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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2022
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	**94-2838567**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
209 Redwood Shores Parkway **Redwood City California**	**94065**
(Address of principal executive offices)	*(Zip Code)*

(650) 628-1500
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
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	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of November 4, 2022, there were 276,080,234 shares of the Registrant's Common Stock, par value $0.01 per share, outstanding.

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2022

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In millions, except par value data)	September 30, 2022	March 31, 2022 [a]
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,539	$ 2,732
Short-term investments	335	330
Receivables, net	919	650
Other current assets	649	439
Total current assets	3,442	4,151
Property and equipment, net	531	550
Goodwill	5,375	5,387
Acquisition-related intangibles, net	811	962
Deferred income taxes, net	2,395	2,243
Other assets	525	507
TOTAL ASSETS	$ 13,079	$ 13,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 136	$ 101
Accrued and other current liabilities	1,034	1,388
Deferred net revenue (online-enabled games)	1,391	2,024
Total current liabilities	2,561	3,513
Senior notes, net	1,879	1,878
Income tax obligations	478	386
Deferred income taxes, net	1	1
Other liabilities	362	397
Total liabilities	5,281	6,175
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Common stock, $0.01 par value. 1,000 shares authorized; 277 and 280 shares issued and outstanding, respectively	3	3
Additional paid-in capital	—	—
Retained earnings	7,658	7,607
Accumulated other comprehensive income (loss)	137	15
Total stockholders' equity	7,798	7,625
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 13,079	$ 13,800

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)	**Three Months Ended September 30,**		**Six Months Ended September 30,**	
(In millions, except per share data)	**2022**	**2021**	**2022**	**2021**
Net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377
Cost of revenue	462	494	776	809
Gross profit	1,442	1,332	2,895	2,568
Operating expenses:				
Research and development	565	553	1,137	1,068
Marketing and sales	233	233	467	423
General and administrative	174	176	341	345
Amortization and impairment of intangibles	43	30	82	70
Total operating expenses	1,015	992	2,027	1,906
Operating income	427	340	868	662
Interest and other income (expense), net	—	(14)	(5)	(28)
Income before provision for income taxes	427	326	863	634
Provision for income taxes	128	32	253	136
Net income	$ 299	$ 294	$ 610	$ 498
Earnings per share:				
Basic	$ 1.08	$ 1.03	$ 2.19	$ 1.75
Diluted	$ 1.07	$ 1.02	$ 2.18	$ 1.73
Number of shares used in computation:				
Basic	278	285	279	285
Diluted	279	287	280	288

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Net income	$ 299	$ 294	$ 610	$ 498
Other comprehensive income (loss), net of tax:				
Net gains (losses) on available-for-sale securities	—	—	(1)	—
Net gains (losses) on derivative instruments	109	50	199	56
Foreign currency translation adjustments	(43)	(17)	(76)	(8)
Total other comprehensive income (loss), net of tax	66	33	122	48
Total comprehensive income	$ 365	$ 327	$ 732	$ 546

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited) (In millions, except share data in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balances as of March 31, 2022	280,051	$ 3	$ —	$ 7,607	$ 15	$ 7,625
Total comprehensive income	—	—	—	311	56	367
Stock-based compensation	—	—	125	—	—	125
Issuance of common stock	1,413	—	(103)	—	—	(103)
Repurchase and retirement of common stock	(2,512)	—	(22)	(298)	—	(320)
Cash dividends declared ($0.19 per common share)	—	—	—	(53)	—	(53)
Balances as of June 30, 2022	278,952	$ 3	$ —	$ 7,567	$ 71	$ 7,641
Total comprehensive income	—	—	—	299	66	365
Stock-based compensation	—	—	140	—	—	140
Issuance of common stock	641	—	30	—	—	30
Repurchase and retirement of common stock	(2,569)	—	(170)	(155)	—	(325)
Cash dividends declared ($0.19 per common share)	—	—	—	(53)	—	(53)
Balances as of September 30, 2022	277,024	$ 3	$ —	$ 7,658	$ 137	$ 7,798

(Unaudited) (In millions, except share data in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balances as of March 31, 2021	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)
Balances as of June 30, 2021	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)
Balances as of September 30, 2021	283,666	$ 3	$ —	$ 7,855	$ (2)	$ 7,856

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In millions)	Six Months Ended September 30, 2022	2021
OPERATING ACTIVITIES		
Net income	$ 610	$ 498
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization, accretion and impairment	241	199
Stock-based compensation	265	274
Change in assets and liabilities:		
Receivables, net	(276)	(446)
Other assets	(25)	(51)
Accounts payable	53	42
Accrued and other liabilities	(269)	(250)
Deferred income taxes, net	(156)	(140)
Deferred net revenue (online-enabled games)	(633)	(205)
Net cash used in operating activities	(190)	(79)
INVESTING ACTIVITIES		
Capital expenditures	(112)	(87)
Proceeds from maturities and sales of short-term investments	166	1,128
Purchase of short-term investments	(173)	(369)
Acquisitions, net of cash acquired	—	(3,394)
Net cash used in investing activities	(119)	(2,722)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	44	41
Cash dividends paid	(106)	(97)
Cash paid to taxing authorities for shares withheld from employees	(117)	(121)
Repurchase and retirement of common stock	(645)	(650)
Net cash used in financing activities	(824)	(827)
Effect of foreign exchange on cash and cash equivalents	(60)	(2)
Increase (decrease) in cash and cash equivalents	(1,193)	(3,630)
Beginning cash and cash equivalents	2,732	5,260
Ending cash and cash equivalents	$ 1,539	$ 1,630
Supplemental cash flow information:		
Cash paid during the period for income taxes, net	$ 310	$ 303
Cash paid during the period for interest	28	28
Non-cash investing activities:		
Change in accrued capital expenditures	$ (21)	$ 3

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 experienced on game consoles, PCs, mobile phones and tablets. At our core is a portfolio of intellectual property from which we create innovative games and content that enable 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 *Apex Legends*, Battlefield, and The Sims) or license from others (such as Madden, Star Wars, and the 300+ licenses within our global football ecosystem). 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, 2023 contains 52 weeks and ends on April 1, 2023. Our results of operations for the fiscal year ended March 31, 2022 contained 52 weeks and ended on April 2, 2022. Our results of operations for the three and six months ended September 30, 2022 contained 13 weeks and 26 weeks, respectively, and ended on October 1, 2022. Our results of operations for the three and six months ended September 30, 2021 contained 13 weeks and 26 weeks, respectively, and ended on October 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, 2022, as filed with the United States Securities and Exchange Commission ("SEC") on May 25, 2022.

Recently Adopted Accounting Standards

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. We adopted ASU 2021-10 in the first quarter of fiscal year 2023 and elected to apply the amendments prospectively to all transactions within the scope of the amendment that are reflected in the financial statements at the date of adoption. The adoption did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

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.

(2) FAIR VALUE MEASUREMENTS

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

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

- *Level 1*. Quoted prices in active markets for identical assets or liabilities.
- *Level 2*. Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities.
- *Level 3*. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2022 and March 31, 2022, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

		Fair Value Measurements at Reporting Date Using			
	As of September 30, 2022	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Assets					
Bank and time deposits	$ 52	$ 52	$ —	$ —	Cash equivalents
Money market funds	13	13	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	128	—	128	—	Short-term investments
U.S. Treasury securities	88	88	—	—	Short-term investments
U.S. agency securities	4	—	4	—	Short-term investments
Commercial paper	47	—	47	—	Short-term investments and cash equivalents
Foreign government securities	17	—	17	—	Short-term investments
Asset-backed securities	37	—	37	—	Short-term investments
Certificates of deposit	18	—	18	—	Short-term investments
Foreign currency derivatives	301	—	301	—	Other current assets and other assets
Deferred compensation plan assets [(a)]	22	22	—	—	Other assets
Total assets at fair value	$ 727	$ 175	$ 552	$ —	
Liabilities					
Foreign currency derivatives	$ 38	$ —	$ 38	$ —	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities [(a)]	23	23	—	—	Other liabilities
Total liabilities at fair value	$ 61	$ 23	$ 38	$ —	

	As of March 31, 2022	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Assets					
Bank and time deposits	$ 55	$ 55	$ —	$ —	Cash equivalents
Money market funds	257	257	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	116	—	116	—	Short-term investments
U.S. Treasury securities	104	104	—	—	Short-term investments and cash equivalents
Commercial paper	51	—	51	—	Short-term investments and cash equivalents
Foreign government securities	17	—	17	—	Short-term investments
Asset-backed securities	38	—	38	—	Short-term investments
Certificates of deposit	18	—	18	—	Short-term investments
Foreign currency derivatives	63	—	63	—	Other current assets and other assets
Deferred compensation plan assets (a)	21	21	—	—	Other assets
Total assets at fair value	$ 740	$ 437	$ 303	$ —	
Liabilities					
Foreign currency derivatives	$ 14	$ —	$ 14	$ —	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities (a)	22	22	—	—	Other liabilities
Total liabilities at fair value	$ 36	$ 22	$ 14	$ —	

(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, 2022, for additional information regarding our Deferred Compensation Plan.

(3) FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

As of September 30, 2022 and March 31, 2022, our cash and cash equivalents were $1,539 million and $2,732 million, respectively. Cash equivalents were valued using quoted market prices or other readily available market information.

Short-Term Investments

Short-term investments consisted of the following as of September 30, 2022 and March 31, 2022 (in millions):

	As of September 30, 2022				As of March 31, 2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 129	$ —	$ (1)	$ 128	$ 117	$ —	$ (1)	$ 116
U.S. Treasury securities	89	—	(1)	88	103	—	(1)	102
U.S. agency securities	4	—	—	4	—	—	—	—
Commercial paper	43	—	—	43	39	—	—	39
Foreign government securities	17	—	—	17	17	—	—	17
Asset-backed securities	38	—	(1)	37	38	—	—	38
Certificates of deposit	18	—	—	18	18	—	—	18
Short-term investments	$ 338	$ —	$ (3)	$ 335	$ 332	$ —	$ (2)	$ 330

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of September 30, 2022 and March 31, 2022 (in millions):

	As of September 30, 2022		As of March 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due within 1 year	$ 264	$ 262	$ 250	$ 249
Due 1 year through 5 years	69	68	77	76
Due after 5 years	5	5	5	5
Short-term investments	$ 338	$ 335	$ 332	$ 330

(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 September 30, 2022			As of March 31, 2022		
		Fair Value			Fair Value	
	Notional Amount	Asset	Liability	Notional Amount	Asset	Liability
Forward contracts to purchase	$ 262	$ —	$ 24	$ 375	$ 4	$ 3
Forward contracts to sell	$ 2,033	$ 275	$ —	$ 1,829	$ 52	$ 6

The effects of cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2022 and 2021 are as follows (in millions):

	Three Months Ended September 30,				Six Months Ended September 30,			
	2022		2021		2022		2021	
	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	$ 1,904	$ 565	$ 1,826	$ 553	$ 3,671	$ 1,137	$ 3,377	$ 1,068
Gains (losses) on foreign currency forward contracts designated as cash flow hedges	$ 61	$ (5)	$ (18)	$ 4	$ 80	$ (8)	$ (37)	$ 12

Balance Sheet Hedging Activities

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

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

	As of September 30, 2022			As of March 31, 2022		
		Fair Value			Fair Value	
	Notional Amount	Asset	Liability	Notional Amount	Asset	Liability
Forward contracts to purchase	$ 415	$ —	$ 14	$ 496	$ 6	$ —
Forward contracts to sell	$ 696	$ 26	$ —	$ 400	$ 1	$ 5

The effect of foreign currency forward contracts not designated as hedging instruments in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2022 and 2021 was as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
	Interest and other income (expense), net			
Total amounts presented in our Condensed Consolidated Statements of Operations in which the effects of balance sheet hedges are recorded	$ —	$ (14)	$ (5)	$ (28)
Gain (losses) on foreign currency forward contracts not designated as hedging instruments	$ 14	$ 4	$ 27	$ (3)

(5) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended September 30, 2022 and 2021 are as follows (in millions):

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of June 30, 2022	$ (4)	$ 137	$ (62)	$ 71
Other comprehensive income (loss) before reclassifications	—	165	(43)	122
Amounts reclassified from accumulated other comprehensive income (loss)	—	(56)	—	(56)
Total other comprehensive income (loss), net of tax	—	109	(43)	66
Balances as of September 30, 2022	$ (4)	$ 246	$ (105)	$ 137

	Unrealized Net Gains (Losses) on Available-for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of June 30, 2021	$ —	$ (23)	$ (12)	$ (35)
Other comprehensive income (loss) before reclassifications	—	36	(17)	19
Amounts reclassified from accumulated other comprehensive income (loss)	—	14	—	14
Total other comprehensive income (loss), net of tax	—	50	(17)	33
Balances as of September 30, 2021	$ —	$ 27	$ (29)	$ (2)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended September 30, 2022 and 2021 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, 2022	$ (3)	$ 47	$ (29)	$ 15
Other comprehensive income (loss) before reclassifications	(1)	271	(76)	194
Amounts reclassified from accumulated other comprehensive income (loss)	—	(72)	—	(72)
Total other comprehensive income (loss), net of tax	(1)	199	(76)	122
Balances as of September 30, 2022	$ (4)	$ 246	$ (105)	$ 137

	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	—	31	(8)	23
Amounts reclassified from accumulated other comprehensive income (loss)	—	25	—	25
Total other comprehensive income (loss), net of tax	—	56	(8)	48
Balances as of September 30, 2021	$ —	$ 27	$ (29)	$ (2)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2022 were as follows (in millions):

	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
Statement of Operations Classification	Three Months Ended September 30, 2022	Six Months Ended September 30, 2022
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	$ (61)	$ (80)
Research and development	5	8
Total net (gain) loss reclassified, net of tax	$ (56)	$ (72)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2021 were as follows (in millions):

	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
Statement of Operations Classification	Three Months Ended September 30, 2021	Six Months Ended September 30, 2021
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	$ 18	$ 37
Research and development	(4)	(12)
Total net (gain) loss reclassified, net of tax	$ 14	$ 25

(6) GOODWILL AND ACQUISITION-RELATED INTANGIBLES, NET

The changes in the carrying amount of goodwill for the six months ended September 30, 2022 are as follows (in millions):

	As of March 31, 2022	Activity	Effects of Foreign Currency Translation	As of September 30, 2022
Goodwill	$ 5,755	$ —	$ (12)	$ 5,743
Accumulated impairment	(368)	—	—	(368)
Total	$ 5,387	$ —	$ (12)	$ 5,375

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

	As of September 30, 2022			As of March 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net
Finite-lived acquisition-related intangibles						
Developed and core technology	$ 1,090	$ (720)	$ 370	$ 1,102	$ (643)	$ 459
Trade names and trademarks	603	(255)	348	609	(212)	397
Registered user base and other intangibles	56	(43)	13	56	(30)	26
Total finite-lived acquisition-related intangibles	$ 1,749	$ (1,018)	$ 731	$ 1,767	$ (885)	$ 882
Indefinite-lived acquisition-related intangibles						
In-process research and development	$ 80	$ —	$ 80	$ 80	$ —	$ 80
Total acquisition-related intangibles, net	$ 1,829	$ (1,018)	$ 811	$ 1,847	$ (885)	$ 962

Amortization of intangibles, including impairments for the three and six months ended September 30, 2022 and 2021 are classified in the Condensed Consolidated Statements of Operations as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 39	$ 22	$ 69	$ 44
Operating expenses	43	30	82	70
Total	$ 82	$ 52	$ 151	$ 114

During the three months ended September 30, 2022, we recorded an $18 million impairment charge for acquisition-related intangible assets, of which $12 million was recorded within cost of revenue and $6 million was recorded in operating expenses.

During the six months ended September 30, 2021, we recorded a $12 million impairment charge for acquisition-related intangible assets 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 ranging from 1 to 7 years. As of September 30, 2022 and March 31, 2022, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 5.0 and 5.2 years, respectively.

As of September 30, 2022, 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,		
2023 (remaining six months)	$	111
2024		156
2025		122
2026		118
2027		99
2028		96
2029 and thereafter		29
Total	$	731

(7) ROYALTIES AND LICENSES

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

During the three and six months ended September 30, 2022 and 2021, we did not recognize any material losses or impairment charges on royalty-based commitments.

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

	As of September 30, 2022		As of March 31, 2022	
Other current assets	$	72	$	35
Other assets		30		28
Royalty-related assets	$	102	$	63

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

	As of September 30, 2022		As of March 31, 2022	
Accrued royalties	$	141	$	203
Other liabilities		—		3
Royalty-related liabilities	$	141	$	206

As of September 30, 2022, we were committed to pay approximately $2 billion to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (i.e., delivery of the product or content or other factors) and such commitments were therefore not recorded in our Condensed Consolidated Financial Statements. See Note 11 for further information on our developer and licensor commitments.

(8) BALANCE SHEET DETAILS

Property and Equipment, Net

Property and equipment, net, as of September 30, 2022 and March 31, 2022 consisted of (in millions):

	As of September 30, 2022	As of March 31, 2022
Computer, equipment and software	$ 861	$ 853
Buildings	364	375
Leasehold improvements	179	202
Equipment, furniture and fixtures, and other	86	95
Land	66	66
Construction in progress	11	30
	1,567	1,621
Less: accumulated depreciation	(1,036)	(1,071)
Property and equipment, net	$ 531	$ 550

Depreciation expense associated with property and equipment was $45 million and $89 million for the three and six months ended September 30, 2022, respectively.

Depreciation expense associated with property and equipment was $$39 million and $$79 million for the three and six months ended September 30, 2021, respectively.

Other Current Assets

Other current assets as of September 30, 2022 and March 31, 2022 consisted of (in millions):

	As of September 30, 2022	As of March 31, 2022
Fair value of hedging contracts	$ 287	$ 61
Prepaids and deposits	242	239
Other	120	139
Total other current assets	$ 649	$ 439

Accrued and Other Current Liabilities

Accrued and other current liabilities as of September 30, 2022 and March 31, 2022 consisted of (in millions):

	As of September 30, 2022	As of March 31, 2022
Other accrued expenses	$ 355	$ 304
Accrued compensation and benefits	282	500
Accrued royalties	141	203
Sales returns and price protection reserves	68	144
Deferred net revenue (other)	111	156
Operating lease liabilities	77	81
Accrued and other current liabilities	$ 1,034	$ 1,388

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

Deferred net revenue

Deferred net revenue as of September 30, 2022 and March 31, 2022 consisted of (in millions):

	As of September 30, 2022	As of March 31, 2022
Deferred net revenue (online-enabled games)	$ 1,391	$ 2,024
Deferred net revenue (other)	111	156
Deferred net revenue (noncurrent)	55	68
Total deferred net revenue	$ 1,557	$ 2,248

During the six months ended September 30, 2022 and 2021, we recognized $1,951 million and $1,504 million of revenue, respectively, that were included in the deferred net revenue balance at the beginning of the period.

Remaining Performance Obligations

As of September 30, 2022, revenue allocated to remaining performance obligations consists of our deferred revenue balance of $1,557 million and amounts to be invoiced in future periods of $34 million, of which $24 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.

(9) INCOME TAXES

The provision for income taxes for the three and six months ended September 30, 2022 is based on our projected annual effective tax rate for fiscal year 2023, 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 six months ended September 30, 2022 was 30 percent and 29 percent, respectively, as compared to 10 percent and 21 percent, respectively, for the same period in fiscal year 2022. The current period rate was higher due to the Codemasters intra-entity sale of intellectual property rights to our U.S. and Swiss intellectual property owners completed during the three months ended September 30, 2021, which resulted in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction was 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 three and six months ended September 30, 2021 would have been 28 percent and 31 percent, respectively.

We are subject to income tax examinations in various jurisdictions with respect to fiscal years after 2013. The timing and potential resolution of income tax examinations is highly uncertain. The gross unrecognized tax benefits as of September 30, 2022 were $743 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 decision of the Ninth Circuit Court of Appeals in Altera Corp. v Commissioner ("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. We expect changes in unrecognized tax benefits unrelated to the Altera opinion which may occur within the next twelve months to be insignificant.

(10) 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 September 30, 2022		As of March 31, 2022	
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)		(6)
Unamortized debt issuance costs		(15)		(16)
Net carrying value of Senior Notes	$	1,879	$	1,878
Fair value of Senior Notes (Level 2)	$	1,462	$	1,711

As of September 30, 2022, the remaining life of the 2026 Notes, 2031 Notes and 2051 Notes is approximately 3.4 years, 8.4 years, and 28.4 years, respectively.

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

The 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 (as amended, the “Credit Facility”) with a syndicate of banks which was amended on October 18, 2022. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with its terms. The Credit Facility contains an option to arrange with existing lenders and/or new lenders to provide up to an aggregate of $500 million in additional commitments for revolving loans. Proceeds of loans made under the Credit Facility may be used for general corporate purposes.

The credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, and dispose of all or substantially all assets, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a debt to EBITDA ratio. As of September 30, 2022, we were in compliance with the debt to EBITDA ratio.

As of September 30, 2022, no amounts were outstanding under the Credit Facility. $2 million of debt issuance costs that were paid in connection with obtaining this credit facility are being amortized to interest expense over the 5-year term of the Credit Facility.

Interest Expense

The following table summarizes our interest expense recognized for the three and six months ended September 30, 2022 and 2021 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Amortization of debt issuance costs	(1)	(1)	(1)	(1)
Coupon interest expense	(14)	(14)	(28)	(28)
Total interest expense	$ (15)	$ (15)	$ (29)	$ (29)

(11) COMMITMENTS AND CONTINGENCIES

Development, Celebrity, League and Content Licenses: Payments and Commitments

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

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments to promote the games we publish that may not be dependent on any deliverables. These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations as of September 30, 2022 (in millions):

		Fiscal Years Ending March 31,						
	Total	2023 (Remaining six mos.)	2024	2025	2026	2027	2028	Thereafter
Unrecognized commitments								
Developer/licensor commitments	$ 1,961	$ 142	$ 460	$ 500	$ 422	$ 113	$ 110	$ 214
Marketing commitments	929	97	252	214	178	76	63	49
Senior Notes interest	809	22	55	55	54	36	36	551
Operating lease imputed interest	37	4	8	6	5	3	3	8
Operating leases not yet commenced (a)	152	—	4	10	16	16	14	92
Other purchase obligations	155	32	99	17	5	2	—	—
Total unrecognized commitments	4,043	297	878	802	680	246	226	914
Recognized commitments								
Senior Notes principal and interest	1,906	6	—	—	400	—	—	1,500
Operating leases	345	46	64	58	45	31	22	79
Transition Tax and other taxes	17	—	4	6	7	—	—	—
Total recognized commitments	2,268	52	68	64	452	31	22	1,579
Total Commitments	$ 6,311	$ 349	$ 946	$ 866	$ 1,132	$ 277	$ 248	$ 2,493

(a) As of September 30, 2022, we have entered into office and equipment leases that have not yet commenced with aggregate future lease payments of approximately $152 million. These leases are expected to commence between fiscal year 2023 and fiscal year 2025, and will have lease terms ranging from 5 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 September 30, 2022; however, certain payment obligations may be accelerated depending on the performance of our operating results.

In addition to what is included in the table above, as of September 30, 2022, we had a net liability for unrecognized tax benefits and an accrual for the payment of related interest totaling $466 million, of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

Legal Proceedings

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

(12) STOCK-BASED COMPENSATION

Valuation Assumptions

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

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

- *Restricted Stock Units* and *Performance-Based Restricted Stock Units*. The fair value of restricted stock units and performance-based restricted stock units (other than market-based restricted stock units) is determined based on the quoted market price of our common stock on the date of grant.

- *Market-Based Restricted Stock Units*. Market-based restricted stock units consist of grants of performance-based restricted stock units to certain members of executive management that vest contingent upon the achievement of pre-determined market and service conditions (referred to herein as "market-based restricted stock units"). The fair value of our market-based restricted stock units is estimated using a Monte-Carlo simulation model. Key assumptions for the Monte-Carlo simulation model are the risk-free interest rate, expected volatility, expected dividends and correlation coefficient.

- *Stock Options and Employee Stock Purchase Plan*. The fair value of stock options and stock purchase rights granted pursuant to our equity incentive plans and our 2000 Employee Stock Purchase Plan, as amended ("ESPP"), respectively, is estimated using the Black-Scholes valuation model based on the multiple-award valuation method. Key assumptions of the Black-Scholes valuation model are the risk-free interest rate, expected volatility, expected term and expected dividends. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for the expected term of the option. Expected volatility is based on a combination of historical stock price volatility and implied volatility of publicly-traded options on our common stock. An expected term is estimated based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.

There were an insignificant number of stock options granted during the three and six months ended September 30, 2022 and 2021.

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

	ESPP Purchase Rights	
	Three Months Ended September 30,	
	2022	2021
Risk-free interest rate	3.1 – 3.3%	0.1 %
Expected volatility	30 – 31%	25 – 28%
Weighted-average volatility	30 %	27 %
Expected term	6 – 12 months	6 – 12 months
Expected dividends	0.7 %	0.6 %

Stock Options

The following table summarizes our stock option activity for the six months ended September 30, 2022:

	Options (in thousands)	Weighted-Average Exercise Prices	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2022	286	$ 39.28		
Granted	2	125.20		
Exercised	(67)	39.58		
Forfeited, cancelled or expired	(1)	64.95		
Outstanding as of September 30, 2022	220	$ 39.78	1.63	$ 17
Vested and expected to vest	220	$ 39.78	1.63	$ 17
Exercisable as of September 30, 2022	218	$ 39.07	1.57	$ 17

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of September 30, 2022, 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 units activity for the six months ended September 30, 2022:

	Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Values
Outstanding as of March 31, 2022	6,682	$ 129.57
Granted	4,564	127.72
Vested	(2,378)	123.46
Forfeited or cancelled	(507)	132.03
Outstanding as of September 30, 2022	8,361	$ 130.15

Performance-Based Restricted Stock Units

Our performance-based restricted stock units vest upon the achievement of pre-determined performance-based milestones, including, but not limited to, management reporting milestones of net bookings and operating income metrics, 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 six months ended September 30, 2022:

	Performance-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding as of March 31, 2022	190	$ 142.60
Granted	509	127.98
Vested	(73)	142.60
Forfeited or cancelled	(65)	136.78
Outstanding as of September 30, 2022	561	$ 130.01

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 six months ended September 30, 2022:

	Market-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding as of March 31, 2022	1,321	$ 134.69
Granted	178	176.70
Vested	(95)	114.97
Forfeited or cancelled	(582)	129.16
Outstanding as of September 30, 2022	822	$ 149.98

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 1	$ 2	$ 3	$ 3
Research and development	95	101	176	186
Marketing and sales	16	15	29	27
General and administrative	28	31	57	58
Stock-based compensation expense	$ 140	$ 149	$ 265	$ 274

During the three and six months ended September 30, 2022, we recognized $24 million and $45 million, respectively, of deferred income tax benefit related to our stock-based compensation expense. During the three and six months ended September 30, 2021, we recognized $27 million and $51 million, respectively, of deferred income tax benefit related to our stock-based compensation expense.

As of September 30, 2022, our total unrecognized compensation cost related to stock options, restricted stock units, market-based restricted stock units, and performance-based restricted stock units was $974 million and is expected to be recognized over a weighted-average service period of 2.1 years. Of the $974 million of unrecognized compensation cost, $917 million relates to restricted stock units, $33 million relates to market-based restricted stock units, $24 million relates to performance-based restricted stock units.

Stock Repurchase Program

In November 2020, our Board of Directors authorized a program to repurchase up to $2.6 billion of our common stock. Repurchases under the November 2020 program were completed in October 2022.

In August 2022, 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, 2024. 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. Upon completion of the November 2020 program in October 2022, we began repurchasing shares under the current program.

The following table summarizes total shares repurchased during the three and six months ended September 30, 2022 and 2021:

	November 2020 Program	
(In millions)	**Shares**	**Amount**
Three months ended September 30, 2022	2.6	$ 325
Six months ended September 30, 2022	5.1	$ 645
Three months ended September 30, 2021	2.3	$ 325
Six months ended September 30, 2021	4.6	$ 650

(13) EARNINGS PER SHARE

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(In millions, except per share amounts)	**2022**	**2021**	**2022**	**2021**
Net income	$ 299	$ 294	$ 610	$ 498
Shares used to compute earnings per share:				
Weighted-average common stock outstanding — basic	278	285	279	285
Dilutive potential common shares related to stock award plans	1	2	1	3
Weighted-average common stock outstanding — diluted	279	287	280	288
Earnings per share:				
Basic	$ 1.08	$ 1.03	$ 2.19	$ 1.75
Diluted	$ 1.07	$ 1.02	$ 2.18	$ 1.73

Certain 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 as their inclusion would have had an antidilutive effect. For both the three and six months ended September 30, 2022, two million such shares were excluded. For both the three and six months ended September 30, 2021, one million such shares were excluded.

(14) SEGMENT AND REVENUE INFORMATION

Our reporting segment is based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our Chief Operating Decision Maker ("CODM"), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations. Our CODM currently reviews total company operating results to assess overall performance and allocate resources. As of September 30, 2022, we have only one reportable segment, which represents our only operating segment.

Information about our total net revenue by timing of recognition for the three and six months ended September 30, 2022 and 2021 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Net revenue by timing of recognition				
Revenue recognized at a point in time	$ 725	$ 770	$ 1,071	$ 1,175
Revenue recognized over time	1,179	1,056	2,600	2,202
Net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377

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 either the estimated offering period, contractual term 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-Hosted Services such as our *Ultimate Team* game mode, and subscription services.

Information about our total net revenue by composition for the three and six months ended September 30, 2022 and 2021 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Net revenue by composition				
Full game downloads	$ 328	$ 337	$ 565	$ 570
Packaged goods	274	280	378	369
Full game	602	617	943	939
Live services and other	1,302	1,209	2,728	2,438
Net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377

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, mobile phones and tablets. Packaged goods primarily includes revenue from software that is sold physically through traditional channels such as brick and mortar retailers and software licensing revenue from third parties who include certain of our full games for sale with their products.

Live services and other net revenue includes revenue from sales of extra content for console, PC and mobile games, licensing revenue, subscriptions, and advertising.

Information about our total net revenue by platform for the three and six months ended September 30, 2022 and 2021 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Platform net revenue				
Console	$ 1,161	$ 1,198	$ 2,203	$ 2,170
PC and other	423	377	825	738
Mobile	320	251	643	469
Net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377

Information about our operations in North America and internationally for the three and six months ended September 30, 2022 and 2021 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Net revenue from unaffiliated customers				
North America	$ 794	$ 778	$ 1,556	$ 1,460
International	1,110	1,048	2,115	1,917
Net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Electronic Arts Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of Electronic Arts, Inc. and subsidiaries (the Company) as of October 1, 2022, the related condensed consolidated statements of operations, comprehensive income, stockholders' equity for the three-month and six-month periods ended October 1, 2022 and October 2, 2021, and cash flows for the six-month periods ended October 1, 2022 and October 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 2, 2022, 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 25, 2022, 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 2, 2022, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

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

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

(Signed) KPMG LLP

Santa Clara, California

November 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", "would", "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, 2022. We assume no obligation to revise or update any forward-looking statement for any reason, except as required by law.

OVERVIEW

The following overview is a high-level discussion of our operating results, as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers provides important context for our results for the three months ended September 30, 2022, 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, 2022 as filed with the SEC on May 25, 2022 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 experienced on game consoles, PCs, mobile phones and tablets. At our core is a portfolio of intellectual property from which we create innovative games and content that enable 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 *Apex Legends*, Battlefield, and The Sims) or license from others (such as Madden, Star Wars, and the 300+ licenses within our global football ecosystem). 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 September 30, 2022 were as follows:

- Total net revenue was $1,904 million, up 4 percent year-over-year. On a constant currency basis, we estimate that total net revenue would have been $1,930 million, up 7 percent year-over-year.
- Live services and other net revenue was $1,302 million, up 8 percent year-over-year.
- Gross margin was 75.7 percent, up 3 percentage points year-over-year.
- Operating expenses were $1,015 million, up 2 percent year-over-year. On a constant currency basis, we estimate that operating expenses would have been $1,034 million, up 5 percent year-over-year.
- Operating income was $427 million, up 26 percent year-over-year.
- Net income was $299 million with diluted earnings per share of $1.07.
- Net cash used in operating activities was $112 million, up 275 percent year-over-year.
- Total cash, cash equivalents and short-term investments were $1,874 million.
- We repurchased 2.6 million shares of our common stock for $325 million.
- We paid cash dividends of $53 million during the quarter ended September 30, 2022.

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

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 $5,288 million, $4,485 million and $3,904 million for the trailing twelve months ended September 30, 2022, 2021 and 2020, 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 $4,140 million, $3,382 million and $3,090 million for the trailing twelve months ended September 30, 2022, 2021 and 2020, respectively. Extra content net revenue has increased as more players engage with our games and services, and purchase additional content designed to provide value to players and extend and enhance gameplay. Our most popular live services are the extra content purchased for the *Ultimate Team* mode associated with our sports franchises and extra content purchased for our *Apex Legends* franchise. *Ultimate Team* allows players to collect current and former professional players in order to build and compete as a personalized team. Live services net revenue generated from extra content purchased within the *Ultimate Team* mode associated with our sports franchises, a substantial portion of which was derived from *FIFA Ultimate Team*, and from our *Apex Legends* franchise, is material to our business.

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 due to a mix of products 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. As a result, 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 $1,282 million, $918 million and $811 million during fiscal years 2022, 2021 and 2020, respectively; while our net revenue attributable to packaged goods sales decreased from $1,076 million in fiscal year 2020 to $695 million in fiscal year 2021 and $711 million in fiscal year 2022. 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 65 percent, 62 percent, and 49 percent of our total units sold during fiscal years 2022, 2021 and 2020 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.

Increased Competition. Competition in our business is intense. 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 have strengthened their interactive entertainment capabilities resulting in more direct competition with us. For example, companies such as Amazon.com, Inc., Alphabet Inc., Meta Platforms, Inc., Microsoft Corporation, and Netflix, Inc. have increased investment and resources dedicated to interactive entertainment capabilities. We expect them to continue to pursue and strengthen these businesses. Their greater financial or other resources may provide larger budgets to develop and market tools, technologies, products and services that gain consumer success and shift player time and engagement away from our products and services. 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, resulting in retention challenges and increased cost to retain and incentivize our key people.

Recently, our industry has undergone a period of increased consolidation which increases competitive pressure on us as interactive entertainment companies grow through acquisition – such as Take Two Interactive's recent acquisition of Zynga – or as larger, well-funded technology companies strengthen their interactive entertainment capabilities – such as Microsoft's definitive agreement to acquire Activision Blizzard.

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 historically in the mobile gaming industry. Similarly, sales of extra content are the primary driver of our mobile business. While the mobile gaming industry has recently experienced headwinds, it remains a strategic focus for us, as we look to reach new players, grow our existing network, and build interconnected ecosystems. We expect growth in our mobile business and mobile net revenue in fiscal year 2023. 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 global football franchise, 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 starting in fiscal year 2024, our global football franchise will transition to a new EA SPORTS FC brand. Our vision for the future of interactive football with EA SPORTS FC is to create the largest football club in the world, and we believe this is the right opportunity for us so that we can continue delivering innovation and growing to connect more fans on a global scale for years to come.

COVID-19 Impact. We continue to monitor the impact of the COVID-19 pandemic to our people and our business. Since the initial outbreak, 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. The well-being of our people is our top priority as conditions continue to fluctuate around the world. We are re-opening our office locations and resuming business travel 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. During the pandemic, longer-term trends that benefit our business 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 over the past two fiscal years. These trends may not be indicative of results for future periods, particularly if the trend towards digital adoption decelerates, or as a result of global macroeconomic effects related or unrelated to the COVID-19 pandemic. See the section titled "Risk Factors" in Part I, Item 1A of this Annual Report for further discussion of the possible impact of the COVID-19 pandemic to our workforce and business.

Re-occurring Revenue Sources. Our business model includes revenue that we deem re-occurring in nature, such as revenue from our live services, annualized sports franchises (e.g., global football, Madden NFL), and our console, PC and mobile catalog titles (i.e., titles that did not launch in the current fiscal year). 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 re-occurring portion of our business.

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

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

(In millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Total net revenue	$ 1,904	$ 1,826	$ 3,671	$ 3,377
Change in deferred net revenue (online-enabled games)	(150)	25	(618)	(190)
Net bookings	$ 1,754	$ 1,851	$ 3,053	$ 3,187

Net bookings were $1,754 million for the three months ended September 30, 2022 primarily driven by sales related to our FIFA franchise, *Apex Legends*, our Madden franchise, *The Sims 4*, and our F1 franchise. Net bookings decreased $97 million, or 5 percent, as compared to the three months ended September 30, 2021, primarily due to a $51 million impact related to fluctuations in foreign exchange rates, net of hedging activities, decreased sales of extra content related to *Apex Legends* due to timing of in-game events, and the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023. The decreases were partially offset by sales of extra content from the addition of *Golf Clash*, and strength in our FIFA franchise. Live services and other net bookings were $1,119 million for the three months ended September 30, 2022, and decreased $36 million, or 3 percent, as compared to the three months ended September 30, 2021. The decrease in live services and other net bookings was primarily due to fluctuations in foreign exchange rates, net of hedging activities, decreased sales of extra content related to *Apex Legends* due to timing of in-game events, and *The Sims 4,* partially offset by sales of extra content from the addition of *Golf Clash* and strength in our FIFA franchise. Full game net bookings were $635 million for the three months ended September 30, 2022, and decreased $61 million, or 9 percent, as compared to the three months ended September 30, 2021 primarily due to the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023 and the fluctuations in foreign exchange rates, net of hedging activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these Condensed 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. 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 experienced 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 offer 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. 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

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 analysis, pre-release versus post-release costs, and pricing data from competitors to the extent the data is available. 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 experienced. 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. 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, 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, and revenue for service related performance obligations related to our PC and console free-to-play games is recognized generally over a twelve-month period.

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 discretion in establishing the price for the specified good or service; and
- which party has inventory risk before the specified good or service has been transferred to the end customer.

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

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. Accounting for business combinations requires us to make significant estimates and assumptions with respect to intangible assets.

Although we believe the assumptions and estimates we have made are reasonable, they are based in part on historical experience, market conditions, and information obtained from the management of the acquired companies and are inherently uncertain and unpredictable. Examples of critical estimates used in valuing certain of the intangible assets and in determining the useful lives for the assets we have acquired or may acquire in the future include, but are not limited to:

- future expected revenues and cash flows;
- expected use of the acquired assets;
- the acquired company's trade name and trademarks, as well as assumptions about the period of time the acquired trade name and trademarks will continue to be used in our portfolio;
- expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

- discount rates used to determine the present value of estimated future cash flows, which are typically derived from a weighted-average cost of capital analysis and adjusted to reflect inherent risks.

Such estimates are inherently difficult and subjective and can have a material impact on our Condensed Consolidated Financial Statements. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates, or actual results.

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.

Every quarter, we perform a realizability analysis to evaluate whether it is more likely than not that all or a portion of our deferred tax assets will not be realized. Our Swiss deferred tax 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 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. Swiss interest rates have an impact on the valuation allowance and are based on published Swiss guidance, which generally occurs in the fourth quarter of our fiscal year. Any significant changes to such interest rates could result in a material impact to the valuation allowance and to our Consolidated Financial Statements. We have adjusted our valuation allowance for changes in the published interest rates in the past and it is probable that we will do so again based on current global interest rate trends. 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 Condensed 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 require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to our preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective tax rate.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

RESULTS OF OPERATIONS

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal year ending March 31, 2023 contains 52 weeks and ends on April 1, 2023. Our results of operations for the fiscal year ended March 31, 2022 contained 52 weeks and ended on April 2, 2022. Our results of operations for the three and six months ended September 30, 2022 contained 13 weeks and 26 weeks, respectively, and ended on October 1, 2022. Our results of operations for the three and six months ended September 30, 2021 contained 13 weeks and 26 weeks, respectively, and ended on October 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 September 30, 2022 was $1,904 million, primarily driven by sales related to *FIFA 22*, *FIFA 23, Apex Legends, Madden NFL 23*, and *The Sims 4*. Net revenue for the three months ended September 30, 2022 increased $78 million as compared to the three months ended September 30, 2021. This increase was driven by a $234 million increase in net revenue primarily due to *Battlefield 2042,* the addition of *Golf Clash,* and *Apex Legends*, partially offset by a $156 million decrease in net revenue primarily due to the Star Wars franchise and fluctuations in foreign exchange rates, net of hedging activities.

Net Revenue by Composition

Our net revenue by composition for the three months ended September 30, 2022 and 2021 was as follows (in millions):

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
Net revenue:				
Full game downloads	$ 328	$ 337	$ (9)	(3) %
Packaged goods	274	280	(6)	(2) %
Full game	$ 602	$ 617	$ (15)	(2) %
Live services and other	$ 1,302	$ 1,209	$ 93	8 %
Total net revenue	$ 1,904	$ 1,826	$ 78	4 %

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 primarily includes revenue from software that is sold physically through traditional channels such as brick and mortar retailers and software licensing revenue from third parties who include certain of our full games for sale with their products.

For the three months ended September 30, 2022, full game net revenue was $602 million, primarily driven by *FIFA 23*, *Madden NFL 23,* and *Battlefield 2042*. Full game net revenue for the three months ended September 30, 2022 decreased $15 million, or 2 percent, as compared to the three months ended September 30, 2021. This decrease was primarily driven by the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023, our FIFA franchise primarily due to fluctuations in foreign exchange rates, net of hedging activities, *Mass Effect Trilogy Remaster*, and our Madden franchise, partially offset by *Battlefield 2042.*

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, subscriptions, and advertising.

For the three months ended September 30, 2022, live services and other net revenue was $1,302 million primarily driven by sales of extra content for *FIFA Ultimate Team, Apex Legends, The Sims 4,* and *Madden Ultimate Team.* Live services and other net revenue for the three months ended September 30, 2022 increased $93 million, or 8 percent, as compared to the three months ended September 30, 2021. This increase was primarily driven by sales of extra content from the addition of *Golf Clash* and *Apex Legends,* partially offset by the Star Wars franchise and *The Sims 4.*

Net Revenue Year-to-Date Analysis

Net Revenue

Net revenue for the six months ended September 30, 2022 was $3,671 million, primarily driven by sales related to *FIFA 22*, *Apex Legends, FIFA 23, Battlefield 2042*, and *The Sims 4*. Net revenue for the six months ended September 30, 2022 increased $294 million as compared to the six months ended September 30, 2021. This increase was driven by a $613 million increase in net revenue primarily due to *Battlefield 2042,* new games added to our mobile portfolio through acquisitions activity, and *Apex Legends*, partially offset by a $319 million decrease in net revenue primarily due to the prior year release of *Mass Effect Trilogy Remaster.*

Net Revenue by Composition

Our net revenue by composition for the six months ended September 30, 2022 and 2021 was as follows (in millions):

	Six Months Ended September 30,			
	2022	2021	$ Change	% Change
Net revenue:				
Full game downloads	$ 565	$ 570	$ (5)	(1) %
Packaged goods	378	369	9	2 %
Full game	$ 943	$ 939	$ 4	— %
Live services and other	$ 2,728	$ 2,438	290	12 %
Total net revenue	$ 3,671	$ 3,377	$ 294	9 %

Full Game Net Revenue

For the six months ended September 30, 2022, full game net revenue was $943 million, primarily driven by *FIFA 23*, *Battlefield 2042, FIFA 22,* and *Madden NFL 23*. Full game net revenue for the six months ended September 30, 2022 increased $4 million, or less than 1 percent, as compared to the six months ended September 30, 2021. This increase was primarily driven by *Battlefield 2042*, partially offset by *Mass Effect Trilogy Remaster, It Takes Two,* and the Need For Speed, UFC, and Madden franchises.

Live Services and Other Net Revenue

For the six months ended September 30, 2022, live services and other net revenue was $2,728 million primarily driven by sales of extra content for *FIFA Ultimate Team, Apex Legends, The Sims 4,* and *Madden Ultimate Team.* Live services and other net revenue for the six months ended September 30, 2022 increased $290 million, or 12 percent, as compared to the six months ended September 30, 2021. This increase was primarily driven by sales of extra content related to new games added to our mobile portfolio through acquisitions activity, *Apex Legends,* and our FIFA franchise, partially offset by sales of extra content for the Star Wars franchise and *The Sims 4*.

Cost of Revenue Quarterly Analysis

Cost of revenue consists of (1) certain royalty expenses for celebrities, professional sports leagues, movie studios and other organizations, and independent software developers, (2) 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), (3) data center, bandwidth and server costs associated with hosting our online games and websites, (4) inventory costs, (5) payment processing fees, (6) amortization and impairment of certain intangible assets, (7) personnel-related costs, (8) manufacturing royalties, and (9) warehousing and distribution costs.

Cost of revenue for the three months ended September 30, 2022 and 2021 was as follows (in millions):

September 30, 2022	% of Net Revenue	September 30, 2021	% of Net Revenue	% Change	Change as a % of Net Revenue
$ 462	24 %	$ 494	27 %	(6) %	(3) %

Cost of Revenue

Cost of revenue decreased by $32 million during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. The decrease was primarily due to a decrease in royalty costs due to product mix, and a decrease in inventory costs due to the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023, partially offset by an increase in acquisition-related intangible asset amortization and impairment and an increase in platform and hosting fees.

Cost of revenue as a percentage of total net revenue decreased by 3 percent during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. This decrease was primarily due to a decrease in royalty costs due to product mix, a decrease in inventory costs due to the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023, partially offset by a decrease in digital sales.

Cost of Revenue Year-to-Date Analysis

Cost of revenue for the six months ended September 30, 2022 and 2021 was as follows (in millions):

September 30, 2022	% of Net Revenue	September 30, 2021	% of Net Revenue	% Change	Change as a % of Net Revenue
$ 776	21 %	809	24 %	(4) %	(3) %

Cost of Revenue

Cost of revenue decreased by $33 million during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021. The decrease was primarily due to lower royalty costs due to product mix, and a decrease in inventory costs driven by the FIFA franchise and the prior year release of *Mass Effect Trilogy Remaster*, partially offset by an increase in platform and hosting fees and an increase in acquisition-related intangible asset amortization and impairment.

Cost of revenue as a percentage of total net revenue decreased by 3 percent during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021. This decrease was primarily due to lower royalty costs due to product mix, a decrease in inventory costs due to the year-over-year change in the launch date of *F1* from the second quarter in fiscal year 2022 to the first quarter in fiscal year 2023, partially offset by a decrease in digital sales.

Research and Development

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

Research and development expenses for the three and six months ended September 30, 2022 and 2021 were as follows (in millions):

	September 30, 2022	% of Net Revenue	September 30, 2021	% of Net Revenue	$ Change	% Change
Three months ended	$ 565	30 %	$ 553	30 %	$ 12	2 %
Six months ended	$ 1,137	31 %	$ 1,068	32 %	$ 69	6 %

Research and development expenses increased by $12 million, or 2 percent, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. This increase was primarily due to an $8 million increase in studio related contracted services, and a $9 million increase due to hedging activities, partially offset by a $6 million decrease in stock-based compensation.

Research and development expenses increased by $69 million, or 6 percent, during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021. This increase was primarily due to a $30 million increase in personnel-related costs primarily resulting from continued investment in our studios, including headcount from prior year acquisitions, a $20 million increase due to hedging activities, and a $15 million increase in studio related contracted services.

Marketing and Sales

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

Marketing and sales expenses for the three and six months ended September 30, 2022 and 2021 were as follows (in millions):

	September 30, 2022	% of Net Revenue	September 30, 2021	% of Net Revenue	$ Change	% Change
Three months ended	$ 233	12 %	$ 233	13 %	$ —	— %
Six months ended	$ 467	13 %	$ 423	13 %	$ 44	10 %

Marketing and sales expenses increased by $44 million, or 10 percent, during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021. This increase was primarily due to an increase in advertising and promotional spending related to the release of our *Apex Legends Mobile* title in the first quarter of fiscal year 2023 and our FIFA franchise, partially offset by a decrease in advertising and promotional spending primarily related to our mobile portfolio, and *Mass Effect Trilogy Remaster* and *It Takes Two*, which were launched in previous fiscal years.

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 (“IT”), related overhead costs, fees for professional services such as legal and accounting, and allowances for doubtful accounts.

General and administrative expenses for the three and six months ended September 30, 2022 and 2021 were as follows (in millions):

	September 30, 2022	% of Net Revenue	September 30, 2021	% of Net Revenue	$ Change	% Change
Three months ended	$ 174	9 %	$ 176	10 %	$ (2)	(1) %
Six months ended	$ 341	9 %	$ 345	10 %	$ (4)	(1) %

General and administrative expenses decreased by $2 million, or 1 percent, and $4 million, or 1 percent during the three and six months ended September 30, 2022, as compared to the three and six months ended September 30, 2021, respectively. These decreases were primarily due to a decrease in contracted services driven by prior year acquisition-related transaction and integration costs, partially offset by an increase in IT-related costs.

Income Taxes

Provision for income taxes for the three and six months ended September 30, 2022 and 2021 were as follows (in millions):

	September 30, 2022	Effective Tax Rate	September 30, 2021	Effective Tax Rate
Three months ended	$ 128	30 %	$ 32	10 %
Six months ended	$ 253	29 %	$ 136	21 %

The provision for income taxes for the three and six months ended September 30, 2022 is based on our projected annual effective tax rate for fiscal year 2023, 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 six months ended September 30, 2022 was 30 percent and 29 percent, respectively, as compared to 10 percent and 21 percent, respectively, for the same period in fiscal year 2022. The current period rate was higher due to the Codemasters intra-entity sale of intellectual property rights to our U.S. and Swiss intellectual property owners completed during the three months ended September 30, 2021, which resulted in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction was 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 three and six months ended September 30, 2021 would have been 28 percent and 31 percent, respectively.

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of September 30, 2022	As of March 31, 2022	Increase/(Decrease)
Cash and cash equivalents	$ 1,539	$ 2,732	$ (1,193)
Short-term investments	335	330	5
Total	$ 1,874	$ 3,062	$ (1,188)
Percentage of total assets	14 %	22 %	

(In millions)	Six Months Ended September 30, 2022	2021	Change
Net cash used in operating activities	$ (190)	$ (79)	$ (111)
Net cash used in investing activities	(119)	(2,722)	2,603
Net cash used in financing activities	(824)	(827)	3
Effect of foreign exchange on cash and cash equivalents	(60)	(2)	(58)
Net increase (decrease) in cash and cash equivalents	$ (1,193)	$ (3,630)	$ 2,437

Changes in Cash Flow

Operating Activities. Net cash used in operating activities increased by $111 million during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021, primarily driven by lower cash receipts, higher marketing and advertising payments, higher personnel-related payments primarily from an increase in headcount and higher variable compensation payments, partially offset by cash inflows from hedging activities, and lower cash payments for royalties.

Investing Activities. Net cash used in investing activities decreased by $2,603 million during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021, primarily driven by payments of $3,394 million in connection with acquisitions completed in the prior year, and a $196 million decrease in the purchase of short-term investments, partially offset by a $962 million increase from maturities and sales of short-term investments.

Financing Activities. Net cash used in financing activities decreased by $3 million during the six months ended September 30, 2022, as compared to the six months ended September 30, 2021, primarily due to a decrease in the repurchase and retirement of our common stock, cash paid to taxing authorities in connection with withholding taxes for stock-based compensation, and partially offset by an increase in cash dividend payments.

Short-term Investments

Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of September 30, 2022, our short-term investments had gross unrealized losses of $3 million or 1 percent of total 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 10 — Financing Arrangements* to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Senior Notes, which is incorporated by reference into this Item 2.

Credit Facility

On August 29, 2019, we entered into a $500 million unsecured revolving credit facility (as amended, the “Credit Facility”) with a syndicate of banks which was amended on October 18, 2022. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with its terms. As of September 30, 2022, no amounts were outstanding under the Credit Facility. See *Note 10 — Financing Arrangements* to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Credit Facility, which is incorporated by reference into this Item 2.

Return of Capital Program

In November 2020, our Board of Directors authorized a program to repurchase up to $2.6 billion of our common stock. Repurchases under the November 2020 program were completed in October 2022.

In August 2022, 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, 2024. 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. Upon completion of the November 2020 program in October 2022, we began repurchasing shares under the current program.

Financial Condition

Our material cash requirements, including commitments for capital expenditure, as of September 30, 2022 are set forth in our *Note 11 — 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 2023 primarily due to facility buildouts. 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 licensing intellectual property from professional sports leagues and players associations used in our EA SPORTS titles (e.g., the 300+ licenses within our global football ecosystem, NFL Properties LLC, NFL Players Association and NFL Players Inc. on behalf of OneTeam Partners, LLC) and third-party content and celebrities (e.g., Disney Interactive), debt repayment obligations of $1.9 billion, and to fund our operating requirements for the next 12 months and beyond. Our operating requirements include working capital requirements, capital expenditures, our recently authorized $2.6 billion share repurchase program, quarterly cash dividend, which is currently $0.19 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 six months ended September 30, 2022, we returned $751 million to stockholders through our capital return programs, repurchasing 5.1 million shares for approximately $645 million and returning $106 million through our quarterly cash dividend program which was initiated in November 2020.
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 September 30, 2022, approximately $858 million 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 September 30, 2022, 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. 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 September 30, 2022, 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 $198 million or $396 million, respectively. As of September 30, 2022, 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 $101 million or $203 million, respectively. This sensitivity analysis assumes an adverse shift of all foreign currency exchange rates; however, all foreign currency exchange rates do not always move in the same manner and actual results may differ materially. See *Note 4 — Derivative Financial Instruments* to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our derivative financial instruments, which is incorporated by reference into this Item 3.

Interest Rate Risk

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

As of September 30, 2022, 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 September 30, 2022, a hypothetical 150 basis point increase in interest rates would have resulted in a $3 million, or 1 percent 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 management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that occurred during the fiscal quarter ended September 30, 2022 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 11 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 have strengthened their interactive entertainment capabilities resulting in more direct competition with us. We expect them to continue to pursue and strengthen these businesses. Their greater financial and other resources may provide larger budgets to recruit our key creative and technical talent, develop and market products and services that gain consumer success and shift player time and engagement away from our products and services, or otherwise disrupt our operations. We also 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 global football franchise, annualized versions of which are consistently one of the best-selling games in the marketplace. Any events or circumstances that negatively impact our global football franchise, such as product or service quality, our transition to a new EA SPORTS FC brand, 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 services are the extra content available for the *Ultimate Team* mode associated with our sports franchises and extra content purchased within *Apex Legends*. Any events or circumstances that negatively impact our ability to reliably provide content or sustain engagement for *Ultimate Team*, particularly *FIFA Ultimate Team*, or *Apex Legends*, 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 business and operating results could be materially adversely affected.

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 business can remain competitive in the market. We have invested, and in the future may invest, in new business and marketing strategies, tools and technologies, distribution methods, products, and services. There can be no assurance that these strategic investments will achieve expected returns. For example, our mobile business is a strategic focus as we look to reach new players, grow our existing network, and build interconnected ecosystems. Successfully monetizing mobile games is difficult and requires that we deliver valuable and entertaining player experiences that engage significant number of players or that we are able to otherwise monetize our mobile games. The success of our mobile games depends, in part, on unpredictable and volatile factors beyond our control including industry headwinds, consumer preferences, competing games, new mobile platforms and the availability of other entertainment experiences. Such endeavors involve significant risks and uncertainties. No assurance can be given that the tools and 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 industry change, including the adoption of tools and 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 product and service 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.

Stakeholders have high expectations for the quality and integrity of our business, culture, products and services. We may be unsuccessful in meeting these expectations or make business decisions to meet these expectations that impact our short-term financial results.

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 content, features and services for our games, after taking into consideration, among other things, feedback from our community or geopolitical events even if those decisions negatively impacted our operating results in the short term. For example, in response to the current conflict in Ukraine, we stopped sales of our games and content in Russia and Belarus, worked with our platform partners to remove our games and live services from their stores, and took other actions. These actions had a negative impact on our financial results and may impact our future development processes. We expect to continue to take actions as appropriate, including actions that may result in additional expenditures and the loss of revenue.

We aim to offer our players fun, fair and safe environments in which to play and invest in, and deploy, tools and technologies to promote positive play and facilitate 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, negative sentiment about our business may increase and our brand and reputation may be harmed, scrutiny from governmental bodies and consumer groups may occur, and our financial and operating results may be adversely impacted.

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, distributed workforce models. 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 in part on accurately predicting which consoles, systems and devices will be successful in the marketplace and providing engaging and commercially successful games and services for those 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. 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 and we may be unable to fully recover the investments we have made in developing our products and services; or new consoles, systems or devices may take market share away from those for which we have devoted significant resources, 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 or slower than we expect. For example, production of new generation consoles from Sony and Microsoft has been slower than expected because of semiconductor chip shortages and global supply chain disruptions. 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 console transitions may be more volatile and difficult to predict.

We may experience declines or fluctuations in the re-occurring portion of our business.

Our business model includes revenue that we deem re-occurring in nature, such as revenue from our live services, annualized sports franchises (e.g., Madden NFL, global football), and our console, PC and mobile catalog titles (i.e., titles that did not launch in the current fiscal year). 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 re-occurring 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 re-occurring 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. Any failure to successfully implement new business models could materially impact our financial and operating results.

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) investments in, or transactions with, strategic partners, and (3) investments in new businesses as part of our long-term business strategy. These acquisitions and other transactions involve significant challenges and risks including that the transaction does not advance our business strategy or strategic goals, 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 platform partners, 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.

OPERATIONAL RISKS

The COVID-19 pandemic and the various responses to it have affected how we are operating our business and the duration and extent to which this will impact our future operations and financial results is uncertain.

The COVID-19 pandemic and the various responses to it have affected how we and our partners are operating our businesses and have affected our operating results. The duration and extent to which this will impact our future operations and results remains uncertain. We have established and continue to maintain, protocols to promote the health and safety of our workforce and business partners. We are re-opening our office locations and resuming business travel, 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. As we re-open our offices, employees may be offered more flexibility in the amount of time they work in an office, which may adversely impact the productivity of certain employees. The long-term effects of the COVID-19 pandemic on the future of work 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.

Certain of our development teams have worked for an extended period 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. This 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 associated with the period during which employees primarily worked-from-home, 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.

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 of the pandemic, future waves of COVID-19 infections and variants, 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.
We recognize the inherent physical risks associated with climate change. Natural disasters and weather events linked to climate change are increasing in size and scope and certain of our office locations are located in areas that are vulnerable to climate change effects. Climate-related events and their impact on critical infrastructure in areas in which we do business have the potential to disrupt our business and operations, and/or the businesses and operations of our partners, and may cause us to incur additional costs to maintain or resume operations.

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 malfeasant actors, which may include individuals or groups, including state-sponsored attackers. These actions include cyber-attacks, including ransomware, 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 malfeasant 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. Many of our employees are resuming work in our offices under a hybrid work model in which they spend a portion of their time working in offices and a portion of time working remotely. 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 in this hybrid working model. 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 designed to generate virtual items or currency illegitimately or to execute account takeover attacks against our players. We anticipate such activity to 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 or 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 complicated. 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. In addition, the supply chain of hardware needed to maintain this technological infrastructure has been disrupted and geopolitical events, including the Russian invasion of Ukraine and any indirect effects, may further complicate existing supply chain constraints. 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 and has recently intensified further due to industry trends. 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. Our partners could choose to exclude our products and services from, or de-emphasize the promotion of our products and services within, some or all of their distribution channels in order to promote their own products and services or those of our competitors. 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.

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. 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.

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/or 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, online safety, content, advertising, localization, information security, intellectual property, competition, sanctions, addressing climate change, 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. 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 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, 2022, international net revenue comprised 57 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 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.

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, recently proposed changes to tax law in the United States and among the countries in the Organization for Economic Co-operation and Development 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, are impacted by several factors with respect to our business and industry and macroeconomic factors, including rising interest rates. 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, political instability, and adverse political developments in or around any of the countries in which we do business, particularly conditions that negatively impact discretionary consumer spending and consumer demand or increase our operating costs, including conflict, inflation, slower growth, recession and other macroeconomic conditions have had, and could continue to have, a material adverse impact on our business and operating results. In addition, relations between the United States and countries in which we have operations and sales have fluctuated over time resulting in the adoption or expansion of trade restrictions, including economic sanctions, that have a negative impact on our financial results and development processes.

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. Repurchases under the November 2020 program were completed in October 2022.

During the three months ended September 30, 2022, we repurchased approximately 2.6 million shares for approximately $325 million under the November 2020 program.

Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Still Be Purchased Under the Programs (in millions)
July 3, 2022 - July 30, 2022	781,169	$ 125.48	781,169	$ 232
July 31, 2022 - August 27, 2022	787,588	$ 131.01	787,588	$ 129
August 28, 2022 - October 1, 2022	999,491	$ 123.88	999,491	$ 5
	2,568,248	$ 126.56	2,568,248	

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 60 are filed or incorporated by reference as part of this report.

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2022

EXHIBIT INDEX

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
3.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation	8-K	000-17948	8/15/2022	
3.2	Amended and Restated Bylaws	8-K	000-17948	8/15/2022	
10.1*	Amended and Restated 2019 Equity Incentive Plan	8-K	000-17948	8/15/2022	
10.2*	Electronic Arts Inc. Executive Officer Cash Severance Policy	8-K	000-17948	9/1/2022	
10.3	Amendment No. 1 dated as of October 18, 2022 to the Credit Agreement dated as of August 29, 2019, by and among Electronic Arts Inc., the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-17948	10/20/2022	
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm				X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
Additional exhibits furnished with this report:					
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS†	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH†	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
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 September 30, 2022 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/ Chris Suh
DATED:	Chris Suh
November 8, 2022	EVP and Chief Financial Officer (Duly Authorized Officer)