

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

**FORM 10-Q**

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

**For the Quarterly Period Ended December 31, 2023**

**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**

**94065**

**Redwood City California**

**(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:**

<b>Title of Each Class</b>	<b>Trading Symbol</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.01 par value	EA	NASDAQ Global Select Market

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

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

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

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

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

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

As of February 2, 2024, there were 267,350,461 shares of the Registrant’s Common Stock, par value \$0.01 per share, outstanding.

**ELECTRONIC ARTS INC.  
FORM 10-Q  
FOR THE PERIOD ENDED DECEMBER 31, 2023**

**Table of Contents**

	<b>Page</b>
<b>Part I - FINANCIAL INFORMATION</b>	
Item 1. <a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	
<a href="#">Condensed Consolidated Balance Sheets as of December 31, 2023 and March 31, 2023</a>	3
<a href="#">Condensed Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2023 and 2022</a>	4
<a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended December 31, 2023 and 2022</a>	5
<a href="#">Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended December 31, 2023 and 2022</a>	6
<a href="#">Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2023 and 2022</a>	7
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	8
<a href="#">Report of Independent Registered Public Accounting Firm</a>	28
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	29
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	42
Item 4. <a href="#">Controls and Procedures</a>	44
<b>Part II - OTHER INFORMATION</b>	
Item 1. <a href="#">Legal Proceedings</a>	45
Item 1A. <a href="#">Risk Factors</a>	45
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	55
Item 3. <a href="#">Defaults Upon Senior Securities</a>	55
Item 4. <a href="#">Mine Safety Disclosures</a>	55
Item 5. <a href="#">Other Information</a>	55
Item 6. <a href="#">Exhibits</a>	55
<a href="#">Exhibit Index</a>	56
<a href="#">Signature</a>	57

[Table of Contents](#)

**PART I - FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

**ELECTRONIC ARTS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>(Unaudited)</b> <b>(In millions, except par value data)</b>	<b>December 31, 2023</b>	<b>March 31, 2023</b> <small>(a)</small>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,742	\$ 2,424
Short-term investments	362	343
Receivables, net	867	684
Other current assets	378	518
Total current assets	4,349	3,969
Property and equipment, net	561	549
Goodwill	5,382	5,380
Acquisition-related intangibles, net	501	618
Deferred income taxes, net	2,375	2,462
Other assets	449	481
<b>TOTAL ASSETS</b>	<b>\$ 13,617</b>	<b>\$ 13,459</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 62	\$ 99
Accrued and other current liabilities	1,299	1,285
Deferred net revenue (online-enabled games)	1,919	1,901
Total current liabilities	3,280	3,285
Senior notes, net	1,881	1,880
Income tax obligations	482	607
Deferred income taxes, net	2	1
Other liabilities	439	393
Total liabilities	6,084	6,166
Commitments and contingencies (See <a href="#">Note 12</a> )		
Stockholders' equity:		
Common stock, \$0.01 par value. 1,000 shares authorized; 268 and 273 shares issued and outstanding, respectively	3	3
Additional paid-in capital	—	—
Retained earnings	7,614	7,357
Accumulated other comprehensive income (loss)	(84)	(67)
Total stockholders' equity	7,533	7,293
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,617</b>	<b>\$ 13,459</b>

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

(a) Derived from audited Consolidated Financial Statements.

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

(Unaudited) (In millions, except per share data)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2023	2022	2023	2022
Net revenue	\$ 1,945	\$ 1,881	\$ 5,783	\$ 5,552
Cost of revenue	529	568	1,353	1,344
Gross profit	1,416	1,313	4,430	4,208
Operating expenses:				
Research and development	584	556	1,782	1,693
Marketing and sales	276	256	785	723
General and administrative	170	162	506	503
Amortization and impairment of intangibles	21	50	70	132
Restructuring (See <a href="#">Note 7</a> )	—	—	3	—
Total operating expenses	1,051	1,024	3,146	3,051
Operating income	365	289	1,284	1,157
Interest and other income (expense), net	17	(7)	45	(12)
Income before provision for income taxes	382	282	1,329	1,145
Provision for income taxes	92	78	238	331
Net income	\$ 290	\$ 204	\$ 1,091	\$ 814
Earnings per share:				
Basic	\$ 1.08	\$ 0.74	\$ 4.03	\$ 2.93
Diluted	\$ 1.07	\$ 0.73	\$ 4.01	\$ 2.92
Number of shares used in computation:				
Basic	269	276	271	278
Diluted	271	278	272	279

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

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

(Unaudited) (In millions)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Net income	\$ 290	\$ 204	\$ 1,091	\$ 814
Other comprehensive income (loss), net of tax:				
Net gains (losses) on available-for- sale securities	1	2	1	1
Net gains (losses) on derivative instruments	(69)	(199)	(28)	—
Foreign currency translation adjustments	18	23	10	(53)
Total other comprehensive income (loss), net of tax	(50)	(174)	(17)	(52)
Total comprehensive income	\$ 240	\$ 30	\$ 1,074	\$ 762

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

[Table of Contents](#)

**ELECTRONIC ARTS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**



(Unaudited)	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
(In millions, except share data in thousands)						
<b>Balances as of March 31, 2023</b>	272,914	\$ 3	\$ —	\$ 7,357	\$ (67)	\$ 7,293
Total comprehensive income	—	—	—	402	(8)	394
Stock-based compensation	—	—	130	—	—	130
Issuance of common stock	1,408	—	(105)	—	—	(105)
Common stock repurchases and excise tax	(2,574)	—	(25)	(301)	—	(326)
Cash dividends declared (\$0.19 per common share)	—	—	—	(52)	—	(52)
<b>Balances as of June 30, 2023</b>	271,748	\$ 3	\$ —	\$ 7,406	\$ (75)	\$ 7,334
Total comprehensive income	—	—	—	399	41	440
Stock-based compensation	—	—	155	—	—	155
Issuance of common stock	673	—	25	—	—	25
Common stock repurchases and excise tax	(2,581)	—	(180)	(148)	—	(328)
Cash dividends declared (\$0.19 per common share)	—	—	—	(51)	—	(51)
<b>Balances as of September 30, 2023</b>	269,840	\$ 3	\$ —	\$ 7,606	\$ (34)	\$ 7,575
Total comprehensive income	—	—	—	290	(50)	240
Stock-based compensation	—	—	151	—	—	151
Issuance of common stock	826	—	(55)	—	—	(55)
Common stock repurchases and excise tax	(2,474)	—	(96)	(231)	—	(327)
Cash dividends declared (\$0.19 per common share)	—	—	—	(51)	—	(51)
<b>Balances as of December 31, 2023</b>	268,192	\$ 3	\$ —	\$ 7,614	\$ (84)	\$ 7,533

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

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

(Unaudited) (In millions)	Nine Months Ended December 31,	
	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,091	\$ 814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, accretion and impairment	255	363
Stock-based compensation	436	406
Change in assets and liabilities:		
Receivables, net	(184)	(186)
Other assets	186	(53)
Accounts payable	(36)	(21)
Accrued and other liabilities	(119)	28
Deferred income taxes, net	88	(203)
Deferred net revenue (online-enabled games)	18	(215)
Net cash provided by operating activities	1,735	933
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(148)	(160)
Proceeds from maturities and sales of short-term investments	450	243
Purchase of short-term investments	(460)	(263)
Net cash used in investing activities	(158)	(180)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	43	47
Cash dividends paid	(154)	(158)
Cash paid to taxing authorities for shares withheld from employees	(178)	(161)
Common stock repurchases	(975)	(970)
Net cash used in financing activities	(1,264)	(1,242)
Effect of foreign exchange on cash and cash equivalents	5	(41)
Increase (decrease) in cash and cash equivalents	318	(530)
Beginning cash and cash equivalents	2,424	2,732
Ending cash and cash equivalents	\$ 2,742	\$ 2,202
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes, net	\$ 204	\$ 457
Cash paid during the period for interest	28	28

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 experiences that deliver high-quality entertainment and drive engagement across our network of hundreds of millions of unique active accounts. Our portfolio includes brands that we either wholly own (such as Apex Legends, Battlefield, and The Sims) or license from others (such as EA SPORTS Madden NFL, Star Wars, and the 300+ licenses within our EA SPORTS FC ecosystem). Through our live services offerings, we offer 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. We are focusing on building games and experiences that grow the global online communities around our key franchises; reaching more players through connecting interactive storytelling to key intellectual property; and building re-occurring revenue from our annualized sports franchises, our console, PC and mobile catalog titles, and our live services.

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, 2024 contains 52 weeks and ends on March 30, 2024. Our results of operations for the fiscal year ended March 31, 2023 contained 52 weeks and ended on April 1, 2023. Our results of operations for the three and nine months ended December 31, 2023 contained 13 weeks and 39 weeks, respectively, and ended on December 30, 2023. Our results of operations for the three and nine months ended December 31, 2022 contained 13 weeks and 39 weeks, respectively, and ended on December 31, 2022. 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, 2023, as filed with the United States Securities and Exchange Commission ("SEC") on May 24, 2023.

**Recently Issued Accounting Standards**

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this update expands segment disclosures by requiring disclosures about significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. This update is effective for our annual report for fiscal year 2025, for interim period reporting beginning in fiscal year 2026, with early adoption permitted, and will be applied retrospectively to all prior periods presented in the financial statements. We are currently evaluating the timing of adoption and impact of this ASU on our Consolidated Financial Statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvement to Income Tax Disclosures. The amendments further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. This ASU is effective for our annual report for fiscal year 2026, with early adoption permitted, and should be applied either prospectively or retrospectively. We are currently evaluating the timing of adoption and impact of this ASU on our 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 December 31, 2023 and March 31, 2023, 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							
		Quoted Prices in Active Markets for Identical Financial Instruments		Significant Other Observable Inputs		Significant Unobservable Inputs			
	As of December 31, 2023	(Level 1)	(Level 2)	(Level 3)	Balance Sheet Classification				
Assets									
Bank and time deposits	\$	59	\$	59	\$	—	Cash equivalents		
Money market funds		818		818		—	Cash equivalents		
Available-for-sale securities:									
Corporate bonds		111		—		111	—	Short-term investments	
U.S. Treasury securities		95		95		—		—	Short-term investments
U.S. agency securities		12		—		12		—	Short-term investments
Commercial paper		87		—		87		—	Short-term investments and cash equivalents
Foreign government securities		5		—		5		—	Short-term investments
Asset-backed securities		41		—		41		—	Short-term investments
Certificates of deposit		16		—		16		—	Short-term investments
Foreign currency derivatives		32		—		32		—	Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>		30		30		—		—	Other assets
Total assets at fair value	\$	1,306	\$	1,002	\$	304	\$	—	
Liabilities									
Foreign currency derivatives	\$	65	\$	—	\$	65	\$	—	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>		30		30		—		—	Other liabilities
Total liabilities at fair value	\$	95	\$	30	\$	65	\$	—	



[Table of Contents](#)

Fair Value Measurements at Reporting Date Using						
		Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs		Balance Sheet Classification
	As of March 31, 2023	(Level 1)	(Level 2)	(Level 3)		
Assets						
Bank and time deposits	\$ 56	\$ 56	\$ —	\$ —		Cash equivalents
Money market funds	956	956	—	—		Cash equivalents
Available-for-sale securities:						
Corporate bonds	113	—	113	—		Short-term investments
U.S. Treasury securities	80	80	—	—		Short-term investments
U.S. agency securities	28	—	28	—		Short-term investments and cash equivalents
Commercial paper	66	—	66	—		Short-term investments and cash equivalents
Foreign government securities	11	—	11	—		Short-term investments
Asset-backed securities	37	—	37	—		Short-term investments
Certificates of deposit	14	—	14	—		Short-term investments
Foreign currency derivatives	29	—	29	—		Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>	23	23	—	—		Other assets
Total assets at fair value	<u>\$ 1,413</u>	<u>\$ 1,115</u>	<u>\$ 298</u>	<u>\$ —</u>		
Liabilities						
Foreign currency derivatives	\$ 65	\$ —	\$ 65	\$ —		Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>	24	24	—	—		Other liabilities
Total liabilities at fair value	<u>\$ 89</u>	<u>\$ 24</u>	<u>\$ 65</u>	<u>\$ —</u>		

- (a) The Deferred Compensation Plan consists of various mutual funds. See [Note 15](#) in our Annual Report on Form 10-K for the fiscal year ended March 31, 2023, for additional information regarding our Deferred Compensation Plan.

### (3) FINANCIAL INSTRUMENTS

#### Cash and Cash Equivalents

As of December 31, 2023 and March 31, 2023, our cash and cash equivalents were \$2,742 million and \$2,424 million, respectively. Cash equivalents were valued using quoted market prices or other readily available market information.

#### Short-Term Investments

Short-term investments consisted of the following as of December 31, 2023 and March 31, 2023 (in millions):

	As of December 31, 2023				As of March 31, 2023			
	Gross Unrealized				Gross Unrealized			
	Cost or Amortized Cost	Gains	Losses	Fair Value	Cost or Amortized Cost	Gains	Losses	Fair Value
Corporate bonds	\$ 111	\$ —	\$ —	\$ 111	\$ 114	\$ —	\$ (1)	\$ 113
U.S. Treasury securities	95	—	—	95	80	—	—	80
U.S. agency securities	12	—	—	12	25	—	—	25
Commercial paper	82	—	—	82	63	—	—	63
Foreign government securities	5	—	—	5	11	—	—	11
Asset-backed securities	41	—	—	41	37	—	—	37
Certificates of deposit	16	—	—	16	14	—	—	14
Short-term investments	<u>\$ 362</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 362</u>	<u>\$ 344</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 343</u>

## [Table of Contents](#)

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of December 31, 2023 and March 31, 2023 (in millions):

	<b>As of December 31, 2023</b>		<b>As of March 31, 2023</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Short-term investments				
Due within 1 year	\$ 267	\$ 267	\$ 267	\$ 266
Due 1 year through 5 years	89	89	72	72
Due after 5 years	6	6	5	5
Short-term investments	<u>\$ 362</u>	<u>\$ 362</u>	<u>\$ 344</u>	<u>\$ 343</u>

## **(4) DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

### **Cash Flow Hedging Activities**

Certain of our forward contracts are designated and qualify as cash flow hedges. To qualify for hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedges and must be highly effective in offsetting changes to future cash flows on hedged transactions. The derivative assets or liabilities associated with our hedging activities are recorded at fair value in other current assets/other assets, or accrued and other current liabilities/other liabilities, respectively, on our Condensed Consolidated Balance Sheets. The gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income

(loss) in stockholders' equity. The gains or losses resulting from changes in the fair value of these hedges are subsequently reclassified into net revenue or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income (loss) to net revenue or research and development expenses, in our Condensed Consolidated Statements of Operations.

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

	As of December 31, 2023			As of March 31, 2023		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 301	\$ 8	\$ —	\$ 371	\$ 2	\$ 9
Forward contracts to sell	\$ 1,634	\$ 9	\$ 43	\$ 2,255	\$ 23	\$ 46

[Table of Contents](#)

The effects of cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2023 and 2022 are as follows (in millions):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2023		2022		2023		2022	
	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	\$1,945	\$ 584	\$1,881	\$ 556	\$5,783	\$ 1,782	\$5,552	\$ 1,693
Gains (losses) on foreign currency forward contracts designated as cash flow hedges	\$ 13	\$ (2)	\$ 67	\$ (6)	\$ 54	\$ (9)	\$ 147	\$ (14)

### Balance Sheet Hedging Activities

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



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

	As of December 31, 2023			As of March 31, 2023		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 1,018	\$ 15	\$ —	\$ 504	\$ 4	\$ —
Forward contracts to sell	\$ 976	\$ —	\$ 22	\$ 587	\$ —	\$ 10

The effect of foreign currency forward contracts not designated as hedging instruments in our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2023 and 2022 was as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
	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	\$ 17	\$ (7)	\$ 45	\$ (12)
Gains (losses) on foreign currency forward contracts not designated as hedging instruments	\$ (11)	\$ (53)	\$ 5	\$ (26)

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

[Table of Contents](#)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended December 31, 2023 and 2022 are as follows (in millions):

	<b>Unrealized Net Gains (Losses) on Available-for- Sale Securities</b>	<b>Unrealized Net Gains (Losses) on Derivative Instruments</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Total</b>
Balances as of September 30, 2023	\$ (1)	\$ 54	\$ (87)	\$ (34)
Other comprehensive income (loss) before reclassifications	1	(58)	18	(39)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(11)	—	(11)
Total other comprehensive income (loss), net of tax	1	(69)	18	(50)
Balances as of December 31, 2023	\$ —	\$ (15)	\$ (69)	\$ (84)

	<b>Unrealized Net Gains (Losses) on Available-for- Sale Securities</b>	<b>Unrealized Net Gains (Losses) on Derivative Instruments</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Total</b>
Balances as of September 30, 2022	\$ (4)	\$ 246	\$ (105)	\$ 137
Other comprehensive income (loss) before reclassifications	1	(137)	23	(113)
Amounts reclassified from accumulated other comprehensive income (loss)	1	(62)	—	(61)
Total other comprehensive income (loss), net of tax	2	(199)	23	(174)
Balances as of December 31, 2022	\$ (2)	\$ 47	\$ (82)	\$ (37)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the nine months ended December 31, 2023 and 2022 are as follows (in millions):

	<b>Unrealized Net Gains (Losses) on Available-for- Sale Securities</b>	<b>Unrealized Net Gains (Losses) on Derivative Instruments</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Total</b>
Balances as of March 31, 2023	\$ (1)	\$ 13	\$ (79)	\$ (67)
Other comprehensive income (loss) before reclassifications	1	17	10	28
Amounts reclassified from accumulated other comprehensive income (loss)	—	(45)	—	(45)
Total other comprehensive income (loss), net of tax	1	(28)	10	(17)
Balances as of December 31, 2023	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ (69)</u>	<u>\$ (84)</u>

	<b>Unrealized Net Gains (Losses) on Available-for- Sale Securities</b>	<b>Unrealized Net Gains (Losses) on Derivative Instruments</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Total</b>
Balances as of March 31, 2022	\$ (3)	\$ 47	\$ (29)	\$ 15
Other comprehensive income (loss) before reclassifications	—	134	(53)	81
Amounts reclassified from accumulated other comprehensive income (loss)	1	(134)	—	(133)
Total other comprehensive income (loss), net of tax	1	—	(53)	(52)
Balances as of December 31, 2022	<u>\$ (2)</u>	<u>\$ 47</u>	<u>\$ (82)</u>	<u>\$ (37)</u>

[Table of Contents](#)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and nine months ended December 31, 2023 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months	
	Ended December 31, 2023	Nine Months Ended December 31, 2023
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (13)	\$ (54)
Research and development	2	9
Total net (gain) loss reclassified, net of tax	<u>\$ (11)</u>	<u>\$ (45)</u>

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and nine months ended December 31, 2022 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months	
	Ended December 31, 2022	Nine Months Ended December 31, 2022
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (67)	\$ (147)
Research and development	6	14
Total net (gain) loss reclassified, net of tax	<u>\$ (61)</u>	<u>\$ (133)</u>

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

The changes in the carrying amount of goodwill for the nine months ended December 31, 2023 are as follows (in millions):

	As of March 31, 2023	Activity	Effects of Foreign Currency Translation	As of December 31, 2023
Goodwill	\$ 5,748	\$ —	\$ 2	\$ 5,750
Accumulated impairment	(368)	—	—	(368)
Total	<u>\$ 5,380</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 5,382</u>

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

	As of December 31, 2023			As of March 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Acquisition- Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition- Related Intangibles, Net
<u>Finite-lived acquisition-related intangibles</u>						
Developed and core technology	\$ 1,055	\$ (817)	\$ 238	\$ 1,051	\$ (754)	\$ 297
Trade names and trademarks	596	(333)	263	596	(285)	311
Registered user base and other intangibles	56	(56)	—	56	(50)	6
Total finite-lived acquisition-related intangibles	\$ 1,707	\$ (1,206)	\$ 501	\$ 1,703	\$ (1,089)	\$ 614
<u>Indefinite-lived acquisition-related intangibles</u>						
In-process research and development	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ 4
Total acquisition-related intangibles, net	<u>\$ 1,707</u>	<u>\$ (1,206)</u>	<u>\$ 501</u>	<u>\$ 1,707</u>	<u>\$ (1,089)</u>	<u>\$ 618</u>

## [Table of Contents](#)

Amortization of intangibles, including impairments for the three and nine months ended December 31, 2023 and 2022 are classified in the Condensed Consolidated Statements of Operations as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Cost of revenue	\$ 16	\$ 26	\$ 47	\$ 95
Operating expenses	21	50	70	132
Total	<u>\$ 37</u>	<u>\$ 76</u>	<u>\$ 117</u>	<u>\$ 227</u>

During the three and nine months ended December 31, 2023, there were no impairment charges recorded for acquisition-related intangible assets.

During the three months ended December 31, 2022, we recorded impairment charges of \$22 million for acquisition-related intangible assets within operating expenses. During the nine months ended December 31, 2022, we recorded impairment charges of \$40 million for acquisition-related intangible assets, of which \$12 million was recorded within cost of revenue and \$28 million was recorded within operating expenses.

Acquisition-related intangible assets are generally amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, currently ranging from 2 to 7 years. As of December 31, 2023 and March 31, 2023, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 4.3 years and 4.8 years, respectively.

As of December 31, 2023, 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.**

2024 (remaining three months)	\$ 35
2025	123
2026	119
2027	99
2028	96
2029	29
Total	<u>\$ 501</u>

Subsequent to December 31, 2023, we impaired certain acquisition-related intangible assets totaling approximately \$70 million that will be recorded in the fourth quarter of fiscal year 2024.

## **(7) RESTRUCTURING ACTIVITIES**

In fiscal year 2023, we announced a restructuring plan (the “2023 Restructuring Plan” or the “Plan”) focused on prioritizing investments to our growth opportunities and optimizing our real estate portfolio. The Plan included actions driven by portfolio rationalization including headcount reductions, in addition to office space reductions. The actions associated with the Plan were substantially completed by September 30, 2023.

Since the inception of the 2023 Restructuring Plan through December 31, 2023, we have incurred net charges of \$158 million, and we do not expect to incur any additional restructuring charges under this plan.

Restructuring activities as of December 31, 2023 were as follows (in millions):

[Table of Contents](#)

	Acquisition- Related Intangibles Impairments and Other Charges <sup>(a)</sup>	Workforce <sup>(a)</sup>	Office Space Reductions <sup>(b)</sup>	Total
Charges to operations	\$ 68	\$ 43	\$ 44	\$ 155
Charges settled in cash	—	(10)	—	(10)
Non-cash items	(66)	—	(44)	(110)
Liability as of March 31, 2023	\$ 2	\$ 33	\$ —	\$ 35
Charges to operations	—	3	—	3
Charges settled in cash	(2)	(35)	—	(37)
Liability as of December 31, 2023	\$ —	\$ 1	\$ —	\$ 1

(a) Charges are recorded within Restructuring in the Condensed Consolidated Statement of Operations.

(b) Charges are recorded within General and administrative expenses in the Condensed Consolidated Statement of Operations.

The restructuring liability of \$1 million as of December 31, 2023, is included in accrued and other current liabilities on the Condensed Consolidated Balance Sheets.

## (8) ROYALTIES AND LICENSES

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and distribution affiliates. 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 nine months ended December 31, 2023 and 2022, we did not recognize any material losses or impairment charges on royalty-based commitments.

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

	As of December 31, 2023	As of March 31, 2023
Other current assets	\$ 48	\$ 105
Other assets	34	31
Royalty-related assets	\$ 82	\$ 136

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):

	<b>As of December 31, 2023</b>	<b>As of March 31, 2023</b>
Accrued and other current liabilities	\$ 200	\$ 208
Other liabilities	27	—
Royalty-related liabilities	<u>\$ 227</u>	<u>\$ 208</u>

As of December 31, 2023, we were committed to pay approximately \$2,195 million to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (i.e., delivery of the product or content or other factors) and such commitments were therefore not recorded in our Condensed Consolidated Financial Statements. See [Note 12](#) for further information on our developer and licensor commitments.

## (9) BALANCE SHEET DETAILS

### Property and Equipment, Net

Property and equipment, net, as of December 31, 2023 and March 31, 2023 consisted of (in millions):

	As of December 31, 2023	As of March 31, 2023
Computer, equipment and software	\$ 961	\$ 892
Buildings	377	369
Leasehold improvements	183	186
Equipment, furniture and fixtures, and other	94	92
Land	67	66
Construction in progress	38	11
	<u>1,720</u>	<u>1,616</u>
Less: accumulated depreciation	(1,159)	(1,067)
Property and equipment, net	<u>\$ 561</u>	<u>\$ 549</u>

Depreciation expense associated with property and equipment was \$48 million and \$146 million for the three and nine months ended December 31, 2023, respectively.

Depreciation expense associated with property and equipment was \$46 million and \$135 million for the three and nine months ended December 31, 2022, respectively.

### Accrued and Other Current Liabilities

Accrued and other current liabilities as of December 31, 2023 and March 31, 2023 consisted of (in millions):

	As of December 31, 2023	As of March 31, 2023
Accrued compensation and benefits	\$ 417	\$ 436
Accrued royalties	200	208
Deferred net revenue (other)	68	103
Operating lease liabilities	71	66
Other accrued expenses	395	382
Sales returns and price protection reserves	148	90
Accrued and other current liabilities	<u>\$ 1,299</u>	<u>\$ 1,285</u>

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 December 31, 2023 and March 31, 2023 consisted of (in millions):

	<b>As of December 31, 2023</b>	<b>As of March 31, 2023</b>
Deferred net revenue (online-enabled games)	\$ 1,919	\$ 1,901
Deferred net revenue (other)	68	103
Deferred net revenue (noncurrent)	93	67
Total deferred net revenue	<u>\$ 2,080</u>	<u>\$ 2,071</u>

During the nine months ended December 31, 2023 and 2022, we recognized \$1,942 million and \$2,124 million of revenue, respectively, that were included in the deferred net revenue balance at the beginning of the period.

## **Remaining Performance Obligations**

As of December 31, 2023, revenue allocated to remaining performance obligations consists of our deferred revenue balance of \$2,080 million. These balances exclude any estimates for future variable consideration as we have elected the optional exemption to exclude sales-based royalty revenue.

## **(10) INCOME TAXES**

The provision for income taxes for the three and nine months ended December 31, 2023 is based on our projected annual effective tax rate for fiscal year 2024, adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and nine months ended December 31, 2023 was 24 percent and 18 percent, respectively, as compared to 28 percent and 29 percent for the same period in fiscal year 2023.

Our effective tax rate for the nine months ended December 31, 2023 included a \$92 million one-time tax benefit to remeasure our Swiss deferred tax assets to the higher statutory tax rate that was enacted during the three months ended September 30, 2023 and a cumulative one-time benefit related to R&D capitalization guidance issued by the U.S. Treasury during the three months ended September 30, 2023.

Excluding the one-time items in the current year period, the effective tax rate for the three and nine months ended December 31, 2023 would have been 24 percent and 26 percent, respectively, and are lower than the effective tax rate in the prior year period primarily due to a lower period cost for U.S. tax on our non-U.S. earnings. Our projected period cost for the current year period was favorably impacted by the R&D capitalization guidance.

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 December 31, 2023 were \$761 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.

## **(11) FINANCING ARRANGEMENTS**

### **Senior Notes**

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

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

## [Table of Contents](#)

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

	As of December 31, 2023	As of March 31, 2023
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	(5)	(6)
Unamortized debt issuance costs	(14)	(14)
Net carrying value of Senior Notes	\$ 1,881	\$ 1,880
Fair value of Senior Notes (Level 2)	\$ 1,559	\$ 1,540

As of December 31, 2023, the remaining life of the 2026 Notes, 2031 Notes and 2051 Notes is approximately 2.2 years, 7.1 years, and 27.1 years, respectively.

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

The 2026 Notes, 2031 Notes and 2051 Notes are redeemable at our option at any time prior to December 1, 2025, November 15, 2030, and August 15, 2050, respectively, subject to a make-whole premium. After such dates, we may redeem each such series of Notes, respectively, at a redemption price equal to 100% of the aggregate principal amount plus accrued and unpaid interest. In addition, upon the occurrence of a change of control repurchase event, the holders of each such series of Notes may require us to repurchase all or a portion of these Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. Each such series of Notes also include covenants that limit our ability to incur liens on assets and to enter into sale and leaseback transactions, subject to certain allowances.

### **Credit Facility**

On March 22, 2023, we entered into a \$500 million unsecured revolving credit facility (the "Credit Facility") with a syndicate of banks. The Credit Facility terminates on March 22, 2028 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 loans denominated in U.S. dollars bear interest, at our option, at the base rate plus an applicable spread or at a forward-looking term rate based upon the secured overnight financing rate plus a credit spread adjustment of 0.10% per annum (the "Adjusted Term SOFR

Rate”) plus an applicable spread, in each case with such spread based on our debt credit ratings. We are also obligated to pay other customary fees for a credit facility of this size and type. Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period in the case of loans bearing interest at the Adjusted Term SOFR Rate. Principal, together with all accrued and unpaid interest, is due and payable on the maturity date, as such date may be extended in connection with the extension option. We may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions.

The Credit Facility contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, and dispose of all or substantially all assets, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a debt to EBITDA ratio. As of December 31, 2023, we were in compliance with the debt to EBITDA ratio.

The Credit Facility contains customary events of default, including among others, non-payment defaults, covenant defaults, cross-defaults to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults and a change of control default, in each case, subject to customary exceptions for a credit facility of this size and type. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Facility and an increase in the applicable interest rate.

As of December 31, 2023, no amounts were outstanding under the Credit Facility. \$2 million of debt issuance costs that were paid in connection with obtaining this credit facility are being amortized to interest expense over the 5-year term of the Credit Facility.

### Interest Expense

The following table summarizes our interest expense recognized for the three and nine months ended December 31, 2023 and 2022 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Amortization of debt issuance costs	\$ —	\$ (1)	\$ (1)	\$ (2)
Coupon interest expense	(14)	(13)	(42)	(41)
Other interest expense	(1)	—	(1)	—
Total interest expense	<u>\$ (15)</u>	<u>\$ (14)</u>	<u>\$ (44)</u>	<u>\$ (43)</u>



## **(12) COMMITMENTS AND CONTINGENCIES**

### **Development, Celebrity, Professional Sports Organizations 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, professional sports organizations 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 December 31, 2023 (in millions):

	Fiscal Years Ending March 31,							
	Total	2024 (Remaining three mos.)	2025	2026	2027	2028	2029	Thereafter
<b>Unrecognized commitments</b>								
Developer/licensor commitments	\$ 2,195	\$ 63	\$ 441	\$ 501	\$ 505	\$ 237	\$ 215	\$ 233
Marketing commitments	1,452	53	263	317	277	176	112	254
Senior Notes interest	739	8	55	54	36	36	36	514
Operating lease imputed interest	46	3	11	8	6	5	4	9
Operating leases not yet commenced <sup>(a)</sup>	101	—	7	8	8	8	8	62
Other purchase obligations	486	97	207	154	27	1	—	—
Total unrecognized commitments	5,019	224	984	1,042	859	463	375	1,072
<b>Recognized commitments</b>								
Senior Notes principal and interest	1,920	20	—	400	—	—	—	1,500
Operating leases	336	18	63	52	41	33	23	106
Transition Tax and other taxes	13	—	6	7	—	—	—	—
Total recognized commitments	2,269	38	69	459	41	33	23	1,606
Total Commitments	<u>\$ 7,288</u>	<u>\$ 262</u>	<u>\$ 1,053</u>	<u>\$ 1,501</u>	<u>\$ 900</u>	<u>\$ 496</u>	<u>\$ 398</u>	<u>\$ 2,678</u>

(a) As of December 31, 2023, we have entered into an office lease that is expected to commence in the three months ending March 31, 2024, with aggregate future lease payments of approximately \$101 million and a lease term of 12 years.

The unrecognized amounts represented in the table above reflect our minimum cash obligations for the respective fiscal years, but do not necessarily represent the periods in which they will be recognized and expensed in our Condensed Consolidated Financial Statements. In addition, the amounts in the table above are presented based on the dates the amounts are contractually due as of December 31, 2023; however, certain payment obligations may be accelerated depending on the performance of our operating results.

In addition to the amounts included in the table above, as of December 31, 2023, we had a net liability for unrecognized tax benefits and an accrual for the payment of related interest

totaling \$475 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.

## **(13) STOCK-BASED COMPENSATION**

### **Valuation Assumptions**

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

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

There were an insignificant number of stock options granted during the three and nine months ended December 31, 2023 and 2022.



[Table of Contents](#)

## Stock Options

The following table summarizes our stock option activity for the nine months ended December 31, 2023:

	Options (in thousands)	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2023	121	\$ 40.43		
Granted	2	128.90		
Exercised	(90)	39.28		
Outstanding as of December 31, 2023	33	\$ 50.31	2.62	\$ 3
Vested and expected to vest	33	\$ 50.31	2.62	\$ 3
Exercisable as of December 31, 2023	33	\$ 50.31	2.62	\$ 3

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of December 31, 2023, 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 nine months ended December 31, 2023:

	Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Values
Outstanding as of March 31, 2023	7,502	\$ 128.54
Granted	4,521	128.76
Vested	(3,668)	130.08
Forfeited or cancelled	(664)	129.56
Outstanding as of December 31, 2023	7,691	\$ 127.85

## 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.

## [Table of Contents](#)

The following table summarizes our performance-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the nine months ended December 31, 2023:

	<b>Performance- Based Restricted Stock Units (in thousands)</b>	<b>Weighted- Average Grant Date Fair Value</b>
Outstanding as of March 31, 2023	557	\$ 130.03
Granted	682	128.66
Vested	(73)	127.98
Forfeited or cancelled	(330)	128.74
Outstanding as of December 31, 2023	<u>836</u>	<u>\$ 129.60</u>

### **Market-Based Restricted Stock Units**

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

The following table summarizes our market-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the nine months ended December 31, 2023:

	<b>Market-Based Restricted Stock Units (in thousands)</b>	<b>Weighted- Average Grant Date Fair Value</b>
Outstanding as of March 31, 2023	822	\$ 149.98
Granted	143	152.92
Vested	(50)	125.62
Forfeited or cancelled	(561)	141.20
Outstanding as of December 31, 2023	<u>354</u>	<u>\$ 168.53</u>

### **Stock-Based Compensation Expense**

The following table summarizes stock-based compensation expense resulting from stock options, restricted stock units, market-based restricted stock units, performance-based restricted stock units, and the ESPP purchase rights included in our Condensed Consolidated



Statements of Operations (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Cost of revenue	\$ 2	\$ 2	\$ 6	\$ 5
Research and development	108	95	314	271
Marketing and sales	14	15	38	44
General and administrative	27	29	78	86
Stock-based compensation expense	\$ 151	\$ 141	\$ 436	\$ 406

During the three and nine months ended December 31, 2023, we recognized \$16 million and \$66 million, respectively, of deferred income tax benefit related to our stock-based compensation expense. During the three and nine months ended December 31, 2022, we recognized \$11 million and \$56 million, respectively, of deferred income tax benefit related to our stock-based compensation expense.

## [Table of Contents](#)

As of December 31, 2023, our total unrecognized compensation cost related to stock options, restricted stock units, market-based restricted stock units, and performance-based restricted stock units was \$817 million and is expected to be recognized over a weighted-average service period of 1.9 years. Of the \$817 million of unrecognized compensation cost, \$781 million relates to restricted stock units, \$21 million relates to performance-based restricted stock units, \$15 million relates to market-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. We completed repurchases under the November 2020 program 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. We are actively repurchasing shares under this program.

The following table summarizes total shares repurchased during the three and nine months ended December 31, 2023 and 2022:

(In millions)	November 2020 Program		August 2022 Program		Total	
	Shares	Amount	Shares	Amount <sup>(a)</sup>	Shares	Amount
Three months ended December 31, 2023	—	\$ —	2.5	\$ 325	2.5	\$ 325
Nine months ended December 31, 2023	—	\$ —	7.6	\$ 975	7.6	\$ 975
Three months ended December 31, 2022	—	\$ 5	2.6	\$ 320	2.6	\$ 325
Nine months ended December 31, 2022	5.1	\$ 650	2.6	\$ 320	7.7	\$ 970

<sup>(a)</sup>Amount excludes excise taxes. Accrued excise taxes are included in accrued and other current liabilities and additional paid-in capital on the Condensed Consolidated Balance Sheets.

### **(14) EARNINGS PER SHARE**

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

(In millions, except per share amounts)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Net income	\$ 290	\$ 204	\$ 1,091	\$ 814
Shares used to compute earnings per share:				
Weighted-average common stock outstanding — basic	269	276	271	278
Dilutive potential common shares related to stock award plans	2	2	1	1
Weighted-average common stock outstanding — diluted	271	278	272	279
Earnings per share:				
Basic	\$ 1.08	\$ 0.74	\$ 4.03	\$ 2.93
Diluted	\$ 1.07	\$ 0.73	\$ 4.01	\$ 2.92

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 the three months ended December 31, 2023, an immaterial amount of such shares were excluded. For the nine months ended

[Table of Contents](#)

December 31, 2023, one million such shares were excluded. For both the three and nine months ended December 31, 2022, one million such shares were excluded.

## (15) SEGMENT AND REVENUE INFORMATION

Our reporting segment is based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our Chief Operating Decision Maker (“CODM”), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations. Our CODM currently reviews total company operating results to assess overall performance and allocate resources. As of December 31, 2023, we have only one reportable segment, which represents our only operating segment.

Information about our total net revenue by timing of recognition for the three and nine months ended December 31, 2023 and 2022 is presented below (in millions):

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2023	2022	2023	2022
<u>Net revenue by timing of recognition</u>				
Revenue recognized at a point in time	\$ 784	\$ 762	\$ 2,085	\$ 1,833
Revenue recognized over time	1,161	1,119	3,698	3,719
Net revenue	<u>\$ 1,945</u>	<u>\$ 1,881</u>	<u>\$ 5,783</u>	<u>\$ 5,552</u>

Generally, performance obligations that are recognized upfront upon transfer of control are classified as revenue recognized at a point in time, while performance obligations that are recognized over 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 nine months ended December 31, 2023 and 2022 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
<b>Net revenue by composition</b>				
Full game downloads	\$ 431	\$ 423	\$ 1,078	\$ 988
Packaged goods	187	199	604	577
Full game	618	622	1,682	1,565
Live services and other	1,327	1,259	4,101	3,987
Net revenue	\$ 1,945	\$ 1,881	\$ 5,783	\$ 5,552

Full game net revenue includes full game downloads and packaged goods. Full game downloads primarily 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 certain licensing revenue.

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

[Table of Contents](#)

Information about our total net revenue by platform for the three and nine months ended December 31, 2023 and 2022 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
<b>Platform net revenue</b>				
Console	\$ 1,229	\$ 1,152	\$ 3,583	\$ 3,355
PC and other	420	435	1,294	1,260
Mobile	296	294	906	937
Net revenue	<u>\$ 1,945</u>	<u>\$ 1,881</u>	<u>\$ 5,783</u>	<u>\$ 5,552</u>

Information about our operations in North America and internationally for the three and nine months ended December 31, 2023 and 2022 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
<b>Net revenue from unaffiliated customers</b>				
North America	\$ 777	\$ 801	\$ 2,331	\$ 2,357
International	1,168	1,080	3,452	3,195
Net revenue	<u>\$ 1,945</u>	<u>\$ 1,881</u>	<u>\$ 5,783</u>	<u>\$ 5,552</u>

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

Electronic Arts Inc.:

### **Results of Review of Interim Financial Information**

We have reviewed the condensed consolidated balance sheet of Electronic Arts Inc. and subsidiaries (the Company) as of December 30, 2023, the related condensed consolidated statements of operations, comprehensive income, and changes in stockholders' equity for the three-month and nine-month periods ended December 30, 2023 and December 31, 2022, and cash flows for the nine-month periods ended December 30, 2023 and December 31, 2022 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 1, 2023, and 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 24, 2023, 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 1, 2023, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### **Basis for Review Results**

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

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

(Signed) KPMG LLP

Santa Clara, California

February 6, 2024





**Item**

**2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS**

**This Quarterly Report on Form 10-Q contains forward-looking statements. We use words such as “anticipate”, “believe”, “expect”, “intend”, “estimate”, “plan”, “predict”, “seek”, “goal”, “will”, “may”, “likely”, “should”, “could”, “continue”, “potential” (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 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”, 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, 2023. We assume no obligation to revise or update any forward-looking statement for any reason, except as required by law.**

**OVERVIEW**

The following overview is a high-level discussion of our operating results, as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers provides important context for our results for the three months ended December 31, 2023, 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, 2023 as filed with the SEC on May 24, 2023 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 experiences that deliver high-quality entertainment and

drive engagement across our network of hundreds of millions of unique active accounts. Our portfolio includes brands that we either wholly own (such as Apex Legends, Battlefield, and The Sims) or license from others (such as EA SPORTS Madden NFL, Star Wars, and the 300+ licenses within our EA SPORTS FC ecosystem). Through our live services offerings, we offer 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. We are focusing on building games and experiences that grow the global online communities around our key franchises; reaching more players through connecting interactive storytelling to key intellectual property; and building re-occurring revenue from our annualized sports franchises, our console, PC and mobile catalog titles, and our live services.

## **Financial Results**

Our key financial results for our fiscal quarter ended December 31, 2023 were as follows:

- Total net revenue was \$1,945 million, up 3 percent year-over-year.
- Live services and other net revenue was \$1,327 million, up 5 percent year-over-year.
- Gross margin was 72.8 percent, up 3 percentage points year-over-year.
- Operating expenses were \$1,051 million, up 3 percent year-over-year.
- Operating income was \$365 million, up 26 percent year-over-year.
- Net income was \$290 million with diluted earnings per share of \$1.07.
- Net cash provided by operating activities was \$1,264 million, up 13 percent year-over-year.
- Total cash, cash equivalents and short-term investments were \$3,104 million.
- We repurchased 2.5 million shares of our common stock for \$325 million.
- We paid cash dividends of \$51 million during the quarter ended December 31, 2023.

## **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 \$5,603 million, \$5,374 million, and \$4,707 million for the trailing twelve months ended December 31, 2023, 2022 and 2021, 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 \$4,436 million, \$4,203 million, and \$3,668 million for the trailing twelve months ended December 31, 2023, 2022 and 2021, 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 is derived from Ultimate Team within our global football franchise, 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 \$1,262 million, \$1,282 million, and \$918 million during fiscal years 2023, 2022, and 2021, respectively; while our net revenue attributable to packaged goods sales was \$675 million, \$711 million, and \$695 million in fiscal year 2023, 2022, and 2021, respectively. 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 68 percent, 65 percent, and 62 percent of our total units sold during fiscal years 2023, 2022, and 2021 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. 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

## [Table of Contents](#)

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.

In the past several years, our industry has undergone a period of increased consolidation which increases competitive pressure on us as interactive entertainment companies grow through acquisition or as larger, well-funded technology companies strengthen their interactive entertainment capabilities.

**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 transitioned our global football franchise to a new EA SPORTS FC brand in the second quarter of fiscal 2024. Our continued vision for the future of interactive football with EA SPORTS FC is to create the largest football club in the world, and we believe that we can continue delivering creativity and innovation across platforms, geographies, and business models to connect more fans on a global scale.

**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., EA SPORTS FC, EA SPORTS 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.

**Free-to-Play and Free-to-Enter Games.** We offer games in some of our largest franchises, including The Sims 4, Apex Legends, and the PC and mobile version of our EA SPORTS FC franchise, that allow consumers to access games with no-upfront cost. These games are then monetized through a live service associated with the game, particularly extra content sales. These business models are dominant in the mobile gaming industry and are becoming increasingly accepted in the online PC and console market. We expect to continue offering games through these business models across console, PC and mobile and expect extra content revenue generated through these business models to continue to be an important part of our business.

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

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

(In millions)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Total net revenue	\$ 1,945	\$ 1,881	\$ 5,783	\$ 5,552
Change in deferred net revenue (online-enabled games)	421	461	(19)	(157)
Net bookings	<u>\$ 2,366</u>	<u>\$ 2,342</u>	<u>\$ 5,764</u>	<u>\$ 5,395</u>

Net bookings were \$2,366 million for the three months ended December 31, 2023 primarily driven by sales related to EA SPORTS FC 24, EA SPORTS Madden NFL 24, Apex Legends, and The Sims 4. Net bookings increased \$24 million, or 1 percent, as compared to the three months ended December 31, 2022, primarily due to a year-over-year increase in sales related to our global football franchise, driven by EA SPORTS FC 24, partially offset by decreased sales of extra content for Apex Legends. Live services and other net bookings were \$1,712 million for the three months ended December 31, 2023, and increased \$57 million, or 3 percent, as compared to the three months ended December 31, 2022. The increase in live services and other net bookings was primarily due to a year-over-year increase in extra content sales for Ultimate Team within our global football franchise, driven by EA SPORTS FC 24, partially offset by decreased sales of extra content for Apex Legends. Full game net bookings were \$654 million for the three months ended December 31, 2023, and decreased \$33 million, or 5 percent, as compared to the three months ended December 31, 2022 primarily due to the prior year release of Need for Speed Unbound, and a year-over-year decrease in sales in our global football franchise, partially offset by the release of UFC 5.

## **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).



## [Table of Contents](#)

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.

### 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

## [Table of Contents](#)

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 digitally-distributed games and extra content is recognized over an estimated eight-month period beginning in the month of sale, revenue for service-related performance obligations for games and extra content sold through retail is recognized over an estimated ten-month period beginning in the month of sale, and revenue for service related performance obligations 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.

### **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.

## [Table of Contents](#)

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, estimating future Swiss taxable income requires judgment, 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 Condensed Consolidated Financial Statements. We have adjusted our valuation allowance for changes in the published interest rates in the past and we may do so again in the future. Switzerland has a seven-year carryforward period and does not permit the carry back of losses. 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, 2024 contains 52 weeks and ends on March 30, 2024. Our results of operations for the fiscal year ended March 31, 2023 contained 52 weeks and ended on April 1, 2023. Our results of operations for

the three and nine months ended December 31, 2023 contained 13 weeks and 39 weeks, respectively, and ended on December 30, 2023. Our results of operations for the three and nine months ended December 31, 2022 contained 13 weeks and 39 weeks, respectively, and ended on December 31, 2022. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

### **Net Revenue**

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

## Net Revenue Quarterly Analysis

### Net Revenue

Net revenue for the three months ended December 31, 2023 was \$1,945 million, primarily driven by sales related to EA SPORTS FC 24, FIFA 23, Apex Legends, EA SPORTS Madden NFL 24, and The Sims 4. Net revenue for the three months ended December 31, 2023 increased \$64 million as compared to the three months ended December 31, 2022. This increase was driven by a \$731 million increase in net revenue primarily driven by EA SPORTS FC 24, partially offset by a \$667 million decrease in net revenue primarily due FIFA 23, FIFA 22, and Apex Legends.

### Net Revenue by Composition

Our net revenue by composition for the three months ended December 31, 2023 and 2022 was as follows (in millions):

	Three Months Ended December 31,			
	2023	2022	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 431	\$ 423	\$ 8	2 %
Packaged goods	187	199	(12)	(6)%
Full game	\$ 618	\$ 622	\$ (4)	(1)%
Live services and other	\$ 1,327	\$ 1,259	\$ 68	5 %
Total net revenue	\$ 1,945	\$ 1,881	\$ 64	3 %

#### Full Game Net Revenue

Full game net revenue includes full game downloads and packaged goods. Full game downloads primarily 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 certain licensing revenue.

For the three months ended December 31, 2023, full game net revenue was \$618 million, primarily driven by EA SPORTS FC 24, EA SPORTS Madden NFL 24, and Star Wars Jedi: Survivor. Full game net revenue for the three months ended December 31, 2023 decreased \$4 million, or 1 percent, as compared to the three months ended December 31, 2022. This decrease was primarily driven the prior year release of Need for Speed Unbound, and a year-over-year decline in our global football franchise, partially offset by Star Wars Jedi: Survivor.

#### Live Services and Other Net Revenue

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

For the three months ended December 31, 2023, live services and other net revenue was \$1,327 million, primarily driven by sales of extra content and licensing for FIFA 23, EA SPORTS FC 24, Apex Legends, The Sims 4, and our global football mobile business. Live services and other net revenue for the three months ended December 31, 2023 increased \$68 million, or 5 percent, as compared to the three months ended December 31, 2022. This increase was primarily driven by sales of extra content for Ultimate Team within our global football franchise, partially offset by decreased sales of extra content for Apex Legends.

### **Net Revenue Year-to-Date Analysis**

#### **Net Revenue**

Net revenue for the nine months ended December 31, 2023 was \$5,783 million, primarily driven by sales related to FIFA 23, EA SPORTS FC 24, Apex Legends, The Sims 4, and Star Wars Jedi: Survivor. Net revenue for the nine months ended December 31, 2023 increased \$231 million as compared to the nine months ended December 31, 2022. This increase was driven by a \$1,298 million increase in net revenue primarily driven by EA SPORTS FC 24 and Star Wars Jedi: Survivor, partially offset by a \$1,067 million decrease in net revenue primarily due to our legacy FIFA franchise, Apex Legends, and Battlefield 2042.



[Table of Contents](#)

## Net Revenue by Composition

Our net revenue by composition for the nine months ended December 31, 2023 and 2022 was as follows (in millions):

	Nine Months Ended December 31,			
	2023	2022	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 1,078	\$ 988	\$ 90	9 %
Packaged goods	604	577	27	5 %
Full game	\$ 1,682	\$ 1,565	\$ 117	7 %
Live services and other	\$ 4,101	\$ 3,987	\$ 114	3 %
Total net revenue	\$ 5,783	\$ 5,552	\$ 231	4 %

### Full Game Net Revenue

For the nine months ended December 31, 2023, full game net revenue was \$1,682 million, primarily driven by EA SPORTS FC 24, Star Wars Jedi: Survivor, FIFA 23, and EA SPORTS Madden NFL 24. Full game net revenue for the nine months ended December 31, 2023 increased \$117 million, or 7 percent, as compared to the nine months ended December 31, 2022. This increase was primarily driven by Star Wars Jedi: Survivor, and year-over-year growth in our global football franchise, partially offset by Battlefield 2042.

### Live Services and Other Net Revenue

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

For the nine months ended December 31, 2023, live services and other net revenue was \$4,101 million, primarily driven by sales of extra content and licensing for FIFA 23, Apex Legends, The Sims 4, EA SPORTS FC 24, and our global football mobile business. Live services and other net revenue for the nine months ended December 31, 2023 increased \$114 million, or 3 percent, as compared to the nine months ended December 31, 2022. This increase was primarily driven by sales of extra content for Ultimate Team within our global football franchise, partially offset by a decrease in net revenue primarily due to decreased sales of extra content for Apex Legends.

## 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, including manufacturing royalties, (5) payment processing fees, (6) amortization and

impairments of certain intangible assets, (7) personnel-related costs, and (8) warehousing and distribution costs.

Cost of revenue for the three months ended December 31, 2023 and 2022 was as follows (in millions):

<b>December 31, 2023</b>	<b>% of Net Revenue</b>	<b>December 31, 2022</b>	<b>% of Net Revenue</b>	<b>% Change</b>	<b>Change as a % of Net Revenue</b>
\$ 529	27 %	\$ 568	30 %	(7)%	(3)%

### **Cost of Revenue**

Cost of revenue decreased by \$39 million during the three months ended December 31, 2023, as compared to the three months ended December 31, 2022. The decrease was primarily due to a net decrease in royalty and other product related costs associated with EA SPORTS FC 24, and a decrease in acquisition-related intangible asset amortization and impairments.

## [Table of Contents](#)

Cost of revenue as a percentage of total net revenue decreased by 3 percent during the three months ended December 31, 2023, as compared to the three months ended December 31, 2022. This decrease was primarily due to a net decrease in royalty and other product related costs associated with EA SPORTS FC 24, and a decrease in the proportion of sales derived from packaged goods.

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

Cost of revenue for the nine months ended December 31, 2023 and 2022 was as follows (in millions):

<b>December 31, 2023</b>	<b>% of Net Revenue</b>	<b>December 31, 2022</b>	<b>% of Net Revenue</b>	<b>% Change</b>	<b>Change as a % of Net Revenue</b>
1,353	23 %	\$ 1,344	24 %	1 %	(1)%

### **Cost of Revenue**

Cost of revenue increased by \$9 million during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022. The increase was primarily due to a year-over-year increase in inventory and other product related costs from our global football franchise, and the release of Star Wars Jedi: Survivor, and higher royalty costs due to the mix in sales from royalty bearing titles, partially offset by a decrease in acquisition-related intangible asset amortization and impairment and a decrease in platform and hosting fees.

### **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, and depreciation. Research and development expenses for our online products include expenses incurred by our studios consisting of direct development and related overhead costs in connection with the development and production of our online games. Research and development expenses also include expenses associated with our digital platform, software licenses and maintenance, and management overhead.

Research and development expenses for the three and nine months ended December 31, 2023 and 2022 were as follows (in millions):

	<b>December 31, 2023</b>	<b>% of Net Revenue</b>	<b>December 31, 2022</b>	<b>% of Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
Three months ended	\$ 584	30 %	\$ 556	30 %	\$ 28	5 %
Nine months ended	\$ 1,782	31 %	\$ 1,693	30 %	\$ 89	5 %

Research and development expenses increased by \$28 million, or 5 percent, during the three months ended December 31, 2023, as compared to the three months ended December 31, 2022. This increase was primarily due to a \$24 million increase in personnel-related costs primarily due to an increase in variable compensation and related expenses, and continued investment in our studios, a \$13 million increase in stock-based compensation, partially offset by a \$4 million decrease in digital infrastructure costs.

Research and development expenses increased by \$89 million, or 5 percent, during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022. This increase was primarily due to a \$50 million increase in personnel-related costs primarily due to an increase in variable compensation and related expenses, and continued investment in our studios, a \$43 million increase in stock-based compensation, partially offset by an \$11 million decrease in studio related contracted services.

[Table of Contents](#)

## 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 nine months ended December 31, 2023 and 2022 were as follows (in millions):

	December 31, 2023	% of Net Revenue	December 31, 2022	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 276	14 %	\$ 256	14 %	\$ 20	8 %
Nine months ended	\$ 785	14 %	\$ 723	13 %	\$ 62	9 %

Marketing and sales expenses increased by \$20 million, or 8 percent, during the three months ended December 31, 2023, as compared to the three months ended December 31, 2022. This increase was primarily due to a \$22 million increase related to rebranding investments associated with the launch of EA SPORTS FC 24.

Marketing and sales expenses increased by \$62 million, or 9 percent, during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022. This increase was primarily due to a \$79 million increase related to rebranding investments associated with the launch of EA SPORTS FC 24, partially offset by a \$8 million decrease in contracted services and a \$6 million decrease in stock-based compensation.

## General and Administrative

General and administrative expenses consist of personnel and related expenses of executive and administrative staff, corporate functions such as finance, legal, human resources, and information technology ("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 nine months ended December 31, 2023 and 2022 were as follows (in millions):

	December 31, 2023	% of Net Revenue	December 31, 2022	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 170	9 %	\$ 162	9 %	\$ 8	5 %
Nine months ended	\$ 506	9 %	\$ 503	9 %	\$ 3	1 %

General and administrative expenses increased by \$8 million, or 5 percent, during the three months ended December 31, 2023, as compared to the three months ended December 31,

2022. This increase was primarily due to a \$5 million increase in personnel-related costs primarily resulting from an increase in variable compensation and related expenses.

## **Income Taxes**

Provision for income taxes for the three and nine months ended December 31, 2023 and 2022 were as follows (in millions):

	<b>December 31,</b>			<b>December 31,</b>	
	<b>2023</b>	<b>Effective Tax Rate</b>		<b>2022</b>	<b>Effective Tax Rate</b>
Three months ended	\$ 92	24 %	\$ 78		28 %
Nine months ended	\$ 238	18 %	\$ 331		29 %

The provision for income taxes for the three and nine months ended December 31, 2023 is based on our projected annual effective tax rate for fiscal year 2024, adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and nine months ended December 31, 2023 was 24 percent and 18 percent, respectively, as compared to 28 percent and 29 percent for the same period in fiscal year 2023.

Our effective tax rate for the nine months ended December 31, 2023 included a \$92 million one-time tax benefit to remeasure our Swiss deferred tax assets to the higher statutory tax rate that was enacted during the three months ended September 30, 2023 and a cumulative one-time benefit related to R&D capitalization guidance issued by the U.S. Treasury during the three months ended September 30, 2023.

[Table of Contents](#)

Excluding the one-time items in the current year period, the effective tax rate for the three and nine months ended December 31, 2023 would have been 24 percent and 26 percent, respectively, and are lower than the effective tax rate in the prior year period primarily due to a lower period cost for the U.S. tax on our non-U.S. earnings. Our projected period cost for the current year period was favorably impacted by the R&D capitalization guidance.

## LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of December 31, 2023	As of March 31, 2023	Increase/ (Decrease)
Cash and cash equivalents	\$ 2,742	\$ 2,424	\$ 318
Short-term investments	362	343	19
Total	<u>\$ 3,104</u>	<u>\$ 2,767</u>	<u>\$ 337</u>
Percentage of total assets	23 %	21 %	

(In millions)	Nine Months Ended December 31,		Change
	2023	2022	
Net cash provided by operating activities	\$ 1,735	\$ 933	\$ 802
Net cash used in investing activities	(158)	(180)	22
Net cash used in financing activities	(1,264)	(1,242)	(22)
Effect of foreign exchange on cash and cash equivalents	5	(41)	46
Net increase (decrease) in cash and cash equivalents	<u>\$ 318</u>	<u>\$ (530)</u>	<u>\$ 848</u>

### Changes in Cash Flow

**Operating Activities.** Net cash provided by operating activities increased by \$802 million during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022, primarily driven by higher collections due to year-over-year growth in our business, and lower cash payments for income taxes, partially offset by cash outflows from hedging activities.

**Investing Activities.** Net cash used in investing activities decreased by \$22 million during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022, primarily driven by a \$207 million increase in proceeds from maturities and sales of short-term investments, and a \$12 million decrease in capital expenditures, partially offset by a \$197 million increase in the purchase of short-term investments.

**Financing Activities.** Net cash used in financing activities increased by \$22 million during the nine months ended December 31, 2023, as compared to the nine months ended December 31, 2022, primarily due to a \$17 million increase in cash paid to taxing authorities in connection with withholding taxes for stock-based compensation and a \$5 million increase in common stock repurchases.

## **Short-term Investments**

Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of December 31, 2023, our short-term investments had gross unrealized gains of less than \$1 million or less than 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.



## [Table of Contents](#)

See [Note 11 — Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Senior Notes, which is incorporated by reference into this Item 2.

### **Credit Facility**

On March 22, 2023, we entered into a \$500 million unsecured revolving credit facility (the "Credit Facility") with a syndicate of banks. The Credit Facility terminates on March 22, 2028 unless the maturity is extended in accordance with its terms. As of December 31, 2023, no amounts were outstanding. 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. See [Note 11 — Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Credit Facility, which is incorporated by reference into this Item 2.

### **Financial Condition**

Our material cash requirements, including commitments for capital expenditure, as of December 31, 2023 are set forth in our [Note 12 — Commitments and Contingencies](#) to the Condensed Consolidated Financial Statements in this Form 10-Q, which is incorporated by reference into this Item 2. We expect capital expenditures to be approximately \$250 million in fiscal year 2024 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 organizations and players associations used in our EA SPORTS titles (e.g., the 300+ licenses within our EA SPORTS FC ecosystem, NFL Properties LLC, NFL Players Association and NFL Players Inc.) 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, the remaining portion of our \$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 nine months ended December 31, 2023, we returned \$1,129 million to stockholders through our capital return programs, repurchasing 7.6 million shares for approximately \$975 million and returning \$154 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 December 31, 2023, approximately \$1,728 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 December 31, 2023, 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 December 31, 2023, 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 \$197 million or \$393 million, respectively. As of December 31, 2023, 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 \$203 million or \$405 million, respectively. This sensitivity analysis assumes an adverse shift of all foreign currency exchange rates; however, all foreign currency exchange rates do not always move in the same manner and actual results may differ materially. See [Note 4 — Derivative Financial Instruments](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our derivative financial instruments, which is incorporated by reference into this Item 3.

## **Interest Rate Risk**

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

As of December 31, 2023, our short-term investments were classified as available-for-sale securities and, consequently, were recorded at fair value with changes in fair value, including unrealized gains and unrealized losses not related to credit losses, reported as a separate component of accumulated other comprehensive income (loss), net of tax, in stockholders' equity.

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. Changes in interest rates affect the fair value of our short-term investment portfolio. To provide a meaningful assessment of the interest rate risk associated with our short-term investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the portfolio assuming a 150 basis point parallel shift in the yield curve. As of December 31, 2023, 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 December 31, 2023 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

### **Limitations on effectiveness of disclosure controls**

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

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

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

#### **STRATEGIC RISKS**

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

Competition in our business is intense. Many new products and services are regularly introduced, but only a relatively small number of products and associated services drive significant engagement and account for a significant portion of total revenue. Our competitors range from established interactive entertainment companies to emerging start-ups. In addition, the gaming, technology/internet, and entertainment industries have converged in recent years and larger, well-funded technology companies 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 grow the global online communities around our key franchises and reach more players. 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 EA SPORTS FC franchise, annualized versions of which are consistently one of the best-selling games in the marketplace. Any events or circumstances that negatively impact our EA SPORTS FC franchise, including Ultimate Team, 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.

**We may not meet our product and live service development schedules.**

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, evolving work models, the complexity of our products and the platforms for which they are developed, the need to fine-tune our products prior to their release, and, in certain cases, approvals from third parties. We have experienced development delays for our products and services in the past which caused us to delay or cancel



## [Table of Contents](#)

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, including product delays or product cancellations our sales likely will suffer significantly.

### **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. 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. 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.

### **Stakeholders have high expectations for the quality and integrity of our business, culture, products and services and we may be unsuccessful in meeting these expectations.**

Expectations regarding the quality, performance and integrity of our business, brand, reputation, 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. 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. These actions have 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.

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.

Additionally, 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 evolving work models. 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.

**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. 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

## [Table of Contents](#)

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, platforms and devices developed by third parties and our ability to develop commercially successful products and services for those consoles, platforms and devices.**

The success of our business is driven in part by the commercial success and adequate supply of third-party consoles, platforms 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, platforms and devices will be successful in the marketplace and providing engaging and commercially successful games and services for those consoles, platforms and devices. We must make product development decisions and commit significant resources well in advance of the commercial availability of new consoles, platforms 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, platforms or devices. A console, platform 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, platforms 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.

### **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., EA SPORTS FC, EA SPORTS Madden NFL), 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. 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. 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.

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

## [Table of Contents](#)

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 not 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. 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.

## **OPERATIONAL RISKS**

### **Events such as the COVID-19 pandemic and the various responses to it have previously affected and may in the future affect how we are operating our business.**

We are subject to unforeseen events such as the COVID-19 pandemic, which has significantly impacted, and may in the future impact, our business and results of operations. The COVID-19 pandemic and the various responses to it have affected how we and our partners are operating our businesses. As we have re-opened our offices, employees are offered more flexibility in the amount of time they work in an office. Further, the increased availability of hybrid or remote working arrangements has expanded the pool of companies that can

compete for our employees and employment candidates. The long-term effects of the COVID-19 pandemic on the future of work 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 in part because of challenges associated with a distributed development environment. The longer-term impact to our creative and technical development processes associated with more distributed work models 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. If we are not able to respond to and manage the impact of these and other currently unknown impacts related to events such as the COVID-19 pandemic, our business will be harmed.

**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'

## [Table of Contents](#)

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 all of which could materially impact our reputation and brand, financial condition and operating results. 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. Our business relies on the reliable transmission of energy worldwide and is susceptible to weather-related events that could stress the power grid. Natural disasters and weather events, such as wildfires and hurricanes, are increasing in size and scope and certain of our office locations are located in areas that are vulnerable to these effects. System redundancy may be ineffective, and our disaster recovery and business continuity planning may not be sufficient for all eventualities. In addition, our corporate headquarters and several of our key studios also are located in seismically active regions. These catastrophic events could 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.

### **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.

Remote access to our networks and systems, and the networks and systems of our partners, has increased substantially. While we and our partners have taken steps to secure our networks and systems, these networks and systems may be more vulnerable to a successful cyber-attack or information security incident in a 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. 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,



## [Table of Contents](#)

support or host our products and services. The reliability and stability of our products and services has been affected by events outside of our control as well as by events within our control, such as the migration of data among data centers and to third-party hosted environments, the performance of upgrades and maintenance on our systems, and online demand for our products and services that exceeds the capabilities of our technological infrastructure.

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

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

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

Our business depends on our ability to attract, train, motivate and retain executive, technical, creative, marketing and other personnel that are essential to the development, marketing and support of our products and services. The market for highly-skilled workers and leaders in our industry is extremely competitive, particularly in the geographic locations in which many of our key personnel are located and has recently intensified further due to industry trends. We also engage with talent through contracted 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. If we cannot successfully recruit, train, motivate, attract and retain qualified employees, develop and maintain a healthy culture, or replace key employees following their departure, our reputation, brand and culture may be negatively impacted and our business will be impaired. Our global workforce is primarily non-unionized, but we have unions and works councils outside of the United States. In the United States, there has been an increase in prominence in certain sectors of workers exercising their right to form or join a union. If significant employee populations were to unionize or if we experience labor disruptions, we could experience operational changes that may materially impact our business.

### **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

## [Table of Contents](#)

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.

## **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, security and consumer-protection laws and regulations worldwide. These laws and regulations are emerging and evolving and the interpretation, application and enforcement 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 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.

**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, information security, intellectual property, competition, sanctions, 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. Enforcement of 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

## [Table of Contents](#)

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. 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. Additionally, in our current phase of innovation, artificial intelligence capabilities are rapidly advancing, and it is possible that we could become subject to new regulations, or the interpretation of existing regulations, aimed at how we incorporate artificial intelligence into our games and development processes, that could negatively impact our operation and results. 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, publication 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 and enforcement of ratings systems, censorship, restrictions on publication or 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

## [Table of Contents](#)

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, 2023, international net revenue comprised 58 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 and British pound sterling, has a negative impact on our reported international net revenue but a positive impact on our reported international operating expenses 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 senior unsecured notes outstanding, as well as an unsecured 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 repayment of indebtedness 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 the ultimate tax determination is uncertain for many transactions. Our effective income tax rate is based in part on our corporate operating structure and how 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. 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 our corporate structure, or changes in applicable accounting rules, as well as other factors.

Changes to enacted U.S. federal, state or international tax laws, as well as changes to interpretations of existing tax laws, 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, recent changes to tax law and regulations in the United States and among other 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



## [Table of Contents](#)

by changes in the measurement of our deferred income taxes, including the need for valuation allowances against deferred tax assets. Our valuation allowances, in turn, are impacted by several factors with respect to our business, industry, and the macroeconomic environment, including changes in the 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 conflicts, 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 been impacted by events such as the adoption or expansion of trade restrictions, including economic sanctions, that have had 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, among other factors, 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), 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 fluctuations could adversely affect the price of our common stock.

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

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. We are actively repurchasing shares under this program.

The following table summarizes the number of shares repurchased during the three months ended December 31, 2023:

<b>Fiscal Month</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Dollar Value that May Still Be Purchased Under the Programs (in millions)</b>
October 1, 2023 - October 28, 2023	820,432	\$ 125.77	820,432	\$ 1,202
October 29, 2023 - November 25, 2023	755,929	\$ 129.68	755,929	\$ 1,104
November 26, 2023 - December 30, 2023	897,480	\$ 137.97	897,480	\$ 980
	<u>2,473,841</u>	<u>\$ 131.39</u>	<u>2,473,841</u>	

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Rule 10b5-1 Plans

During the three months ended December 31, 2023, none of our directors or executive officers adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as defined in Item 408 of Regulation S-K.

**Item 6. Exhibits**

The exhibits listed in the accompanying index to exhibits on Page 56 are filed or incorporated by reference as part of this report.

[Table of Contents](#)

**ELECTRONIC ARTS INC.  
FORM 10-Q  
FOR THE PERIOD ENDED DECEMBER 31, 2023  
EXHIBIT INDEX**

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
<a href="#">3.1</a>	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation</a>	8-K	000-17948	8/15/2022	
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws</a>	8-K	000-17948	8/15/2022	
<a href="#">15.1</a>	<a href="#">Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm</a>				X
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				X
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				X
Additional exhibits furnished with this report:					
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
<a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
101.INS <sup>†</sup>	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 <sup>†</sup>	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL <sup>†</sup>	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF <sup>†</sup>	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB <sup>†</sup>	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE <sup>†</sup>	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

- † Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2023 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/ Stuart Canfield

DATED:

Stuart Canfield

February 6, 2024

EVP and Chief Financial Officer (Duly  
Authorized Officer)