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**UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

MICROSOFT CORPORATION and  
ACTIVISION BLIZZARD, INC.,

Defendants.

Case No. 3:23-cv-02880-JSC

**DECLARATION OF AMY HOOD**

**JUNE 26, 2023**

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**DECLARATION OF AMY HOOD**

1. I am the Chief Financial Officer (CFO) of Microsoft Corporation. I have been in my current position as CFO since 2013. Prior to that, I was the Chief Financial Officer for the Business Division, and served as Chief of Staff in the Server & Tools Business. I joined Microsoft in 2002. Before my time at Microsoft, I worked at Goldman Sachs in the investment banking and capital markets groups.
2. I graduated from Duke University with a bachelor's degree in economics and obtained my master's degree in business administration from Harvard University.
3. In my role as CFO of Microsoft, I have a wide-ranging set of responsibilities. Among other things, I oversee the financial performance of all lines of business within Microsoft, participate in the approval process for proposed acquisitions, approve Microsoft's filings with the U.S. Securities and Exchange Commission (including quarterly financial reports, known as 10-Qs, and annual financial reports, known as 10-Ks), participate in Microsoft's quarterly earnings calls with investors, and attend meetings of Microsoft's Board of Directors and its Audit Committee.
4. As mentioned above, one of my specific responsibilities is to oversee the financial performance of Microsoft's various lines of business. Each line of business is accountable to me, and ultimately to Satya Nadella—Microsoft's Chief Executive Officer, Chairman of the Board of Directors, and Chief Operating Decision Maker—for its financial performance. At the beginning of Microsoft's fiscal year, which starts on July 1, I set annual financial goals and performance metrics for each line of business. I review these goals and metrics on a quarterly basis, sometimes more frequently.<sup>1</sup>

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<sup>1</sup> See, e.g., PX 4029 (Emails re: "Studios/First party review") (November 2020) at -002 (A. Hood: "I would like to do a business review of our first party studios investments – including all the acquisitions we have done in the 'surge.' . . . The high level business results point to Minecraft mainly saving a lot of other issues so want to make sure I get a sense of where each individual effort is versus expectations."), -001 (A. Hood: "I just want to see the commitments we made when we acquired all the new studios, the commitments we made on timelines for existing studios when we said we would ship a great game every quarter to the

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5. Another one of my specific responsibilities is to participate in the approval process for proposed acquisitions by Microsoft's lines of business. During my time at Microsoft, I have participated in the approval process for approximately 120 deals, including the \$26.2 billion acquisition of LinkedIn in 2016 and the \$7.5 billion acquisition of GitHub in 2018. There are different approval levels for acquisitions depending on the value of the deal. I provide final approval for proposed acquisitions under a certain dollar amount. Transactions over \$500 million require final approval by Microsoft's Board of Directors.
6. Microsoft's proposed acquisition of Activision Blizzard, Inc. (the "Acquisition"), valued at approximately \$68.7 billion, required and received final approval from Microsoft's Board of Directors. I was informed about the opportunity to possibly acquire Activision in the fall of 2021. My role in the Acquisition—along with my team—was to review and analyze the financial model, assess the valuation of Activision Blizzard, Inc. ("Activision"), evaluate the overall impact of the Acquisition on Microsoft's financials, and provide advice and counsel to Xbox and Microsoft management, as well as the Board, on the financial aspects of the Acquisition.<sup>2</sup>

***Xbox is independently accountable for its financial performance.***

7. Xbox, sometimes referred to as Microsoft's Gaming business, is treated as a standalone entity for purposes of financial accountability. The annual financial targets I set for Xbox include a top-line revenue target and a bottom-line "operating profit" or "accountability margin" ("AM") target. Xbox is accountable to me and to Microsoft for meeting those targets.<sup>3</sup>

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Board a little over a year ago, and where we are versus those both timelines commitments (schedule) and quality commitments (revenue).").

<sup>2</sup> As part of approving the terms of the deal, which has a termination date of July 18, 2023, I also approved a \$3 billion termination fee. As a percentage of the \$68.7 billion purchase price of the Acquisition, the \$3 billion termination fee was in line with typical termination fees in the industry. *See* PX 0083 (Agreement and Plan of Merger by and among Microsoft Corporation, Anchorage Merger Sub Inc. and Activision Blizzard, Inc.) (January 18, 2022) at -091. I further discuss my specific role in the Acquisition below. *See infra* paragraphs 13–20.

<sup>3</sup> *See, e.g.,* [REDACTED]

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8. Xbox leadership sets the business strategy for how to meet those financial targets. The two key levers are to increase revenue or cut costs. Over the years, Xbox leadership has had to execute budget cuts, lay off employees, ship fewer consoles,<sup>4</sup> close studios, pause or reduce future investments for some projects, and make cutbacks in marketing in order to meet their targets.<sup>5</sup>
9. Xbox has historically had a lower operating margin than Microsoft's other lines of business. That is still true today. Microsoft's operating margin is approximately 40%, [REDACTED]. [REDACTED] Over time, we are striving to increase Xbox's operating margin to bring it closer to those of Microsoft's other lines of business.
10. With approximately \$16.23 billion in revenue in fiscal year 2022, Xbox is also a relatively small line of business within Microsoft, whose annual revenue for fiscal year 2022 was approximately \$198.27 billion.

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<sup>4</sup> Xbox consoles are subsidized, meaning they are sold at a loss. *See, e.g.*, PX 4044 (Emails re: "Gaming in FY21") (March 2020) at -002 (A. Hood proposing options, including constraining console supply, to address issue of "how consoles do and how much we should be subsidizing them (if at all)"); PX 9009 (Transcript: Q1 2021 Microsoft Corp. Earnings Call - Final) (October 27, 2020) at -011 (A. Hood: "We expect very strong demand, following the launch of our next-generation Xbox Series X and S consoles, driving supply-constrained hardware revenue growth of approximately 40%. We also expect negative gross margin impact from console sales this quarter as we invest against the growing lifetime value of the platform."); [REDACTED]

<sup>5</sup> *See, e.g.*, [REDACTED]

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***To succeed financially, Xbox must make more games available on more platforms.***

11. To improve its financial performance, Xbox has been seeking to move away from being tied to exclusive hardware (Xbox consoles) towards wider distribution of its software (games). *Minecraft*, a multi-platform game that Microsoft acquired in 2014, is the perfect example of this strategy. *Minecraft* is available on every console, on PCs, and on iOS and Android phones, and [REDACTED]
12. As a key component of its multi-platform strategy, Xbox and Microsoft leadership have been looking for opportunities to expand into the mobile gaming and PC gaming markets.<sup>6</sup> The potential acquisition of Zynga Inc., a mobile game developer, was one such opportunity that we looked at very closely just prior to the acquisition of Activision Blizzard Inc. (“Activision”).<sup>7</sup>

***The strategic rationale for the Acquisition was Activision’s presence across multiple platforms, particularly on mobile.***

13. I and others presented on the Acquisition to Microsoft’s Board of Directors during the course of three meetings in December 2021 and

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<sup>6</sup> See, e.g., RX 1128 (Emails re: “MS Tech Weekly: Video Games secular concerns vs F2P; Semis bottom to bonanza? SPOT podcast strategy | Earnings NVDA CSCO ATVI NTAP; GS Tech Conference”) (February 2019) at -001 (A. Hood: “Long Term: I am concerned the issue is systemic. I worry that all the investment we are putting into launching two consoles for next gen will be into a market that is increasingly defined by mobile usage, breadth dynamics and more standard components (like so many other endpoints) – and our breadth SKU won’t be mobile enabled...”); RX 1080 (Emails re: “Take-Two Interactive acquires Playdots for \$192m | GamesIndustry.biz”) (August 2020) (providing a table of “some of the key mobile developers / publishers that we are tracking and evaluating” in response to a query from S. Nadella); RX 1133 (Emails re: “EA move”) (June 2021) at -002 (A. Hood: “[W]e should review the entire target list for mobile as we think about the public company target ... .”); RX 1120 (Teams chat between P. Spencer, A. Hood, and S. Nadella) (November 2021) (discussing new leadership hire to drive mobile strategy).

<sup>7</sup> See, e.g., RX 1119 (Emails re: “Zynga”) (June 17, 2021) at -001 (A. Hood: “I think, for me, the very different business models due to their reliance on mobile is super interesting for us.”); RX 1105 (Email re: “Zynga,” attaching “Gaming CSA – Zynga Strategy Approval – vFINAL.docx”) (June 18, 2021) (P. Spencer at -001: “I believe firmly that Zynga is the best asset to accelerate our position in mobile.”); RX 1140 (Microsoft Teams Meeting invitation re: “Project Zipline,” attaching “Gaming CSA – Zynga.pptx”) (October 2021) (discussion materials and draft board slides for the potential acquisition of Zynga).

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January 2022. We had robust discussions with the Board about both the strategic rationale for the acquisition, and the valuation of Activision—in other words, the dollar value of the acquisition to Microsoft.

14. During our first session with the Board on December 8, 2021, we briefed the Board on the gaming industry's landscape, including the fact that \$113 billion of the game industry's total revenues of \$210 billion came from mobile gaming in 2020,<sup>8</sup> and that Microsoft is smaller in terms of reported revenue than Tencent, Sony, Google (Alphabet), Nintendo, and Apple.<sup>9</sup> We detailed our goal of increasing Xbox revenue from mobile transactions [REDACTED] and generally expanding Xbox's presence on mobile and PC platforms.<sup>10</sup> The Board was familiar with this general strategy, having recently been briefed on the potential acquisition of Zynga Inc.
15. We also briefed the Board on Activision Blizzard Inc.'s key assets across differentiated platforms: Activision's *Call of Duty* console and mobile franchises; Blizzard's PC games, like *Diablo* and *World of Warcraft*; and King's mobile game *Candy Crush*.<sup>11</sup> We showed the Board that Activision's PC and mobile assets in Blizzard and King generate more revenue and more than double the monthly average users than Activision's console gaming assets, illustrating how the Acquisition furthered our strategic multi-platform goals.<sup>12</sup> And we reported our key diligence findings, which identified five different mobile and PC gaming opportunities as the financial upsides of the Acquisition.<sup>13</sup>

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<sup>8</sup> See RX 3166 (Presentation to Board of Directors: Project Denali: Activision Blizzard) (December 8, 2021) at -003.

<sup>9</sup> See *id.* at -004.

<sup>10</sup> See *id.* at -005 to -008.

<sup>11</sup> See *id.* at -010; RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -023.

<sup>12</sup> See RX 3166 (Presentation to Board of Directors: Project Denali: Activision Blizzard) (December 8, 2021) at -010; RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -023.

<sup>13</sup> See RX 1156 (Activision Blizzard First January Board of Directors deck) (January 14, 2022) at -004; RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -015.

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***The valuation of Activision rests in significant part on continued sales of Call of Duty on the PlayStation.***

16. One of my roles in the Acquisition was to review and approve the financial model that was presented to Microsoft's Board of Directors. I approved Microsoft's proposed purchase price of \$68.7 billion. As part of that approval, I reviewed pricing for prior analogous transactions within the industry,<sup>14</sup> as well as the components of Activision's potential value to Microsoft.<sup>15</sup>
17. An essential component of that valuation was the ██████████ in forecasted total future sales of Activision's content on all platforms, including continued sales of *Call of Duty* on Sony's PlayStation.<sup>16</sup>
18. The possibility of making *Call of Duty* exclusive to Xbox was never assessed or discussed with me, nor was it even mentioned in any of the presentations to or discussions with the Board of Directors. I understood the necessity of keeping *Call of Duty* on other platforms. The Acquisition's strategic rationale and financial valuation are both aligned toward making Activision games more widely available, not less.
19. Another important component of the financial analysis was that the purchase had to be financially accretive to Microsoft's shareholders in year one, meaning that the acquisition must immediately contribute to an increase in earnings per share.<sup>17</sup>

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<sup>14</sup> See RX 3166 (Presentation to Board of Directors: Project Denali: Activision Blizzard) (December 8, 2021) at -027; RX 1156 (Activision Blizzard First January Board of Directors deck) (January 14, 2022) at -024.

<sup>15</sup> See RX 3166 (Presentation to Board of Directors: Project Denali: Activision Blizzard) (December 8, 2021) at -015; RX 1156 (Activision Blizzard First January Board of Directors deck) (January 14, 2022) at -013; RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -021.

<sup>16</sup> See RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -021; *see also id.* at -019 (stating that Xbox would "[c]ontinue developing all acquired games and franchises, and continue selling on all relevant platforms (e.g., Android, iOS, PlayStation, Steam, Switch, Windows, Xbox, etc.)"); *id.* at -020 (describing "[c]ontinued sales of Activision Blizzard's portfolio on all platforms (console, PC, mobile)" and "maintain[ing] historical trends of game units sold and MAU [monthly active users]" as a key driver for the valuation).

<sup>17</sup> See RX 1154 (Email Withheld for privilege // Attachment re: Activision Blizzard Final Board of Directors Presentation Deck) (January 16, 2022) at -009; *see* RX 1156 (Activision

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20. Based on all of the analyses presented to the Board, the Board approved the Acquisition on January 16, 2022.<sup>18</sup>

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on June 26, 2023

  
Amy Hood  
Chief Financial Officer  
Microsoft Corporation

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Blizzard First January Board of Directors deck) (January 14, 2022) at -014; *see also generally* RX 1079 at -001 (Email from A. Hood to P. Spencer and T. Stuart) (April 2019)

<sup>18</sup> *See* PX 1102 (Emails re: “Approval: WB Game Pass Content”) (May 2021) at -002 (A. Hood: “Satya voice is very loud here—not everything works, but you can’t get the big ones wrong as that is what a) loses permissions to do your job and then you b) lose your job.”); *id.* (A. Hood: “We don’t get to do many big deals ever so the Board always asks for big things—you just gotta be right. . . . It is the phrase Satya tells the Board each time we go – we will take risks, but on the big things we just have to be right.”).