

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2020

OR

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

For the transition period from to

Commission File No. 000-17948

ELECTRONIC ARTS INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

209 Redwood Shores Parkway

Redwood City California

(Address of principal executive offices)

94-2838567

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

94065

(Zip Code)

(650) 628-1500

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	EA	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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		<input type="checkbox"/>

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

As of November 6, 2020, there were 290,077,481 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In millions, except par value data)	September 30, 2020	March 31, 2020 ^(a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,059	\$ 3,768
Short-term investments	1,972	1,967
Receivables, net	423	461
Other current assets	376	321
Total current assets	6,830	6,517
Property and equipment, net	458	449
Goodwill	1,891	1,885
Acquisition-related intangibles, net	42	53
Deferred income taxes, net	1,937	1,903
Other assets	312	305
TOTAL ASSETS	\$ 11,470	\$ 11,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 164	\$ 68
Accrued and other current liabilities	1,083	1,052
Deferred net revenue (online-enabled games)	639	945
Senior notes, current, net	599	599
Total current liabilities	2,485	2,664
Senior notes, net	397	397
Income tax obligations	301	373
Deferred income taxes, net	1	1
Other liabilities	211	216
Total liabilities	3,395	3,651
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Common stock, \$0.01 par value. 1,000 shares authorized; 290 and 288 shares issued and outstanding, respectively	3	3
Additional paid-in capital	145	—
Retained earnings	8,016	7,508
Accumulated other comprehensive loss	(89)	(50)
Total stockholders' equity	8,075	7,461
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,470	\$ 11,112

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

(a) Derived from audited Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited) (In millions, except per share data)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557
Cost of revenue	286	405	574	592
Gross profit	865	943	2,036	1,965
Operating expenses:				
Research and development	421	387	859	768
Marketing and sales	156	152	277	262
General and administrative	133	128	269	238
Acquisition-related contingent consideration	—	2	—	3
Amortization of intangibles	6	6	11	11
Total operating expenses	716	675	1,416	1,282
Operating income	149	268	620	683
Interest and other income (expense), net	(10)	16	(13)	37
Income before provision for (benefit from) income taxes	139	284	607	720
Provision for (benefit from) income taxes	(46)	(570)	57	(1,555)
Net income	\$ 185	\$ 854	\$ 550	\$ 2,275
Earnings per share:				
Basic	\$ 0.64	\$ 2.89	\$ 1.90	\$ 7.69
Diluted	\$ 0.63	\$ 2.89	\$ 1.88	\$ 7.66
Number of shares used in computation:				
Basic	289	295	289	296
Diluted	293	296	292	297

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

ELECTRONIC ARTS INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited) (In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 185	\$ 854	\$ 550	\$ 2,275
Other comprehensive income (loss), net of tax:				
Net gains (losses) on available-for-sale securities	(3)	—	8	3
Net gains (losses) on derivative instruments	(43)	16	(80)	25
Foreign currency translation adjustments	9	(9)	33	(8)
Total other comprehensive income (loss), net of tax	(37)	7	(39)	20
Total comprehensive income	\$ 148	\$ 861	\$ 511	\$ 2,295

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited) (In millions, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
Balances as of March 31, 2020	288,413	\$ 3	\$ —	\$ 7,508	\$ (50)	\$ 7,461
Total comprehensive income	—	—	—	365	(2)	363
Stock-based compensation	—	—	102	—	—	102
Issuance of common stock	1,088	—	(66)	—	—	(66)
Repurchase and retirement of common stock	(747)	—	(36)	(42)	—	(78)
Balances as of June 30, 2020	288,754	\$ 3	\$ —	\$ 7,831	\$ (52)	\$ 7,782
Total comprehensive income	—	—	—	185	(37)	148
Stock-based compensation	—	—	113	—	—	113
Issuance of common stock	868	—	32	—	—	32
Repurchase and retirement of common stock	—	—	—	—	—	—
Balances as of September 30, 2020	289,622	\$ 3	\$ 145	\$ 8,016	\$ (89)	\$ 8,075

(Unaudited) (In millions, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
Balances as of March 31, 2019	298,107	\$ 3	\$ —	\$ 5,358	\$ (30)	\$ 5,331
Total comprehensive income	—	—	—	1,421	13	1,434
Stock-based compensation	—	—	73	—	—	73
Issuance of common stock	985	—	(48)	—	—	(48)
Repurchase and retirement of common stock	(3,205)	—	(25)	(280)	—	(305)
Balances as of June 30, 2019	295,887	\$ 3	\$ —	\$ 6,499	\$ (17)	\$ 6,485
Total comprehensive income	—	—	—	854	7	861
Stock-based compensation	—	—	92	—	—	92
Issuance of common stock	584	—	26	—	—	26
Repurchase and retirement of common stock	(3,253)	—	(118)	(188)	—	(306)
Balances as of September 30, 2019	293,218	\$ 3	\$ —	\$ 7,165	\$ (10)	\$ 7,158

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In millions)	Six Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES		
Net income	\$ 550	\$ 2,275
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	77	72
Stock-based compensation	215	165
Change in assets and liabilities:		
Receivables, net	39	(235)
Other assets	(113)	33
Accounts payable	106	51
Accrued and other liabilities	(96)	88
Deferred income taxes, net	(32)	(1,800)
Deferred net revenue (online-enabled games)	(307)	(454)
Net cash provided by operating activities	439	195
INVESTING ACTIVITIES		
Capital expenditures	(63)	(72)
Proceeds from maturities and sales of short-term investments	1,418	793
Purchase of short-term investments	(1,416)	(1,984)
Net cash used in investing activities	(61)	(1,263)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	43	33
Cash paid to taxing authorities for shares withheld from employees	(77)	(55)
Repurchase and retirement of common stock	(78)	(611)
Acquisition-related contingent consideration payment	—	(64)
Net cash used in financing activities	(112)	(697)
Effect of foreign exchange on cash and cash equivalents	25	(3)
Increase (decrease) in cash and cash equivalents	291	(1,768)
Beginning cash and cash equivalents	3,768	4,708
Ending cash and cash equivalents	\$ 4,059	\$ 2,940
Supplemental cash flow information:		
Cash paid during the period for income taxes, net	\$ 173	\$ 77
Cash paid during the period for interest	21	21
Non-cash investing activities:		
Change in accrued capital expenditures	\$ (4)	\$ (16)

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

ELECTRONIC ARTS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Electronic Arts is a global leader in digital interactive entertainment. We develop, market, publish and deliver games, content and services that can be played and watched on game consoles, PCs, mobile phones and tablets. We believe that the breadth and depth of our portfolio, live services offerings, and our use of multiple business models and distribution channels provide us with strategic advantages. Our foundation is a collection of intellectual property from which we create innovative games and content that enables us to build on-going and meaningful relationships with a community of players, creators and viewers. Our portfolio includes brands that we either wholly own (such as Battlefield, The Sims, Apex Legends, Need for Speed and Plants vs. Zombies) or license from others (such as FIFA, Madden NFL, UFC, NHL and Star Wars). We also offer our players high-quality experiences designed to provide value to players and to extend and enhance gameplay. These live services include extra content, subscription offerings and other revenue generated outside of the sale of our base games. And we are focused on reaching more players whenever and wherever they want to play. We believe that we can add value to our network by making it easier for players to connect to a world of play by offering choice of business model, distribution channel and device.

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal year ending March 31, 2021 contains 53 weeks and ends on April 3, 2021. Our results of operations for the fiscal year ended March 31, 2020 contained 52 weeks and ended on March 28, 2020. Our results of operations for the three and six months ended September 30, 2020 contained 13 weeks and 27 weeks, respectively, and ended on October 3, 2020. Our results of operations for the three and six months ended September 30, 2019 contained 13 weeks and 26 weeks, respectively, and ended on September 28, 2019. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

The Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals unless otherwise indicated) that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates. The results of operations for the current interim periods are not necessarily indicative of results to be expected for the current year or any other period.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the United States Securities and Exchange Commission (“SEC”) on May 20, 2020.

Change in Estimated Offering Period

The offering period is the period in which we offer to provide the future update rights and/or online hosting for the game and extra content sold. Because the offering period is not an explicitly defined period, we must make an estimate of the offering period for the service related performance obligations (i.e., future update rights and online hosting). For sales prior to July 1, 2020, revenues for service related performance obligations were generally recognized over an estimated nine-month period beginning in the month after shipment for games and extra content sold through retail, and an estimated six-month period for digitally-distributed games and extra content beginning in the month of sale. During the three months ended September 30, 2020, we completed our annual evaluation of the Estimated Offering Period, and noted that generally, consumers were playing our games for longer periods of time as players engage with services we provide that are designed to enhance and extend gameplay. Based on this, we concluded that the Estimated Offering Period applied to sales made after June 30, 2020 should be lengthened. Revenues for service related performance obligations for games and extra content sold through retail are now recognized over an estimated ten-month period beginning in the month of sale, and revenues for service related performance obligations for digitally-distributed games and extra content are now recognized over an estimated eight-month period beginning in the month of sale, which results in revenue being recognized over a longer period of time. During the three months ended September 30, 2020, this change to our Estimated Offering Period resulted in an estimated decrease in net revenue of \$26 million and net income of \$20 million, and a decrease of \$0.07 diluted earnings per share.

Reclassifications

As our business has evolved and management focuses less on the differentiation between our packaged goods business and our digital business and more on our full game sales and live services that extend and enhance gameplay, we have updated our presentation of net revenue by composition to align with this management view. Certain prior year amounts were reclassified to conform to current year presentation.

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326). The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. This update replaces the existing incurred loss impairment model with an expected loss model. It also requires credit losses related to available-for-sale debt securities to be recognized as an allowance for credit losses rather than as a reduction to the carrying value of the securities. We adopted ASU 2016-13 in the first quarter of fiscal year 2021. The adoption did not have a material impact on our Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This update eliminates, adds, and modifies certain fair value measurement disclosure requirements. We adopted ASU 2018-13 in the first quarter of fiscal year 2021. The adoption did not have an impact on our Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40). This update requires a customer in a cloud computing service arrangement to follow the internal-use software guidance in order to determine which implementation costs to defer and recognize as an asset. We adopted ASU 2018-15 in the first quarter of fiscal year 2021. The adoption did not have a material impact on our Condensed Consolidated Financial Statements.

Other Recently Issued Accounting Standards

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This update is effective for us beginning in the first quarter of fiscal year 2022. Early adoption is permitted. We are currently evaluating the impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

(2) FAIR VALUE MEASUREMENTS

There are various valuation techniques used to estimate fair value, the primary one being the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability. We measure certain financial and nonfinancial assets and liabilities at fair value on a recurring and nonrecurring basis.

Fair Value Hierarchy

The three levels of inputs that may be 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 within Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities.
- *Level 3.* Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2020 and March 31, 2020, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

	As of September 30, 2020	Fair Value Measurements at Reporting Date Using			Balance Sheet Classification
		Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Bank and time deposits	\$ 107	\$ 107	\$ —	\$ —	Cash equivalents
Money market funds	2,004	2,004	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	526	—	526	—	Short-term investments and cash equivalents
U.S. Treasury securities	726	726	—	—	Short-term investments
U.S. agency securities	5	—	5	—	Short-term investments
Commercial paper	390	—	390	—	Short-term investments and cash equivalents
Foreign government securities	82	—	82	—	Short-term investments and cash equivalents
Asset-backed securities	240	—	240	—	Short-term investments and cash equivalents
Certificates of deposit	55	—	55	—	Short-term investments
Foreign currency derivatives	19	—	19	—	Other current assets and other assets
Deferred compensation plan assets ^(a)	16	16	—	—	Other assets
Total assets at fair value	\$ 4,170	\$ 2,853	\$ 1,317	\$ —	
Liabilities					
Foreign currency derivatives	\$ 44	\$ —	\$ 44	\$ —	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities ^(a)	17	17	—	—	Other liabilities
Total liabilities at fair value	\$ 61	\$ 17	\$ 44	\$ —	

	Fair Value Measurements at Reporting Date Using					
	As of March 31, 2020	Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	Balance Sheet Classification	
		(Level 1)	(Level 2)	(Level 3)		
Assets						
Bank and time deposits	\$ 78	\$ 78	\$ —	\$ —	Cash equivalents	
Money market funds	1,599	1,599	—	—	Cash equivalents	
Available-for-sale securities:						
Corporate bonds	687	—	687	—	Short-term investments and cash equivalents	
U.S. Treasury securities	603	603	—	—	Short-term investments and cash equivalents	
U.S. agency securities	8	—	8	—	Short-term investments	
Commercial paper	414	—	414	—	Short-term investments and cash equivalents	
Foreign government securities	42	—	42	—	Short-term investments	
Asset-backed securities	269	—	269	—	Short-term investments	
Certificates of deposit	56	—	56	—	Short-term investments	
Foreign currency derivatives	76	—	76	—	Other current assets and other assets	
Deferred compensation plan assets ^(a)	13	13	—	—	Other assets	
Total assets at fair value	<u>\$ 3,845</u>	<u>\$ 2,293</u>	<u>\$ 1,552</u>	<u>\$ —</u>		
Liabilities						
Foreign currency derivatives	\$ 36	\$ —	\$ 36	\$ —	Accrued and other current liabilities and other liabilities	
Deferred compensation plan liabilities ^(a)	14	14	—	—	Other liabilities	
Total liabilities at fair value	<u>\$ 50</u>	<u>\$ 14</u>	<u>\$ 36</u>	<u>\$ —</u>		

(a) The Deferred Compensation Plan assets consist of various mutual funds. See [Note 15](#) in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, for additional information regarding our Deferred Compensation Plan.

(3) FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

As of September 30, 2020 and March 31, 2020, our cash and cash equivalents were \$4,059 million and \$3,768 million, respectively. Cash equivalents were valued using quoted market prices or other readily available market information.

Short-Term Investments

Short-term investments consisted of the following as of September 30, 2020 and March 31, 2020 (in millions):

	As of September 30, 2020					As of March 31, 2020				
	Cost or Amortized Cost	Gross Unrealized		Fair Value	Cost or Amortized Cost	Gross Unrealized		Fair Value		
		Gains	Losses			Gains	Losses			
Corporate bonds	\$ 513	\$ 1	\$ —	\$ 514	\$ 684	\$ 1	\$ (4)	\$ 681		
U.S. Treasury securities	724	2	—	726	530	4	—	534		
U.S. agency securities	5	—	—	5	8	—	—	8		
Commercial paper	358	—	—	358	377	—	—	377		
Foreign government securities	75	—	—	75	42	—	—	42		
Asset-backed securities	237	2	—	239	273	—	(4)	269		
Certificates of deposit	55	—	—	55	56	—	—	56		
Short-term investments	<u>\$ 1,967</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 1,972</u>	<u>\$ 1,970</u>	<u>\$ 5</u>	<u>\$ (8)</u>	<u>\$ 1,967</u>		

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of September 30, 2020 and March 31, 2020 (in millions):

	As of September 30, 2020		As of March 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due within 1 year	\$ 1,600	\$ 1,603	\$ 1,568	\$ 1,567
Due 1 year through 5 years	360	362	395	393
Due after 5 years	7	7	7	7
Short-term investments	\$ 1,967	\$ 1,972	\$ 1,970	\$ 1,967

(4) DERIVATIVE FINANCIAL INSTRUMENTS

Assets or liabilities associated with our derivative instruments and hedging activities are recorded at fair value in other current assets/other assets, or accrued and other current liabilities/other liabilities, respectively, on our Condensed Consolidated Balance Sheets. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative instrument and whether it is designated and qualifies for hedge accounting.

We transact business in various foreign currencies and have significant international sales and expenses denominated in foreign currencies, subjecting us to foreign currency risk. We purchase foreign currency forward contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue and expenses denominated in certain foreign currencies. Our cash flow risks are primarily related to fluctuations in the Euro, British pound sterling, Canadian dollar, Swedish krona, Australian dollar, Chinese yuan, South Korean won and Polish zloty. In addition, we utilize foreign currency forward contracts to mitigate foreign currency exchange risk associated with foreign-currency-denominated monetary assets and liabilities, primarily intercompany receivables and payables. The foreign currency forward contracts not designated as hedging instruments generally have a contractual term of approximately three months or less and are transacted near month-end. We do not use foreign currency forward contracts for speculative trading purposes.

Cash Flow Hedging Activities

Certain of our forward contracts are designated and qualify as cash flow hedges. To qualify for hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedges and must be highly effective in offsetting changes to future cash flows on hedged transactions. The derivative assets or liabilities associated with our hedging activities are recorded at fair value in other current assets/other assets, or accrued and other current liabilities/other liabilities, respectively, on our Condensed Consolidated Balance Sheets. The gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income (loss) in stockholders' equity. The gains or losses resulting from changes in the fair value of these hedges is subsequently reclassified into net revenue or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur, within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income (loss) to net revenue or research and development expenses, in our Condensed Consolidated Statements of Operations.

Total gross notional amounts and fair values for currency derivatives with cash flow hedge accounting designation are as follows (in millions):

	As of September 30, 2020			As of March 31, 2020		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 207	\$ 8	\$ 1	\$ 316	\$ 1	\$ 19
Forward contracts to sell	\$ 1,177	\$ 4	\$ 34	\$ 1,371	\$ 61	\$ 1

The effects of cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2020 and 2019 are as follows (in millions):

	Three Months Ended September 30,				Six Months Ended September 30,			
	2020		2019		2020		2019	
	Net revenue	Research and development	Net revenue	Research and development	Net revenue	Research and development	Net revenue	Research and development
Total amounts presented in our Condensed Consolidated Statements of Operations in which the effects of cash flow hedges are recorded	\$ 1,151	\$ 421	\$ 1,348	\$ 387	\$ 2,610	\$ 859	\$ 2,557	\$ 768
Gains (losses) on foreign currency forward contracts designated as cash flow hedges	\$ 1	\$ —	\$ 25	\$ (1)	\$ 12	\$ (6)	\$ 41	\$ (7)

Balance Sheet Hedging Activities

Our foreign currency forward contracts that are not designated as hedging instruments are accounted for as derivatives whereby the fair value of the contracts are reported as other current assets or accrued and other current liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other income (expense), net, in our Condensed Consolidated Statements of Operations. The gains and losses on these foreign currency forward contracts generally offset the gains and losses in the underlying foreign-currency-denominated monetary assets and liabilities, which are also reported in interest and other income (expense), net, in our Condensed Consolidated Statements of Operations.

Total gross notional amounts and fair values for currency derivatives that are not designated as hedging instruments are accounted for as follows (in millions):

	As of September 30, 2020				As of March 31, 2020			
	Notional Amount	Fair Value		Notional Amount	Fair Value			
		Asset	Liability		Asset	Liability		
Forward contracts to purchase	\$ 608	\$ —	\$ 8	\$ 388	\$ 1	\$ 16		
Forward contracts to sell	\$ 1,012	\$ 7	\$ 1	\$ 292	\$ 13	\$ —		

The effect of foreign currency forward contracts not designated as hedging instruments in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2020 and 2019 was as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Total amounts presented in our Condensed Consolidated Statements of Operations in which the effects of balance sheet hedges are recorded	\$ (10)	\$ 16	\$ (13)	\$ 37
Gain (losses) on foreign currency forward contracts not designated as hedging instruments	\$ (3)	\$ 1	\$ (7)	\$ (3)

(5) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended September 30, 2020 and 2019 are as follows (in millions):

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of June 30, 2020	\$ 7	\$ 2	\$ (61)	\$ (52)
Other comprehensive income (loss) before reclassifications	(3)	(42)	9	(36)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1)	—	(1)
Total other comprehensive income (loss), net of tax	(3)	(43)	9	(37)
Balances as of September 30, 2020	\$ 4	\$ (41)	\$ (52)	\$ (89)

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of June 30, 2019	\$ 2	\$ 31	\$ (50)	\$ (17)
Other comprehensive income (loss) before reclassifications	1	40	(9)	32
Amounts reclassified from accumulated other comprehensive income (loss)	(1)	(24)	—	(25)
Total other comprehensive income (loss), net of tax	—	16	(9)	7
Balances as of September 30, 2019	\$ 2	\$ 47	\$ (59)	\$ (10)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended September 30, 2020 and 2019 are as follows (in millions):

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of March 31, 2020	\$ (4)	\$ 39	\$ (85)	\$ (50)
Other comprehensive income (loss) before reclassifications	8	(74)	33	(33)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(6)	—	(6)
Total other comprehensive income (loss), net of tax	8	(80)	33	(39)
Balances as of September 30, 2020	\$ 4	\$ (41)	\$ (52)	\$ (89)

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of March 31, 2019	\$ (1)	\$ 22	\$ (51)	\$ (30)
Other comprehensive income (loss) before reclassifications	4	59	(8)	55
Amounts reclassified from accumulated other comprehensive income (loss)	(1)	(34)	—	(35)
Total other comprehensive income (loss), net of tax	3	25	(8)	20
Balances as of September 30, 2019	\$ 2	\$ 47	\$ (59)	\$ (10)

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The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2020 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended September 30, 2020	Six Months Ended September 30, 2020
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (1)	\$ (12)
Research and development	—	6
Total net (gain) loss reclassified, net of tax	\$ (1)	\$ (6)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2019 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (25)	\$ (41)
Research and development	1	7
Total net (gain) loss reclassified, net of tax	\$ (24)	\$ (34)

(6) GOODWILL AND ACQUISITION-RELATED INTANGIBLES, NET

The changes in the carrying amount of goodwill for the six months ended September 30, 2020 are as follows (in millions):

	As of March 31, 2020	Activity	Effects of Foreign Currency Translation	As of September 30, 2020
Goodwill	\$ 2,253	\$ —	\$ 6	\$ 2,259
Accumulated impairment	(368)	—	—	(368)
Total	\$ 1,885	\$ —	\$ 6	\$ 1,891

Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets.

Acquisition-related intangibles consisted of the following (in millions):

	As of September 30, 2020			As of March 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net
Developed and core technology	\$ 474	\$ (456)	\$ 18	\$ 474	\$ (450)	\$ 24
Trade names and trademarks	161	(137)	24	161	(132)	29
Registered user base and other intangibles	5	(5)	—	5	(5)	—
Carrier contracts and related	85	(85)	—	85	(85)	—
Total	\$ 725	\$ (683)	\$ 42	\$ 725	\$ (672)	\$ 53

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Amortization of intangibles for the three and six months ended September 30, 2020 and 2019 are classified in the Condensed Consolidated Statements of Operations as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ —	\$ 2	\$ —	\$ 4
Operating expenses	6	6	11	11
Total	\$ 6	\$ 8	\$ 11	\$ 15

Acquisition-related intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, currently from 1 to 5 years. As of September 30, 2020 and March 31, 2020, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 1.9 and 2.4 years, respectively.

As of September 30, 2020, future amortization of finite-lived acquisition-related intangibles that will be recorded in the Condensed Consolidated Statements of Operations is estimated as follows (in millions):

Fiscal Year Ending March 31,	
2021 (remaining six months)	\$ 11
2022	22
2023	9
2024 and thereafter	—
Total	\$ 42

(7) ROYALTIES AND LICENSES

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for the delivery of products.

During the three and six months ended September 30, 2020 and 2019, we did not recognize any material losses or impairment charges on royalty-based commitments.

The current and long-term portions of prepaid royalties and minimum guaranteed royalty-related assets, included in other current assets and other assets, consisted of (in millions):

	As of September 30, 2020	As of March 31, 2020
Other current assets	\$ 92	\$ 74
Other assets	22	25
Royalty-related assets	\$ 114	\$ 99

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors, and/or independent software developers, we classify any recognized unpaid royalty amounts due to these parties as accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other current liabilities and other liabilities, consisted of (in millions):

	As of September 30, 2020	As of March 31, 2020
Accrued royalties	\$ 129	\$ 171
Other liabilities	13	26
Royalty-related liabilities	\$ 142	\$ 197

As of September 30, 2020, we were committed to pay approximately \$1,895 million to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (*i.e.*, delivery of the product or content or other factors) and such commitments were therefore not recorded in our Condensed Consolidated Financial Statements. See [Note 11](#) for further information on our developer and licensor commitments.

(8) BALANCE SHEET DETAILS

Property and Equipment, Net

Property and equipment, net, as of September 30, 2020 and March 31, 2020 consisted of (in millions):

	As of September 30, 2020	As of March 31, 2020
Computer, equipment and software	\$ 795	\$ 722
Buildings	351	340
Leasehold improvements	168	161
Equipment, furniture and fixtures, and other	87	83
Land	66	65
Construction in progress	6	20
	<u>1,473</u>	<u>1,391</u>
Less: accumulated depreciation	(1,015)	(942)
Property and equipment, net	<u>\$ 458</u>	<u>\$ 449</u>

During the three and six months ended September 30, 2020, depreciation expense associated with property and equipment was \$32 million and \$63 million, respectively.

During the three and six months ended September 30, 2019, depreciation expense associated with property and equipment was \$30 million and \$60 million, respectively.

Accrued and Other Current Liabilities

Accrued and other current liabilities as of September 30, 2020 and March 31, 2020 consisted of (in millions):

	As of September 30, 2020	As of March 31, 2020
Other accrued expenses	\$ 362	\$ 273
Accrued compensation and benefits	285	326
Accrued royalties	129	171
Sales returns and price protection reserves	72	109
Deferred net revenue (other)	149	104
Operating lease liabilities	86	69
Accrued and other current liabilities	<u>\$ 1,083</u>	<u>\$ 1,052</u>

Deferred net revenue (other) includes the deferral of subscription revenue, advertising revenue, licensing arrangements, and other revenue for which revenue recognition criteria has not been met.

Deferred net revenue

Deferred net revenue as of September 30, 2020 and March 31, 2020 consisted of (in millions):

	As of September 30, 2020	As of March 31, 2020
Deferred net revenue (online-enabled games)	\$ 639	\$ 945
Deferred net revenue (other)	149	104
Deferred net revenue (noncurrent)	11	8
Total Deferred net revenue	<u>\$ 799</u>	<u>\$ 1,057</u>

During the six months ended September 30, 2020 and 2019, we recognized \$985 million and \$1,131 million of revenue, respectively, that were included in the deferred net revenue balance at the beginning of the period.

Remaining Performance Obligations

As of September 30, 2020, revenue allocated to remaining performance obligations consists of our deferred revenue balance of \$799 million. These balances exclude any estimates for future variable consideration as we have elected the optional exemption to exclude sales-based royalty revenue. We expect to recognize substantially all of these balances as revenue over the next 12 months.

(9) INCOME TAXES

The provision for income taxes for the six months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2021, adjusted for specific items that are required to be recognized in the period in which they are incurred.

Our effective tax rates for the three and six months ended September 30, 2020 were negative 33 percent and 9 percent, respectively, as compared to negative 201 percent and negative 216 percent, respectively, for the same periods in fiscal year 2020.

During the three months ended June 30, 2019, we completed an intra-entity sale of some of our intellectual property rights to our Swiss subsidiary, where our international business is headquartered (the “Swiss intra-entity sale”), resulting in the recognition of a \$1.17 billion net Swiss deferred tax asset, which will reverse over a 20-year period. Separately, during the three months ended September 30, 2019, Switzerland enacted a new statutory tax rate. As a result of the enactment, we remeasured our Swiss deferred tax asset and recognized an additional net tax benefit of \$630 million through continuing operations (“Swiss rate change benefit”). In addition, the opinion of the Ninth Circuit Court of Appeals in *Altera Corp. v Commissioner* (the “Altera opinion”) resulted in the recognition of \$90 million of unrecognized tax benefits related to U.S. uncertain tax positions during the three months ended June 30, 2019. Excluding the Swiss intra-entity sale, Swiss rate change benefit and Altera opinion, the effective tax rate for the three and six months ended September 30, 2019 would have been 13 percent and 14 percent, respectively.

When compared to the statutory rate of 21 percent, the effective tax rates for the three and six months ended September 30, 2020 were lower primarily due to the decreases in unrecognized tax benefits related to prior year tax positions, net of a partial valuation allowance.

We are subject to income tax examinations in various jurisdictions with respect to fiscal years after 2010. The timing and potential resolution of income tax examinations is highly uncertain. The total unrecognized tax benefits as of September 30, 2020 were \$584 million:

Balance as of March 31, 2020	\$	983
Increases in unrecognized tax benefits related to prior year tax positions		5
Decreases in unrecognized tax benefits related to prior year tax positions		(414)
Increases in unrecognized tax benefits related to current year tax positions		27
Decreases in unrecognized tax benefits related to settlements with taxing authorities		—
Reductions in unrecognized tax benefits due to lapse of applicable statute of limitations		(22)
Changes in unrecognized tax benefits due to foreign currency translation		5
Balance as of September 30, 2020	\$	<u>584</u>

While we continue to measure our uncertain tax positions, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued. In the period ended June 30, 2020, the Supreme Court of the United States denied Altera's appeal of the Altera opinion, resulting in a partial decrease of our unrecognized tax benefits, as well as a reclassification of approximately \$80 million of non-current payable to current payable. A complete resolution and settlement of the matters underlying the Altera opinion is reasonably possible within the next 12 months, which would result in an additional reduction of our gross unrecognized tax benefits. However, it is uncertain whether a complete resolution and settlement of such matters would also result in resolution of all related and unrelated U.S. positions for all applicable years. Therefore, it is not possible to provide a range of potential outcomes associated with a reversal of our gross unrecognized tax benefits.

Every quarter, we perform a realizability analysis to evaluate whether it is more likely than not that all or a portion of our deferred tax assets will not be realized. During the three and six months ended September 30, 2020, we recognized an additional \$41 million of valuation allowance against our deferred tax assets primarily due to the recognition of previously unrecognized tax benefits related to prior year tax positions and a change in current year estimated ordinary income.

(10) FINANCING ARRANGEMENTS

Senior Notes

In February 2016, we issued \$600 million aggregate principal amount of 3.70% Senior Notes due March 1, 2021 (the "2021 Notes") and \$400 million aggregate principal amount of 4.80% Senior Notes due March 1, 2026 (the "2026 Notes," and together with the 2021 Notes, the "Senior Notes"). Our proceeds were \$989 million, net of discount of \$2 million and issuance costs of \$9 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2021 Notes and the 2026 Notes using the effective interest rate method. The effective interest rate is 3.94% for the 2021 Notes and 4.97% for the 2026 Notes. Interest is payable semiannually in arrears, on March 1 and September 1 of each year.

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The carrying and fair values of the Senior Notes are as follows (in millions):

	As of September 30, 2020	As of March 31, 2020
Senior Notes:		
3.70% Senior Notes due 2021	\$ 600	\$ 600
4.80% Senior Notes due 2026	400	400
Total principal amount	\$ 1,000	\$ 1,000
Unaccreted discount	(1)	(1)
Unamortized debt issuance costs	(3)	(3)
Net carrying value of Senior Notes	<u>\$ 996</u>	<u>\$ 996</u>
Fair value of Senior Notes (Level 2)	<u>\$ 1,082</u>	<u>\$ 1,030</u>

As of September 30, 2020, the remaining life of the 2021 Notes and 2026 Notes is approximately 0.4 years and 5.4 years, respectively.

The Senior Notes are senior unsecured obligations and rank equally with all our other existing and future unsubordinated obligations and any indebtedness that we may incur from time to time under our Credit Facility.

The 2021 Notes and the 2026 Notes are redeemable at our option at any time prior to February 1, 2021 or December 1, 2025, respectively, subject to a make-whole premium. Within one and three months of maturity, we may redeem the 2021 Notes or the 2026 Notes, respectively, at a redemption price equal to 100% of the aggregate principal amount plus accrued and unpaid interest. In addition, upon the occurrence of a change of control repurchase event, the holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The Senior Notes also include covenants that limit our ability to incur liens on assets and to enter into sale and leaseback transactions, subject to certain allowances.

Credit Facility

On August 29, 2019, we entered into a \$500 million unsecured revolving credit facility (“Credit Facility”) with a syndicate of banks. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with its terms. The Credit Facility contains an option to arrange with existing lenders and/or new lenders to provide up to an aggregate of \$500 million in additional commitments for revolving loans. Proceeds of loans made under the Credit Facility may be used for general corporate purposes.

The credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, and dispose of all or substantially all assets, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a debt to EBITDA ratio. As of September 30, 2020, we were in compliance with the debt to EBITDA ratio.

As of September 30, 2020, no amounts were outstanding under the Credit Facility. \$2 million of debt issuance costs that were paid in connection with obtaining this credit facility are being amortized to interest expense over the 5-year term of the Credit Facility.

Interest Expense

The following table summarizes our interest expense recognized for the three and six months ended September 30, 2020 and 2019 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Amortization of debt issuance costs	\$ —	\$ —	\$ (1)	\$ (1)
Coupon interest expense	(11)	(11)	(21)	(21)
Total interest expense	<u>\$ (11)</u>	<u>\$ (11)</u>	<u>\$ (22)</u>	<u>\$ (22)</u>

(11) COMMITMENTS AND CONTINGENCIES
Development, Celebrity, League and Content Licenses: Payments and Commitments

The products we produce in our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers (“independent artists” or “third-party developers”). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones. Contractually, these payments are generally considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers.

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include, but are not limited to: FIFA (Fédération Internationale de Football Association), FIFPRO Foundation, FAPL (Football Association Premier League Limited), DFL Deutsche Fußball Liga E.V. (German Soccer League), and Liga Nacional De Futbol Profesional (professional soccer); National Basketball Association and National Basketball Players Association (professional basketball); National Hockey League and NHL Players’ Association (professional hockey); National Football League Properties and PLAYERS Inc. (professional football); William Morris Endeavor Entertainment LLC (professional mixed martial arts); ESPN (content in EA SPORTS games); Disney Interactive (Star Wars); and Fox Digital Entertainment, Inc. (The Simpsons). These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations as of September 30, 2020 (in millions):

	Fiscal Years Ending March 31,							
	Total	2021 (Remaining six mos.)	2022	2023	2024	2025	2026	Thereafter
Unrecognized commitments								
Developer/licensor commitments	\$ 1,895	\$ 86	\$ 340	\$ 358	\$ 349	\$ 359	\$ 271	\$ 132
Marketing commitments	668	65	145	120	118	109	78	33
Senior Notes interest	112	17	20	19	19	19	18	—
Operating lease imputed interest	19	3	5	4	3	2	1	1
Operating leases not yet commenced ^(a)	180	—	—	4	13	14	14	135
Other purchase obligations	130	31	65	21	5	4	4	—
Total unrecognized commitments	3,004	202	575	526	507	507	386	301
Recognized commitments								
Senior Notes principal and interest	1,003	603	—	—	—	—	400	—
Operating leases	243	44	70	38	32	25	18	16
Transition Tax and other taxes	66	22	24	3	4	6	7	—
Licensing commitments	39	12	27	—	—	—	—	—
Total recognized commitments	1,351	681	121	41	36	31	425	16
Total Commitments	\$ 4,355	\$ 883	\$ 696	\$ 567	\$ 543	\$ 538	\$ 811	\$ 317

(a) As of September 30, 2020, we have entered into three office leases that have not yet commenced with aggregate future lease payments of approximately \$180 million. These office leases are expected to commence in fiscal year 2021 and 2023, and will have lease terms ranging from 7 to 15 years.

The unrecognized amounts represented in the table above reflect our minimum cash obligations for the respective fiscal years, but do not necessarily represent the periods in which they will be recognized and expensed in our Condensed Consolidated Financial Statements. In addition, the amounts in the table above are presented based on the dates the amounts are contractually due as of September 30, 2020; however, certain payment obligations may be accelerated depending on the performance of our operating results.

In addition to what is included in the table above, as of September 30, 2020, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$279 million, of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

Legal Proceedings

The Netherlands Gambling Authority (“NGA”) has asserted that the randomized selection of virtual items in the FIFA Ultimate Team mode of our FIFA franchise contravenes the Dutch Betting and Gaming Act. On October 15, 2020, the District Court of the Hague affirmed the NGA’s decision. We intend to appeal the District Court’s order, and request a suspension of the NGA’s decision pending that appeal. We do not believe that the operational or financial consequences from these proceedings will have a material adverse effect on our consolidated financial statements. We do not believe that our products and services violate applicable gambling laws.

We are also subject to claims and litigation arising in the ordinary course of business. We do not believe that any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on our Condensed Consolidated Financial Statements.

(12) STOCK-BASED COMPENSATION

Valuation Assumptions

We recognize compensation cost for stock-based awards to employees based on the awards’ estimated grant-date fair value using a straight-line approach over the service period for which such awards are expected to vest. We account for forfeitures as they occur.

The estimation of the fair value of market-based restricted stock units, stock options and ESPP purchase rights is affected by assumptions regarding subjective and complex variables. Generally, our assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. We estimate the fair value of our stock-based awards as follows:

- *Restricted Stock Units and Performance-Based Restricted Stock Units.* The fair value of restricted stock units and performance-based restricted stock units (other than market-based restricted stock units) is determined based on the quoted market price of our common stock on the date of grant.
- *Market-Based Restricted Stock Units.* Market-based restricted stock units consist of grants of performance-based restricted stock units to certain members of executive management that vest contingent upon the achievement of pre-determined market and service conditions (referred to herein as “market-based restricted stock units”). The fair value of our market-based restricted stock units is estimated using a Monte-Carlo simulation model. Key assumptions for the Monte-Carlo simulation model are the risk-free interest rate, expected volatility, expected dividends and correlation coefficient.
- *Stock Options and Employee Stock Purchase Plan.* The fair value of stock options and stock purchase rights granted pursuant to our equity incentive plans and our 2000 Employee Stock Purchase Plan, as amended (“ESPP”), respectively, is estimated using the Black-Scholes valuation model based on the multiple-award valuation method. Key assumptions of the Black-Scholes valuation model are the risk-free interest rate, expected volatility, expected term and expected dividends. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for the expected term of the option. Expected volatility is based on a combination of historical stock price volatility and implied volatility of publicly-traded options on our common stock. An expected term is estimated based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.

There were an insignificant number of stock options granted during the three and six months ended September 30, 2020 and 2019.

The estimated assumptions used in the Black-Scholes valuation model to value our ESPP purchase rights were as follows:

	ESPP Purchase Rights	
	Three Months Ended	
	September 30,	
	2020	2019
Risk-free interest rate	0.1 %	1.7 - 1.9%
Expected volatility	34 - 39%	34 - 37%
Weighted-average volatility	37 %	36 %
Expected term	6 - 12 months	6 - 12 months
Expected dividends	None	None

Stock Options

The following table summarizes our stock option activity for the six months ended September 30, 2020:

	Options (in thousands)	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2020	1,074	\$ 30.85		
Granted	2	124.20		
Exercised	(351)	28.27		
Forfeited, cancelled or expired	—	—		
Outstanding as of September 30, 2020	<u>725</u>	\$ 32.31	3.49	\$ 70
Vested and expected to vest	<u>725</u>	\$ 32.31	3.49	\$ 70
Exercisable as of September 30, 2020	<u>725</u>	\$ 32.31	3.49	\$ 70

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of September 30, 2020, which would have been received by the option holders had all the option holders exercised their options as of that date. We issue new common stock from our authorized shares upon the exercise of stock options.

Restricted Stock Units

The following table summarizes our restricted stock unit activity for the six months ended September 30, 2020:

	Restricted Stock Rights (in thousands)	Weighted- Average Grant Date Fair Values
Outstanding as of March 31, 2020	6,217	\$ 100.42
Granted	2,825	126.20
Vested	(1,645)	103.67
Forfeited or cancelled	(204)	106.79
Outstanding as of September 30, 2020	<u>7,193</u>	\$ 109.62

Performance-Based Restricted Stock Units

Our performance-based restricted stock units cliff vest after a four-year performance period contingent upon the achievement of pre-determined performance-based milestones based on our non-GAAP net revenue and free cash flow as well as service conditions. If these performance-based milestones are not met but service conditions are met, the performance-based restricted stock units will not vest, in which case any compensation expense we have recognized to date will be reversed. Each quarter, we update our assessment of the probability that the non-GAAP net revenue and free cash flow performance milestones will be achieved. We amortize the fair values of performance-based restricted stock units over the requisite service period. The performance-based restricted stock units contain threshold, target and maximum milestones for each of non-GAAP net revenue and free cash flow. The number of shares of common stock to be issued at vesting will range from zero to 200 percent of the target number of performance-based restricted stock units attributable to each performance-based milestone based on the company's performance as compared to these threshold, target and maximum performance-based milestones. Each performance-based milestone is weighted evenly where 50 percent of the total performance-based restricted stock units that vest will be determined based on non-GAAP net revenue and the other 50 percent will be determined based on free cash flow. The number of shares that vest based on each performance-based milestone is independent from the other.

The following table summarizes our performance-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the six months ended September 30, 2020:

	Performance- Based Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Value
Outstanding as of March 31, 2020	579	\$ 110.51
Granted	—	—
Forfeited or cancelled	—	—
Outstanding as of September 30, 2020	<u>579</u>	<u>\$ 110.51</u>

Market-Based Restricted Stock Units

Our market-based restricted stock units vest contingent upon the achievement of pre-determined market and service conditions. If these market conditions are not met but service conditions are met, the market-based restricted stock units will not vest; however, any compensation expense we have recognized to date will not be reversed. The number of shares of common stock to be issued at vesting will range from zero to 200 percent of the target number of market-based restricted stock units based on our total stockholder return ("TSR") relative to the performance of companies in the NASDAQ-100 Index for each measurement period, over either a one-year, two-year cumulative, three-year cumulative period or a two-year and four-year cumulative period.

The following table summarizes our market-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the six months ended September 30, 2020:

	Market-Based Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Value
Outstanding as of March 31, 2020	1,898	\$ 128.41
Granted	874	145.78
Vested	(157)	113.72
Forfeited or cancelled	(398)	137.98
Outstanding as of September 30, 2020	<u>2,217</u>	<u>\$ 134.58</u>

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense resulting from stock options, restricted stock units, market-based restricted stock units, performance-based restricted stock units, and the ESPP purchase rights included in our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 2	\$ 1	\$ 3	\$ 2
Research and development	74	61	140	110
Marketing and sales	12	10	23	17
General and administrative	25	20	49	36
Stock-based compensation expense	\$ 113	\$ 92	\$ 215	\$ 165

During the three and six months ended September 30, 2020, we recognized \$15 million and \$38 million, respectively, of deferred income tax benefit related to our stock-based compensation expense. During the three and six months ended September 30, 2019, we recognized \$5 million and \$11 million, respectively, of deferred income tax benefit related to our stock-based compensation expense.

As of September 30, 2020, our total unrecognized compensation cost related to restricted stock units, market-based restricted stock units, and performance-based restricted stock units was \$734 million and is expected to be recognized over a weighted-average service period of 1.9 years. Of the \$734 million of unrecognized compensation cost, \$618 million relates to restricted stock units, \$112 million relates to market-based restricted stock units, and \$4 million relates to performance-based restricted stock units at an 83 percent average payout.

Stock Repurchase Program

In May 2018, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a program to repurchase up to \$2.4 billion of our common stock. Repurchases under the May 2018 program were completed in April 2020.

The following table summarizes total shares repurchased during the three and six months ended September 30, 2020 and 2019:

(In millions)	Shares	Amount
Three months ended September 30, 2020	—	\$ —
Six months ended September 30, 2020	0.7	\$ 78
Three months ended September 30, 2019	3.3	\$ 306
Six months ended September 30, 2019	6.5	\$ 611

Subsequent Events

In November 2020, our Board of Directors authorized a program to repurchase up to \$2.6 billion of our common stock. This stock repurchase program expires on November 4, 2022. Under this program, we may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase a specific number of shares under this program and it may be modified, suspended or discontinued at any time. We are actively repurchasing shares under this program.

In November 2020, our Board of Directors initiated a quarterly cash dividend on the Company's common stock and declared a cash dividend of \$0.17 per share of common stock.

(13) EARNINGS PER SHARE

The following table summarizes the computations of basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic EPS is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock options, restricted stock, restricted stock units, and ESPP purchase rights using the treasury stock method.

(In millions, except per share amounts)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 185	\$ 854	\$ 550	\$ 2,275
Shares used to compute earnings per share:				
Weighted-average common stock outstanding — basic	289	295	289	296
Dilutive potential common shares related to stock award plans and from assumed exercise of stock options	4	1	3	1
Weighted-average common stock outstanding — diluted	293	296	292	297
Earnings per share:				
Basic	\$ 0.64	\$ 2.89	\$ 1.90	\$ 7.69
Diluted	\$ 0.63	\$ 2.89	\$ 1.88	\$ 7.66

For the three and six months ended September 30, 2020, one million of restricted stock units and market-based restricted stock units were excluded from the treasury stock method computation of diluted shares, respectively, as their inclusion would have had an antidilutive effect.

For the three and six months ended September 30, 2019, two million of restricted stock units and market-based restricted stock units were excluded from the treasury stock method computation of diluted shares, respectively, as their inclusion would have had an antidilutive effect.

Our performance-based restricted stock units, which are considered contingently issuable shares, are also excluded from the treasury stock method computation because the related performance-based milestones were not achieved as of the end of the three months ended September 30, 2020.

(14) SEGMENT AND REVENUE INFORMATION

Our reporting segment is based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our Chief Operating Decision Maker (“CODM”), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations. Our CODM currently reviews total company operating results to assess overall performance and allocate resources. As of September 30, 2020, we have only one reportable segment, which represents our only operating segment.

Information about our total net revenue by timing of recognition for the three and six months ended September 30, 2020 and 2019 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue by timing of recognition				
Revenue recognized at a point in time	\$ 337	\$ 629	\$ 779	\$ 877
Revenue recognized over time	814	719	1,831	1,680
Net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557

Generally, performance obligations that are recognized upfront upon transfer of control are classified as revenue recognized at a point in time, while performance obligations that are recognized over the estimated offering period or subscription period as the services are provided are classified as revenue recognized over time.

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Revenue recognized at a point in time includes revenue allocated to the software license performance obligation. This also includes revenue from the licensing of software to third-parties.

Revenue recognized over time includes service revenue allocated to the future update rights and the online hosting performance obligations. This also includes service revenue allocated to the future update rights from the licensing of software to third-parties, online-only software services such as our *Ultimate Team* game mode, and subscription services.

Information about our total net revenue by composition for the three and six months ended September 30, 2020 and 2019 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue by composition				
Full game downloads	\$ 163	\$ 181	\$ 386	\$ 314
Packaged goods	119	399	255	528
Full game	282	580	641	842
Live services and other	869	768	1,969	1,715
Net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557

Full game net revenue includes full game downloads and packaged goods. Full game downloads includes revenue from digital sales of full games on console, PC, and mobile. Packaged goods includes revenue from software that is sold physically. This includes (1) net revenue from game software sold physically through traditional channels such as brick and mortar retailers, and (2) software licensing revenue from third parties (for example, makers of console platforms, personal computers or computer accessories) who include certain of our full games for sale with their products (for example, OEM bundles).

Live services and other net revenue includes revenue from sales of extra content for console, PC and mobile games, licensing revenue from third-party publishing partners who distribute our games digitally, subscriptions, advertising, and non-software licensing.

Information about our total net revenue by platform for the three and six months ended September 30, 2020 and 2019 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Platform net revenue				
Console	\$ 714	\$ 923	\$ 1,646	\$ 1,683
PC and other	249	248	574	501
Mobile	188	177	390	373
Net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557

Information about our operations in North America and internationally for the three and six months ended September 30, 2020 and 2019 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net revenue from unaffiliated customers				
North America	\$ 578	\$ 531	\$ 1,205	\$ 1,021
International	573	817	1,405	1,536
Net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Electronic Arts Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of Electronic Arts, Inc. and subsidiaries (the Company) as of October 3, 2020, the related condensed consolidated statements of operations, comprehensive income, and stockholders' equity for the three-month and six-month periods ended October 3, 2020 and September 28, 2019, the related condensed consolidated statements of cash flows for the six-month periods ended October 3, 2020 and September 28, 2019, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of March 28, 2020, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 20, 2020, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 28, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

(Signed) KPMG LLP

Santa Clara, California

November 10, 2020

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

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We use words such as “anticipate,” “believe,” “expect,” “intend,” “estimate,” “plan,” “predict,” “seek,” “goal,” “will,” “may,” “likely,” “should,” “could” (and the negative of any of these terms), “future” and similar expressions to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our business, projections of markets relevant to our business, uncertain events and assumptions and other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements consist of, among other things, statements related to the impact of the COVID-19 pandemic to our business, industry prospects, our future financial performance, and our business plans and objectives, and may include certain assumptions that underlie the forward-looking statements. These forward-looking statements are not guarantees of future performance and reflect management’s current expectations. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that might cause or contribute to such differences include those discussed in Part II, Item 1A of this Quarterly Report under the heading “Risk Factors” in, as well as in other documents we have filed with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for the fiscal year ended March 31, 2020. We assume no obligation to revise or update any forward-looking statement for any reason, except as required by law.

OVERVIEW

The following overview is a high-level discussion of our operating results, as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers provides important context for our results for the three months ended September 30, 2020, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-Q, including in the remainder of “Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”),” “Risk Factors,” and the Condensed Consolidated Financial Statements and related Notes. Additional information can be found in the “Business” section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020 as filed with the SEC on May 20, 2020 and in other documents we have filed with the SEC.

About Electronic Arts

Electronic Arts is a global leader in digital interactive entertainment. We develop, market, publish and deliver games, content and services that can be played and watched on game consoles, PCs, mobile phones and tablets. We believe that the breadth and depth of our portfolio, live services offerings, and our use of multiple business models and distribution channels provide us with strategic advantages. Our foundation is a collection of intellectual property from which we create innovative games and content that enables us to build on-going and meaningful relationships with a community of players, creators and viewers. Our portfolio includes brands that we either wholly own (such as Battlefield, The Sims, Apex Legends, Need for Speed and Plants v. Zombies) or license from others (such as FIFA, Madden NFL, UFC, NHL and Star Wars). We also offer our players high-quality experiences designed to provide value to players and extend and enhance gameplay. Our live services experiences include extra content, subscription offerings and other revenue generated outside of the sale of our base games. In addition, we are focused on reaching more players whenever and wherever they want to play. We believe that we can add value to our network by making it easier for players to connect to a world of play by offering choice of business model, distribution channel and device.

Financial Results

Our key financial results for our fiscal quarter ended September 30, 2020 were as follows:

- Total net revenue was \$1,151 million, down 15 percent year-over-year. On a constant currency basis, we estimate total net revenue would have been \$1,193 million, down 11 percent year-over-year.
- Live services and other net revenue was \$869 million, up 13 percent year-over-year.
- Gross margin was 75.2 percent, up 5.2 percentage points year-over-year.
- Operating expenses were \$716 million, up 6 percent year-over-year.
- Operating income was \$149 million, down 44 percent year-over-year.
- Net income was \$185 million, down 78 percent year-over-year. Net income for the three months ended September 30, 2019 was \$854 million and included a one-time net tax benefit of \$630 million.
- Diluted earnings per share was \$0.63, down 78 percent year-over-year driven by the one-time net tax benefit included in net income for the three months ended September 30, 2019.
- Operating cash flow was \$61 million, up 65 percent year-over-year.
- Total cash, cash equivalents and short-term investments were \$6,031 million.

From time to time, we make comparisons of current periods to prior periods with reference to constant currency. Constant currency comparisons are based on translating local currency amounts in the current period at actual foreign exchange rates from the prior comparable period. We evaluate our financial performance on a constant currency basis in order to facilitate period-to-period comparisons without regard to the impact of changing foreign currency exchange rates.

Trends in Our Business

COVID-19 Impact. We are closely monitoring the impact of the COVID-19 pandemic to our people and our business. Since the outbreak of COVID-19, we have focused on actions to support our people, our players, and communities around the world that have been affected by the COVID-19 pandemic.

Our People: The wellbeing of our people is our top priority, and to keep everyone as safe as possible, the vast majority of our workforce will be working from home at least until March 2021. We are offering support and resources to our people, including quarterly payments to assist with work from home costs and care needs, a pandemic care leave program, and additional services for mental and physical health. We have developed a detailed protocol for how we will evaluate the readiness to return to work for each of our offices around the world, accounting for guidance from health authorities and government, the comfort level of our employees, and preparation of our facilities for continued physical distancing.

Our Business: With more people staying home, we have seen growth in our business and across the industry. We have continued to execute against our plans, delivering eight new games so far in fiscal 2021, and tens of millions of new players have joined our network. In addition, live services net bookings for the six months ended September 30, 2020 increased more than 28 percent year-over-year. We have also experienced a significant increase in the percentage of our games purchased digitally, and we believe this step-up is likely a permanent structural change driven by shelter-in-place orders resulting from the COVID-19 pandemic.

Future Outlook: The full extent of the impact of the COVID-19 pandemic to our business, operations and financial results will depend on numerous evolving factors that we may not be able to predict. For example, we do not know how our products and services will be impacted as the response to the COVID-19 pandemic evolves. Engagement and net bookings could subside as a result of macroeconomic deterioration or other challenges. Additional factors that could impact our business include: our ability to continue to deliver new games and services in a distributed work environment, impacts to our key business partners, foreign exchange rate fluctuations, and other factors included in Part II, Item 1A of this Quarterly Report under the heading “Risk Factors”.

Live Services Business. We offer our players high-quality experiences designed to provide value to players and to extend and enhance gameplay. These live services include extra content, subscription offerings and other revenue generated outside of the sale of our base games. Our net revenue attributable to live services and other was \$3,904 million, \$3,358 million and \$3,104 million for the trailing twelve months ended September 30, 2020, 2019, and 2018, respectively, and we expect that live services net revenue will continue to be material to our business. Within live services and other, net revenue attributable to extra content was \$3,090 million, \$2,599 million and \$2,190 million for the trailing twelve months ended September 30, 2020, 2019, and 2018, respectively. Extra content net revenue has increased as players engage with our games and services over longer periods of time, and purchase additional content designed to provide value to players and extend and enhance gameplay. Our most popular live service is the extra content purchased for the Ultimate Team mode associated with our sports franchises. Ultimate Team allows players to collect current and former professional players in order to build and compete as a personalized team. Net revenue from extra content sales for Ultimate Team was \$1,491 million, \$1,369 million and \$1,180 million during fiscal years 2020, 2019 and 2018, respectively, a substantial portion of which was derived from FIFA Ultimate Team.

Digital Delivery of Games. In our industry, players increasingly purchase games digitally as opposed to purchasing physical discs. While this trend, as applied to our business, may not be linear because of product mix during a fiscal year, consumer buying patterns and other factors, over time we expect players to purchase an increasingly higher proportion of our games digitally; therefore we expect net revenue attributable to digital full game downloads to increase over time and net revenue attributable to sales of packaged goods to decrease.

Our net revenue attributable to digital full game downloads was \$811 million, \$681 million and \$714 million during fiscal years 2020, 2019 and 2018, respectively; while our net revenue attributable to packaged goods sales decreased from \$1,542 million in fiscal year 2018 to \$1,112 million in fiscal year 2019 and \$1,076 million in fiscal year 2020. In addition, as measured based on total units sold on Microsoft's Xbox One and Sony's PlayStation 4 rather than by net revenue, we estimate that 49 percent, 49 percent, and 39 percent of our total units sold during fiscal years 2020, 2019 and 2018 were sold digitally. Digital full game units are based on sales information provided by Microsoft and Sony; packaged goods units sold through are estimated by obtaining data from significant retail partners in North America, Europe and Asia, and applying internal sales estimates with respect to retail partners from which we do not obtain data. We believe that these percentages are reasonable estimates of the proportion of our games that are digitally downloaded in relation to our total number of units sold for the applicable period of measurement.

We expect the long-term trends in revenue and in the percentage of games digitally downloaded to continue. During fiscal year 2021, the percentage of our games purchased digitally has increased significantly and we believe this step-up is likely a permanent structural change driven by shelter-in-place orders resulting from the COVID-19 pandemic. Increases in consumer adoption of digital purchase of games combined with increases in our live services revenue generally results in expansion of our gross margin, as costs associated with selling a game digitally is generally less than selling the same game through traditional retail and distribution channels.

Free-to-Play Games. The global adoption of mobile devices and a business model for those devices that allows consumers to try new games with no up-front cost, and that are monetized through a live service associated with the game, particularly extra content sales, has led to significant sales growth in the mobile gaming industry. Similarly, sales of extra content are the primary driver of our mobile business. We expect the mobile gaming industry to continue to grow during our 2021 fiscal year. Likewise, the consumer acceptance of free-to-play, live service-based, online PC games has broadened our consumer base and has begun to expand into the console market. For example, within our business, we offer Apex Legends as a free-to-play, live service-based PC and console game. We expect extra content revenue generated from mobile, PC and console free-to-play games to remain an important part of our business.

Concentration of Sales Among the Most Popular Games. In all major segments of our industry, we see a large portion of games sales concentrated on the most popular titles. Similarly, a significant portion of our revenue historically has been derived from games based on a few popular franchises, several of which we have released on an annual or bi-annual basis. In particular, we have historically derived a significant portion of our net revenue from our largest and most popular game, FIFA, the annualized version of which is consistently one of the best-selling games in the marketplace.

Recurring Revenue Sources. Our business model includes revenue that we deem recurring in nature, such as revenue from our annualized sports franchises (e.g., FIFA, Madden NFL), our console, PC and mobile catalog titles (i.e., titles that did not launch in the current fiscal year), and our live services. We have been able to forecast revenue from these areas of our business with greater relative confidence than for new games, services and business models. As we continue to incorporate new business models and modalities of play into our games, our goal is to continue to look for opportunities to expand the recurring portion of our business.

Net Bookings. In order to improve transparency into our business, we disclose an operating performance metric, net bookings. Net bookings is defined as the net amount of products and services sold digitally or sold-in physically in the period. Net bookings is calculated by adding total net revenue to the change in deferred net revenue for online-enabled games.

The following is a calculation of our total net bookings for the periods presented:

(In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Total net revenue	\$ 1,151	\$ 1,348	\$ 2,610	\$ 2,557
Change in deferred net revenue (online-enabled games)	(241)	(35)	(310)	(462)
Net bookings ^(a)	\$ 910	\$ 1,313	\$ 2,300	\$ 2,095

(a) At the beginning of fiscal year 2021, we changed the way in which we present net bookings to align with GAAP net revenue measures. Net bookings from mobile platform partners are now presented gross of platform provider fees. Historically, we presented net bookings from these partners net of platform fees. Net bookings for the three and six months ended September 30, 2019 has been recast for comparability.

Net bookings were \$910 million for the three months ended September 30, 2020 driven by sales related to *Madden NFL 21*, *Apex Legends*, *The Sims 4* and *FIFA Ultimate Team*. Net bookings decreased \$403 million or 31 percent as compared to the three months ended September 30, 2019 due primarily to year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021, partially offset by the Star Wars franchise and *UFC 4*. Full game net bookings were \$266 million for the three months ended September 30, 2020, and decreased \$371 million or 58 percent as compared to the three months ended September 30, 2019 due primarily to year-over-year change in the launch date of our FIFA console title, partially offset by *UFC 4* and the Star Wars franchise. Live services and other net bookings were \$644 million for the three months ended September 30, 2020, and decreased \$32 million or 5 percent as compared to the three months ended September 30, 2019. The decrease in live services and other net bookings was due primarily to a decrease in sales of extra content for *FIFA Ultimate Team*, partially offset by *Apex Legends* and *Star Wars: Galaxy of Heroes*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting periods. The policies discussed below are considered by management to be critical because they are not only important to the portrayal of our financial condition and results of operations, but also because application and interpretation of these policies requires both management judgment and estimates of matters that are inherently uncertain and unknown, including uncertainty in the current economic environment due to the COVID-19 pandemic. As a result, actual results may differ materially from our estimates.

Revenue Recognition

We derive revenue principally from sales of our games, and related extra content and services that can be played on game consoles, PCs, mobile phones and tablets. Our product and service offerings include, but are not limited to, the following:

- full games with both online and offline functionality (“Games with Services”), which generally includes (1) the initial game delivered digitally or via physical disc at the time of sale and typically provide access to offline core game content (“software license”); (2) updates on a when-and-if-available basis, such as software patches or updates, and/or additional free content to be delivered in the future (“future update rights”); and (3) a hosted connection for online playability (“online hosting”);
- full games with online-only functionality which require an Internet connection to access all gameplay and functionality (“Online-Hosted Service Games”);
- extra content related to Games with Services and Online-Hosted Service Games which provides access to additional in-game content;
- subscriptions, such as EA Play and EA Play Pro, that generally offers access to a selection of full games, in-game content, online services and other benefits typically for a recurring monthly or annual fee; and
- licensing to third parties to distribute and host our games and content.

We evaluate and recognize revenue by:

- identifying the contract(s) with the customer;
- identifying the performance obligations in the contract;
- determining the transaction price;
- allocating the transaction price to performance obligations in the contract; and
- recognizing revenue as each performance obligation is satisfied through the transfer of a promised good or service to a customer (i.e., “transfer of control”).

Certain of our full game and/or extra content are sold to resellers with a contingency that the full game and/or extra content cannot be resold prior to a specific date (“Street Date Contingency”). We recognize revenue for transactions that have a Street Date Contingency when the Street Date Contingency is removed and the full game and/or extra content can be resold by the reseller. For digital full game and/or extra content downloads sold to customers, we recognize revenue when the full game and/or extra content is made available for download to the customer.

Online-Enabled Games

Games with Services. Our sales of Games with Services are evaluated to determine whether the software license, future update rights and the online hosting are distinct and separable. Sales of Games with Services are generally determined to have three distinct performance obligations: software license, future update rights, and the online hosting.

Since we do not sell the performance obligations on a stand-alone basis, we consider market conditions and other observable inputs to estimate the stand-alone selling price for each performance obligation. For Games with Services, generally 75 percent of the sales price is allocated to the software license performance obligation and recognized at a point in time when control of the license has been transferred to the customer (which is usually at or near the same time as the booking of the transaction). The remaining 25 percent is allocated to the future update rights and the online hosting performance obligations and recognized ratably as the service is provided (over the Estimated Offering Period).

Online-Hosted Service Games. Sales of our Online-Hosted Service Games are determined to have one distinct performance obligation: the online hosting. We recognize revenue from these arrangements as the service is provided.

Extra Content. Revenue received from sales of downloadable content are derived primarily from the sale of virtual currencies and digital in-game content that enhance players’ game experience. Sales of extra content are accounted for in a manner consistent with the treatment for our Games with Services and Online-Hosted Service Games as discussed above, depending upon whether or not the extra content has offline functionality. That is, if the extra content has offline functionality, then the extra content is accounted for similarly to Games with Services (generally determined to have three distinct performance obligations: software license, future update rights, and the online hosting). If the extra content does not have offline functionality, then the extra content is determined to have one distinct performance obligation: the online-hosted service offering.

Subscriptions

Sales of our subscriptions are deemed to be one performance obligation and we recognize revenue from these arrangements ratably over the subscription term as the performance obligation is satisfied.

Licensing Revenue

In certain countries, we utilize third-party licensees to distribute and host our games and content in accordance with license agreements, for which the licensees typically pay us a fixed minimum guarantee and/or sales-based royalties. These arrangements typically include multiple performance obligations, such as a time-based license of software and future update rights. We recognize as revenue a portion of the minimum guarantee when we transfer control of the license of software (generally upon commercial launch) and the remaining portion ratably over the contractual term in which we provide the licensee with future update rights. Any sales-based royalties are generally recognized as the related sales occur by the licensee.

Significant Judgments around Revenue Arrangements

Identifying performance obligations. Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, (i.e., the customer can benefit from the goods or services either on its own or together with other resources that are readily available), and are distinct in the context of the contract (i.e., it is separately identifiable from other goods or services in the contract). To the extent a contract includes multiple promises, we must apply judgment to determine whether those promises are separate and distinct performance obligations. If these criteria are not met, the promises are accounted for as a combined performance obligation.

Determining the transaction price. The transaction price is determined based on the consideration that we will be entitled to receive in exchange for transferring our goods and services to the customer. Determining the transaction price often requires judgment, based on an assessment of contractual terms and business practices. It further includes review of variable consideration such as discounts, sales returns, price protection, and rebates, which is estimated at the time of the transaction. In addition, the transaction price does not include an estimate of the variable consideration related to sales-based royalties. Sales-based royalties are recognized as the sales occur.

Allocating the transaction price. Allocating the transaction price requires that we determine an estimate of the relative stand-alone selling price for each distinct performance obligation. Determining the relative stand-alone selling price is inherently subjective, especially in situations where we do not sell the performance obligation on a stand-alone basis (which occurs in the majority of our transactions). In those situations, we determine the relative stand-alone selling price based on various observable inputs using all information that is reasonably available. Examples of observable inputs and information include: historical internal pricing data, cost plus margin analyses, third-party external pricing of similar or same products and services such as software licenses and maintenance support within the enterprise software industry. The results of our analysis resulted in a specific percentage of the transaction price being allocated to each performance obligation.

Determining the Estimated Offering Period. The offering period is the period in which we offer to provide the future update rights and/or online hosting for the game and related extra content sold. Because the offering period is not an explicitly defined period, we must make an estimate of the offering period for the service related performance obligations (i.e., future update rights and online hosting). Determining the Estimated Offering Period is inherently subjective and is subject to regular revision. Generally, we consider the average period of time customers are online when estimating the offering period. We also consider the estimated period of time between the date a game unit is sold to a reseller and the date the reseller sells the game unit to the customer (i.e., time in channel). Based on these two factors, we then consider the method of distribution. For example, games and extra content sold at retail would have a composite offering period equal to the online gameplay period plus time in channel as opposed to digitally-distributed games and extra content which are delivered immediately via digital download and therefore, the offering period is estimated to be only the online gameplay period.

Additionally, we consider results from prior analyses, known and expected online gameplay trends, as well as disclosed service periods for competitors' games in determining the Estimated Offering Period for future sales. We believe this provides a reasonable depiction of the transfer of future update rights and online hosting to our customers, as it is the best representation of the time period during which our games and extra content are played. We recognize revenue for future update rights and online hosting performance obligations ratably on a straight-line basis over this period as there is a consistent pattern of delivery for these performance obligations. Prior to July 1, 2020, these performance obligations were generally recognized over an estimated nine-month period beginning in the month after shipment for games and extra content sold through retail and an estimated six-month period for digitally-distributed games and extra content beginning in the month of sale.

During the three months ended September 30, 2020, we completed our annual evaluation of the Estimated Offering Period, and noted that generally, consumers were playing our games for longer periods of time as players engage with services we provide that are designed to enhance and extend gameplay. Based on this, we concluded that the Estimated Offering Period applied to sales made after June 30, 2020 should be lengthened. Revenues for service related performance obligations for games and extra content sold through retail are now recognized over an estimated ten-month period beginning in the month of sale, and revenues for service related performance obligations for digitally-distributed games and extra content are now recognized over an estimated eight-month period beginning in the month of sale, which results in revenue being recognized over a longer period of time. This change in Estimated Offering Period did not impact the amount of net bookings or the operating cash flows that we report. We expect that this change will move the recognition of approximately \$300 million in net revenue from fiscal year 2021 into fiscal year 2022. During the three months ended September 30, 2020, this change to our Estimated Offering Period resulted in an estimated decrease in net revenue of \$26 million and net income of \$20 million, and a decrease of \$0.07 diluted earnings per share.

Principal Agent Considerations

We evaluate sales to end customers of our full games and related content via third-party storefronts, including digital storefronts such as Microsoft's Xbox Store, Sony's PlayStation Store, Apple App Store, and Google Play Store, in order to determine whether or not we are acting as the principal in the sale to the end customer, which we consider in determining if revenue should be reported gross or net of fees retained by the third-party storefront. An entity is the principal if it controls a good or service before it is transferred to the end customer. Key indicators that we evaluate in determining gross versus net treatment include but are not limited to the following:

- the underlying contract terms and conditions between the various parties to the transaction;
- which party is primarily responsible for fulfilling the promise to provide the specified good or service to the end customer;
- which party has inventory risk before the specified good or service has been transferred to the end customer; and
- which party has discretion in establishing the price for the specified good or service.

Based on an evaluation of the above indicators, except as discussed below, we have determined that generally the third party is considered the principal to end customers for the sale of our full games and related content. We therefore report revenue related to these arrangements net of the fees retained by the storefront. However, for sales arrangements via Apple App Store and Google Play Store, EA is considered the principal to the end customer and thus, we report revenue on a gross basis and mobile platform fees are reported within cost of revenue.

Income Taxes

We recognize deferred tax assets and liabilities for both (1) the expected impact of differences between the financial statement amount and the tax basis of assets and liabilities and (2) the expected future tax benefit to be derived from tax losses and tax credit carryforwards. We record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. In making this determination, we are required to give significant weight to evidence that can be objectively verified. It is generally difficult to conclude that a valuation allowance is not needed when there is significant negative evidence, such as cumulative losses in recent years. Forecasts of future taxable income are considered to be less objective than past results. Therefore, cumulative losses weigh heavily in the overall assessment.

In addition to considering forecasts of future taxable income, we are also required to evaluate and quantify other possible sources of taxable income in order to assess the realization of our deferred tax assets, namely the reversal of existing deferred tax liabilities, the carryback of losses and credits as allowed under current tax law, and the implementation of tax planning strategies. Evaluating and quantifying these amounts involves significant judgments. Each source of income must be evaluated based on all positive and negative evidence and; this evaluation may involve assumptions about future activity. Certain taxable temporary differences that are not expected to reverse during the carry forward periods permitted by tax law cannot be considered as a source of future taxable income that may be available to realize the benefit of deferred tax assets.

Every quarter, we perform a realizability analysis to evaluate whether it is more likely than not that all or a portion of our deferred tax assets will not be realized. Our Swiss deferred tax assets realizability analysis relies upon future Swiss taxable income as the primary source of taxable income but considers all available sources of Swiss income based on the positive and negative evidence. We give more weight to evidence that can be objectively verified. However, there is significant judgment involved in estimating future Swiss taxable income over the 20-year period over which the Swiss deferred tax assets will reverse, specifically related to assumptions about expected growth rates of future Swiss taxable income, which are based primarily on third party market and industry growth data. Actual results that differ materially from those estimates could have a material impact on our valuation allowance assessment. Although objectively verifiable, Swiss interest rates have an impact on the valuation allowance and are based on published Swiss guidance. Any significant changes to such interest rates could result in a material impact to the valuation allowance. Switzerland has a seven-year carryforward period and does not permit the carry back of losses. We do not recognize any deferred taxes related to the U.S. taxes on foreign earnings as we recognize these taxes as a period cost.

As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each jurisdiction in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to our preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including

acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective tax rate.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The information under the subheading “Other Recently Issued Accounting Standards” in [Note 1 — Description of Business and Basis of Presentation](#) to the Condensed Consolidated Financial Statements in this Form 10-Q is incorporated by reference into this Item 2.

RESULTS OF OPERATIONS

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal year ending March 31, 2021 contains 53 weeks and ends on April 3, 2021. Our results of operations for the fiscal year ended March 31, 2020 contained 52 weeks and ended on March 28, 2020. Our results of operations for the three and six months ended September 30, 2020 contained 13 weeks and 27 weeks, respectively, and ended on October 3, 2020. Our results of operations for the three and six months ended September 30, 2019 contained 13 weeks and 26 weeks, respectively, and ended on September 28, 2019. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

Net Revenue

Net revenue consists of sales generated from (1) full games sold as digital downloads or as packaged goods and designed for play on game consoles, PCs and mobile phones and tablets (2) live services associated with these games, such as extra-content, (3) subscriptions that generally offer access to a selection of full games, in-game content, online services and other benefits, and (4) licensing our games to third parties to distribute and host our games.

Net Revenue Quarterly Analysis

Net Revenue

Net revenue for the three months ended September 30, 2020 was \$1,151 million, primarily driven by *FIFA 20*, *Apex Legends*, *The Sims 4*, and *Madden NFL 21*. Net revenue for the three months ended September 30, 2020 decreased \$197 million, as compared to the three months ended September 30, 2019. This decrease was driven by a \$370 million decrease in net revenue primarily due to year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021 and *Anthem*, partially offset by a \$173 million increase in net revenue primarily from the Star Wars franchise, *UFC 4*, and *Need for Speed Heat*.

Net Revenue by Composition

As our business has evolved and management focuses less on the differentiation between our packaged goods business and our digital business and more on our full game sales and live services that extend and enhance gameplay, we have updated our presentation of net revenue by composition to align with this management view.

Our net revenue by composition for the three months ended September 30, 2020 and 2019 was as follows (in millions):

	Three Months Ended September 30,			
	2020	2019	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 163	\$ 181	\$ (18)	(10)%
Packaged goods	119	399	(280)	(70)%
Full game	\$ 282	\$ 580	\$ (298)	(51)%
Live services and other	\$ 869	\$ 768	\$ 101	13 %
Total net revenue	\$ 1,151	\$ 1,348	\$ (197)	(15)%

Full Game Net Revenue

Full game net revenue includes full game downloads and packaged goods. Full game downloads includes revenue from digital sales of full games on console, PC, and mobile. Packaged goods includes revenue from software that is sold physically. This includes (1) net revenue from game software sold physically through traditional channels such as brick and mortar retailers, and (2) software licensing revenue from third parties (for example, makers of console platforms, personal computers or computer accessories) who include certain of our full games for sale with their products (for example, OEM bundles).

For the three months ended September 30, 2020, full game net revenue was \$282 million, primarily driven by *Madden NFL 21*, *UFC 4*, *FIFA 20*, *Star Wars Jedi: Fallen Order*, and *Star Wars: Squadrons*. Full game net revenue for the three months ended September 30, 2020 decreased \$298 million, or 51 percent, as compared to the three months ended September 30, 2019. This decrease was driven by a \$280 million decrease in packaged goods net revenue and an \$18 million decrease in full game downloads net revenue, each primarily driven by year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021.

Live Services and Other Net Revenue

Live services and other net revenue includes revenue from sales of extra content for console, PC and mobile games, licensing revenue from third-party publishing partners who distribute our games digitally, subscriptions, advertising, and non-software licensing.

For the three months ended September 30, 2020, live services and other net revenue was \$869 million primarily driven by sales of extra content for *FIFA Ultimate Team*, *Apex Legends*, *The Sims 4*, and *Madden Ultimate Team*. Live services and other net revenue for the three months ended September 30, 2020 increased \$101 million, or 13 percent, as compared to the three months ended September 30, 2019. This increase was driven by sales of extra content for *FIFA Ultimate Team*, *Madden Ultimate Team*, and *The Sims 4*.

Net Revenue Year-to-Date Analysis

Net Revenue

Net revenue for the six months ended September 30, 2020 was \$2,610 million, primarily driven by *FIFA 20*, *The Sims 4*, *Apex Legends*, and *Madden NFL 20*. Net revenue for the six months ended September 30, 2020 increased \$53 million, as compared to the six months ended September 30, 2019. This increase was driven by a \$461 million increase in net revenue primarily from the Star Wars, The Sims, and Madden franchises. This increase was partially offset by a \$408 million decrease in net revenue primarily due to year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021 and *Anthem*.

Net Revenue by Composition

Our net revenue by composition for the six months ended September 30, 2020 and 2019 was as follows (in millions):

	Six Months Ended September 30,			
	2020	2019	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 386	\$ 314	\$ 72	23 %
Packaged goods	255	528	(273)	(52)%
Full game	\$ 641	\$ 842	\$ (201)	(24)%
Live services and other	\$ 1,969	\$ 1,715	\$ 254	15 %
Total net revenue	\$ 2,610	\$ 2,557	\$ 53	2 %

Full Game Net Revenue

For the six months ended September 30, 2020, full game net revenue was \$641 million, primarily driven by *FIFA 20*, *Star Wars Jedi: Fallen Order*, *Madden NFL 21*, *Need for Speed Heat*, and *The Sims 4*. Full game net revenue for the six months ended September 30, 2020 decreased \$201 million, or 24 percent, as compared to the six months ended September 30, 2019. This decrease was driven by a \$273 million decrease in packaged goods net revenue primarily driven by year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021 and *Anthem*, partially offset by the Star Wars franchise. This decrease was partially offset by a \$72 million increase in full game downloads net revenue primarily driven by the Star Wars franchise, *Need for Speed Heat*, and *UFC 4*, partially offset by *Anthem*.

Live Services and Other Net Revenue

For the six months ended September 30, 2020, live services and other net revenue was \$1,969 million primarily driven by sales of extra content for *FIFA Ultimate Team*, *The Sims 4*, *Apex Legends*, and *Madden Ultimate Team*. Live services and other net revenue for the six months ended September 30, 2020 increased \$254 million, or 15 percent, as compared to the six months ended September 30, 2019. This increase was driven by sales of extra content for *FIFA Ultimate Team*, *The Sims 4*, and *Madden Ultimate Team*.

Cost of Revenue Quarterly Analysis

Cost of revenue consists of (1) manufacturing royalties, net of volume discounts and other vendor reimbursements, (2) certain royalty expenses for celebrities, professional sports leagues, movie studios and other organizations, and independent software developers, (3) data center, bandwidth and server costs associated with hosting our online games and websites, (4) inventory costs, (5) payment processing fees, (6) mobile platform fees associated with our mobile revenue (for transactions in which we are acting as the principal in the sale to the end customer), (7) expenses for defective products, (8) write-offs of post launch prepaid royalty costs and losses on previously unrecognized licensed intellectual property commitments, (9) amortization of certain intangible assets, (10) personnel-related costs, and (11) warehousing and distribution costs. We generally recognize volume discounts when they are earned from the manufacturer (typically in connection with the achievement of unit-based milestones); whereas other vendor reimbursements are generally recognized as the related revenue is recognized.

Cost of revenue for the three months ended September 30, 2020 and 2019 was as follows (in millions):

September 30, 2020	% of Net Revenue	September 30, 2019	% of Net Revenue	% Change	Change as a % of Net Revenue
\$ 286	25 %	\$ 405	30 %	(29)%	(5)%

Cost of Revenue

Cost of revenue decreased by \$119 million, or 29 percent during the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This decrease was primarily due to a decrease in inventory and royalty costs driven by year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021, partially offset by an increase in royalty and inventory costs driven by *UFC 4* and *Star Wars: Squadrons*.

Cost of revenue as a percentage of total net revenue decreased by 5 percent during the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This decrease was primarily due to an increase in the recognition of deferred net revenue, partially offset by an increase in royalty costs due to product mix.

Cost of Revenue Year-to-Date Analysis

Cost of revenue for the six months ended September 30, 2020 and 2019 was as follows (in millions):

	September 30, 2020	% of Net Revenue	September 30, 2019	% of Net Revenue	% Change	Change as a % of Net Revenue
\$	574	22 %	\$ 592	23 %	(3)%	(1)%

Cost of Revenue

Cost of revenue decreased by \$18 million, or 3 percent during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019. This decrease was primarily due to a decrease in inventory and royalty costs driven by year-over-year change in the launch date of our FIFA console title from the second quarter in fiscal year 2020 to the third quarter in fiscal year 2021, partially offset by an increase in royalty costs driven by higher sales associated with Madden and Star War franchises and an increase in platform fees driven by higher sales of *Star Wars: Galaxy of Heroes*, *FIFA Mobile*, and *The Sims Free Play*.

Cost of revenue as a percentage of total net revenue remained relatively consistent during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019.

Research and Development

Research and development expenses consist of expenses incurred by our production studios for personnel-related costs, related overhead costs, external third-party development costs, contracted services, depreciation and any impairment of prepaid royalties for pre-launch products. Research and development expenses for our online products include expenses incurred by our studios consisting of direct development and related overhead costs in connection with the development and production of our online games. Research and development expenses also include expenses associated with our digital platform, software licenses and maintenance, and management overhead.

Research and development expenses for the three and six months ended September 30, 2020 and 2019 were as follows (in millions):

	September 30, 2020	% of Net Revenue	September 30, 2019	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 421	37 %	\$ 387	29 %	\$ 34	9 %
Six months ended	\$ 859	33 %	\$ 768	30 %	\$ 91	12 %

Research and development expenses increased by \$34 million, or 9 percent, during the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This increase was primarily due to a \$24 million increase in personnel-related costs primarily resulting from an increase in variable compensation and related expenses, and a \$13 million increase in stock-based compensation.

Research and development expenses increased by \$91 million, or 12 percent, during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019. This increase was primarily due to a \$60 million increase in personnel-related costs primarily resulting from an increase in variable compensation and related expenses, and a \$30 million increase in stock-based compensation.

Marketing and Sales

Marketing and sales expenses consist of personnel-related costs, related overhead costs, advertising, marketing and promotional expenses, net of qualified advertising cost reimbursements from third parties.

Marketing and sales expenses for the three and six months ended September 30, 2020 and 2019 were as follows (in millions):

	September 30, 2020	% of Net Revenue	September 30, 2019	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 156	14 %	\$ 152	11 %	\$ 4	3 %
Six months ended	\$ 277	11 %	\$ 262	10 %	\$ 15	6 %

Marketing and sales expenses remained relatively consistent during the three months ended September 30, 2020, as compared to the three months ended September 30, 2019.

Marketing and sales expenses increased by \$15 million, or 6 percent, during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019. This increase was primarily due to a \$9 million increase in personnel-related costs primarily resulting from an increase in variable compensation and related expenses, and a \$6 million increase in stock-based compensation.

General and Administrative

General and administrative expenses consist of personnel and related expenses of executive and administrative staff, corporate functions such as finance, legal, human resources, and information technology, related overhead costs, fees for professional services such as legal and accounting, and allowances for doubtful accounts.

General and administrative expenses for the three and six months ended September 30, 2020 and 2019 were as follows (in millions):

	September 30, 2020	% of Net Revenue	September 30, 2019	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 133	12 %	\$ 128	9 %	\$ 5	4 %
Six months ended	\$ 269	10 %	\$ 238	9 %	\$ 31	13 %

General and administrative expenses increased by \$5 million, or 4 percent, during the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This increase was primarily due to a \$7 million increase in personnel-related costs driven by an increase in variable compensation and related expenses, and a \$5 million increase in stock-based compensation. These increases were partially offset by a \$7 million decrease in bad debt expense.

General and administrative expenses increased by \$31 million, or 13 percent, during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019. This increase was primarily due to a \$17 million increase in personnel-related costs driven by an increase in variable compensation and related expenses, and a \$13 million increase in stock-based compensation.

Income Taxes

Provision for (benefit from) income taxes for the three months ended September 30, 2020 and 2019 were as follows (in millions):

	<u>September 30, 2020</u>	<u>Effective Tax Rate</u>	<u>September 30, 2019</u>	<u>Effective Tax Rate</u>
Three months ended	\$ (46)	(33)%	\$ (570)	(201)%
Six months ended	\$ 57	9 %	\$ (1,555)	(216)%

The provision for income taxes for the three months ended September 30, 2020 is based on our projected annual effective tax rate for fiscal year 2021, adjusted for specific items that are required to be recognized in the period in which they are incurred.

Our effective tax rates for the three and six months ended September 30, 2020 were negative 33 percent and positive 9 percent, respectively, as compared to negative 201 percent and negative 216 percent, respectively, for the same periods in fiscal year 2020. During the three months ended June 30, 2019, we completed an intra-entity sale of some of our intellectual property rights to our Swiss subsidiary, where our international business is headquartered (the “Swiss intra-entity sale”), resulting in the recognition of a \$1.17 billion net Swiss deferred tax asset, which will reverse over a 20-year period. Separately, during the three months ended September 30, 2019, Switzerland enacted a new statutory tax rate. As a result of the enactment, we remeasured our Swiss deferred tax asset and recognized an additional net tax benefit of \$630 million through continuing operations (“Swiss rate change benefit”). In addition, the opinion of the Ninth Circuit Court of Appeals in *Altera Corp. v Commissioner* (the “Altera opinion”) resulted in the recognition of \$90 million of unrecognized tax benefits related to U.S. uncertain tax positions during the three months ended June 30, 2019. Excluding the Swiss intra-entity sale, Swiss rate change benefit and Altera opinion, the effective tax rate for the three and six months ended September 30, 2020 and 2019 would have been 13 percent and 14 percent, respectively. When compared to the statutory rate of 21 percent, the effective tax rates for the three and six months ended September 30, 2020 were lower primarily due to the decreases in unrecognized tax benefits related to prior year tax positions, net of a partial valuation allowance.

Every quarter, we perform a realizability analysis to evaluate whether it is more likely than not that all or a portion of our deferred tax assets will not be realized. During the three and six months ended September 30, 2020, we recognized an additional \$41 million of valuation allowance against our deferred tax assets primarily due to the recognition of previously unrecognized tax benefits related to prior year tax positions and a change in current year estimated ordinary income.

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	<u>As of</u> <u>September 30, 2020</u>	<u>As of</u> <u>March 31, 2020</u>	<u>Increase/(Decrease)</u>
Cash and cash equivalents	\$ 4,059	\$ 3,768	\$ 291
Short-term investments	1,972	1,967	5
Total	<u>\$ 6,031</u>	<u>\$ 5,735</u>	<u>\$ 296</u>
Percentage of total assets	53 %	52 %	

(In millions)	<u>Six Months Ended September 30,</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
Net cash provided by operating activities	\$ 439	\$ 195	\$ 244
Net cash used in investing activities	(61)	(1,263)	1,202
Net cash used in financing activities	(112)	(697)	585
Effect of foreign exchange on cash and cash equivalents	25	(3)	28
Net increase (decrease) in cash and cash equivalents	<u>\$ 291</u>	<u>\$ (1,768)</u>	<u>\$ 2,059</u>

Changes in Cash Flow

Operating Activities. Net cash provided by operating activities increased by \$244 million during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019, primarily driven by higher collections due to improved performance as we saw extraordinary levels of engagement during the three months ended June 30, 2020 as players spent more time at home as a result of the COVID-19 pandemic. This increase is partially offset by higher cash payments for income taxes, higher variable compensation payments related to fiscal year 2020 performance and higher cash payments for royalties.

Investing Activities. Net cash used in investing activities decreased by \$1,202 million during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019, primarily driven by a \$625 million increase in proceeds from maturities and sales of short-term investments and a \$568 million decrease in the purchase of short-term investments.

Financing Activities. Net cash used in financing activities decreased by \$585 million during the six months ended September 30, 2020, as compared to the six months ended September 30, 2019, primarily driven by a \$533 million decrease in the repurchase and retirement of our common stock and a \$64 million of contingent consideration payment in connection with our acquisition of Respawn Entertainment, LLC during the six months ended September 30, 2019. These decreases were partially offset by a \$22 million increase in cash paid to taxing authorities in connection with withholding taxes for stock-based compensation.

Short-term Investments

Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of September 30, 2020, our short-term investments had gross unrealized gains of \$5 million, or less than 1 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs.

Senior Notes

In February 2016, we issued \$600 million aggregate principal amount of the 2021 Notes and \$400 million aggregate principal amount of the 2026 Notes. The effective interest rate is 3.94% for the 2021 Notes and 4.97% for the 2026 Notes. Interest is payable semiannually in arrears, on March 1 and September 1 of each year. The 2021 Notes are due on March 1, 2021, and we will either re-pay the aggregate principal of the 2021 Notes upon such maturity date or refinance the 2021 Notes prior to maturity. See [Note 10 — Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Senior Notes, which is incorporated by reference into this Item 2.

Credit Facility

On August 29, 2019, we entered into a \$500 million unsecured revolving credit facility (“Credit Facility”) with a syndicate of banks. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with its terms. As of September 30, 2020, no amounts were outstanding under the Credit Facility. See [Note 10 — Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Credit Facility, which is incorporated by reference into this Item 2.

Return of Capital Program

In November 2020, our Board of Directors authorized a program to repurchase up to \$2.6 billion of our common stock. This stock repurchase program expires on November 4, 2022. Under this program, we may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase a specific number of shares under this program and it may be modified, suspended or discontinued at any time. We are actively repurchasing shares under this program.

In November 2020, our Board of Directors initiated a quarterly cash dividend on the Company’s common stock and declared a cash dividend of \$0.17 per share of common stock.

Financial Condition

We believe that our cash, cash equivalents, short-term investments, cash generated from operations and available financing facilities will be sufficient to meet our operating requirements for at least the next 12 months, including working capital requirements, capital expenditures, debt repayment obligations, dividends, and potentially, future acquisitions, stock repurchases, or strategic investments. We may choose at any time to raise additional capital to repay debt, strengthen our financial position, facilitate expansion, repurchase our stock, pursue strategic acquisitions and investments, and/or to take advantage of business opportunities as they arise. There can be no assurance, however, that such additional capital will be available to us on favorable terms, if at all, or that it will not result in substantial dilution to our existing stockholders.

Our foreign subsidiaries will generally be subject to U.S. tax, and to the extent earnings from these subsidiaries can be repatriated without a material tax cost, such earnings will not be indefinitely reinvested. As of September 30, 2020, approximately \$2.6 billion of our cash, cash equivalents, and short-term investments were domiciled in foreign tax jurisdictions. All of our foreign cash is available for repatriation without a material tax cost.

Our ability to maintain sufficient liquidity could be affected by various risks and uncertainties including, but not limited to, customer demand and acceptance of our products, our ability to collect our accounts receivable as they become due, successfully achieving our product release schedules and attaining our forecasted sales objectives, economic conditions in the United States and abroad, the impact of acquisitions and other strategic transactions in which we may engage, the impact of competition, the seasonal and cyclical nature of our business and operating results, and the other risks described in the “[Risk Factors](#)” section, included in Part II, Item 1A of this report.

Contractual Obligations and Commercial Commitments

[Note 11 — Commitments and Contingencies](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our contractual obligations and commercial commitments, which is incorporated by reference into this Item 2.

OFF-BALANCE SHEET COMMITMENTS

As of September 30, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues and expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

We are exposed to various market risks, including changes in foreign currency exchange rates, interest rates and market prices, which have experienced significant volatility, including increased volatility in connection with the COVID-19 pandemic. Market risk is the potential loss arising from changes in market rates and market prices. We employ established policies and practices to manage these risks. Foreign currency forward contracts are used to hedge anticipated exposures or mitigate some existing exposures subject to foreign exchange risk as discussed below. While we do not hedge our short-term investment portfolio, we protect our short-term investment portfolio against different market risks, including interest rate risk as discussed below. Our cash and cash equivalents portfolio consists of highly liquid investments with insignificant interest rate risk and original or remaining maturities of three months or less at the time of purchase. We do not enter into derivatives or other financial instruments for speculative trading purposes and do not hedge our market price risk relating to marketable equity securities, if any.

Foreign Currency Exchange Risk

Foreign Currency Exchange Rates. International sales are a fundamental part of our business, and the strengthening of the U.S. dollar (particularly relative to the Euro, British pound sterling, Australian dollar, Chinese yuan, South Korean won and Polish zloty) has a negative impact on our reported international net revenue, but a positive impact on our reported international operating expenses (particularly the Swedish krona and Canadian dollar) because these amounts are translated at lower rates as compared to periods in which the U.S. dollar is weaker. While we use foreign currency hedging contracts to mitigate some foreign currency exchange risk, these activities are limited in the protection that they provide us and can themselves result in losses.

Cash Flow Hedging Activities. We hedge a portion of our foreign currency risk related to forecasted foreign-currency-denominated sales and expense transactions by purchasing foreign currency forward contracts that generally have maturities of 18 months or less. These transactions are designated and qualify as cash flow hedges. Our hedging programs are designed to reduce, but do not entirely eliminate, the impact of currency exchange rate movements in net revenue and research and development expenses.

Balance Sheet Hedging Activities. We use foreign currency forward contracts to mitigate foreign currency exchange risk associated with foreign-currency-denominated monetary assets and liabilities, primarily intercompany receivables and payables. These foreign currency forward contracts generally have a contractual term of three months or less and are transacted near month-end.

We believe the counterparties to our foreign currency forward contracts are creditworthy multinational commercial banks. While we believe the risk of counterparty nonperformance is not material, a sustained decline in the financial stability of financial institutions as a result of disruption in the financial markets could affect our ability to secure creditworthy counterparties for our foreign currency hedging programs.

Notwithstanding our efforts to mitigate some foreign currency exchange risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. As of September 30, 2020, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 20 percent would have resulted in potential declines in the fair value on our foreign currency forward contracts used in cash flow hedging of \$142 million or \$284 million, respectively. As of September 30, 2020, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 20 percent would have resulted in potential losses in the Condensed Consolidated Statements of Operations on our foreign currency forward contracts used in balance sheet hedging of \$160 million or \$320 million, respectively. This sensitivity analysis assumes an adverse shift of all foreign currency exchange rates; however, all foreign currency exchange rates do not always move in the same manner and actual results may differ materially. See [Note 4 — Derivative Financial Instruments](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our derivative financial instruments, which is incorporated by reference into this Item 3.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term investment portfolio. We manage our interest rate risk by maintaining an investment portfolio generally consisting of debt instruments of high credit quality and relatively short maturities. However, because short-term investments mature relatively quickly and, if reinvested, are invested at the then-current market rates, interest income on a portfolio consisting of short-term investments is subject to market fluctuations to a greater extent than a portfolio of longer term investments. Additionally, the contractual terms of the investments do not permit the issuer to call, prepay or otherwise settle the investments at prices less than the stated par value. Our investments are held for purposes other than trading. We do not use derivative financial instruments in our short-term investment portfolio.

As of September 30, 2020, our short-term investments were classified as available-for-sale securities and, consequently, were recorded at fair value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of tax, in stockholders' equity.

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. Changes in interest rates affect the fair value of our short-term investment portfolio. To provide a meaningful assessment of the interest rate risk associated with our short-term investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the portfolio assuming a 150 basis point parallel shift in the yield curve. As of September 30, 2020, a hypothetical 150 basis point increase in interest rates would have resulted in a \$17 million, or 1% decrease in the fair market value of our short-term investments.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures, believe that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing the requisite reasonable assurance that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the required disclosure.

Changes in internal control over financial reporting

There has been no change in our internal controls over financial reporting identified in connection with our evaluation that occurred during the fiscal quarter ended September 30, 2020 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Limitations on effectiveness of disclosure controls

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Netherlands Gambling Authority (“NGA”) has asserted that the randomized selection of virtual items in the FIFA Ultimate Team mode of our FIFA franchise contravenes the Dutch Betting and Gaming Act. On October 15, 2020, the District Court of the Hague affirmed the NGA’s decision. We intend to appeal the District Court’s order, and request a suspension of the NGA’s decision pending that appeal. We do not believe that the operational or financial consequences from these proceedings will have a material adverse effect on our consolidated financial statements. We do not believe that our products and services violate applicable gambling laws.

We are also subject to claims and litigation arising in the ordinary course of business. We do not believe that any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on our Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

Our business is subject to many risks and uncertainties, which may affect our future financial performance. In the past, we have experienced certain of the events and circumstances described below, which adversely impacted our business and financial performance. If any of the events or circumstances described below occurs, our business or financial performance could be harmed, our actual results could differ materially from our expectations and the market value of our stock could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe could be material that may harm our business or financial performance.

STRATEGIC RISKS

Our business is intensely competitive. We may not deliver successful and engaging products and services, or consumers may prefer our competitors’ products or services over our own.

Competition in our business is intense. Many new products and services are regularly introduced, but only a relatively small number of products and associated services drive significant engagement and account for a significant portion of total revenue. Our competitors range from established interactive entertainment companies and diversified media companies to emerging start-ups, and we expect new competitors to continue to emerge throughout the world. If our competitors develop and market more successful and engaging products or services, offer competitive products or services at lower price points, or if we do not continue to develop consistently high-quality, well-received and engaging products and services, our revenue, margins, and profitability will decline.

We strive to create innovative and high-quality products and services that allow us to build on-going and meaningful relationships with our community. However, innovative and high-quality titles, even if highly-reviewed, may not meet our expectations. Many financially successful products and services within our industry are iterations of prior titles with large established consumer bases and significant brand recognition, which makes competing in certain categories challenging. In addition, products or services of our direct competitors or other entertainment companies may take a larger portion of consumer spending or time than we anticipate, which could cause our products and services to underperform relative to our expectations. A significant portion of our revenue historically has been derived from products and services based on a few popular franchises, and the underperformance of a single major title has had, and could in the future have, a material adverse impact on our financial results. For example, we have historically derived a significant portion of our net revenue from sales related to our largest and most popular game, FIFA, annualized versions of which are consistently one of the best-selling games in the marketplace. Any events or circumstances that negatively impact our FIFA franchise, such as product or service quality, competing products that take a portion of consumer spending and time, the delay or cancellation of a product or service launch, or real or perceived security risks could negatively impact our financial results to a disproportionate extent.

The increased importance of live services, including extra content, to our business heightens the risks associated with the products for which such live services are offered. Live services that are either poorly-received or provided in connection with underperforming games may generate lower than expected sales. Any lapse, delay or failure in our ability to provide high-quality live services content to consumers over an extended period of time could materially and adversely affect our financial results, consumer engagement with our live services, and cause harm to our reputation and brand. Our most popular live service is the extra content available for the Ultimate Team mode associated with our sports franchises. Any events or circumstances

that negatively impact our ability to reliably provide content or sustain engagement for Ultimate Team, particularly FIFA Ultimate Team, would negatively impact our financial results to a disproportionate extent.

We may not meet our product and live service development schedules and key events, sports seasons and/or movies that are tied to our product and live service release schedule may be delayed, cancelled or poorly received.

Our ability to meet product and live service development schedules is affected by a number of factors both within and outside our control, including feedback from our players, the creative processes involved, the coordination of large and sometimes geographically dispersed development teams, the complexity of our products and the platforms for which they are developed, the need to fine-tune our products prior to their release and, in certain cases, approvals from third parties. During the worldwide COVID-19 pandemic, our ability to meet product and live service development schedules will be challenged as key studios across North America, Europe and Asia remain fully or partially closed and certain of our development teams work in a distributed environment. We have experienced development delays for our products in the past, which caused us to delay or cancel release dates. Any failure to meet anticipated production or release schedules likely would result in a delay of revenue and/or possibly a significant shortfall in our revenue, increase our development and/or marketing expenses, harm our profitability, and cause our operating results to be materially different than anticipated. If we miss key selling periods for products or services, particularly the fiscal quarter ending in December, for any reason, including product delays or product cancellations our sales likely will suffer significantly.

We also seek to release certain products and extra content for our live services - such as our sports franchises and the associated Ultimate Team live service - in conjunction with key events, such as the beginning of a sports season, events associated with the sports calendar, or the release of a related movie. If such seasons or events were delayed, cancelled or poorly received, our sales could suffer materially. For example, the worldwide COVID-19 pandemic has resulted in the disruption, postponement and cancellation of sports seasons and sporting events. Further disruption, postponement and cancellation of sports seasons and sporting events around which we seek to launch our games and provide live services could have a material adverse impact on our business and operating results.

Our industry changes rapidly and we may fail to anticipate or successfully implement new or evolving technologies, or adopt successful business strategies, distribution methods or services.

Rapid changes in our industry require us to anticipate, sometimes years in advance, the ways in which our products and services will be competitive in the market. We have invested, and in the future may invest, in new business strategies, technologies, distribution methods, products, and services. There can be no assurance that these strategic investments will achieve expected returns. For example, we are investing in the technological infrastructure that we expect will enable us to deliver content that will resonate with players and provide more choice in the way that players connect with their games, with each other, and with new types of content. Such endeavors involve significant risks and uncertainties. No assurance can be given that the technology we choose to implement, the business strategies we choose to adopt and the products and services that we pursue will achieve financial results that meet or exceed our expectations. Our reputation and brand could also be adversely affected. We also may miss opportunities or fail to respond quickly enough to adopt technology or distribution methods or develop products, services or new ways to engage with our games that become popular with consumers, which could adversely affect our financial results.

Our development process usually starts with particular platforms and distribution methods in mind, and a range of technical development, feature and ongoing goals that we hope to be able to achieve. We may not be able to achieve these goals, or our competition may be able to achieve them more quickly and in a way that better engages consumers. In either case, our products and services may be technologically inferior to those of our competitors, less appealing to consumers, or both. If we cannot achieve our goals within the original development schedule for our products and services, then we may delay their release until these goals can be achieved, which may delay or reduce revenue and increase our development expenses. Alternatively, we may increase the resources employed in research and development in an attempt to accelerate our development of new technologies, either to preserve our product or service launch schedule or to keep up with our competition, which would increase our development expenses.

Negative perceptions about our business, products and services and the communities within our products and services may damage our business, and we may incur costs to address concerns.

Expectations regarding the quality, performance and integrity of our products and services are high. Players have sometimes been critical of our brands, products, services, online communities, business models and/or business practices for a wide variety of reasons, including perceptions about gameplay fun, fairness, game content, features or services, or objections to certain of our business practices. These negative responses may not be foreseeable. We also may not effectively manage these responses because of reasons within or outside of our control. For example, we have included in certain games the ability for players to

purchase digital items, including in some instances virtual “packs”, “boxes” or “crates” that contain variable digital items. The inclusion of variable digital items in certain games has attracted the attention of our community and if the future implementation of these features creates a negative perception of gameplay fairness or other negative perceptions, our reputation and brand could be harmed and revenue could be negatively impacted. In addition, we have taken actions, including delaying the release of our games and delaying or discontinuing features and services for our games, after taking into consideration, among other things, feedback from our community even if those decisions negatively impacted our operating results in the short term. We expect to continue to take actions to address concerns as appropriate, including actions that may result in additional expenditures and the loss of revenue.

In addition, we aim to offer our players safe, inclusive and fulfilling environments in which to play. We may not be able to maintain healthy, long-term online communities within our games and services as a result of the use of those communities as forums for harassment or bullying, our inability to successfully discourage overuse of our games and services or overspending within our games and services, or the successful implementation of cheating programs. Although we expend resources, and expect to continue to expend resources, to promote positive play, our efforts may not be successful due to scale, limitations of existing technologies or other factors.

Negative sentiment about gameplay fairness, our online communities, our business practices, business models or game content also can lead to investigations or increased scrutiny from governmental bodies and consumer groups, as well as litigation, which, regardless of their outcome, may be costly, damaging to our reputation and harm our business.

During the transition period to new console systems, our operating results may be more volatile.

New console systems historically have been developed and released several years apart. In periods of transition, sales of products for legacy generation consoles typically slow or decline in response to the introduction of new consoles, and sales of products for new generation consoles typically stabilize only after new consoles are widely-established with the consumer base. Sony and Microsoft are releasing new generation consoles during the three months ending December 31, 2020. Consistent with historical transition periods, we expect consumers to purchase fewer products for the Sony PlayStation 4 and Microsoft Xbox One consoles during the transition period. The console transition may have a comparable impact on our live services business, potentially increasing the impact on our financial results. The transition could accelerate faster than anticipated and may put downward pressure on legacy generation pricing, which could negatively affect our operating results. Our revenue from sales for the new generation consoles from Sony and Microsoft may not offset the negative effects of the transition on our operating results. Alternatively, adoption of the new generation consoles in which we have made significant investments may be slower than we anticipate or wide consumer availability may be delayed because of, among other things, business disruptions resulting from the COVID-19 pandemic. We do not control the unit volumes of consoles made available for sale, the pricing or appeal of new generation consoles, or the rates at which consumers purchase these consoles. As a result, our operating results during this transition may be more volatile and difficult to predict.

External game developers may not meet product development schedules or otherwise honor their obligations.

We contract with external game developers to develop our games or to publish or distribute their games. While we maintain contractual protections, we have less control over the product development schedules of games developed by external developers. We depend on their ability to meet product development schedules which could be negatively affected by, among other things, the shift to a distributed workforce model resulting from the COVID-19 pandemic. In addition, disputes occasionally arise with external developers, including with respect to game content, launch timing, achievement of certain milestones, the game development timeline, marketing campaigns, contractual terms and interpretation. If we have disputes with external developers or they cannot meet product development schedules, acquire certain approvals or are otherwise unable or unwilling to honor their obligations to us, we may delay or cancel previously announced games, alter our launch schedule or experience increased costs and expenses, which could result in a delay or significant shortfall in anticipated revenue, harm our profitability and reputation, and cause our financial results to be materially affected.

Our business depends on the success and availability of consoles, systems and devices developed by third parties and our ability to develop commercially successful products and services for those consoles, systems and devices.

The success of our business is driven in part by the commercial success and adequate supply of third-party consoles, systems and devices for which we develop our products and services or through which our products and services are distributed. Our success depends on our ability to reach a large, global audience by accurately predicting which consoles, systems and devices will be successful in the marketplace, our ability to develop commercially successful products and services that reach players across multiple channels, our ability to simultaneously manage products and services on multiple consoles, systems and devices

and our ability to effectively transition our products and services to new consoles, systems and devices. We must make product development decisions and commit significant resources well in advance of the commercial availability of new consoles, systems and devices, and we may incur significant expense to adjust our product portfolio and development efforts in response to changing consumer preferences. Additionally, we may enter into certain exclusive licensing arrangements that affect our ability to deliver or market products or services on certain consoles, systems or devices. A console, system or device for which we are developing products and services may not succeed as expected or new consoles, systems or devices may take market share and interactive entertainment consumers away from those for which we have devoted significant resources. If consumer demand for the consoles, systems or devices for which we are developing products and services is lower than our expectations, we may be unable to fully recover the investments we have made in developing our products and services, and our financial performance will be harmed. Alternatively, a console, system or device for which we have not devoted significant resources could be more successful than we initially anticipated, causing us to not be able to reach our intended audience and take advantage of meaningful revenue opportunities.

We may experience declines or fluctuations in the recurring portion of our business.

Our business model includes revenue that we deem recurring in nature, such as revenue from our annualized sports franchises (e.g., FIFA, Madden NFL), our console, PC and mobile catalog titles (i.e., titles that did not launch in the current fiscal year), and our live services. While we have been able to forecast the revenue from these areas of our business with greater relative confidence than for new games, services and business models, we cannot provide assurances that consumer demand will remain consistent, including in connection with circumstances outside of our control. Furthermore, we may cease to offer games and services that we previously had deemed to be recurring in nature. Consumer demand has declined and fluctuated, and could in the future decline or fluctuate, as a result of a number of factors, including their level of satisfaction with our games and services, our ability to improve and innovate our annualized titles, our ability to adapt our games and services to new distribution channels and business models, outages and disruptions of online services, the games and services offered by our competitors, our marketing and advertising efforts or declines in consumer activity generally as a result of economic downturns, among others. The reception to our sports games also depends, in part, on the popularity, reputation and brand of the leagues, organizations and individual athletes with whom we partner. Events and circumstances outside of our control that have a negative impact on the accessibility, popularity, reputation and brand of these partners has impacted, and could in the future negatively impact, sales related to our annualized sports games. Any decline or fluctuation in the recurring portion of our business may have a negative impact on our financial and operating results.

We could fail to successfully adopt new business models.

From time to time we seek to establish and implement new business models. Forecasting the success of any new business model is inherently uncertain and depends on a number of factors both within and outside of our control. Our actual revenue and profit for these businesses may be significantly greater or less than our forecasts. In addition, these new business models could fail, resulting in the loss of our investment in the development and infrastructure needed to support these new business models, as well as the opportunity cost of diverting management and financial resources away from more successful and established businesses. For example, we have devoted financial and operational resources to our subscription offerings without any assurance that these businesses will be financially successful. While we anticipate growth in this area of our business, consumer demand is difficult to predict as a result of a number of factors, including satisfaction with our products and services, our ability to provide engaging products and services, third parties offering their products and services within our subscription, partners that provide, or don't provide, access to our subscription, products and services offered by our competitors, reliability of our infrastructure and the infrastructure of our partners, pricing, the actual or perceived security of our and our partners information technology systems and reductions in consumer spending levels. In addition, if our subscription offerings are successful, sales could be diverted from established business models. If we do not select a target price that is optimal for our subscription services, maintain our target pricing structure or correctly project renewal rates, our financial results may be harmed.

Acquisitions, investments, divestitures and other strategic transactions could result in operating difficulties and other negative consequences.

We have made and may continue to make acquisitions or enter into other strategic transactions including (1) acquisitions of companies, businesses, intellectual properties, and other assets, (2) minority investments in strategic partners, and (3) investments in new interactive entertainment businesses as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we do not realize a satisfactory return on our investment, that we acquire liabilities, that our due diligence process does not identify significant issues, liabilities or other challenges, diversion of management's attention from our other businesses, the incurrence of debt,

contingent liabilities or amortization expenses, write-offs of goodwill, intangibles, or acquired in-process technology, or other increased cash and non-cash expenses. In addition, we may not integrate these businesses successfully or achieve expected synergies. For example, we may experience difficulties with the integration of business systems and technologies, the integration and retention of new employees, the implementation of our internal control and compliance procedures and/or the remediation of the internal control and compliance environment of the acquired entity, or the maintenance of key business and customer relationships. These events could harm our operating results or financial condition.

We may fund strategic transactions with (1) cash, which would reduce cash available for other corporate purposes, (2) debt, which would increase our interest expense and leverage and/or (3) equity which would dilute current shareholders' percentage ownership and also dilute our earnings per share. We also may divest or sell assets or a business and we may have difficulty selling such assets or business on acceptable terms in a timely manner. This could result in a delay in the achievement of our strategic objectives, cause us to incur additional expense, or the sale of such assets or business at a price or on terms that are less favorable than we anticipated.

We may be unable to maintain or acquire licenses to include intellectual property owned by others in our games, or to maintain or acquire the rights to publish or distribute games developed by others.

Many of our products and services are based on or incorporate intellectual property owned by others. For example, our EA Sports products include rights licensed from major sports leagues, teams and players' associations and our Star Wars products include rights licensed from Disney. Competition for these licenses and rights is intense. If we are unable to maintain these licenses and rights or obtain additional licenses or rights with significant commercial value, our ability to develop successful and engaging products and services may be adversely affected and our revenue, profitability and cash flows may decline significantly. Competition for these licenses has increased, and may continue to increase, the amounts that we must pay to licensors and developers, through higher minimum guarantees or royalty rates, which could significantly increase our costs and reduce our profitability.

Our business partners may be unable to honor their obligations to us or their actions may put us at risk.

We rely on various business partners, including third-party service providers, vendors, licensing partners, development partners, and licensees in many areas of our business. Their actions may put our business and our reputation and brand at risk. For example, we may have disputes with our business partners that may impact our business and/or financial results. In many cases, our business partners may be given access to sensitive and proprietary information in order to provide services and support to our teams, and they may misappropriate our information and engage in unauthorized use of it. In addition, the failure of these third parties to provide adequate services and technologies, or the failure of the third parties to adequately maintain or update their services and technologies, could result in a disruption to our business operations. Further, disruptions in the financial markets, economic downturns including related to the COVID-19 pandemic, poor business decisions, or reputational harm may adversely affect our business partners and they may not be able to continue honoring their obligations to us or we may cease our arrangements with them. Alternative arrangements and services may not be available to us on commercially reasonable terms or we may experience business interruptions upon a transition to an alternative partner or vendor. If we lose one or more significant business partners, our business could be harmed and our financial results could be materially affected.

A significant portion of our packaged goods sales are made to a relatively small number of retail and distribution partners, and these sales may be disrupted.

We derive a significant percentage of our net revenue attributable to sales of our packaged goods products to our top retail and distribution partners. The concentration of a significant percentage of these sales through a few large partners could lead to a short-term disruption to our business if certain of these partners significantly reduced their purchases or ceased to offer our products. The financial position of certain partners has deteriorated and while we maintain protections such as monitoring the credit extended to these partners, we could be vulnerable to collection risk if one or more of these partners experienced continued deterioration of their business or declared bankruptcy. The COVID-19 pandemic has resulted in closures of the retail stores of certain partners, which could negatively impact the sales of our packaged goods products and accelerate deterioration of the financial position of such partners. Additionally, receivables from these partners generally increase in our December fiscal quarter as sales of our products generally increase in anticipation of the holiday season which expose us to heightened risk at that time of year. Having a significant portion of our packaged goods sales concentrated in a few partners could reduce our negotiating leverage with them. If one or more of these partners experience deterioration in their business or become unable to obtain sufficient financing to maintain their operations, our business could be harmed.

OPERATIONAL RISKS

Catastrophic events may disrupt our business.

Natural disasters, cyber-incidents, weather events, wildfires, power disruptions, telecommunications failures, public health outbreaks, failed upgrades of existing systems or migrations to new systems, acts of terrorism or other events could cause outages, disruptions and/or degradations of our infrastructure (including our or our partners' information technology and network systems), a failure in our ability to conduct normal business operations, or the closure of public spaces in which players engage with our games and services. The health and safety of our employees, players, third-party organizations with whom we partner, or regulatory agencies on which we rely could be also affected, and our employees may experience fatigue from extended work-from-home periods, any of which may prevent us from executing against our business strategies and/or cause a decrease in consumer demand for our products and services.

System redundancy may be ineffective and our disaster recovery and business continuity planning may not be sufficient for all eventualities. Such failures, disruptions, closures, or inability to conduct normal business operations could also prevent access to our products, services or online stores selling our products and services, cause delay or interruption in our product or live services offerings, allow breaches of data security or result in the loss of critical data. Several of our key locations are fully or partially closed as a result of the COVID-19 pandemic, including our global headquarters in Redwood Shores, California and key studios across North America, Europe and Asia, and the distribution of our workforce could disrupt our ability to conduct normal business operations. Our corporate headquarters and several of our key studios also are located in seismically active regions. An event that results in the disruption or degradation of any of our critical business functions or information technology systems, harms our ability to conduct normal business operations or causes a decrease in consumer demand for our products and services could materially impact our reputation and brand, financial condition and operating results.

We may experience security breaches and cyber threats.

The integrity of our and our partners' information technology networks and systems is critical to our ongoing operations, products, and services. Our industry is prone to, and our systems and networks are subject to actions by malevolent actors, such as cyber-attacks and other information security incidents that seek to exploit, disable, damage, and/or disrupt our networks, business operations, products and services and supporting technological infrastructure, or gain access to consumer and employee personal information, our intellectual property and other assets. In addition, our systems and networks could be harmed or improperly accessed due to error by employees or third parties that are authorized to access to these networks and systems. We also rely on technological infrastructure provided by third-party business partners to support the online functionality of our products and services, who are also subject to these same cyber risks. Both our partners and we have expended, and expect to continue to expend, financial and operational resources to guard against cyber risks and to help protect our data and systems. However, the techniques used by malevolent actors change frequently, continue to evolve in sophistication and volume, and often are not detected for long periods of time. As a result of the COVID-19 pandemic, remote access to our networks and systems has increased substantially. While we have taken steps to secure our networks and systems, we may be more vulnerable to a successful cyber-attack or information security incident while our workforce remains distributed. The costs to respond to, mitigate, and/or notify affected parties of cyber-attacks and other security vulnerabilities are significant. In addition, such events could compromise the confidentiality, integrity, or accessibility of these networks and systems or result in the compromise or loss of the data, including personal data, processed by these systems. Consequences of such events have included, and could in the future include, the loss of proprietary and personal data and interruptions or delays in our business operations, as well as loss of player confidence and damage to our brand and reputation. In addition, such events could cause us to be non-compliant with applicable regulations, subject us to legal claims or penalties under laws protecting the privacy or security of personal information or proprietary material information. We have experienced such events in the past and expect future events to occur.

In addition, the virtual economies that we have established in many of our games are subject to abuse, exploitation and other forms of fraudulent activity that can negatively impact our business. Virtual economies involve the use of virtual currency and/or virtual assets that can be used or redeemed by a player within a particular game or service. The abuse or exploitation of our virtual economies have included the illegitimate generation and sale of virtual items, including in black markets. Our online services have been impacted by in-game exploits and the use of automated or other fraudulent processes to generate virtual item or currency illegitimately, and such activity may continue. These abuses and exploits, and the steps that we take to address these abuses and exploits may result in a loss of anticipated revenue, increased costs to protect against or remediate these issues, interfere with players' enjoyment of a balanced game environment and cause harm to our reputation and brand.

We may experience outages, disruptions or degradations in our services, products and/or technological infrastructure.

The reliable performance of our products and services depends on the continuing operation and availability of our information technology systems and those of our external service providers, including third-party “cloud” computing services. Our games and services are complex software products and maintaining the sophisticated internal and external technological infrastructure required to reliably deliver these games and services is expensive and complex. The reliable delivery and stability of our products and services has been, and could in the future be, adversely impacted by outages, disruptions, failures or degradations in our network and related infrastructure, as well as in the online platforms or services of key business partners that offer, support or host our products and services. The reliability and stability of our products and services has been affected by events outside of our control as well as by events within our control, such as the migration of data among data centers and to third-party hosted environments, the performance of upgrades and maintenance on our systems, and online demand for our products and services that exceeds the capabilities of our technological infrastructure.

If we or our external business partners were to experience an event that caused a significant system outage, disruption or degradation or if a transition among data centers or service providers or an upgrade or maintenance session encountered unexpected interruptions, unforeseen complexity or unplanned disruptions, our products and services may not be available to consumers or may not be delivered reliably and stably. As a result, our reputation and brand may be harmed, consumer engagement with our products and services may be reduced, and our revenue and profitability could be negatively impacted. We do not have redundancy for all our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities.

As our digital business grows, we will require an increasing amount of internal and external technical infrastructure, including network capacity and computing power to continue to satisfy the needs of our players. We are investing, and expect to continue to invest, in our own technology, hardware and software and the technology, hardware and software of external service providers to support our business. It is possible that we may fail to scale effectively and grow this technical infrastructure to accommodate increased demands, which may adversely affect the reliable and stable performance of our games and services, therefore negatively impacting engagement, reputation, brand and revenue growth.

We may not attract, train, motivate and retain key personnel.

Our business depends on our ability to attract, train, motivate and retain executive, technical, creative, marketing and other personnel that are essential to the development, marketing and support of our products and services. The market for highly-skilled workers and leaders in our industry is extremely competitive, particularly in the geographic locations in which many of our key personnel are located. In addition, our leading position within the interactive entertainment industry makes us a prime target for recruiting our executives, as well as key creative and technical talent. We may experience significant compensation costs to hire and retain senior executives and other personnel that we deem critical to our success. If we cannot successfully recruit, train, motivate and retain qualified employees, develop and maintain a diverse and inclusive work environment, or replace key employees following their departure, our ability to develop and manage our business will be impaired.

Our marketing and advertising efforts may fail to resonate with consumers.

Our products and services are marketed worldwide through a diverse spectrum of advertising and promotional programs. An increasing portion of our marketing activity is taking place on social media platforms and through streaming networks, influencers and content creators that are outside of our direct control. Our ability to engage players with our products and services is dependent in part upon the success of these programs, and changes to player preferences, the impact of athletes, celebrities, influencers or content creators, marketing regulations, technology changes or service disruptions may negatively impact our ability to reach and engage our players or otherwise negatively impact our marketing campaigns or the franchises associated with those marketing campaigns. Moreover, if the marketing for our products and services is not innovative or fails to resonate with players, particularly during key selling periods, or if advertising rates or other media placement costs increase, our business and operating results could be harmed.

We rely on the consoles, systems and devices of partners who have significant influence over the products and services that we offer in the marketplace.

A significant percentage of our digital net revenue is attributable to sales of products and services through our significant partners, including Sony, Microsoft, Apple and Google. The concentration of a material portion of our digital sales in these partners exposes us to risks associated with these businesses. Any deterioration in the businesses of our significant partners could disrupt and harm our business, including by limiting the methods through which our digital products and services are offered and exposing us to collection risks.

In addition, our license agreements typically provide these partners with significant control over the approval and distribution of the products and services that we develop for their consoles, systems and devices. For products and services delivered via digital channels, each respective partner has policies and guidelines that control the promotion and distribution of these titles and the features and functionalities that we are permitted to offer through the channel. In addition, we are dependent on these partners to invest in, and upgrade, the capabilities of their systems in a manner that corresponds to the preferences of consumers. Failure by these partners to keep pace with consumer preferences could have an adverse impact on the engagement with our products and services and our ability to merchandise and commercialize our products and services which could harm our business and/or financial results.

Moreover, certain significant partners can determine and change unilaterally certain key terms and conditions, including the ability to change their user and developer policies and guidelines. In many cases these partners also set the rates that we must pay to provide our games and services through their online channels, and retain flexibility to change their fee structures or adopt different fee structures for their online channels, which could adversely impact our costs, profitability and margins. These partners also control the information technology systems through which online sales of our products and service channels are captured. If our partners establish terms that restrict our offerings, significantly impact the financial terms on which these products or services are offered to our customers, or their information technology systems experiences outages that impact our players' ability to access our games or purchase extra content or cause an unanticipated delay in reporting, our business and/or financial results could be materially affected.

The products or services we release may contain defects, bugs or errors.

Our products and services are extremely complex software programs and are difficult to develop and distribute. We have quality controls in place to detect defects, bugs or other errors in our products and services before they are released. Nonetheless, these quality controls are subject to human error, overriding, and resource or technical constraints. In addition, the effectiveness of our quality controls and preventative measures may be negatively affected by the distribution of our workforce resulting from the COVID-19 pandemic. As such, these quality controls and preventative measures may not be effective in detecting all defects, bugs or errors in our products and services before they have been released into the marketplace. In such an event, the technological reliability and stability of our products and services could be below our standards and the standards of our players and our reputation, brand and sales could be adversely affected. In addition, we could be required to, or may find it necessary to, offer a refund for the product or service, suspend the availability or sale of the product or service or expend significant resources to cure the defect, bug or error each of which could significantly harm our business and operating results.

LEGAL AND COMPLIANCE RISKS

Our business is subject to complex and prescriptive regulations regarding consumer protection and data privacy practices, and could be adversely affected if our consumer protection, data privacy and security practices are not adequate, or perceived as being inadequate.

We are subject to global data privacy, data protection, localization, security and consumer-protection laws and regulations worldwide. These laws and regulations are emerging and evolving and the interpretation and application of these laws and regulations often are uncertain, contradictory and changing. The failure to maintain data practices that are compliant with applicable laws and regulations, or evolving interpretations of applicable laws and regulations, could result in inquiries from enforcement agencies or direct consumer complaints, resulting in civil or criminal penalties, and could adversely impact our reputation and brand. In addition, the operational costs of compliance with these regulations is high and will likely continue to increase.

Even if we remain in strict compliance with applicable laws and regulations, consumer sensitivity to the collection and processing of their personal information continues to increase. Any real or perceived failures in maintaining acceptable data privacy practices, including allowing improper or unauthorized access, acquisition or misuse and/or uninformed disclosure of consumer, employee and other information, or a perception that we do not adequately secure this information or provide consumers with adequate notice about the information that they authorize us to collect and disclose could result in brand, reputational, or other harms to the business, result in costly remedial measures, deter current and potential customers from using our products and services and cause our financial results to be materially affected.

Third party vendors and business partners receive access to certain information that we collect. These vendors and business partners may not prevent data security breaches with respect to the information we provide them or fully enforce our policies, contractual obligations and disclosures regarding the collection, use, storage, transfer and retention of personal data. A data security breach of one of our vendors or business partners could cause reputational and financial harm to them and us, negatively impact our ability to offer our products and services, and could result in legal liability, costly remedial measures, governmental and regulatory investigations, harm our profitability, reputation and brand, and cause our financial results to be materially affected.

We also are subject to payment card association rules and obligations pursuant to contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for the cost of associated expenses and penalties. In addition, if we fail to follow payment card industry security standards, even if no consumer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs.

Government regulations applicable to us may negatively impact our business.

We are a global company subject to various and complex laws and regulations domestically and internationally, including laws and regulations related to consumer protection, protection of minors, content, advertising, localization, information security, intellectual property, competition and taxation, among others. Many of these laws and regulations are continuously evolving and developing, and the application to, and impact on, us is uncertain. For example, the World Health Organization recently included “gaming disorder” in the 11th Revision of the International Classification of Diseases, prompting discussion and consideration of legislation and policies aimed at mitigating the risk of overuse of, and overspending within, video games. These laws could harm our business by limiting the products and services we can offer consumers or the manner in which we offer them. The costs of compliance with these laws may increase in the future as a result of changes in applicable laws or changes to interpretation. Any failure on our part to comply with these laws or the application of these laws in an unanticipated manner may harm our business and result in penalties or significant legal liability.

Certain of our business models are subject to new laws or regulations or evolving interpretations and application of existing laws and regulations, including those related to gambling. The growth and development of electronic commerce, virtual items and virtual currency has prompted calls for new laws and regulations and resulted in the application of existing laws or regulations that have limited or restricted the sale of our products and services in certain territories. For example, governmental organizations have applied existing laws and regulations to certain mechanics commonly included within our games, including the Ultimate Team mode associated with our sports franchises. In addition, we include modes in our games that allow players to compete against each other and manage player competitions that are based on our products and services. Although we structure and operate our skill-based competitions with applicable laws in mind, including those related to gambling, our skill-based competitions in the future could become subject to evolving laws and regulations. New laws related to these business models or the interpretation or application of current laws that impact these business models - each of which could vary significantly across jurisdictions - could subject us to additional regulation and oversight, cause us to further limit or restrict the sale of our products and services or otherwise impact our products and services, lessen the engagement with, and growth of, profitable business models, and expose us to increased compliance costs, significant liability, fines, penalties and harm to our reputation and brand.

We are subject to laws in certain foreign countries, and adhere to industry standards in the United States, that mandate rating requirements or set other restrictions on the advertisement or distribution of interactive entertainment software based on content. In addition, certain foreign countries allow government censorship of interactive entertainment software products. Adoption of ratings systems, censorship or restrictions on distribution of interactive entertainment software based on content could harm our business by limiting the products we are able to offer to our consumers. In addition, compliance with new and possibly inconsistent regulations for different territories could be costly, delay or prevent the release of our products in those territories.

We may be subject to claims of infringement of third-party intellectual property rights.

From time to time, third parties may claim that we have infringed their intellectual property rights. Although we take steps to avoid knowingly violating the intellectual property rights of others, it is possible that third parties still may claim infringement. Existing or future infringement claims against us may be expensive to defend and divert the attention of our employees from business operations. Such claims or litigation could require us to pay damages and other costs. We also could be required to stop selling, distributing or supporting products, features or services which incorporate the affected intellectual property rights, redesign products, features or services to avoid infringement, or obtain a license, all of which could be costly and harm our business.

In addition, many patents have been issued that may apply to potential new modes of delivering, playing or monetizing products and services such as those that we produce or would like to offer in the future. We may discover that future opportunities to provide new and innovative modes of game play and game delivery may be precluded by existing patents that we are unable to acquire or license on reasonable terms.

From time to time we may become involved in other legal proceedings.

We are currently, and from time to time in the future may become, subject to legal proceedings, claims, litigation and government investigations or inquiries, which could be expensive, lengthy, disruptive to normal business operations and occupy a significant amount of our employees' time and attention. In addition, the outcome of any legal proceedings, claims, litigation, investigations or inquiries may be difficult to predict and could have a material adverse effect on our business, reputation, operating results, or financial condition.

Our products and brands are subject to intellectual property infringement, including in jurisdictions that do not adequately protect our products and intellectual property rights.

We regard our products, brands and intellectual property as proprietary and take measures to protect our assets from infringement. We are aware that some unauthorized copying of our products and brands occurs, and if a significantly greater amount were to occur, it could negatively impact our business. Further, our products and services are available worldwide and the laws of some countries, particularly in Asia, either do not protect our products, brands and intellectual property to the same extent as the laws of the United States or are poorly enforced. Legal protection of our rights may be ineffective in countries with weaker intellectual property enforcement mechanisms. In addition, certain third parties have registered our intellectual property rights without authorization in foreign countries. Successfully registering such intellectual property rights could limit or restrict our ability to offer products and services based on such rights in those countries. Although we take steps to enforce and police our rights, our practices and methodologies may not be effective against all eventualities.

FINANCIAL RISKS

Our financial results are subject to currency and interest rate fluctuations.

International sales are a fundamental part of our business. For our fiscal year ended March 31, 2020, international net revenue comprised 59 percent of our total net revenue, and we expect our international business to continue to account for a significant portion of our total net revenue. As a result of our international sales, and also the denomination of our foreign investments and our cash and cash equivalents in foreign currencies, we are exposed to the effects of fluctuations in foreign currency exchange rates, and volatility in foreign currency exchange rates has increased in connection with the macroeconomic uncertainty caused by the COVID-19 pandemic. Strengthening of the U.S. dollar, particularly relative to the Euro, British pound sterling, Australian dollar, Chinese yuan, South Korean won and Polish zloty, has a negative impact on our reported international net revenue but a positive impact on our reported international operating expenses (particularly when the U.S. dollar strengthens against the Swedish krona and the Canadian dollar) because these amounts are translated at lower rates. We use foreign currency hedging contracts to mitigate some foreign currency risk. However, these activities are limited in the protection they provide us from foreign currency fluctuations and can themselves result in losses. In addition, interest rate volatility, including lower interest rates resulting from actions taken in connection with the COVID-19 pandemic, can decrease the amount of interest earned on our cash, cash equivalents and short-term investment portfolio.

We utilize debt financing and such indebtedness could adversely impact our business and financial condition.

We have \$1 billion in senior unsecured notes outstanding as well as an unsecured \$500 million revolving credit facility. While the facility is currently undrawn, we may use the proceeds of any future borrowings for general corporate purposes. We may also enter into other financial instruments in the future.

Our indebtedness could affect our financial condition and future financial results by, among other things:

- Requiring the dedication of a substantial portion of any cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund our growth strategy, working capital, capital expenditures and other general corporate purposes
- Limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- Increasing our vulnerability to adverse changes in general economic and industry conditions.

The agreements governing our indebtedness impose restrictions on us and require us to maintain compliance with specified covenants. In particular, the revolving credit facility requires us to maintain compliance with a debt to EBITDA ratio. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of these covenants and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, our outstanding indebtedness may be declared immediately due and payable. In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with any potential refinancing our indebtedness. Downgrades in our credit rating could also restrict our ability to obtain additional financing in the future and could affect the terms of any such financing.

Changes in our tax rates or exposure to additional tax liabilities, and changes to tax laws and interpretations of tax laws could adversely affect our earnings and financial condition.

We are subject to taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax provision, tax assets, and accruals for other taxes, and there are many transactions and calculations where the ultimate tax determination is uncertain. Our effective income tax rate is based in part on our corporate operating structure and the manner in which we operate our business and develop, value and use our intellectual property. Taxing authorities in jurisdictions in which we operate have, and may continue to, challenge and audit our methodologies for calculating our income taxes, which could increase our effective income tax rate and have an adverse impact on our results of operations and cash flows. In addition, our provision for income taxes is materially affected by our profit levels, changes in our business, changes in the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in the valuation of our deferred tax assets and liabilities, changes in our corporate structure, changes in applicable accounting rules, or changes in applicable tax laws or interpretations of existing income and withholding tax laws, as well as other factors. For example, the outcome of future guidance related to the U.S. Tax Act could cause us to change our analysis and materially impact our previous estimates and consolidated financial statements. The impact of excess tax benefits and tax deficiencies could result in significant fluctuations to our effective tax rate.

In addition, changes to U.S. federal, state or international tax laws or their applicability to corporate multinationals in the countries in which we do business, particularly in Switzerland, where our international business is headquartered, and actions we have taken in our business with respect to such laws, have affected, and could continue to affect, our effective tax rates and cash taxes, cause us to change the way in which we structure our business and result in other costs. Our effective tax rate also could be adversely affected by changes in our valuation allowances for deferred tax assets. In particular, the partial valuation allowance against our Swiss deferred tax assets could be affected by changes in future Swiss taxable income, expected growth rates of future Swiss taxable income, which are based primarily on third party market and industry growth data, and changes in Swiss interest rates. The partial valuation allowance is due to the limited seven-year carry forward period and our scheduling of future Swiss taxable income. Significant judgment is involved in determining the amount of the partial valuation allowance, particularly in estimating future Swiss taxable income over the period in which the Swiss deferred tax assets will reverse and assumptions related to expected growth rates. Actual financial results also may differ materially from our current estimates and could have a material impact on our assessment of the valuation allowance.

We are required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property, transfer, and goods and services taxes, in both the United States and foreign jurisdictions. Several foreign jurisdictions have introduced new digital services taxes on revenue of companies that provide certain digital services or expanded their interpretation of existing tax laws with regard to other non-income taxes. There is limited guidance about the applicability of these new taxes or changing interpretations to our business and significant uncertainty as to what will be deemed in scope. If these foreign taxes are applied to the Company, it could have an adverse and material impact on our business and financial performance.

Our reported financial results could be adversely affected by changes in financial accounting standards.

Our reported financial results are impacted by the accounting standards promulgated by the SEC and national accounting standards bodies and the methods, estimates, and judgments that we use in applying our accounting policies. These methods, estimates, and judgments are subject to risks, uncertainties, assumptions and changes that could adversely affect our reported financial position and financial results. In addition, changes to applicable financial accounting standards could impact our reported financial position and financial results. For more information on recently adopted accounting standards and recently issued accounting standards applicable to us, see Part I, Item 1 of this Form 10-Q in the Notes to the Condensed Consolidated Financial Statements in [Note 1 — Description of Business and Basis of Presentation](#) under the subheadings “*Recently Adopted Accounting Standards*” and “*Other Recently Issued Accounting Standards*”.

As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue, costs and taxes, could have an adverse effect on our reported results although not necessarily on our cash flows.

GENERAL RISKS

Our business is subject to economic, market and geopolitical conditions.

Our business is subject to economic, market, public health and geopolitical conditions, which are beyond our control. The United States and other international economies have experienced cyclical downturns from time to time. Worsening economic conditions that negatively impact discretionary consumer spending and consumer demand, including inflation, slower growth, recession and other macroeconomic conditions, including those resulting from public health outbreaks such as the COVID-19 pandemic and geopolitical issues could have a material adverse impact on our business and operating results. In addition, the United Kingdom’s departure from the European Union has caused economic and legal uncertainty in the region and may result in macroeconomic conditions that adversely affect our business.

We are particularly susceptible to market conditions and risks associated with the entertainment industry, which, in addition to general macroeconomic downturns, also include the popularity, price and timing of our games, changes in consumer demographics, the availability and popularity of other forms of entertainment, and critical reviews and public tastes and preferences, which may change rapidly and cannot necessarily be predicted.

Our stock price has been volatile and may continue to fluctuate significantly.

The market price of our common stock historically has been, and we expect will continue to be, subject to significant fluctuations. These fluctuations may be due to our operating results or factors specific to our operating results (including those discussed in the risk factors above, as well as others not currently known to us or that we currently do not believe are material), changes in securities analysts’ estimates of our future financial performance, ratings or recommendations, our results or future financial guidance falling below our expectations and analysts’ and investors’ expectations, the failure of our capital return programs to meet analysts’ and investors’ expectations, the announcement and integration of any acquisitions we may make, departure of key personnel, cyberattacks, or factors largely outside of our control including, those affecting interactive gaming, entertainment, and/or technology companies generally, national or international economic conditions, investor sentiment or other factors related or unrelated to our operating performance. In particular, economic downturns may contribute to the public stock markets experiencing extreme price and trading volume volatility. These broad market fluctuations could adversely affect the market price of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Exhibits

The exhibits listed in the accompanying index to exhibits on Page 60 are filed or incorporated by reference as part of this report.

**ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2020**

EXHIBIT INDEX

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
10.1*	Xbox Console Publisher License Agreement, dated as of September 30, 2020, between Microsoft Corporation, Electronic Arts Inc. and EA Swiss Sàrl				X
10.2*	PlayStation 5 Amendment to the PlayStation Global Developer and Publisher Agreement, dated as of October 15, 2020, by and among Electronic Arts Inc., EA Swiss Sàrl, Sony Interactive Entertainment, Inc., Sony Interactive Entertainment LLC, and Sony Interactive Entertainment Europe Limited				X
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm				X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
Additional exhibits furnished with this report:					
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
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.				X
101.SCH [†]	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL [†]	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF [†]	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB [†]	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE [†]	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X

[†] Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 are the following formatted in Inline eXtensible Business Reporting Language (“iXBRL”): (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Operations, (3) Condensed Consolidated Statements of Comprehensive Income, (4) Condensed Consolidated Statements of Stockholders' Equity, (5) Condensed Consolidated Statements of Cash Flows, and (6) Notes to Condensed Consolidated Financial Statements.

* Portions of this exhibit have been redacted pursuant to SEC rules regarding confidential treatment.

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.

ELECTRONIC ARTS INC.

(Registrant)

/s/ Blake Jorgensen

Blake Jorgensen
Chief Operating Officer and
Chief Financial Officer

DATED:
November 10, 2020