$ Increase / (Decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Net Revenues								
Net revenues from external customers	\$317	\$339	\$529	\$1,185	\$5	\$ (140)	\$(5)	\$(140)
Intersegment net revenues (1)	—	5	—	5	—	4	—	4
Segment net revenues	\$317	\$344	\$529	\$1,190	\$5	\$ (136)	\$(5)	\$(136)
Segment operating income	\$73	\$55	\$178	\$306	\$(19)	\$(67)	\$(13)	\$(99)

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

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

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

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

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- Includes other income and expenses from operating segments managed outside the reportable segments, including our Studios and Distribution businesses. Also includes unallocated corporate income and expenses.
- (2) Intersegment revenues reflect licensing and service fees charged between segments.
 - (3) Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

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Segment Net Revenues

Activision

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

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

• lower revenues from Call of Duty franchise catalog titles.

Blizzard

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

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

• lower revenues from *Overwatch*, primarily driven by lower in-game purchases; and

• lower revenues from *Hearthstone*.

King

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

Segment Income from Operations

Activision

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

• higher cost of revenues, primarily driven by the March 2019 release of *Sekiro: Shadows Die Twice*, with no comparable release in 2018; and

• an increase in bad debt provisions.

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

Blizzard

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

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

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

Foreign Exchange Impact

Changes in foreign exchange rates had a negative impact of \$42 million on reportable segment net revenues for the three months ended March 31, 2019, as compared to the same period in the previous year. The changes are primarily due to changes in the value of the U.S. dollar relative to the euro and the British pound.

Consolidated Results***Net Revenues by Distribution Channel***

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

	For the Three Months Ended March 31,		
	2019	2018	Increase (Decrease)
Net revenues by distribution channel:			
Digital online channels (1)	\$ 1,393	\$ 1,463	\$ (70)
Retail channels	313	409	(96)
Other (2)	119	93	26
Total consolidated net revenues	\$ 1,825	\$ 1,965	\$ (140)

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

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

Digital Online Channel Net Revenues

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

• lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed; and

• lower revenues recognized from *Overwatch*, primarily driven by lower in-game purchases.

The decrease was partially offset by:

• higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and

• revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

Table of Contents*Retail Channel Net Revenues*

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

- lower revenues recognized from the Destiny franchise; and

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

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

Net Revenues by Geographic Region

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

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

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

Americas

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

- revenues from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018; and

- higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017.

EMEA

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

Asia Pacific

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

Table of Contents**Net Revenues by Platform**

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

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

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

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

Console

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

• lower revenues recognized from the Destiny franchise, the publishing rights to which we sold to Bungie in December 2018, as previously disclosed; and

• lower revenues recognized from Call of Duty franchise catalog titles.

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

PC

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

• lower revenues recognized from the Destiny franchise; and

• lower revenues recognized from *Overwatch*.

The decrease was partially offset by:

• higher revenues recognized from *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and

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

Mobile and Ancillary

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

Table of Contents**Costs and Expenses***Cost of Revenues*

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

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

Cost of Revenues—Product Sales:

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

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

• higher software amortization and royalties for *Call of Duty: Black Ops 4*, which was released in October 2018, as compared to *Call of Duty: WWII*, which was released in November 2017; and

• software amortization and royalties from *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

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

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

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

Product Development (amounts in millions)

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

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

Sales and Marketing (amounts in millions)

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

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

a decrease of \$44 million in amortization of the customer base intangible asset acquired as part of our acquisition of King, as the asset was fully amortized during the first quarter of 2018; and

a decrease of \$12 million in marketing spending and personnel costs, primarily associated with lower marketing costs for the Overwatch League, partially offset by higher marketing costs for the Candy Crush franchise and for *Sekiro: Shadows Die Twice*, which was released in March 2019, with no comparable release in 2018.

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

General and Administrative (amounts in millions)

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

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

Restructuring and related costs (amounts in millions)

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

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

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

	March 31, 2019	% of consolidated net revenues	March 31, 2018	% of consolidated net revenues	Increase (Decrease)

Three Months Ended \$ 3 ~~%~~ \$ 28 1 % \$ (25)

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

Income Tax Expense (amounts in millions)

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

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

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

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

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

Liquidity and Capital Resources

We believe our ability to generate cash flows from operating activities is one of our fundamental financial strengths. In the near term, we expect our business and financial condition to remain strong and to continue to generate significant operating cash flows, which, we believe, in combination with our existing balance of cash and cash equivalents and short-term investments of \$4.8 billion, our access to capital, and the availability of our \$1.5 billion revolving credit facility, will be sufficient to finance our operational and financing requirements for the next 12 months. Our primary sources of liquidity, which are available to us to fund cash outflows such as our anticipated dividend payments, share repurchases, and scheduled debt maturities, include our cash and cash equivalents, short-term investments, and cash flows provided by operating activities.

As of March 31, 2019, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was \$1.7 billion, as compared to \$1.4 billion as of December 31, 2018. These cash balances are generally available for use in the U.S., subject in some cases to certain restrictions.

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

Table of Contents*Sources of Liquidity (amounts in millions)*

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

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

Net Cash Provided by Operating Activities

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

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

Net Cash Used in Investing Activities

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

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

Net Cash Provided by Financing Activities

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

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

Table of Contents*Effect of Foreign Exchange Rate Changes*

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

Debt

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

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

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

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

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

Dividends

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

Capital Expenditures

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

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Off-Balance Sheet Arrangements

At each of March 31, 2019 and December 31, 2018, Activision Blizzard had no significant relationships with unconsolidated entities or financial parties, often referred to as “structured finance” or “special purpose” entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

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

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

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

Recently Issued Accounting Pronouncements

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

Recently Adopted Accounting Pronouncements

Leases

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

new lease accounting standard and (2) carry forward our historical lease classifications.

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

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

Foreign Currency Exchange Rate Risk

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

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

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

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

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

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

As of March 31, 2019	As of December 31, 2018
Fair Notional amount (loss)	Fair Notional amount (loss)

Foreign Currency:

Buy USD, Sell Euro \$530\$ 21 \$ 723 \$ 12

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

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

**For the
Three
Months
Ended
March 31,
2019 2018** **Statement of Operations Classification**

Cash Flow Hedges \$ 11 \$(10) Net revenues

Table of Contents**Foreign Currency Forward Contracts Not Designated as Hedges**

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

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

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

In the absence of hedging activities for the three months ended March 31, 2019, a hypothetical adverse foreign currency exchange rate movement of 10% would have resulted in a theoretical decline of our net income of approximately \$41 million. This sensitivity analysis assumes a parallel adverse shift of all foreign currency exchange rates against the U.S. dollar; however, all foreign currency exchange rates do not always move in this manner and actual results may differ materially.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio, as our outstanding debt is all at fixed rates. Our investment portfolio consists primarily of money market funds and government securities with high credit quality and short average maturities. Because short-term securities mature relatively quickly and must be reinvested at the then-current market rates, interest income on a portfolio consisting of cash, cash equivalents, or short-term securities is more subject to market fluctuations than a portfolio of longer-term securities. Conversely, the fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer-term securities. At March 31, 2019, our \$4.7 billion of cash and cash equivalents was comprised primarily of money market funds.

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

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Item 4. Controls and Procedures

Definition and Limitations of Disclosure Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated any changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2019. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at March 31, 2019, there have not been any changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no significant changes to our internal control over financial reporting due to the adoption of the new lease accounting standard.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Item 6. Exhibits

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

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EXHIBIT INDEX

Exhibit Number Exhibit

3.1	<u>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).</u>
3.2	<u>Fourth Amended and Restated Bylaws of Activision Blizzard, Inc., adopted as of February 1, 2018 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K/A, filed March 21, 2018).</u>
10.1*	<u>Employment Agreement, dated as of May 18, 2016, between Brian Stolz and the Company.</u>
10.2*	<u>Employment Agreement, dated as of November 1, 2016, between Chris B. Walther and the Company.</u>
10.3*†	<u>King Profit Sharing Plan, effective as of January 1, 2019.</u>
31.1	<u>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.</u>
31.2	<u>Certification of Dennis Durkin pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Robert A. Kotick pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Dennis Durkin pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 2, 2019

ACTIVISION BLIZZARD, INC.

/s/ DENNIS DURKIN

Dennis Durkin

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

/s/ STEPHEN WEREB

Stephen Werek

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