

**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 December 31, 2021  
OR

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

For the transition period from to

Commission File 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 February 4, 2022, there were 281,222,268 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

**ELECTRONIC ARTS INC.**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED DECEMBER 31, 2021**

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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)		December 31, 2021	March 31, 2021 <sup>(a)</sup>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$	2,670	\$ 5,260
Short-term investments		346	1,106
Receivables, net		965	521
Other current assets		377	326
Total current assets		4,358	7,213
Property and equipment, net		522	491
Goodwill		5,389	2,868
Acquisition-related intangibles, net		1,052	309
Deferred income taxes, net		2,130	2,045
Other assets		479	362
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>13,930</b>	<b>\$ 13,288</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$	86	\$ 96
Accrued and other current liabilities		1,443	1,341
Deferred net revenue (online-enabled games)		2,101	1,527
Total current liabilities		3,630	2,964
Senior notes, net		1,878	1,876
Income tax obligations		326	315
Deferred income taxes, net		75	43
Other liabilities		404	250
Total liabilities		6,313	5,448
Commitments and contingencies (See <a href="#">Note 12</a> )			
Stockholders' equity:			
Common stock, \$0.01 par value. 1,000 shares authorized; 282 and 286 shares issued and outstanding, respectively		3	3
Additional paid-in capital		—	—
Retained earnings		7,608	7,887
Accumulated other comprehensive income (loss)		6	(50)
Total stockholders' equity		7,617	7,840
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>13,930</b>	<b>\$ 13,288</b>

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 December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Net revenue	\$ 1,789	\$ 1,673	\$ 5,166	\$ 4,283
Cost of revenue	631	601	1,440	1,175
Gross profit	1,158	1,072	3,726	3,108
Operating expenses:				
Research and development	539	451	1,607	1,310
Marketing and sales	293	216	716	493
General and administrative	163	149	508	418
Amortization of intangibles	61	5	131	16
Total operating expenses	1,056	821	2,962	2,237
Operating income	102	251	764	871
Interest and other income (expense), net	(11)	(6)	(39)	(19)
Income before provision for income taxes	91	245	725	852
Provision for income taxes	25	34	161	91
Net income	\$ 66	\$ 211	\$ 564	\$ 761
Earnings per share:				
Basic	\$ 0.23	\$ 0.73	\$ 1.99	\$ 2.63
Diluted	\$ 0.23	\$ 0.72	\$ 1.97	\$ 2.61
Number of shares used in computation:				
Basic	283	290	284	289
Diluted	285	292	287	292

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 December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Net income	\$ 66	\$ 211	\$ 564	\$ 761
Other comprehensive income (loss), net of tax				
Net gains (losses) on available-for-sale securities	(1)	(2)	(1)	6
Net gains (losses) on derivative instruments	10	(26)	66	(106)
Foreign currency translation adjustments	(1)	23	(9)	56
Total other comprehensive income (loss), net of tax	8	(5)	56	(44)
Total comprehensive income	\$ 74	\$ 206	\$ 620	\$ 717

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				
<b>Balances as of March 31, 2021</b>	286,465	\$ 3	\$ —	\$ 7,887	\$ (50)	\$ 7,840
Total comprehensive income	—	—	—	204	15	219
Stock-based compensation	—	—	125	—	—	125
Awards assumed upon acquisition	—	—	23	—	—	23
Issuance of common stock	1,209	—	(105)	—	—	(105)
Repurchase and retirement of common stock	(2,292)	—	(43)	(282)	—	(325)
Cash dividends declared (\$0.17 per common share)	—	—	—	(49)	—	(49)
<b>Balances as of June 30, 2021</b>	285,382	\$ 3	\$ —	\$ 7,760	\$ (35)	\$ 7,728
Total comprehensive income	—	—	—	294	33	327
Stock-based compensation	—	—	149	—	—	149
Issuance of common stock	602	—	25	—	—	25
Repurchase and retirement of common stock	(2,318)	—	(174)	(151)	—	(325)
Cash dividends declared (\$0.17 per common share)	—	—	—	(48)	—	(48)
<b>Balances as of September 30, 2021</b>	283,666	\$ 3	\$ —	\$ 7,855	\$ (2)	\$ 7,856
Total comprehensive income	—	—	—	66	8	74
Stock-based compensation	—	—	129	—	—	129
Issuance of common stock	866	—	(69)	—	—	(69)
Repurchase and retirement of common stock	(2,415)	—	(60)	(265)	—	(325)
Cash dividends declared (\$0.17 per common share)	—	—	—	(48)	—	(48)
<b>Balances as of December 31, 2021</b>	282,117	\$ 3	\$ —	\$ 7,608	\$ 6	\$ 7,617

(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				
<b>Balances as of March 31, 2020</b>	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)
<b>Balances as of June 30, 2020</b>	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	—	—	—	—	—	—
<b>Balances as of September 30, 2020</b>	289,622	\$ 3	\$ 145	\$ 8,016	\$ (89)	\$ 8,075
Total comprehensive income	—	—	—	211	(5)	206
Stock-based compensation	—	—	111	—	—	111
Issuance of common stock	1,345	—	(54)	—	—	(54)
Repurchase and retirement of common stock	(2,524)	—	(202)	(124)	—	(326)
Cash dividends declared (\$0.17 per common share)	—	—	—	(49)	—	(49)
<b>Balances as of December 31, 2020</b>	288,443	\$ 3	\$ —	\$ 8,054	\$ (94)	\$ 7,963

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

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

(Unaudited) (In millions)	Nine Months Ended December 31,	
	2021	2020
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 564	\$ 761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	345	123
Stock-based compensation	403	326
Change in assets and liabilities:		
Receivables, net	(390)	(309)
Other assets	(75)	(28)
Accounts payable	(9)	29
Accrued and other liabilities	183	245
Deferred income taxes, net	(140)	(18)
Deferred net revenue (online-enabled games)	574	434
Net cash provided by operating activities	1,455	1,563
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(135)	(93)
Proceeds from maturities and sales of short-term investments	1,193	2,088
Purchase of short-term investments	(438)	(2,056)
Acquisitions, net of cash acquired	(3,391)	—
Net cash used in investing activities	(2,771)	(61)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	44	56
Cash dividends paid	(145)	(49)
Cash paid to taxing authorities for shares withheld from employees	(193)	(144)
Repurchase and retirement of common stock	(975)	(404)
Net cash used in financing activities	(1,269)	(541)
Effect of foreign exchange on cash and cash equivalents	(5)	43
Increase (decrease) in cash and cash equivalents	(2,590)	1,004
Beginning cash and cash equivalents	5,260	3,768
Ending cash and cash equivalents	\$ 2,670	\$ 4,772
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes, net	\$ 374	\$ 184
Cash paid during the period for interest	28	21

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, Formula 1 and Star Wars). Through our live services offerings, we offer our players high-quality experiences designed to provide value to players and extend and enhance gameplay. These live services include extra content, subscription offerings and other revenue generated in addition to the sale of our base games and free-to-play 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.

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, 2022 contains 52 weeks and ends on April 2, 2022. Our results of operations for the fiscal year ended March 31, 2021 contained 53 weeks and ended on April 3, 2021. Our results of operations for the three and nine months ended December 31, 2021 contained 13 weeks and 39 weeks, respectively, and ended on January 1, 2022. Our results of operations for the three and nine months ended December 31, 2020 contained 13 weeks and 40 weeks, respectively, and ended on January 2, 2021. 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, 2021, as filed with the United States Securities and Exchange Commission ("SEC") on May 26, 2021.

***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 as a result, for sales after July 1, 2020, revenue for service-related performance obligations for games and extra content sold through retail is recognized over an estimated ten-month period beginning in the month of sale, and revenue for service-related performance obligations for digitally-distributed games and extra content is recognized over an estimated eight-month period beginning in the month of sale. During the three months ended December 31, 2021, this change to our Estimated Offering Period resulted in an increase in net revenue of \$153 million and net income of \$117 million, and an increase of \$0.41 diluted earnings per share. During the nine months ended December 31, 2021, this change to our Estimated Offering Period resulted in an increase in net revenue of \$255 million and net income of \$194 million, and an increase of \$0.68 diluted earnings per share.



During the three months ended September 30, 2021, we completed our annual evaluation of the Estimated Offering Period. We have noted consumers are playing certain of our Online Hosted Service Games, such as PC and console free-to-play games, for longer periods of time than in prior years as players engage with services we provide that are designed to enhance and extend gameplay, and as such, have concluded that the Estimated Offering Period for such games should be lengthened. As a result, for all new sales after July 1, 2021, the revenue that we recognize for service-related performance obligations related to our PC and console free-to-play games is recognized generally over a twelve-month period. During the three months ended December 31, 2021, this change to our Estimated Offering Period resulted in a decrease in net revenue of \$45 million and net income of \$34 million, and a decrease of \$0.12 diluted earnings per share. During the nine months ended December 31, 2021, this change to our Estimated Offering Period resulted in a decrease in net revenue of \$62 million and net income of \$47 million, and a decrease of \$0.16 diluted earnings per share.

#### ***Recently Adopted 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. We adopted ASU 2019-12 in the first quarter of fiscal year 2022. The amendments did not have a material impact on our Condensed Consolidated Financial Statements upon adoption.

The standard clarified and amended existing guidance with respect to transactions in which a taxpayer realizes a step-up in tax basis of goodwill. As we integrate acquired intellectual property into our global operating structure, we may realize a tax basis step-up in goodwill. In such situations, we are required to assess whether the integration relates to the acquisition or is a separate transaction. When the integration is a separate transaction, we may be required to recognize deferred tax assets to the extent the stepped-up tax basis exceeds the associated U.S. GAAP basis. This assessment requires judgment around key indicators such as whether the tax basis step-up was contemplated as part of the original acquisition to which the intellectual property relates, whether the integration results in cash taxes, and whether the integration is achieved through a simple tax election. See [Note 10 — Income Taxes](#) for a discussion of the prospective application of this standard to our intra-entity transfer of Codemasters intellectual property (the “Codemasters intra-entity sale”) during the three months ended September 30, 2021.

#### ***Other Recently Issued Accounting Standards***

In October 2021, the FASB issued ASU 2021-08, *Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (Topic 805). The amendments in this update require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. This update is effective for us beginning in the first quarter of fiscal year 2024. Early adoption is permitted. We are currently evaluating the timing of adoption and impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

In November 2021, the FASB issued ASU 2021-10, *Disclosures by Business Entities about Government Assistance* (Topic 832). The amendments in this update establish Topic 832 and require additional disclosures regarding government grants and money contributions when entities accounted for transactions with a government by analogizing to a grant or contribution accounting model. This update is effective for us beginning in the first fiscal quarter of fiscal year 2023. Early adoption is permitted. We plan to adopt this provision in the first fiscal quarter of fiscal year 2023. This update is not expected to have a material impact on our Condensed Consolidated Financial Statements or 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 December 31, 2021 and March 31, 2021, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

	As of December 31, 2021	Fair Value Measurements at Reporting Date Using			Balance Sheet Classification
		Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	
		(Level 1)	(Level 2)	(Level 3)	
Assets					
Bank and time deposits	\$ 53	\$ 53	\$ —	\$ —	Cash equivalents
Money market funds	208	208	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	148	—	148	—	Short-term investments
U.S. Treasury securities	75	75	—	—	Short-term investments
Commercial paper	39	—	39	—	Short-term investments
Foreign government securities	30	—	30	—	Short-term investments
Asset-backed securities	38	—	38	—	Short-term investments
Certificates of deposit	16	—	16	—	Short-term investments
Foreign currency derivatives	47	—	47	—	Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>	23	23	—	—	Other assets
Total assets at fair value	<u>\$ 677</u>	<u>\$ 359</u>	<u>\$ 318</u>	<u>\$ —</u>	
Liabilities					
Foreign currency derivatives	\$ 16	\$ —	\$ 16	\$ —	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>	23	23	—	—	Other liabilities
Total liabilities at fair value	<u>\$ 39</u>	<u>\$ 23</u>	<u>\$ 16</u>	<u>\$ —</u>	

	Fair Value Measurements at Reporting Date Using					Balance Sheet Classification
	As of March 31, 2021	Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs		
		(Level 1)	(Level 2)	(Level 3)		
Assets						
Bank and time deposits	\$ 157	\$ 157	\$ —	\$ —		Cash equivalents
Money market funds	2,100	2,100	—	—		Cash equivalents
Available-for-sale securities:						
Corporate bonds	380	—	380	—		Short-term investments and cash equivalents
U.S. Treasury securities	437	437	—	—		Short-term investments and cash equivalents
U.S. agency securities	3	—	3	—		Short-term investments
Commercial paper	142	—	142	—		Short-term investments and cash equivalents
Foreign government securities	67	—	67	—		Short-term investments
Asset-backed securities	112	—	112	—		Short-term investments
Certificates of deposit	41	—	41	—		Short-term investments
Foreign currency derivatives	33	—	33	—		Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>	18	18	—	—		Other assets
Total assets at fair value	<u>\$ 3,490</u>	<u>\$ 2,712</u>	<u>\$ 778</u>	<u>\$ —</u>		
Liabilities						
Foreign currency derivatives	\$ 40	\$ —	\$ 40	\$ —		Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>	19	19	—	—		Other liabilities
Total liabilities at fair value	<u>\$ 59</u>	<u>\$ 19</u>	<u>\$ 40</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, 2021, for additional information regarding our Deferred Compensation Plan.

### (3) FINANCIAL INSTRUMENTS

#### *Cash and Cash Equivalents*

As of December 31, 2021 and March 31, 2021, our cash and cash equivalents were \$2,670 million and \$5,260 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 December 31, 2021 and March 31, 2021 (in millions):

	As of December 31, 2021				As of March 31, 2021			
	Cost or Amortized Cost	Gross Unrealized		Fair Value	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 148	\$ —	\$ —	\$ 148	\$ 372	\$ —	\$ —	\$ 372
U.S. Treasury securities	75	—	—	75	374	1	—	375
U.S. agency securities	—	—	—	—	3	—	—	3
Commercial paper	39	—	—	39	136	—	—	136
Foreign government securities	30	—	—	30	67	—	—	67
Asset-backed securities	38	—	—	38	112	—	—	112
Certificates of deposit	16	—	—	16	41	—	—	41
Short-term investments	<u>\$ 346</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 346</u>	<u>\$ 1,105</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 1,106</u>

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of December 31, 2021 and March 31, 2021 (in millions):

	As of December 31, 2021		As of March 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due within 1 year	\$ 244	\$ 244	\$ 895	\$ 896
Due 1 year through 5 years	98	98	203	203
Due after 5 years	4	4	7	7
Short-term investments	<u>\$ 346</u>	<u>\$ 346</u>	<u>\$ 1,105</u>	<u>\$ 1,106</u>

### (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, Japanese yen, 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 December 31, 2021			As of March 31, 2021		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 277	\$ 1	\$ 7	\$ 370	\$ 14	\$ 1
Forward contracts to sell	\$ 1,377	\$ 42	\$ 3	\$ 1,840	\$ 15	\$ 35

The effects of cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2021 and 2020 are as follows (in millions):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2021		2020		2021		2020	
	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	\$ 1,789	\$ 539	\$ 1,673	\$ 451	\$ 5,166	\$ 1,607	\$ 4,283	\$ 1,310
Gains (losses) on foreign currency forward contracts designated as cash flow hedges	\$ 12	\$ 2	\$ (22)	\$ 2	\$ (25)	\$ 14	\$ (10)	\$ (4)

### 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 December 31, 2021			As of March 31, 2021		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 615	\$ 4	\$ —	\$ 599	\$ —	\$ 4
Forward contracts to sell	\$ 857	\$ —	\$ 6	\$ 450	\$ 4	\$ —

The effect of foreign currency forward contracts not designated as hedging instruments in our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2021 and 2020 was as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
	<b>Interest and other income (expense), net</b>			
Total amounts presented in our Condensed Consolidated Statements of Operations in which the effects of balance sheet hedges are recorded	\$ (11)	\$ (6)	\$ (39)	\$ (19)
Gain (losses) on foreign currency forward contracts not designated as hedging instruments	\$ 19	\$ (13)	\$ 16	\$ (20)

#### (5) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended December 31, 2021 and 2020 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 September 30, 2021	\$ —	\$ 27	\$ (29)	\$ (2)
Other comprehensive income (loss) before reclassifications	(1)	24	(1)	22
Amounts reclassified from accumulated other comprehensive income (loss)	—	(14)	—	(14)
Total other comprehensive income (loss), net of tax	(1)	10	(1)	8
Balances as of December 31, 2021	\$ (1)	\$ 37	\$ (30)	\$ 6

	Unrealized Net Gains (Losses) on Available- for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of September 30, 2020	\$ 4	\$ (41)	\$ (52)	\$ (89)
Other comprehensive income (loss) before reclassifications	(2)	(46)	23	(25)
Amounts reclassified from accumulated other comprehensive income (loss)	—	20	—	20
Total other comprehensive income (loss), net of tax	(2)	(26)	23	(5)
Balances as of December 31, 2020	\$ 2	\$ (67)	\$ (29)	\$ (94)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the nine months ended December 31, 2021 and 2020 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, 2021	\$ —	\$ (29)	\$ (21)	\$ (50)
Other comprehensive income (loss) before reclassifications	(1)	55	(9)	45
Amounts reclassified from accumulated other comprehensive income (loss)	—	11	—	11
Total other comprehensive income (loss), net of tax	(1)	66	(9)	56
Balances as of December 31, 2021	\$ (1)	\$ 37	\$ (30)	\$ 6

	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	6	(120)	56	(58)
Amounts reclassified from accumulated other comprehensive income (loss)	—	14	—	14
Total other comprehensive income (loss), net of tax	6	(106)	56	(44)
Balances as of December 31, 2020	\$ 2	\$ (67)	\$ (29)	\$ (94)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and nine months ended December 31, 2021 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended December 31, 2021	Nine Months Ended December 31, 2021
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (12)	\$ 25
Research and development	(2)	(14)
Total net (gain) loss reclassified, net of tax	(14)	11

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and nine months ended December 31, 2020 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended December 31, 2020	Nine Months Ended December 31, 2020
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ 22	\$ 10
Research and development	(2)	4
Total net (gain) loss reclassified, net of tax	20	14

## (6) BUSINESS COMBINATIONS

### *Codemasters Group Holdings plc*

On February 18, 2021, we completed our acquisition of 100% of the equity interests of Codemasters Group Holdings plc, a public limited company registered in England and Wales ("Codemasters"), for a total purchase price of \$1.2 billion, net of cash acquired. The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions, and are considered preliminary as of the reporting date pending finalization of the valuation of certain immaterial tax liabilities. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date. During the three months ended December 31, 2021, we recorded an immaterial purchase accounting adjustment related to an acquired tax liability, which resulted in a \$6 million decrease to goodwill.

### ***Glu Mobile Inc.***

On April 29, 2021, we completed the acquisition of 100% of the equity interests of Glu Mobile Inc., a leading global developer and publisher of mobile games (“Glu” and the “Glu acquisition”) for a total purchase price of \$2.0 billion, net of cash acquired of \$332 million. The acquisition of Glu is expected to accelerate our mobile growth by creating a combined organization with ongoing live services across multiple games and genres. We also believe that the acquisition will create value by adding Glu’s expertise in casual sports and lifestyle genres to new titles based on our intellectual property. The transaction costs associated with the acquisition totaled approximately \$15 million and were recognized in general and administrative expense, of which \$11 million were recognized during fiscal 2022, all within the three months ended June 30, 2021.

In addition, upon the closing of the Glu acquisition, we assumed all outstanding unvested options and unvested restricted stock units relating to Glu common stock and such awards were converted into corresponding awards relating to a number of shares of our common stock using an exchange ratio equal to 0.0880, with substantially identical terms and conditions as were applicable to the corresponding Glu awards immediately prior to the closing of the acquisition, except as such terms and conditions were modified in the acquisition agreements (“Replacement Awards”). The estimated fair value of the Replacement Awards was \$133 million, of which \$23 million related to awards for which services were rendered prior to the Glu acquisition and represented part of the purchase consideration transferred in the Glu acquisition. The remaining \$110 million is attributable to services to be rendered after the Glu acquisition and will be recognized as stock-based compensation expense over their remaining vesting periods.

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed:

<b>(In millions)</b>	
Current assets	\$ 63
Property and equipment, net	14
Other assets	48
Intangible assets	526
Goodwill	1,506
Deferred tax liabilities	(38)
Current liabilities	(78)
Other liabilities	(39)
Purchase price, net of cash acquired	<u>\$ 2,002</u>
<b><u>Intangibles assets by asset category<sup>(a)</sup></u></b>	
Developed and core technology	\$ 232
Trade names and trademarks	209
Registered user base and other intangibles	12
In-process research and development	73
Total	<u>\$ 526</u>

<sup>(a)</sup> In-process research and development assets are considered indefinite-lived until complete. Excluding the in-process research and development assets, the weighted-average useful life of the Glu’s acquired intangible assets is currently estimated to be approximately 5.5 years.

Goodwill consists largely of workforce and synergies with our existing business. The goodwill is not deductible for tax purposes.

The results of operations of Glu and the fair value of the assets acquired have been included in our Condensed Consolidated Financial Statements since the date of acquisition.



### Playdemic Limited

On September 20, 2021, we completed the acquisition of 100% of the equity interests of Playdemic Limited, a private limited company incorporated in England and Wales (“Playdemic” and the “Playdemic acquisition”) for a total purchase price of \$1.4 billion, net of cash acquired. The Playdemic acquisition is intended to be another step in our strategy of continued leadership in sports and mobile expansion. The transaction costs associated with the acquisition totaled approximately \$11 million and were recognized in general and administrative expense during the six months ended September 30, 2021.

The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions. Our purchase accounting is preliminary as of the reporting date, pending finalization of the valuation of acquired intangible assets, including associated deferred tax impacts, tangible assets, and assumed liabilities. We expect to finalize the purchase accounting as soon as practicable, but not later than one year from the acquisition date, and do not expect material purchase accounting adjustments in future periods.

During the three months ended December 31, 2021, we recorded a preliminary net working capital adjustment, which resulted in a \$4 million decrease to the purchase price, net of cash acquired and adjusted the fair values assigned to the Playdemic assets acquired and liabilities assumed. The differences between the provisional estimates recognized during the second quarter of fiscal 2022 and the adjusted preliminary amounts are presented in the table below:

(In millions)	Previously Reported at September 30, 2021	Measurement Period Adjustments	As Adjusted at December 31, 2021
Current assets	\$ 22	\$ (5)	\$ 17
Property and equipment, net	2	—	2
Other assets	2	1	3
Intangible assets	354	77	431
Goodwill	1,100	(64)	1,036
Deferred tax liabilities	(67)	(15)	(82)
Current liabilities	(6)	2	(4)
Other liabilities	(2)	—	(2)
Purchase price, net of cash acquired	<u>\$ 1,405</u>	<u>\$ (4)</u>	<u>\$ 1,401</u>

<b>Intangibles assets by asset category<sup>(b)</sup></b>			
Developed and core technology		\$	174
Trade names and trademarks			219
Registered user base and other intangibles			38
Total		\$	<u>431</u>

<sup>(b)</sup> We currently estimate the weighted-average useful life of Playdemic's acquired intangible assets to be approximately 6.6 years.

The measurement period adjustments would not have had a material impact on the Condensed Consolidated Statements of Operations in the second quarter of fiscal 2022 had the adjustments to the provisional amounts been recognized as of the acquisition date.

Goodwill consists largely of workforce and synergies with our existing business. The goodwill is not deductible for local tax purposes.

The results of operations of Playdemic and the preliminary fair value of the assets acquired have been included in our Condensed Consolidated Financial Statements.

### Additional Acquisition Related Information

During the nine months ended December 31, 2021, we completed one other acquisition that was not material to our Condensed Consolidated Financial Statements.

Pro forma results of operations of our acquisitions have not been presented because the effect of the acquisitions were not material to our Condensed Consolidated Statements of Operations individually, and in the aggregate.

### (7) GOODWILL AND ACQUISITION-RELATED INTANGIBLES, NET

The changes in the carrying amount of goodwill for the nine months ended December 31, 2021 are as follows (in millions):

	As of March 31, 2021	Activity	Effects of Foreign Currency Translation	As of December 31, 2021
Goodwill	\$ 3,236	\$ 2,522	\$ (1)	\$ 5,757
Accumulated impairment	(368)	—	—	(368)
Total	\$ 2,868	\$ 2,522	\$ (1)	\$ 5,389

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

	As of December 31, 2021			As of March 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Acquisition- Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition- Related Intangibles, Net
<b>Finite-lived acquisition-related intangibles</b>						
Developed and core technology	\$ 1,107	\$ (597)	\$ 510	\$ 691	\$ (472)	\$ 219
Trade names and trademarks	607	(191)	416	188	(144)	44
Registered user base and other intangibles	56	(20)	36	5	(5)	—
Carrier contracts and related	85	(85)	—	85	(85)	—
Total finite-lived acquisition-related intangibles	\$ 1,855	\$ (893)	\$ 962	\$ 969	\$ (706)	\$ 263
<b>Indefinite-lived acquisition-related intangibles</b>						
In-process research and development	\$ 90	—	\$ 90	\$ 46	—	\$ 46
Total acquisition-related intangibles, net	\$ 1,945	\$ (893)	\$ 1,052	\$ 1,015	\$ (706)	\$ 309

Amortization of intangibles for the three and nine months ended December 31, 2021 and 2020 are classified in the Condensed Consolidated Statements of Operations as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Cost of revenue	\$ 44	\$ —	\$ 88	\$ —
Operating expenses	61	5	131	16
Total	\$ 105	\$ 5	\$ 219	\$ 16

During the three and nine months ended December 31, 2021, as part of the amortization of intangibles we recorded impairment charges of \$14 million and \$26 million, respectively, for acquisition-related intangible assets, which were recorded within operating expenses.

Acquisition-related intangible assets are generally amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, currently from 1 to 7 years. As of December 31, 2021 and March 31, 2021, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 5.3 and 3.5 years, respectively.

As of December 31, 2021, 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,**

2022 (remaining three months)	\$	75
2023		236
2024		176
2025		126
2026		121
2027		101
2028 and thereafter		127
Total	\$	<u>962</u>

## (8) 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 nine months ended December 31, 2021 and 2020, 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 December 31, 2021	As of March 31, 2021
Other current assets	\$ 26	\$ 24
Other assets	22	20
Royalty-related assets	<u>\$ 48</u>	<u>\$ 44</u>

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 December 31, 2021	As of March 31, 2021
Accrued royalties	\$ 232	\$ 210
Other liabilities	1	—
Royalty-related liabilities	<u>\$ 233</u>	<u>\$ 210</u>

As of December 31, 2021, we were committed to pay approximately \$2,064 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 12](#) for further information on our developer and licensor commitments.

## (9) BALANCE SHEET DETAILS

### *Property and Equipment, Net*

Property and equipment, net, as of December 31, 2021 and March 31, 2021 consisted of (in millions):

	As of December 31, 2021	As of March 31, 2021
Computer, equipment and software	\$ 835	\$ 808
Buildings	370	370
Leasehold improvements	198	172
Equipment, furniture and fixtures, and other	91	93
Land	66	66
Construction in progress	21	12
	1,581	1,521
Less: accumulated depreciation	(1,059)	(1,030)
Property and equipment, net	\$ 522	\$ 491

Depreciation expense associated with property and equipment was \$41 million and \$120 million for the three and nine months ended December 31, 2021, respectively.

Depreciation expense associated with property and equipment was \$37 million and \$100 million for the three and nine months ended December 31, 2020, respectively.

### *Accrued and Other Current Liabilities*

Accrued and other current liabilities as of December 31, 2021 and March 31, 2021 consisted of (in millions):

	As of December 31, 2021	As of March 31, 2021
Other accrued expenses	\$ 354	\$ 351
Accrued compensation and benefits	424	494
Accrued royalties	232	210
Sales returns and price protection reserves	205	115
Deferred net revenue (other)	141	95
Operating lease liabilities	87	76
Accrued and other current liabilities	\$ 1,443	\$ 1,341

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

### *Deferred net revenue*

Deferred net revenue as of December 31, 2021 and March 31, 2021 consisted of (in millions):

	As of December 31, 2021	As of March 31, 2021
Deferred net revenue (online-enabled games)	\$ 2,101	\$ 1,527
Deferred net revenue (other)	141	95
Deferred net revenue (noncurrent)	76	14
Total deferred net revenue	\$ 2,318	\$ 1,636

During the nine months ended December 31, 2021 and 2020, we recognized \$1,607 million and \$1,002 million of revenue, respectively, that were included in the deferred net revenue balance at the beginning of the period.

### ***Remaining Performance Obligations***

As of December 31, 2021, revenue allocated to remaining performance obligations consists of our deferred revenue balance of \$2,318 million and amounts to be invoiced in future periods of \$74 million, of which \$46 million are expected to be recognized as revenue over the next 12 months, and the remainder thereafter. These balances exclude any estimates for future variable consideration as we have elected the optional exemption to exclude sales-based royalty revenue.

### **(10) INCOME TAXES**

The provision for income taxes for the three and nine months ended December 31, 2021 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and nine months ended December 31, 2021 was 27 percent and 22 percent, respectively, as compared to 14 percent and 11 percent, respectively, for the same period in fiscal year 2021. Our effective tax rate for the three and nine months ended December 31, 2021 was higher than prior year due to our decision to capitalize for income tax purposes certain foreign expenses which increased the taxable income in our foreign entities that is subject to U.S. tax. In accordance with our existing accounting policy, we do not establish deferred tax assets to offset this charge, but we expect future deductions of the capitalized amounts. The prior year effective tax rates for the nine months ended December 31, 2020 included a tax benefit, net of valuation allowance, resulting from the Supreme Court of the United States denial of Altera's appeal of the Altera opinion (the "Altera opinion"). Excluding the Altera opinion, the effective tax rate for the nine months ended December 31, 2020 would have been 18 percent.

In addition, during the three months ended September 30, 2021, we completed the Codemasters intra-entity sale of intellectual property rights to our U.S. and Swiss intellectual property owners. The transaction resulted in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction will be eliminated upon consolidation. However, the transaction resulted in a step-up of the U.S. and Swiss tax-deductible basis in the transferred intellectual property rights and, accordingly, created a temporary difference between the book basis and the tax basis of such intellectual property rights. As a result, we recognized a \$60 million net tax benefit for the current and deferred tax impacts of the sale. Excluding the Codemasters intra-entity sale, the effective tax rate for the nine months ended December 31, 2021 would have been 30 percent.

We are subject to income tax examinations in various jurisdictions with respect to fiscal years after 2011. The timing and potential resolution of income tax examinations is highly uncertain. The gross unrecognized tax benefits as of December 31, 2021 were \$590 million.

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. For example, in the period ended June 30, 2020, the Altera opinion resulted in a partial decrease of our unrecognized tax benefits. 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.

It is also reasonably possible that an additional reduction of up to \$7 million of unrecognized tax benefits may occur within the next 12 months, unrelated to the Altera opinion, a portion of which would impact our effective tax rate. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements and tax interpretations.

Each 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 nine months ended December 31, 2021, we recognized a decrease of \$6 million and an increase of \$1 million of valuation allowance against our deferred tax assets primarily due to the expected alignment of the recently acquired businesses with our global operating structure.

## (11) FINANCING ARRANGEMENTS

### Senior Notes

In February 2021, we issued \$750 million aggregate principal amount of 1.85% Senior Notes due February 15, 2031 (the “2031 Notes”) and \$750 million aggregate principal amount of 2.95% Senior Notes due February 15, 2051 (the “2051 Notes”). Our proceeds were \$1,478 million, net of discount of \$6 million and issuance costs of \$16 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2031 Notes and the 2051 Notes using the effective interest rate method. The effective interest rate is 1.98% for the 2031 Notes and 3.04% for the 2051 Notes. Interest is payable semiannually in arrears, on February 15 and August 15 of each year.

In February 2016, we issued \$400 million aggregate principal amount of 4.80% Senior Notes due March 1, 2026 (the “2026 Notes”). Our proceeds were \$395 million, net of discount of \$1 million and issuance costs of \$4 million. Both the discount and issuance costs are being amortized to interest expense over the term of the 2026 Notes using the effective interest rate method. The effective interest rate was 4.97%. Interest is payable semiannually in arrears, on March 1 and September 1 of each year.

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

	As of December 31, 2021	As of March 31, 2021
Senior Notes:		
4.80% Senior Notes due 2026	\$ 400	\$ 400
1.85% Senior Notes due 2031	750	750
2.95% Senior Notes due 2051	750	750
Total principal amount	\$ 1,900	\$ 1,900
Unaccreted discount	(6)	(7)
Unamortized debt issuance costs	(16)	(17)
Net carrying value of Senior Notes	\$ 1,878	\$ 1,876
Fair value of Senior Notes (Level 2)	\$ 1,881	\$ 1,873

As of December 31, 2021, the remaining life of the 2026 Notes, 2031 Notes and 2051 Notes is approximately 4.2 years, 9.1 years, and 29.1 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 2026 Notes, 2031 Notes and 2051 Notes are redeemable at our option at any time prior to December 1, 2025, November 15, 2030, and August 15, 2050, respectively, subject to a make-whole premium. After such dates, we may redeem each such series of 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 each such series of Notes may require us to repurchase all or a portion of these Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. Each such series of 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 December 31, 2021, we were in compliance with the debt to EBITDA ratio.

As of December 31, 2021, 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 nine months ended December 31, 2021 and 2020 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Amortization of debt issuance costs	\$ (1)	\$ (1)	\$ (2)	\$ (2)
Coupon interest expense	(13)	(10)	(41)	(31)
Total interest expense	<u>\$ (14)</u>	<u>\$ (11)</u>	<u>\$ (43)</u>	<u>\$ (33)</u>

## (12) 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 to promote the games we publish that may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include, but are not limited to: CONMEBOL (Confederación Sudamericana de Fútbol), DFL Deutsche Fußball Liga E.V. (German Soccer League), FAPL (Football Association Premier League Limited), FIFA (Fédération Internationale de Football Association), FIFPRO Foundation, La Liga (Liga Nacional De Fútbol Profesional), LFP (Ligue de Football Professionnel), Major League Soccer, Major League Soccer Players Association on behalf of OneTeam Partners, LLC, Serie A (Lega Nazionale Professionisti Serie A), and UEFA (Union des Associations Européennes de Football) (professional soccer); National Basketball Association and National Basketball Players Association (professional basketball); National Hockey League and NHL Players’ Association (professional hockey); NFL Properties LLC, NFL Players Association and NFL Players Inc. on behalf of OneTeam Partners, LLC (professional football); William Morris Endeavor Entertainment LLC (professional mixed martial arts); ESPN (content in EA SPORTS games); Disney Interactive (Star Wars and Disney Sorcerer’s Arena); Formula One Digital Media Limited and Formula Motorsport Limited (professional racing); PGA Tour, Inc. (professional golf); Major League Baseball and MLB Players Association (professional baseball); and Kimsaprincess, Inc. (Kim Kardashian: Hollywood). 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 December 31, 2021 (in millions):

	Fiscal Years Ending March 31,							
	Total	2022 (Remaining three mos.)	2023	2024	2025	2026	2027	Thereafter
Unrecognized commitments								
Developer/licensor commitments	\$ 2,064	\$ 55	\$ 383	\$ 487	\$ 491	\$ 365	\$ 83	\$ 200
Marketing commitments	667	32	155	148	142	116	44	30
Senior Notes interest	849	7	55	55	55	54	36	587
Operating lease imputed interest	34	2	8	6	5	3	2	8
Operating leases not yet commenced <sup>(a)</sup>	131	1	13	10	7	8	8	84
Other purchase obligations	151	7	69	67	6	2	—	—
Total unrecognized commitments	3,896	104	683	773	706	548	173	909
Recognized commitments								
Senior Notes principal and interest	1,920	20	—	—	—	400	—	1,500
Operating leases	365	16	77	61	52	44	29	86
Transition Tax and other taxes	24	5	2	4	6	7	—	—
Licensing commitments	7	7	—	—	—	—	—	—
Total recognized commitments	2,316	48	79	65	58	451	29	1,586
Total Commitments	\$ 6,212	\$ 152	\$ 762	\$ 838	\$ 764	\$ 999	\$ 202	\$ 2,495

(a) As of December 31, 2021, we have entered into two office leases and two equipment leases that have not yet commenced with aggregate future lease payments of approximately \$131 million. These leases are expected to commence between fiscal year 2022 and fiscal year 2025, and will have lease terms ranging from 2 to 12 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 December 31, 2021; 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 December 31, 2021, we had a net liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$309 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 have appealed the District Court’s order, and the NGA’s decision is suspended through the appeals process. We do not believe that the operational or financial consequences from these proceedings will have a material adverse effect on our Condensed 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.



### (13) 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 nine months ended December 31, 2021 and 2020.

#### *Stock Options*

The following table summarizes our stock option activity for the nine months ended December 31, 2021:

	Options (in thousands)	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2021	267	\$ 35.71		
Assumed via acquisition	150	60.87		
Granted	2	142.46		
Exercised	(77)	55.73		
Forfeited, cancelled or expired	(41)	66.97		
Outstanding as of December 31, 2021	301	\$ 39.56	3.10	\$ 28
Vested and expected to vest	301	\$ 39.56	3.10	\$ 28
Exercisable as of December 31, 2021	282	\$ 37.62	2.85	\$ 27

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of December 31, 2021, 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 nine months ended December 31, 2021:

	<b>Restricted Stock Rights (in thousands)</b>	<b>Weighted- Average Grant Date Fair Values</b>
Outstanding as of March 31, 2021	5,764	\$ 113.25
Assumed via acquisition	816	120.54
Granted	4,058	140.94
Vested	(3,125)	114.13
Forfeited or cancelled	(871)	123.64
Outstanding as of December 31, 2021	6,642	\$ 129.29

### ***Performance-Based Restricted Stock Units***

Our performance-based restricted stock units vest upon the achievement of pre-determined performance-based milestones, such as company-wide net bookings and operating income milestones, 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. Generally, the measurement periods of our performance-based restricted stock units are 3 to 4 years, with awards vesting after each annual measurement period or cliff-vesting after the completion of the total aggregate measurement period.

Each quarter, we update our assessment of the probability that the 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 performance-based milestone. 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 and 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 nine months ended December 31, 2021:

	<b>Performance- Based Restricted Stock Units (in thousands)</b>	<b>Weighted- Average Grant Date Fair Value</b>
Outstanding as of March 31, 2021	579	\$ 110.51
Granted	300	140.48
Vested	(266)	110.51
Forfeited or cancelled	(342)	113.23
Outstanding as of December 31, 2021	271	\$ 140.25

### ***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, and three-year cumulative period, a two-year and four-year cumulative period or a three-year 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 nine months ended December 31, 2021:

	Market-Based Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Value
Outstanding as of March 31, 2021	2,195	\$ 134.60
Granted	159	173.25
Vested	(271)	123.82
Forfeited or cancelled	(778)	146.26
Outstanding as of December 31, 2021	1,305	\$ 134.59

### *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 December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Cost of revenue	\$ 1	\$ 1	\$ 4	\$ 4
Research and development	86	74	272	214
Marketing and sales	14	11	41	34
General and administrative	28	25	86	74
Stock-based compensation expense	\$ 129	\$ 111	\$ 403	\$ 326

During the three and nine months ended December 31, 2021, we recognized \$3 million and \$54 million, respectively, of deferred income tax benefit related to our stock-based compensation expense. During the three and nine months ended December 31, 2020, we recognized \$8 million and \$46 million, respectively, of deferred income tax benefit related to our stock-based compensation expense.

As of December 31, 2021, our total unrecognized compensation cost related to stock options, restricted stock units, market-based restricted stock units, and performance-based restricted stock units was \$772 million and is expected to be recognized over a weighted-average service period of 2.0 years. Of the \$772 million of unrecognized compensation cost, \$704 million relates to restricted stock units, \$56 million relates to market-based restricted stock units, \$11 million relates to performance-based restricted stock units at an 128 percent average payout, and \$1 million relates to stock options.

### *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. We completed repurchases under the May 2018 program in April 2020.

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.

The following table summarizes total shares repurchased during the three and nine months ended December 31, 2021 and 2020:

(In millions)	May 2018 Program		November 2020 Program		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Three months ended December 31, 2021	—	\$ —	2.4	\$ 325	2.4	\$ 325
Nine months ended December 31, 2021	—	\$ —	7.0	\$ 975	7.0	\$ 975
Three months ended December 31, 2020	—	\$ —	2.5	\$ 326	2.5	\$ 326
Nine months ended December 31, 2020	0.7	\$ 78	2.5	\$ 326	3.2	\$ 404

#### (14) 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 December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Net income	\$ 66	\$ 211	\$ 564	\$ 761
Shares used to compute earnings per share:				
Weighted-average common stock outstanding — basic	283	290	284	289
Dilutive potential common shares related to stock award plans and from assumed exercise of stock options	2	2	3	3
Weighted-average common stock outstanding — diluted	285	292	287	292
Earnings per share:				
Basic	\$ 0.23	\$ 0.73	\$ 1.99	\$ 2.63
Diluted	\$ 0.23	\$ 0.72	\$ 1.97	\$ 2.61

For the three and nine months ended December 31, 2021, one million of stock options, 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 and nine months ended December 31, 2021.

For the three and nine months ended December 31, 2020, two million of restricted stock units, market-based restricted stock units and performance-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.

# (15) 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 December 31, 2021, 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 nine months ended December 31, 2021 and 2020 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
<b>Net revenue by timing of recognition</b>				
Revenue recognized at a point in time	\$ 673	\$ 860	\$ 1,848	\$ 1,639
Revenue recognized over time	1,116	813	3,318	2,644
Net revenue	<u>\$ 1,789</u>	<u>\$ 1,673</u>	<u>\$ 5,166</u>	<u>\$ 4,283</u>

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.

*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 nine months ended December 31, 2021 and 2020 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
<b>Net revenue by composition</b>				
Full game downloads	\$ 400	\$ 347	\$ 970	\$ 733
Packaged goods	216	375	585	630
Full game	616	722	1,555	1,363
Live services and other	1,173	951	3,611	2,920
Net revenue	<u>\$ 1,789</u>	<u>\$ 1,673</u>	<u>\$ 5,166</u>	<u>\$ 4,283</u>

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 phones and tablets. 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 nine months ended December 31, 2021 and 2020 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
<u>Platform net revenue</u>				
Console	\$ 1,138	\$ 1,191	\$ 3,308	\$ 2,837
PC and other	374	326	1,112	900
Mobile	277	156	746	546
Net revenue	<u>\$ 1,789</u>	<u>\$ 1,673</u>	<u>\$ 5,166</u>	<u>\$ 4,283</u>

Information about our operations in North America and internationally for the three and nine months ended December 31, 2021 and 2020 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
<u>Net revenue from unaffiliated customers</u>				
North America	\$ 783	\$ 678	\$ 2,243	\$ 1,883
International	1,006	995	2,923	2,400
Net revenue	<u>\$ 1,789</u>	<u>\$ 1,673</u>	<u>\$ 5,166</u>	<u>\$ 4,283</u>

**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 January 1, 2022, the related condensed consolidated statements of operations, comprehensive income and stockholders' equity for the three-month and nine-month periods ended January 1, 2022 and January 2, 2021, and cash flows for the nine-month periods ended January 1, 2022 and January 2, 2021, 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 April 3, 2021, 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 26, 2021, 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 April 3, 2021, 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*

*February 8, 2022*

**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, operations and financial results, 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, 2021. 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 December 31, 2021, 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, 2021 as filed with the SEC on May 26, 2021 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 vs. Zombies) or license from others (such as FIFA, Madden NFL, UFC, NHL, Formula 1 and Star Wars). Through our live services offerings, we offer our players high-quality experiences designed to provide value to players and extend and enhance gameplay. These live services include extra content, subscription offerings and other revenue generated in addition to the sale of our base games and free-to-play 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 December 31, 2021 were as follows:

- Total net revenue was \$1,789 million, up 7 percent year-over-year. On a constant currency basis, we estimate total net revenue would have been \$1,740 million, up 4 percent year-over-year.
- Live services and other net revenue was \$1,173 million, up 23 percent year-over-year.
- Gross margin was 64.7 percent, up 1 percentage point year-over-year.
- Operating expenses were \$1,056 million, up 29 percent year-over-year. On a constant currency basis, we estimate that operating expenses would have been \$1,050 million, up 28 percent year-over-year.
- Operating income was \$102 million, down 59 percent year-over-year.
- Net income was \$66 million with diluted earnings per share of \$0.23.
- Operating cash flow was \$1,534 million, up 36 percent year-over-year.
- Total cash, cash equivalents and short-term investments were \$3,016 million.
- We repurchased 2.4 million shares of our common stock for \$325 million.
- We paid cash dividends of \$48 million during the quarter ended December 31, 2021.

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, net of the impact of hedging activities. 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 well-being of our people is our top priority, and to keep everyone as safe as possible, the vast majority of our workforce continues to work from home. We are offering support to our people to assist with work from home 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 evaluate the readiness to return to work for each of our offices around the world, accounting for guidance from health authorities and government, vaccine availability and effectiveness, the comfort level of our employees, and preparation of our facilities for continued physical distancing.

**Our Business and Future Outlook:** During fiscal year 2021 and fiscal year 2022, longer-term trends that benefit our business have accelerated. Live services and other net revenue has increased and we have also experienced a significant increase in the percentage of our games purchased digitally.

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 cannot be accurately predicted at this time, such as the duration and spread of the pandemic, the extent, speed and effectiveness of worldwide containment and vaccination efforts and the impact of these and other factors on our employees, customers, partners and vendors. Trends that have benefited our industry and business may not be indicative of results for future periods, particularly as factors related to the COVID-19 pandemic lessen and consumers can engage with other forms of entertainment, if the trend towards digital adoption decelerates, or if global macroeconomic effects of the COVID-19 pandemic persist even after the pandemic has subsided. Additional factors that could impact our business include: our ability to timely deliver high quality and technically stable games and services while our teams, including our development teams, work in a distributed environment, our ability to safely reintroduce our employees to our offices when it is appropriate to do so, 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 in addition to the sale of our base games and free-to-play games. Our net revenue attributable to live services and other was \$4,707 million, \$3,951 million and \$3,550 million for the trailing twelve months ended December 31, 2021, 2020 and 2019, 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 \$3,668 million, \$3,073 million and \$2,728 million for the trailing twelve months ended December 31, 2021, 2020 and 2019, 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 \$1,623 million, \$1,491 million and \$1,369 million during fiscal years 2021, 2020 and 2019, 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 \$918 million, \$811 million and \$681 million during fiscal years 2021, 2020 and 2019, respectively; while our net revenue attributable to packaged goods sales decreased from \$1,112 million in fiscal year 2019 to \$1,076 million in fiscal year 2020 and \$695 million in fiscal year 2021. In addition, as measured based on total units sold on Microsoft's Xbox One and Xbox Series X and Sony's PlayStation 4 and 5 rather than by net revenue, we estimate that 62 percent, 49 percent, and 49 percent of our total units sold during fiscal years 2021, 2020 and 2019 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.

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 are investing resources in our mobile business, seeking to maximize our mobile live services, innovate on mobile with our franchises, and have added additional growth opportunities through mergers and acquisitions activity. Likewise, the consumer acceptance of free-to-play, live service-based, online PC and console 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 continue to be 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. We have invested in over 300 individual partnerships and licenses to create our global football ecosystem and are currently reviewing our naming rights agreement with FIFA which is separate from our other official partnerships and licenses with the players, clubs, and leagues included in the game.

**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 December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Total net revenue	\$ 1,789	\$ 1,673	\$ 5,166	\$ 4,283
Change in deferred net revenue (online-enabled games)	788	727	598	417
Net bookings	<u>\$ 2,577</u>	<u>\$ 2,400</u>	<u>\$ 5,764</u>	<u>\$ 4,700</u>

Net bookings were \$2,577 million for the three months ended December 31, 2021 primarily driven by sales related to *FIFA 22*, *Battlefield 2042*, *Apex Legends*, and *Madden NFL 22*. Net bookings increased \$177 million, or 7 percent, as compared to the three months ended December 31, 2020 primarily due to *Battlefield 2042*, *Apex Legends*, and new games added to our portfolio through acquisitions activity, partially offset by the year-over-year change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022 and the Star Wars franchise. Live services and other net bookings were \$1,677 million for the three months ended December 31, 2021, and increased \$135 million, or 9 percent, as compared to the three months ended December 31, 2020. The increase in live services and other net bookings was due primarily to an increase in sales of extra content for *Apex Legends*, new games added to our portfolio through acquisitions activity, and *Battlefield 2042*, partially offset by *The Sims 4*. Full game net bookings were \$900 million for the three months ended December 31, 2021, and increased \$42 million, or 5 percent, as compared to the three months ended December 31, 2020 primarily due to *Battlefield 2042*, partially offset by year-over-year change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022.

### **Mergers and Acquisitions**

**Acquisition of Codemasters.** On February 18, 2021, we completed the acquisition of Codemasters Group Holdings plc for total cash consideration of \$1.2 billion, net of cash acquired. Codemasters is a UK-based game developer and publisher of high-quality racing games across console, PC and mobile. We expect the Codemasters acquisition to grow our presence in racing, creating a global leader in racing entertainment. Codemasters was integrated into the Company for financial reporting purposes during the fourth quarter of fiscal year 2021.

**Acquisition of Glu Mobile.** On April 29, 2021, we completed the acquisition of 100% of the equity interests of Glu Mobile Inc., a leading global developer and publisher of mobile games for a total purchase price of \$2.0 billion, net of cash acquired of \$332 million. The acquisition of Glu is expected to accelerate our mobile growth by creating a combined organization with ongoing live services across multiple games and genres. We also believe that the acquisition will create value by adding Glu's expertise in casual sports and lifestyle genres to new titles based on our intellectual property. Glu was integrated into the Company for financial reporting purposes during the first fiscal quarter of fiscal year 2022.

**Acquisition of Playdemic.** On September 20, 2021, we completed the acquisition of 100% of the equity interests of Playdemic Limited, a private limited company incorporated in England and Wales for a total purchase price of \$1.4 billion, net of cash acquired. The acquisition of Playdemic is intended to be another step in our strategy of continued leadership in sports and mobile expansion. Playdemic was integrated into the Company for financial reporting purposes during the second quarter of fiscal year 2022.

For more information about our acquisitions, see Part I, Item 1 of this Form 10-Q in the Notes to the Condensed Consolidated Financial Statements in [Note 6 — Business Combinations](#).

## **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 are designed to extend and 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 as a result, for sales after July 1, 2020, revenue for service-related performance obligations for games and extra content sold through retail are recognized over an estimated ten-month period beginning in the month of sale, and revenue for service-related performance obligations for digitally-distributed games and extra content is recognized over an estimated eight-month period beginning in the month of sale. The fiscal year 2021 change in Estimated Offering period did not impact the amount of net bookings or the operating cash flows that we report. During the three months ended December 31, 2021, this change to our Estimated Offering Period resulted in an increase in net revenue of \$153 million and net income of \$117 million, and an increase of \$0.41 diluted earnings per share. During the nine months ended December 31, 2021, this change to our Estimated Offering Period resulted in an increase in net revenue of \$255 million and net income of \$194 million, and an increase of \$0.68 diluted earnings per share.

During the three months ended September 30, 2021, we completed our annual evaluation of the Estimated Offering Period. We have noted consumers are playing certain of our Online Hosted Service Games, such as PC and console free-to-play games, for longer periods of time than in prior years as players engage with services we provide that are designed to enhance and extend gameplay, and as such, have concluded that the Estimated Offering Period for such games should be lengthened. As a result, for all new sales after July 1, 2021, the revenue that we recognize for service-related performance obligations related to our PC and console free-to-play games is recognized generally over a twelve-month period. 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 \$135 million in net revenue from fiscal year 2022 into fiscal year 2023. During the three months ended December 31, 2021, this change to our Estimated Offering Period resulted in a decrease in net revenue of \$45 million and net income of \$34 million, and a decrease of \$0.12 diluted earnings per share. During the nine months ended December 31, 2021, this change to our Estimated Offering Period resulted in a decrease in net revenue of \$62 million and net income of \$47 million, and a decrease of \$0.16 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, as an example, 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.

### ***Fair Value Estimates***

**Business Combinations.** We must estimate the fair value of assets acquired, liabilities assumed, and acquired in-process technology in a business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various estimated useful lives. Furthermore, the estimated fair value assigned to an acquired asset or liability has a direct impact on the amount we recognize as goodwill, which is an asset that is not amortized. Determining the fair value of assets acquired requires an assessment of the highest and best use of the asset or group of assets that maximizes the value from a market participant perspective or the expected price to sell the asset and the related expected future cash flows. Determining the fair value of acquired in-process technology also requires an assessment of our expectations related to the use of that technology. Such estimates are inherently difficult and subjective and can have a material impact on our Consolidated Financial Statements.

### ***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 do not recognize any deferred taxes related to the U.S. taxes on foreign earnings as we recognize these taxes as a period cost.

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.

Each 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. In particular, our Swiss deferred tax asset 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, 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. Changes in Estimated Offering Period and actions we take in connection with acquisitions could also impact the utilization of our Swiss deferred tax asset.

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 and the alignment of them with our global operating structure, 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, 2022 contains 52 weeks and ends on April 2, 2022. Our results of operations for the fiscal year ended March 31, 2021 contained 53 weeks and ended on April 3, 2021. Our results of operations for the three and nine months ended December 31, 2021 contained 13 weeks and 39 weeks, respectively, and ended on January 1, 2022. Our results of operations for the three and nine months ended December 31, 2020 contained 13 weeks and 40 weeks, respectively, and ended on January 2, 2021. 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 December 31, 2021 was \$1,789 million, primarily driven by sales of our FIFA franchise, *Apex Legends*, *Madden NFL 22*, and *The Sims 4*. Net revenue for the three months ended December 31, 2021 increased \$116 million as compared to the three months ended December 31, 2020. This increase was driven by a \$379 million increase in net revenue primarily due to *Apex Legends*, *Battlefield 2042*, *It Takes Two*, and new games added to our portfolio through acquisitions activity, partially offset by a \$263 million decrease in net revenue primarily due to the year-over-year change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022, the Star Wars franchise, and *Medal of Honor: Above and Beyond*.

#### **Net Revenue by Composition**

Our net revenue by composition for the three months ended December 31, 2021 and 2020 was as follows (in millions):

	Three Months Ended December 31,			
	2021	2020	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 400	\$ 347	\$ 53	15 %
Packaged goods	216	375	(159)	(42) %
Full game	\$ 616	\$ 722	\$ (106)	(15) %
Live services and other	\$ 1,173	\$ 951	\$ 222	23 %
Total net revenue	\$ 1,789	\$ 1,673	\$ 116	7 %



### 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 phones and tablets. 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 December 31, 2021, full game net revenue was \$616 million, primarily driven by *FIFA 22*, *Madden NFL 22*, and *NHL 22*. Full game net revenue for the three months ended December 31, 2021 decreased \$106 million, or 15 percent, as compared to the three months ended December 31, 2020. This decrease was driven by a \$159 million decrease in packaged goods net revenue primarily due to year-over-year change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022. This decrease was offset by a \$53 million increase in full game downloads net revenue primarily driven by *Battlefield 2042*, *It Takes Two*, and *F1 2021*, partially offset by the Star Wars franchise.

### 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 December 31, 2021, live services and other net revenue was \$1,173 million primarily driven by sales of extra content for *FIFA Ultimate Team*, *Apex Legends*, *The Sims 4*, *Star Wars: Galaxy of Heroes*, and *Madden Ultimate Team*. Live services and other net revenue for the three months ended December 31, 2021 increased \$222 million, or 23 percent, as compared to the three months ended December 31, 2020. This increase was primarily driven by sales of extra content for *Apex Legends*, *FIFA Ultimate Team*, and new games added to our portfolio through acquisitions activity, partially offset by *Medal of Honor: Above and Beyond*.

### Net Revenue Year-to-Date Analysis

#### Net Revenue

Net revenue for the nine months ended December 31, 2021 was \$5,166 million, primarily driven by sales of our FIFA franchise, *Apex Legends*, *The Sims 4*, and our Madden franchise. Net revenue for the nine months ended December 31, 2021 increased \$883 million, or 21 percent, as compared to the nine months ended December 31, 2020. This increase was driven by a \$1,323 million increase in net revenue primarily driven by year-over-year growth in the FIFA franchise, *Apex Legends*, *Mass Effect Trilogy Remaster*, and new games added to our portfolio through acquisitions activity, partially offset by a \$440 million decrease in net revenue primarily from the Star Wars, The Sims, Need for Speed, and UFC franchises.

#### Net Revenue by Composition

Our net revenue by composition for the nine months ended December 31, 2021 and 2020 was as follows (in millions):

	Nine Months Ended December 31,			
	2021	2020	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 970	\$ 733	\$ 237	32 %
Packaged goods	585	630	(45)	(7) %
Full game	\$ 1,555	\$ 1,363	\$ 192	14 %
Live services and other	\$ 3,611	\$ 2,920	\$ 691	24 %
Total net revenue	\$ 5,166	\$ 4,283	\$ 883	21 %

### Full Game Net Revenue

For the nine months ended December 31, 2021, full game net revenue was \$1,555 million, primarily driven by sales of our FIFA franchise, *Madden NFL 22*, and *Mass Effect Trilogy Remaster*. Full game net revenue for the nine months ended December 31, 2021 increased \$192 million, or 14 percent, as compared to the nine months ended December 31, 2020. This increase was driven by a \$237 million increase in full game downloads net revenue primarily driven by year-over-year growth in the FIFA franchise and the change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022, *It Takes Two*, and *Mass Effect Trilogy Remaster*. This increase was offset by a \$45 million decrease in packaged goods net revenue primarily driven by the Star Wars and Need for Speed franchises, partially offset by *F1 2021*.

### Live Services and Other Net Revenue

For the nine months ended December 31, 2021, live services and other net revenue was \$3,611 million primarily driven by sales of extra content for *FIFA Ultimate Team*, *Apex Legends*, *The Sims 4*, *Madden Ultimate Team*, and *Star Wars: Galaxy of Heroes*. Live services and other net revenue for the nine months ended December 31, 2021 increased \$691 million, or 24 percent, as compared to the nine months ended December 31, 2020. This increase was primarily driven by sales of extra content for *FIFA Ultimate Team*, *Apex Legends* and new games added to our portfolio through acquisitions activity, partially offset by *The Sims 4*.

### 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 December 31, 2021 and 2020 was as follows (in millions):

December 31, 2021	% of Net Revenue	December 31, 2020	% of Net Revenue	% Change	Change as a % of Net Revenue
\$ 631	35 %	\$ 601	36 %	5 %	(1) %

### Cost of Revenue

Cost of revenue increased by \$30 million, or 5 percent during the three months ended December 31, 2021, as compared to the three months ended December 31, 2020. This increase was primarily due to an increase in platform and hosting fees due to new games added to our portfolio through acquisitions activity and higher engagement with *Apex Legends*, and an increase in acquisition-related intangible amortization, partially offset by a decrease in inventory and royalty costs driven by year-over-year change in the launch date of our FIFA console and PC title from the third quarter in fiscal year 2021 to the second quarter in fiscal year 2022.

### Cost of Revenue Year-to-Date Analysis

Cost of revenue for the nine months ended December 31, 2021 and 2020 was as follows (in millions):

December 31, 2021	% of Net Revenue	December 31, 2020	% of Net Revenue	% Change	Change as a % of Net Revenue
1,440	28 %	1,175	27 %	23 %	1 %

#### Cost of Revenue

Cost of revenue increased by \$265 million, or 23 percent during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020. This increase was primarily due to an increase in platform and hosting fees due to new games added to our portfolio through acquisitions activity and higher engagement with *Apex Legends*, an increase in acquisition-related intangible amortization, and an increase in royalty costs driven by the growth in the FIFA franchise.

### 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 nine months ended December 31, 2021 and 2020 were as follows (in millions):

	December 31, 2021	% of Net Revenue	December 31, 2020	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 539	30 %	\$ 451	27 %	\$ 88	20 %
Nine months ended	\$ 1,607	31 %	\$ 1,310	31 %	\$ 297	23 %

Research and development expenses increased by \$88 million, or 20 percent, during the three months ended December 31, 2021, as compared to the three months ended December 31, 2020. This increase was primarily due to a \$44 million increase in personnel-related costs primarily resulting from an investment in headcount due to acquisitions and our continued investment in our studios, a \$12 million increase in stock-based compensation, a \$12 million increase in studio related contracted services, and an \$8 million increase in facility related costs.

Research and development expenses increased by \$297 million, or 23 percent, during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020. This increase was primarily due to a \$161 million increase in personnel-related costs primarily resulting from an investment in headcount due to acquisitions and our continued investment in our studios, a \$58 million increase in stock-based compensation, a \$46 million increase in studio related contracted services, and a \$24 million increase in facility related costs. These increases were partially offset by an \$18 million benefit in cash flow hedging activities. We use hedges to protect against currency exchange rate movements in our research and development expenses.

## 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 nine months ended December 31, 2021 and 2020 were as follows (in millions):

	December 31, 2021	% of Net Revenue		December 31, 2020	% of Net Revenue		\$ Change	% Change
Three months ended	\$ 293	16 %	\$	216	13 %	\$	77	36 %
Nine months ended	\$ 716	14 %	\$	493	12 %	\$	223	45 %

Marketing and sales expenses increased by \$77 million, or 36 percent, and \$223 million, or 45 percent, during the three and nine months ended December 31, 2021, as compared to the three and nine months ended December 31, 2020, respectively. These increases were primarily due to an increase in advertising and promotional spending primarily on our mobile titles, *FIFA 22*, and *Battlefield 2042*.

## 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 nine months ended December 31, 2021 and 2020 were as follows (in millions):

	December 31, 2021	% of Net Revenue		December 31, 2020	% of Net Revenue		\$ Change	% Change
Three months ended	\$ 163	9 %	\$	149	9 %	\$	14	9 %
Nine months ended	\$ 508	10 %	\$	418	10 %	\$	90	22 %

General and administrative expenses increased by \$14 million, or 9 percent, during the three months ended December 31, 2021, as compared to the three months ended December 31, 2020. This increase was primarily due to a \$6 million increase in personnel-related costs primarily resulting from an increase in headcount, including those resulting from acquisitions, a \$4 million increase in contracted services, and a \$3 million increase in stock-based compensation.

General and administrative expenses increased by \$90 million, or 22 percent, during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020. This increase was primarily due to a \$29 million increase in personnel-related costs primarily resulting from an increase in headcount, including those resulting from acquisitions, a \$22 million increase in acquisition-related transaction and integration costs, a \$14 million increase in contracted services, and a \$12 million increase in stock-based compensation.

## Amortization of Intangibles

Amortization of intangibles for the three and nine months ended December 31, 2021 and 2020 were as follows (in millions):

	December 31, 2021	% of Net Revenue		December 31, 2020	% of Net Revenue		\$ Change	% Change
Three months ended	\$ 61	3 %	\$	5	— %	\$	56	1,120 %
Nine months ended	\$ 131	3 %	\$	16	— %	\$	115	719 %

Amortization of intangibles increased by \$56 million and \$115 million during the three and nine months ended December 31, 2021, as compared to the three and nine months ended December 31, 2020, respectively, due to an increase in acquired intangible assets from recent acquisitions.

## Income Taxes

Provision for income taxes for the three and nine months ended December 31, 2021 and 2020 were as follows (in millions):

	December 31, 2021	Effective Tax Rate	December 31, 2020	Effective Tax Rate
Three months ended	\$ 25	27 %	\$ 34	14 %
Nine months ended	\$ 161	22 %	\$ 91	11 %

The provision for income taxes for the three and nine months ended December 31, 2021 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and nine months ended December 31, 2021 was 27 percent and 22 percent, respectively, as compared to 14 percent and 11 percent, respectively, for the same period in fiscal year 2021. Our effective tax rate for the three and nine months ended December 31, 2021 was higher than prior year due to our decision to capitalize for income tax purposes certain foreign expenses which increased the taxable income in our foreign entities that is subject to U.S. tax. In accordance with our existing accounting policy, we do not establish deferred tax assets to offset this charge, but we expect future deductions of the capitalized amounts. The prior year effective tax rates included a tax benefit, net of valuation allowance, resulting from the Altera opinion. Excluding the Altera opinion, the effective tax rate for the nine months ended December 31, 2020 would have been 18 percent.

In addition, during the three months ended September 30, 2021, we completed the Codemasters intra-entity sale of intellectual property rights to our U.S. and Swiss intellectual property owners. The transaction resulted in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction will be eliminated upon consolidation. However, the transaction resulted in a step-up of the U.S. and Swiss tax-deductible basis in the transferred intellectual property rights and, accordingly, created a temporary difference between the book basis and the tax basis of such intellectual property rights. As a result, we recognized a \$60 million net tax benefit for the current and deferred tax impacts of the sale. Excluding the Codemasters intra-entity sale, the effective tax rate for the nine months ended December 31, 2021 would have been 30 percent.

Each 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 nine months ended December 31, 2021, we recognized a decrease of \$6 million and an increase of \$1 million of valuation allowance against our deferred tax assets primarily due to the expected alignment of the recently acquired businesses with our global operating structure.

## Liquidity and Capital Resources

(In millions)	As of December 31, 2021	As of March 31, 2021	Increase/(Decrease)
Cash and cash equivalents	\$ 2,670	\$ 5,260	\$ (2,590)
Short-term investments	346	1,106	(760)
Total	\$ 3,016	\$ 6,366	\$ (3,350)
Percentage of total assets	22 %	48 %	

(In millions)	Nine Months Ended December 31,		Change
	2021	2020	
Net cash provided by operating activities	\$ 1,455	\$ 1,563	\$ (108)
Net cash used in investing activities	(2,771)	(61)	(2,710)
Net cash used in financing activities	(1,269)	(541)	(728)
Effect of foreign exchange on cash and cash equivalents	(5)	43	(48)
Net increase (decrease) in cash and cash equivalents	\$ (2,590)	\$ 1,004	\$ (3,594)

### ***Changes in Cash Flow***

**Operating Activities.** Net cash provided by operating activities decreased by \$108 million during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020, primarily driven by higher cash payments for income taxes, higher marketing and advertising payments, higher personnel-related payments primarily from an increase in headcount and higher variable compensation payments, and higher cash payments for royalties. These decreases were offset by higher collections due to improved performance as we executed against our strategic pillars and increased engagement with our products and services which led to growth in our business.

**Investing Activities.** Net cash used in investing activities increased by \$2,710 million during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020, primarily driven by payments of \$3,391 million in connection with acquisitions completed during the nine months ended December 31, 2021, an \$895 million decrease in proceeds from maturities and sales of short-term investments, and a \$42 million increase in capital expenditures. These increases were offset by a \$1,618 million decrease in the purchase of short-term investments.

**Financing Activities.** Net cash used in financing activities increased by \$728 million during the nine months ended December 31, 2021, as compared to the nine months ended December 31, 2020, primarily driven by a \$571 million increase in the repurchase and retirement of our common stock, a \$96 million increase in cash dividend payments during the nine months ended December 31, 2021, and a \$49 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 December 31, 2021, our short-term investments had gross unrealized gains and losses of less than \$1 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 2021, we issued \$750 million aggregate principal amount of the 2031 Notes and \$750 million aggregate principal amount of the 2051 Notes. The effective interest rate is 1.98% for the 2031 Notes and 3.04% for the 2051 Notes. Interest is payable semiannually in arrears, on February 15 and August 15 of each year.

In February 2016, we issued \$400 million aggregate principal amount of the 2026 Notes. The effective interest rate is 4.97% for the 2026 Notes. Interest is payable semiannually in arrears, on March 1 and September 1 of each year.

See [Note 11 — 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 December 31, 2021, no amounts were outstanding under the Credit Facility. See [Note 11 — 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.

### ***Financial Condition***

Our material cash requirements as of December 31, 2021 are set forth in our [Note 12 — Commitments and Contingencies](#) to the Condensed Consolidated Financial Statements in this Form 10-Q, which is incorporated by reference into this Item 2. We expect capital expenditures to be approximately \$200 million in fiscal year 2022 due to facility buildouts, which we expect to continue in fiscal year 2023. We believe that our cash, cash equivalents, short-term investments, cash generated from operations and available financing facilities will be sufficient to meet these material cash requirements, which include debt repayment obligations of \$1.9 billion, and fund our operating requirements for the next 12 months and beyond, including working capital requirements, capital expenditures, the remaining portion of our \$2.6 billion share repurchase program, quarterly cash dividend,

which is currently \$0.17 per share, subject to declaration by our Board of Directors or a designated Committee of the Board of Directors, and potentially, future acquisitions 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.

During the nine months ended December 31, 2021, we returned \$1,120 million to stockholders through our capital return programs, repurchasing 7 million shares for approximately \$975 million and \$145 million through our quarterly cash dividend program which was initiated in November 2020.

During the nine months ended December 31, 2021, we also completed mergers and acquisitions activity, including the acquisitions of 100% of the equity interests of Glu and Playdenic for cash considerations of \$2.0 billion and \$1.4 billion, net of cash acquired, respectively, and one other immaterial acquisition.

Our foreign subsidiaries are generally 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 December 31, 2021, approximately \$1.8 billion of our cash and cash equivalents were domiciled in foreign tax jurisdictions. All of our foreign cash is available for repatriation without a material tax cost.

We have a “shelf” registration statement on Form S-3 on file with the SEC. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we would use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, which may include funding for working capital, financing capital expenditures, research and development, marketing and distribution efforts, and if opportunities arise, for acquisitions or strategic alliances. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

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.

As of December 31, 2021, we did not have any off-balance sheet arrangements.

**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, Japanese yen, 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 the 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 December 31, 2021, 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 \$161 million or \$321 million, respectively. As of December 31, 2021, 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 \$148 million or \$296 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 December 31, 2021, our short-term investments were classified as available-for-sale securities and, consequently, were recorded at fair value with changes in fair value, including unrealized gains and unrealized losses not related to credit losses, 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 December 31, 2021, a hypothetical 150 basis point increase in interest rates would have resulted in a \$3 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 December 31, 2021 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

Refer to [Note 12](#) of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for disclosures regarding our legal proceedings.

### 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 occur, 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 to emerging start-ups. In addition, the gaming, technology/internet, and entertainment industries have converged in recent years and larger, well-funded technology companies are pursuing and strengthening their interactive entertainment capabilities. We expect new competitors to continue to emerge throughout the world. If our competitors develop 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, or if our marketing strategies are not innovative or fail to resonate with players, particularly during key selling periods, 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 or the expectations of our players. 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, changes to the game, other products that take a portion of consumer spending and time, the delay or cancellation of a product or service launch, increased competition for key licenses, 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, factors related to the COVID-19 pandemic, and, in certain cases, approvals from third parties. We have experienced development delays for our products and services 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 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 and marketing 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 our mobile business through seeking to maximize our mobile live services, meaningfully expanding key franchises on the mobile platform and through mergers and acquisitions activity. In addition, we are investing in a 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 and marketing strategies we choose to adopt and the products, services and platform strategies 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 industry, business, culture, 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 business, culture, products and services are high. Players and other stakeholders have sometimes been critical of our industry, brands, products, services, online communities, business models and/or practices for a wide variety of reasons, including perceptions about gameplay fun, fairness, game content, features or services, or objections to certain of our practices. These negative responses may not be foreseeable. We also may not effectively manage our 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.

We aim to offer our players safe, fun and inclusive environments in which to play; provide players with information about their engagement and tools that allow them control of their experiences; and deploy tools and technologies to give players faith in their gameplay experience. 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. If our efforts are unsuccessful, our brand and reputation may be harmed and our financial and operating results may be adversely impacted. 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.

Certain of our games and features on our platforms support online features that allow players and viewers to communicate with one another and post content, in real time, that is visible to other players and viewers. From time to time, this “user generated content” may contain objectionable and offensive content that is distributed and disseminated by third parties and our brands may be negatively affected by such actions. If we fail to appropriately respond to the dissemination of such content, we may be subject to lawsuits and governmental regulation, our players may not engage with our products and services and/or may lose confidence in our brands and our financial results may be adversely affected.

**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 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 connect more players, across more platforms, and more ways to play 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.

In fiscal year 2021, our key console partners Sony and Microsoft each released new generation consoles. 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. This 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. 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. For a period of time, we will also develop, market and operate games and services on both legacy and new generation consoles simultaneously. As a result of these factors, our operating results during this transition may be more volatile and difficult to predict.

**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. For example, we have recently completed several acquisitions, including the acquisitions of Codemasters, Glu and Playdemic. These acquisitions and other 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 or cannot realize anticipated tax benefits, that we acquire liabilities

and/or litigation from acquired companies or liabilities and/or litigation results from the transactions, that our due diligence process does not identify significant issues, liabilities or other challenges, diversion of management's attention from our other businesses, and 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 and costs associated with the integration of business systems and technologies, and acquired products and services, 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. Other competitors may assume certain licenses and create competing products, impacting our sales. 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. 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, 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, 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 exposes 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**

**The COVID-19 pandemic has affected how we are operating our business and the full extent of the impact of the COVID-19 pandemic on our business and financial results is uncertain.**

As a result of the COVID-19 pandemic and related public health measures, federal, state, local and foreign governmental authorities have imposed, and continue to impose, protocols and restrictions intended to contain the spread of the virus, including limitations on the size of gatherings, mandated closure of work facilities, schools and businesses, quarantines, lockdowns and travel restrictions. In addition, we have established, and will continue to maintain, protocols to promote the health and safety of our workforce and business partners. Substantially all of our office locations, including our global headquarters in Redwood Shores, California and key studios across North America, Europe and Asia remain closed to the majority of our employees.

The global work-from-home operating environment has caused strain and fatigue to our global workforce. In addition, certain of our development teams currently work in a distributed environment, whereas these teams historically collaborated in-person on the creative and technical process required to develop high-quality products and services at scale. Each of these factors has disrupted, and may continue to disrupt, the productivity of our workforce and the creative process to which our teams are accustomed. Companies in our industry have experienced issues related to game and service quality during the current work-from-home period, and we have changed the launch date of key products because of challenges associated with a distributed development environment. In addition, the longer-term impact to our creative and technical development processes is unknown and the associated risks, including with respect to game quality and developmental delays, which may cause us to delay or cancel additional release dates, may be heightened as the work-from-home period persists.

We are beginning to re-open locations to a limited number of employees as it is appropriate to do so, consistent with the health and safety of our employees and in compliance with any local legal restrictions or requirements. The reintroduction of employees to the workplace could introduce operational risk, negatively impact productivity, and give rise to claims by employees or otherwise adversely affect our business. In addition, the long-term effects of the COVID-19 pandemic on the nature of the office environment and remote working are not certain and may present operational challenges and impact our ability to attract and retain talent, and our teams' ability to collaborate creatively, each of which may adversely affect our business.

During fiscal 2021 and fiscal 2022, longer-term trends that benefit our business accelerated, including a significant increase in live services revenue and the proportion of our games purchased digitally. These trends may not be indicative of results for future periods, particularly as factors related to the COVID-19 pandemic lessen and consumers can engage with other forms of entertainment, if the trend towards digital adoption decelerates, or if global macroeconomic effects related to the COVID-19 pandemic persist even after the pandemic has subsided.

The extent of the impact of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the pandemic, the extent, speed and effectiveness of worldwide containment and vaccination efforts and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to flexibly respond to and manage the impact of these and other currently unknown impacts related to the COVID-19 pandemic, our business will be harmed.

To the extent that the COVID-19 pandemic harms our business and results of operations, many of the other risks described in this "Risk Factors" section may be heightened.

**Catastrophic events may disrupt our business.**

Natural disasters, cyber-incidents, weather events, wildfires, power disruptions, telecommunications failures, pandemics, health crises and other public health events, 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, 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. 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 have and may continue to 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 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, and the networks and systems of our partners, has increased substantially. While we and our partners have taken steps to secure our networks and systems, these networks and systems may be more vulnerable to a successful cyber-attack or information security incident while workforces remain distributed. The costs to respond to, mitigate, and/or notify affected parties of cyber-attacks and other security vulnerabilities are significant. It may also be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. 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, responsive measures and preventative measures have included, and could in the future include, the loss of proprietary and personal data and interruptions or delays in our business operations, exploitation of our data, as well as loss of player confidence and damage to our brand and reputation, financial expenses and financial loss. In addition, such events could cause us to be non-compliant with applicable regulations, and 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 or unauthorized 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.

**Attracting, managing and retaining our talent is critical to our success.**

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 strive to provide a workplace culture that is diverse, equitable, inclusive and safe and have invested in policies, practices, tools and people in this regard. If we cannot successfully recruit, train, motivate and retain qualified employees, develop and maintain a diverse, equitable, inclusive and safe work environment, or replace key employees following their departure, our reputation and brand may be negatively impacted and our ability to develop and manage our business will be impaired.

**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 experience 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, taxation, and employment, 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 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 and features within our games and services 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. We are also introducing features into our games and services that allow players to create and share user-generated content. Such content may be objectionable or offensive and decrease engagement with our products and services, cause a loss of confidence in our brands and expose us to liability and regulatory oversight, particularly as applicable global laws and regulations are introduced and evolve. New laws related to these business models and features or the interpretation or application of current laws that impact these business models and features - 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 or require pre-approval processes of uncertain length before our games and services can be offered. Adoption of ratings systems, censorship, restrictions on distribution and changes to approval processes or the status of any approvals 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, 2021, international net revenue comprised 56 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 remains elevated as compared to historic levels. Strengthening of the U.S. dollar, particularly relative to the Euro, British pound sterling, Australian dollar, Japanese yen, 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 \$1.9 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.

This indebtedness and any indebtedness that we may incur in the future 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 for other purposes, including capital expenditures, share repurchases, acquisitions or otherwise funding our growth strategy;
- Limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- Increasing our vulnerability to downturns in our business or 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. There can be no assurance that any refinancing or additional financing would be available on terms that are favorable or acceptable to us, if at all. 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 of 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 challenged and audited, 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 our geographic mix of earnings, 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. 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, and could cause us to change the way in which we structure our business and result in other costs. In particular, enactment of the recently proposed U.S. tax legislation could materially impact our provision for income taxes and cash taxes. Our effective tax rate also could be adversely affected by changes in our valuation allowances for deferred tax assets. Our valuation allowances, in turn, can be impacted by several factors, including changes to the expected mix and timing of product releases and future taxable income, expected growth rates of future taxable income, which are based primarily on third party market and industry growth data, changes in interest rates, and actions we take in connection with acquisitions. Significant judgment is involved in determining the amount of valuation allowances, and actual financial results also may differ materially from our current estimates and could have a material impact on our assessments.

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 us, it could have an adverse and material impact on our business and financial performance.

**GENERAL RISKS**

**Our business is subject to economic, market, public health 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, and that may persist from, public health outbreaks such as the COVID-19 pandemic and geopolitical issues, such as the impact from the United Kingdom's departure from the European Union, could have a material adverse impact on our business and operating results.

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**

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. During the three months ended December 31, 2021, we repurchased approximately 2.4 million shares for approximately \$325 million under this program. We are actively repurchasing shares under this program.

<u>Fiscal Month</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs</u>	<u>Maximum Dollar Value that May Still Be Purchased Under the Programs (in millions)</u>
October 3, 2021 - October 30, 2021	740,888	\$ 139.27	740,888	\$ 1,197
October 31, 2021 - November 27, 2021	706,081	\$ 138.83	706,081	\$ 1,098
November 28, 2021 - January 1, 2022	968,773	\$ 127.83	968,773	\$ 975
	<u>2,415,742</u>	<u>\$ 134.55</u>	<u>2,415,742</u>	

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

The exhibits listed in the accompanying index to exhibits on Page 65 are filed or incorporated by reference as part of this report.



**ELECTRONIC ARTS INC.**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED DECEMBER 31, 2021**

**EXHIBIT INDEX**

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
<a href="#">10.1*</a>	<a href="#">Electronic Arts Inc. Amended and Restated Change in Control Severance Plan</a>	8-K	000-17948	11/19/2021	
<a href="#">10.2*</a>	<a href="#">2000 Employee Stock Purchase Plan, as amended</a>				X
<a href="#">15.1</a>	<a href="#">Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm</a>				X
<a href="#">31.1</a>	<a href="#">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</a>				X
<a href="#">31.2</a>	<a href="#">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</a>				X
Additional exhibits furnished with this report:					
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
<a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

\* Management contract or compensatory plan or arrangement.

† Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2021 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.

**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

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Blake Jorgensen  
EVP and Chief Financial Officer

DATED:

February 8, 2022