

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended September 30, 2019  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to  
Commission File No. 000-17948

**ELECTRONIC ARTS INC.**

*(Exact name of registrant as specified in its charter)*

Delaware  
*(State or other jurisdiction of  
incorporation or organization)*  
209 Redwood Shores Parkway  
Redwood City California  
*(Address of principal executive offices)*

94-2838567  
*(I.R.S. Employer  
Identification No.)*  
94065  
*(Zip Code)*

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

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of November 1, 2019, there were 291,978,913 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

**ELECTRONIC ARTS INC.  
FORM 10-Q  
FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

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## PART I – FINANCIAL INFORMATION

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In millions, except par value data)	September 30, 2019	March 31, 2019 <sup>(a)</sup>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,940	\$ 4,708
Short-term investments	1,943	737
Receivables, net	856	623
Other current assets	301	313
Total current assets	6,040	6,381
Property and equipment, net	442	448
Goodwill	1,890	1,892
Acquisition-related intangibles, net	72	87
Deferred income taxes, net	1,835	35
Other assets	314	114
<b>TOTAL ASSETS</b>	<b>\$ 10,593</b>	<b>\$ 8,957</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 148	\$ 113
Accrued and other current liabilities	1,024	1,052
Deferred net revenue (online-enabled games)	646	1,100
Total current liabilities	1,818	2,265
Senior notes, net	995	994
Income tax obligations	361	233
Deferred income taxes, net	2	2
Other liabilities	259	132
Total liabilities	3,435	3,626
Commitments and contingencies (See <a href="#">Note 12</a> )		
Stockholders' equity:		
Common stock, \$0.01 par value. 1,000 shares authorized; 293 and 298 shares issued and outstanding, respectively	3	3
Additional paid-in capital	—	—
Retained earnings	7,165	5,358
Accumulated other comprehensive loss	(10)	(30)
Total stockholders' equity	7,158	5,331
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 10,593</b>	<b>\$ 8,957</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 September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net revenue:				
Product	\$ 568	\$ 623	\$ 734	\$ 825
Service and other	780	663	1,823	1,598
Total net revenue	1,348	1,286	2,557	2,423
Cost of revenue:				
Product	193	222	228	290
Service and other	212	196	364	343
Total cost of revenue	405	418	592	633
Gross profit	943	868	1,965	1,790
Operating expenses:				
Research and development	387	339	768	701
Marketing and sales	152	146	262	286
General and administrative	128	117	238	231
Acquisition-related contingent consideration	2	2	3	2
Amortization of intangibles	6	6	11	12
Total operating expenses	675	610	1,282	1,232
Operating income	268	258	683	558
Interest and other income (expense), net	16	18	37	37
Income before provision for (benefit from) income taxes	284	276	720	595
Provision for (benefit from) income taxes	(570)	21	(1,555)	47
Net income	\$ 854	\$ 255	\$ 2,275	\$ 548
Earnings per share:				
Basic	\$ 2.89	\$ 0.84	\$ 7.69	\$ 1.80
Diluted	\$ 2.89	\$ 0.83	\$ 7.66	\$ 1.77
Number of shares used in computation:				
Basic	295	305	296	305
Diluted	296	307	297	309

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

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

(Unaudited) (In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 854	\$ 255	\$ 2,275	\$ 548
Other comprehensive income, net of tax:				
Net gains on available-for-sale securities	—	1	3	1
Net gains on derivative instruments	16	3	25	96
Foreign currency translation adjustments	(9)	3	(8)	(12)
Total other comprehensive income, net of tax	7	7	20	85
Total comprehensive income	\$ 861	\$ 262	\$ 2,295	\$ 633

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

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

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

(Unaudited)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
(In millions, except per share data)						
<b>Balances as of March 31, 2018</b>	306,370	\$ 3	\$ 657	\$ 4,062	\$ (127)	\$ 4,595
Cumulative-effect adjustment from the adoption of ASC 606	—	—	—	590	22	612
Cumulative-effect adjustment from the adoption of ASU 2018-02	—	—	—	(1)	1	—
Total comprehensive income	—	—	—	293	78	371
Stock-based compensation	—	—	70	—	—	70
Issuance of common stock	1,280	—	(88)	—	—	(88)
Repurchase and retirement of common stock	(2,264)	—	(300)	—	—	(300)
<b>Balances as of June 30, 2018</b>	305,386	3	339	4,944	(26)	5,260
Total comprehensive income	—	—	—	255	7	262
Stock-based compensation	—	—	66	—	—	66
Issuance of common stock	618	—	28	—	—	28
Repurchase and retirement of common stock	(2,334)	—	(299)	—	—	(299)
<b>Balances as of September 30, 2018</b>	303,670	\$ 3	\$ 134	\$ 5,199	\$ (19)	\$ 5,317

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

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

(Unaudited) (In millions)	Six Months Ended September 30,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,275	\$ 548
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	72	74
Stock-based compensation	165	136
Change in assets and liabilities:		
Receivables, net	(235)	(422)
Other assets	33	20
Accounts payable	51	132
Accrued and other liabilities	88	(25)
Deferred income taxes, net	(1,800)	(94)
Deferred net revenue (online-enabled games)	(454)	(375)
Net cash provided by (used in) operating activities	195	(6)
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(72)	(63)
Proceeds from maturities and sales of short-term investments	793	446
Purchase of short-term investments	(1,984)	(1,029)
Acquisition, net of cash acquired	—	(58)
Net cash used in investing activities	(1,263)	(704)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	33	36
Cash paid to taxing authorities for shares withheld from employees	(55)	(96)
Repurchase and retirement of common stock	(611)	(599)
Acquisition-related contingent consideration payment	(64)	—
Net cash used in financing activities	(697)	(659)
Effect of foreign exchange on cash and cash equivalents	(3)	(8)
Decrease in cash and cash equivalents	(1,768)	(1,377)
Beginning cash and cash equivalents	4,708	4,258
Ending cash and cash equivalents	\$ 2,940	\$ 2,881
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes, net	\$ 77	\$ 78
Cash paid during the period for interest	21	21
<b>Non-cash investing activities:</b>		
Change in accrued capital expenditures	\$ (16)	\$ (11)

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**

We are a global leader in digital interactive entertainment, with a mission to inspire the world to play. We develop, market, publish and deliver games and services that can be played and watched on a variety of platforms, including game consoles, PCs, mobile phones and tablets. In our games and services, we use brands that we either wholly own (such as Battlefield, The Sims, Apex Legends, Anthem, Need for Speed and Plants v. Zombies) or license from others (such as FIFA, Madden NFL and Star Wars). We develop and publish games and services across diverse genres, such as sports, first-person shooter, action, role-playing and simulation, and offer our games and services through diverse business models and distribution channels, such as retail, download, subscription and free-to-play. We believe that the breadth and depth of our portfolio and our flexibility in business models and distribution channels provide us with strategic advantages.

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, 2020 contains 52 weeks and ends on March 28, 2020. Our results of operations for the fiscal year ended March 31, 2019 contained 52 weeks and ended on March 30, 2019. Our results of operations for the three months ended September 30, 2019 and 2018 contained 13 weeks each and ended on September 28, 2019 and September 29, 2018, respectively. Our results of operations for the six months ended September 30, 2019 and 2018 contained 26 weeks each and ended on September 28, 2019 and September 29, 2018, respectively. 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, 2019, as filed with the United States Securities and Exchange Commission (“SEC”) on May 24, 2019.

***Recently Adopted Accounting Standards***

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases* (“ASC Topic 842” or the “New Lease Standard”). The FASB issued this standard to increase transparency and comparability among organizations by recognizing right-of-use (“ROU”) lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements.

We adopted the New Lease Standard on April 1, 2019, the beginning of fiscal year 2020, using the optional transition method which allows us to use the effective date of the New Lease Standard as the date of initial application on transition, instead of at the beginning of the earliest comparative period presented. Accordingly, we did not adjust prior periods for the effects of the New Lease Standard. Additionally, we elected to apply the package of practical expedients, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our assessment of initial direct costs for any leases that exist prior to adoption of the new lease standard.

The adoption of the New Lease Standard on April 1, 2019 resulted in the recognition of operating lease ROU assets of \$215 million, current operating lease liabilities of \$50 million, and noncurrent operating lease liabilities of \$197 million on our Condensed Consolidated Balance Sheet. In addition, upon transition, we eliminated prepaid rent assets of \$6 million and deferred rent liabilities of \$38 million. Operating lease ROU assets, operating lease liabilities, and noncurrent operating lease liabilities are included in other assets, accrued and other current liabilities, and other liabilities, respectively. The adoption of the New Lease Standard did not have an impact on our Condensed Consolidated Statements of Operations or Cash Flows.

BALANCE SHEETS (In millions)	Balance at March 31, 2019	Adjustments due to New Lease Standard Adoption	Balance at April 1, 2019
<b>Assets</b>			
Other current assets	\$ 313	\$ (6)	\$ 307
Other assets	114	215	329
<b>Liabilities</b>			
Accrued and other current liabilities	\$ 1,052	\$ 47	\$ 1,099
Other liabilities	132	162	294

See [Note 11 — Leases](#) for additional information on leases.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging* (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*. This update is intended to make more financial and nonfinancial hedging strategies eligible for hedge accounting, simplify the application of hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness, and increase transparency around the scope and results of hedging programs. We adopted ASU 2017-12 in the first quarter of fiscal 2020, using a modified-retrospective approach. Upon adoption of ASU 2017-12, we no longer measure and report hedge ineffectiveness separately. We instead present the entire change in the fair value of a hedging instrument in the same Condensed Consolidated Statements of Operations line as the hedged item. Additionally, the amount historically excluded from the assessment of hedge effectiveness for our cash flow hedges is now recognized into the Condensed Consolidated Statements of Operations in the period when the forecasted transaction is recognized. The cumulative-effect adjustment from the adoption had a de minimis impact on our Condensed Consolidated Financial Statements. See [Note 4 — Derivative Financial Instruments](#) for more information.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326). The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. This update replaces the existing incurred loss impairment model with an expected loss model. It also requires credit losses related to available-for-sale debt securities to be recognized as an allowance for credit losses rather than as a reduction to the carrying value of the securities. In May 2019, the FASB issued ASU 2019-05, *Targeted Transition Relief*, which provides an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. This update is effective for us beginning in the first quarter of fiscal year 2021. We are currently evaluating the impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This update eliminates, adds, and modifies certain fair value measurement disclosure requirements. We expect to adopt these new disclosure requirements in the first quarter of fiscal 2021.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40). This update requires a customer in a cloud computing service arrangement to follow the internal-use software guidance in order to determine which implementation costs to defer and recognize as an asset. This update is effective for us beginning in the first quarter of fiscal year 2021. Early adoption is permitted. We are currently evaluating the timing of adoption and impact of this new standard 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 September 30, 2019 and March 31, 2019, 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				Balance Sheet Classification
	As of September 30, 2019	Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	
		(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>					
Bank and time deposits	\$ 50	\$ 50	\$ —	\$ —	Cash equivalents
Money market funds	938	938	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	746	—	746	—	Short-term investments
U.S. Treasury securities	520	520	—	—	Short-term investments and cash equivalents
U.S. agency securities	11	—	11	—	Short-term investments
Commercial paper	447	—	447	—	Short-term investments and cash equivalents
Foreign government securities	34	—	34	—	Short-term investments
Asset-backed securities	287	—	287	—	Short-term investments
Certificates of deposit	45	—	45	—	Short-term investments and cash equivalents
Foreign currency derivatives	55	—	55	—	Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>	13	13	—	—	Other assets
Total assets at fair value	\$ 3,146	\$ 1,521	\$ 1,625	\$ —	
<b>Liabilities</b>					
Contingent consideration <sup>(b)</sup>	\$ 69	\$ —	\$ —	\$ 69	Accrued and other current liabilities
Foreign currency derivatives	8	—	8	—	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>	13	13	—	—	Other liabilities
Total liabilities at fair value	\$ 90	\$ 13	\$ 8	\$ 69	

**Fair Value Measurements Using Significant  
Unobservable Inputs (Level 3)**

	<b>Contingent Consideration</b>
Balance as of March 31, 2019	\$ 136
Change in fair value <sup>(c)</sup>	3
Payment <sup>(d)</sup>	(70)
Balance as of September 30, 2019	<u>\$ 69</u>

**Fair Value Measurements at Reporting Date Using**

	As of March 31, 2019	Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	Balance Sheet Classification
		(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>					
Bank and time deposits	\$ 23	\$ 23	\$ —	\$ —	Cash equivalents
Money market funds	2,704	2,704	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	327	—	327	—	Short-term investments and cash equivalents
U.S. Treasury securities	294	294	—	—	Short-term investments and cash equivalents
U.S. agency securities	57	—	57	—	Short-term investments and cash equivalents
Commercial paper	233	—	233	—	Short-term investments and cash equivalents
Foreign government securities	58	—	58	—	Short-term investments and cash equivalents
Asset-backed securities	55	—	55	—	Short-term investments and cash equivalents
Certificates of deposit	2	—	2	—	Short-term investments and cash equivalents
Foreign currency derivatives	33	—	33	—	Other current assets and other assets
Deferred compensation plan assets <sup>(a)</sup>	11	11	—	—	Other assets
Total assets at fair value	<u>\$ 3,797</u>	<u>\$ 3,032</u>	<u>\$ 765</u>	<u>\$ —</u>	
<b>Liabilities</b>					
Contingent consideration <sup>(b)</sup>	\$ 136	\$ —	\$ —	\$ 136	Accrued and other current liabilities
Foreign currency derivatives	16	—	16	—	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities <sup>(a)</sup>	12	12	—	—	Other liabilities
Total liabilities at fair value	<u>\$ 164</u>	<u>\$ 12</u>	<u>\$ 16</u>	<u>\$ 136</u>	

(a) The Deferred Compensation Plan assets consist of various mutual funds. See [Note 15](#) in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, for additional information regarding our Deferred Compensation Plan.

(b) The contingent consideration represents the estimated fair value of the additional variable cash consideration payable in connection with our acquisition of Respawn Entertainment, LLC (“Respawn”) that is contingent upon the achievement of certain performance milestones. We estimated fair value using a probability-weighted income approach combined with a real options methodology, and applied a discount rate that appropriately captures the risk associated with the obligation. At September 30, 2019, the discount rates used ranged from 2.5 percent to 2.6 percent. There were no material changes in the fair value of the contingent consideration during the six months ended September 30, 2019. At March 31, 2019, the discount rates used ranged from 2.9 percent to 3.1 percent. See [Note 7](#) in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, for additional information regarding the Respawn acquisition.

(c) The change in fair value is reported as acquisition-related contingent consideration in our Condensed Consolidated Statements of Operations.

(d) During the six months ended September 30, 2019, we paid \$70 million for performance milestones achieved in connection with our acquisition of Respawn.

### (3) FINANCIAL INSTRUMENTS

#### *Cash and Cash Equivalents*

As of September 30, 2019 and March 31, 2019, our cash and cash equivalents were \$2,940 million and \$4,708 million, respectively. Cash equivalents were valued using quoted market prices or other readily available market information.

#### *Short-Term Investments*

Short-term investments consisted of the following as of September 30, 2019 and March 31, 2019 (in millions):

	As of September 30, 2019				As of March 31, 2019			
	Cost or Amortized Cost	Gross Unrealized		Fair Value	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 744	\$ 2	\$ —	\$ 746	\$ 325	\$ —	\$ (1)	\$ 324
U.S. Treasury securities	468	—	—	468	153	—	—	153
U.S. agency securities	11	—	—	11	44	—	—	44
Commercial paper	355	—	—	355	112	—	—	112
Foreign government securities	34	—	—	34	50	—	—	50
Asset-backed securities	287	—	—	287	53	—	—	53
Certificates of deposit	42	—	—	42	1	—	—	1
Short-term investments	\$ 1,941	\$ 2	\$ —	\$ 1,943	\$ 738	\$ —	\$ (1)	\$ 737

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of September 30, 2019 and March 31, 2019 (in millions):

	As of September 30, 2019		As of March 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due within 1 year	\$ 1,464	\$ 1,465	\$ 449	\$ 448
Due 1 year through 5 years	457	458	287	287
Due after 5 years	20	20	2	2
Short-term investments	\$ 1,941	\$ 1,943	\$ 738	\$ 737

### (4) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### Cash Flow Hedging Activities

Certain of our forward contracts are designated and qualify as cash flow hedges. The effectiveness of the cash flow hedge contracts, including time value, is assessed monthly using regression analysis, as well as other timing and probability criteria. 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 gross amount of gains or losses resulting from changes in the fair value of these hedges is subsequently reclassified into net revenue or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur, within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income (loss) to net revenue or research and development expenses, in our Condensed Consolidated Statements of Operations.

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

	As of September 30, 2019				As of March 31, 2019			
	Notional Amount	Fair Value		Notional Amount	Fair Value			
		Asset	Liability		Asset	Liability		
Forward contracts to purchase	\$ 225	\$ —	\$ 5	\$ 295	\$ —	\$ 10		
Forward contracts to sell	\$ 1,143	\$ 53	\$ 1	\$ 1,355	\$ 31	\$ 4		

The effects of cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2019 and 2018 are as follows (in millions):

	Amount of Gain (Loss) Recognized in the Statement of Operations							
	Three Months Ended September 30,				Six Months Ended September 30,			
	2019		2018		2019		2018	
	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	\$ 1,348	\$ 387	\$ 1,286	\$ 339	\$ 2,557	\$ 768	\$ 2,423	\$ 701
Gains (losses) on foreign currency forward contracts designated as cash flow hedges	\$ 25	\$ (1)	\$ 2	\$ (3)	\$ 41	\$ (7)	\$ (12)	\$ (4)

The amounts excluded from the assessment of hedge effectiveness were gains of \$7 million and \$14 million during the three and six months ended September 30, 2018, respectively, and recognized in interest and other income (expense), net.

### Balance Sheet Hedging Activities

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

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

	As of September 30, 2019			As of March 31, 2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 273	\$ —	\$ 1	\$ 449	\$ —	\$ 2
Forward contracts to sell	\$ 625	\$ 2	\$ 1	\$ 394	\$ 2	\$ —

The effect of foreign currency forward contracts not designated as hedging instruments in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2019 and 2018 was as follows (in millions):

	Amount of Gain (Loss) Recognized in the Statement of Operations			
	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
	<b>Interest and other income (expense), net</b>			
Total amounts presented in our Condensed Consolidated Statements of Operations in which the effects of balance sheet hedges are recorded	\$ 16	\$ 18	\$ 37	\$ 37
Gain (losses) on foreign currency forward contracts not designated as hedging instruments	\$ 1	\$ (5)	\$ (3)	\$ 4

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

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended September 30, 2019 and 2018 are as follows (in millions):

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

	Unrealized Net Gains (Losses) on Available- for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of June 30, 2018	\$ (8)	\$ 27	\$ (45)	\$ (26)
Other comprehensive income (loss) before reclassifications	1	2	3	6
Amounts reclassified from accumulated other comprehensive income (loss)	—	1	—	1
Total other comprehensive income (loss), net of tax	1	3	3	7
Balances as of September 30, 2018	\$ (7)	\$ 30	\$ (42)	\$ (19)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended September 30, 2019 and 2018 are as follows (in millions):

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

	Unrealized Net Gains (Losses) on Available- for-Sale Securities	Unrealized Net Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of March 31, 2018	\$ (8)	\$ (89)	\$ (30)	\$ (127)
Cumulative-effect adjustment from the adoption of ASC 606	—	22	—	22
Cumulative-effect adjustment from the adoption of ASU 2018-02	—	1	—	1
Balances as of April 1, 2018	(8)	(66)	(30)	(104)
Other comprehensive income (loss) before reclassifications	1	80	(12)	69
Amounts reclassified from accumulated other comprehensive income (loss)	—	16	—	16
Total other comprehensive income (loss), net of tax	1	96	(12)	85
Balances as of September 30, 2018	\$ (7)	\$ 30	\$ (42)	\$ (19)

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

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

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2018 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
(Gains) losses on foreign currency forward contracts designated as cash flow hedges		
Net revenue	\$ (2)	\$ 12
Research and development	3	4
Total net (gain) loss reclassified, net of tax	\$ 1	\$ 16

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

The changes in the carrying amount of goodwill for the six months ended September 30, 2019 are as follows (in millions):

	As of March 31, 2019	Activity	Effects of Foreign Currency Translation	As of September 30, 2019
Goodwill	\$ 2,260	\$ —	\$ (2)	\$ 2,258
Accumulated impairment	(368)	—	—	(368)
Total	\$ 1,892	\$ —	\$ (2)	\$ 1,890

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

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

	As of September 30, 2019			As of March 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net
Developed and core technology	\$ 469	\$ (437)	\$ 32	\$ 469	\$ (427)	\$ 42
Trade names and trademarks	161	(126)	35	161	(121)	40
Registered user base and other intangibles	5	(5)	—	5	(5)	—
Carrier contracts and related	85	(85)	—	85	(85)	—
In-process research and development	5	—	5	5	—	5
Total	\$ 725	\$ (653)	\$ 72	\$ 725	\$ (638)	\$ 87

Amortization of intangibles for the three and six months ended September 30, 2019 and 2018 are classified in the Condensed Consolidated Statement of Operations as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Cost of service and other	\$ 2	\$ —	\$ 4	\$ —
Cost of product	—	1	—	2
Operating expenses	6	6	11	12
Total	\$ 8	\$ 7	\$ 15	\$ 14

Acquisition-related intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, ranging from 1 to 9 years. As of September 30, 2019 and March 31, 2019, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 2.8 years and 3.2 years, respectively.

As of September 30, 2019, future amortization of finite-lived acquisition-related intangibles that will be recorded in the Condensed Consolidated Statement of Operations is estimated as follows (in millions):

<b>Fiscal Year Ending March 31,</b>	
2020 (remaining six months)	\$ 15
2021	22
2022	22
2023	8
2024 and thereafter	—
Total	\$ 67

## (7) ROYALTIES AND LICENSES

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

During the three and six months ended September 30, 2019 and 2018, we did not recognize any material losses or impairment charges on royalty-based commitments, respectively.

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

	As of September 30, 2019	As of March 31, 2019
Other current assets	\$ 67	\$ 53
Other assets	27	30
Royalty-related assets	<u>\$ 94</u>	<u>\$ 83</u>

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

	As of September 30, 2019	As of March 31, 2019
Accrued royalties	\$ 141	\$ 144
Other liabilities	39	51
Royalty-related liabilities	<u>\$ 180</u>	<u>\$ 195</u>

As of September 30, 2019, we were committed to pay approximately \$845 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.

## (8) BALANCE SHEET DETAILS

### *Property and Equipment, Net*

Property and equipment, net, as of September 30, 2019 and March 31, 2019 consisted of (in millions):

	As of September 30, 2019	As of March 31, 2019
Computer, equipment and software	\$ 734	\$ 710
Buildings	346	343
Leasehold improvements	157	139
Equipment, furniture and fixtures, and other	83	80
Land	66	66
Construction in progress	9	21
	<u>1,395</u>	<u>1,359</u>
Less: accumulated depreciation	(953)	(911)
Property and equipment, net	<u>\$ 442</u>	<u>\$ 448</u>

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

During the three and six months ended September 30, 2018, depreciation expense associated with property and equipment was \$30 million and \$60 million, respectively.

**Accrued and Other Current Liabilities**

Accrued and other current liabilities as of September 30, 2019 and March 31, 2019 consisted of (in millions):

	As of September 30, 2019	As of March 31, 2019
Other accrued expenses	\$ 300	\$ 290
Accrued compensation and benefits	198	238
Accrued royalties	141	144
Sales return and price protection reserves	87	150
Contingent consideration	69	136
Deferred net revenue (other)	154	94
Operating lease liabilities (See <a href="#">Note 11</a> )	75	—
Accrued and other current liabilities	<u>\$ 1,024</u>	<u>\$ 1,052</u>

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

**Deferred net revenue**

Deferred net revenue as of September 30, 2019 and March 31, 2019 consisted of (in millions):

	As of September 30, 2019	As of March 31, 2019
Deferred net revenue (online-enabled games)	\$ 646	\$ 1,100
Deferred net revenue (other)	154	94
Deferred net revenue (noncurrent)	16	23
Total Deferred net revenue	<u>\$ 816</u>	<u>\$ 1,217</u>

During the six months ended September 30, 2019, \$1,632 million of revenue was recognized, of which \$1,131 million was included in the deferred revenue balance as of March 31, 2019.

**Remaining Performance Obligations**

As of September 30, 2019, revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes our deferred revenue balance of \$816 million. These balances exclude any estimates for future variable consideration as we have elected the optional exemption to exclude sales-based royalty revenue. We expect to recognize substantially all of these balances as revenue over the next 12 months.

**(9) INCOME TAXES**

The provision for income taxes for the three and six months ended September 30, 2019 is based on our projected annual effective tax rate for fiscal year 2020, adjusted for specific items that are required to be recognized in the period in which they are incurred.

During the three months ended June 30, 2019, we completed an intra-entity sale of some of our intellectual property rights to our Swiss subsidiary, where our international business is headquartered (the “Swiss intra-entity sale”). The transaction did not result in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction will be eliminated upon consolidation. However, the transaction resulted in a step-up of the Swiss tax-deductible basis in the transferred intellectual property rights and, accordingly, created a temporary difference between the book basis and the tax basis of such intellectual property rights (the “Swiss Deferred Tax Asset”).

The Swiss Deferred Tax Asset will reverse over a 20-year period and is subject to a periodic realizability analysis. Switzerland allows losses to carry forward for seven-years and does not permit the carry back of losses. The Swiss Deferred Tax Asset and the one-time tax benefit was measured and will be periodically remeasured based on the Swiss tax rate in effect for the years the asset will be recovered.

The transaction resulted in the recognition of a \$1.17 billion net Swiss Deferred Tax Asset, which is net of the impact of the Ninth Circuit Court of Appeals in *Altera Corp. v Commissioner* opinion (“the Altera opinion”) on the transaction and a \$0.1

billion valuation allowance, as of June 30, 2019. Separately, during the three months ended September 30, 2019, Switzerland enacted a new statutory tax rate. As a result of the enactment, we remeasured our Swiss deferred taxes and recognized an additional net tax benefit of \$630 million through continuing operations (“Swiss rate change benefit”). As of September 30, 2019, the net Swiss Deferred Tax Asset is \$1.8 billion, which is net of a \$0.2 billion valuation allowance. The valuation allowance increased by \$0.1 billion during the three months ended September 30, 2019 due to the enactment of a new statutory tax rate in Switzerland.

During the three months ended June 30, 2019, the Altera opinion was issued, which requires related parties in an intercompany cost-sharing arrangement to share stock-based compensation expenses. The Altera opinion resulted in the recognition of \$90 million of unrecognized tax benefits related to U.S. uncertain tax positions.

Our effective tax rates for the three and six months ended September 30, 2019 were negative 201 percent and 216 percent, respectively, as compared to 7.6 percent and 7.9 percent, for the same periods in fiscal year 2019. Excluding the impacts of the Swiss rate change benefit, Swiss Deferred Tax Asset, and Altera opinion, our effective tax rates for the three and six months ended September 30, 2019 would have been 12.7 percent and 13.6 percent, respectively, which was higher than the same periods in fiscal year 2019 primarily due to an increase in US taxes on foreign earnings in fiscal year 2020.

When compared to the statutory rate of 21 percent, the effective tax rates for the three and six months ended September 30, 2019 were significantly lower primarily due to the recognition of the Swiss tax rate change, Swiss Deferred Tax Asset and earnings realized in countries that have lower statutory tax rates, partially offset by the recognition of unrecognized tax benefits associated with the Altera opinion.

We file income tax returns and are subject to income tax examinations in various jurisdictions with respect to fiscal years after 2009. The timing and potential resolution of income tax examinations is highly uncertain. 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. It is reasonably possible that a reduction of up to \$10 million of unrecognized tax benefits may occur within the next 12 months, a portion of which would impact our effective tax rate. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements and tax interpretations.

## (10) FINANCING ARRANGEMENTS

### Senior Notes

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

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

	As of September 30, 2019	As of March 31, 2019
Senior Notes:		
3.70% Senior Notes due 2021	\$ 600	\$ 600
4.80% Senior Notes due 2026	400	400
Total principal amount	\$ 1,000	\$ 1,000
Unaccreted discount	(1)	(1)
Unamortized debt issuance costs	(4)	(5)
Net carrying value of Senior Notes	<u>\$ 995</u>	<u>\$ 994</u>
Fair value of Senior Notes (Level 2)	\$ 1,064	\$ 1,039

As of September 30, 2019, the remaining life of the 2021 Notes and 2026 Notes is approximately 1.4 years and 6.4 years, respectively.

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

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

### ***Credit Facility***

On August 29, 2019, we entered into a \$500 million unsecured revolving credit facility (“Credit Facility”) with a syndicate of banks. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with the terms of the Credit Facility and replaced the Company’s previous \$500 million unsecured revolving credit facility (the “Prior Credit Facility”), which was due to expire on March 19, 2020. No amounts were drawn under the Prior Credit Facility. 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 bear interest, at our option, at the base rate plus an applicable spread or an adjusted LIBOR rate plus an applicable spread, in each case with such spread being determined 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 (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable at maturity. 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 agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, and dispose of all or substantially all assets, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a debt to EBITDA ratio. As of September 30, 2019, we were in compliance with the debt to EBITDA ratio.

The credit agreement 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 September 30, 2019, no amounts were outstanding under the Credit Facility. \$2 million of debt issuance costs that were paid in connection with obtaining this credit facility are being amortized to interest expense over the 5-year term of the Credit Facility.

### ***Interest Expense***

The following table summarizes our interest expense recognized for the three and six months ended September 30, 2019 and 2018 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Amortization of debt issuance costs	\$ —	\$ —	\$ (1)	\$ (1)
Coupon interest expense	(11)	(11)	(21)	(21)
Total interest expense	\$ (11)	\$ (11)	\$ (22)	\$ (22)

**(11) LEASES**

Our leases primarily consist of facility leases for our offices and development studios, data centers, and server equipment, with remaining lease terms up to 10 years. Our lease terms may include options to extend or terminate the lease. When it is reasonably certain that we will exercise that option, we include the renewals or reduced lease terms in our calculation of operating lease liabilities. All of our leases are classified as operating leases.

We determine if an arrangement is or contains a lease at contract inception. The contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining if a contract is or contains a lease, we apply judgment whether the contract provides the right to obtain substantially all of the economic benefits, the right to direct, or control the use of the identified asset throughout the period of use.

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of future lease payments over the lease term. In determining the present value of the future lease payments, we use our incremental borrowing rate as none of our leases provide an implicit rate. Our incremental borrowing rate is an assumed rate based on our credit rating, credit history, current economic environment, and the lease term. Operating lease ROU assets are further adjusted for any payments made, incentives received, and initial direct costs incurred prior to the commencement date.

Operating lease ROU assets are amortized on a straight-line basis over the lease term and recognized as lease expense within cost of revenue or operating expenses on our Condensed Consolidated Statements of Operations. Operating lease liabilities decrease by lease payments we make over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Some of our operating leases contain lease and non-lease components. Non-lease components primarily include fixed payments for common area maintenance and utilities. We elected to account for lease and non-lease components as a single lease component. Variable lease and non-lease components are recognized on our Condensed Consolidated Statements of Operations as incurred.

The components of lease expense are as follows (in millions):

	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
Operating lease costs	\$ 19	\$ 34
Variable lease costs	11	20
Short-term lease costs	2	9
Total lease expense	<u>\$ 32</u>	<u>\$ 63</u>

Supplemental cash and noncash information related to our operating leases are as follows (in millions):

	Six Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liability	\$ 28
ROU assets obtained in exchange for new lease obligations	\$ 47

Weighted average remaining lease term and discount rate are as follows:

	At September 30, 2019
Lease term	5.1 years
Discount rate	3.4%

Operating lease ROU assets and liabilities recorded on our Condensed Consolidated Balance Sheet as of April 1, 2019 and September 30, 2019, are as follows (in millions):

	Balance at April 1, 2019	Balance as of September 30, 2019	Balance Sheet Classification
Operating lease ROU assets	\$ 215	\$ 219	Other assets
Operating lease liabilities	\$ 50	\$ 75	Accrued and other current liabilities
Noncurrent operating lease liabilities	197	181	Other liabilities
Total operating lease liabilities	<u>\$ 247</u>	<u>\$ 256</u>	

Future minimum lease payments under operating leases as of September 30, 2019 were as follows (in millions):

<b>Fiscal Years Ending March 31,</b>	
2020 (remaining six months)	\$ 34
2021	65
2022	62
2023	45
2024	25
2025	19
Thereafter	26
Total future lease payments	<u>276</u>
Less imputed interest	(20)
Total operating lease liabilities	<u>\$ 256</u>

Future minimum lease payments as of March 31, 2019, prior to our adoption of the New Lease Standard, were as follows (in millions):

<b>Fiscal Years Ending March 31,</b>	
2020	\$ 52
2021	54
2022	44
2023	36
2024	28
Thereafter	50
Total future lease payments	<u>\$ 264</u>

As of September 30, 2019, we do not have any leases that have not yet commenced but that create significant rights and obligations.

## (12) COMMITMENTS AND CONTINGENCIES

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

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

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include, but are not limited to: FIFA (Fédération Internationale de Football Association), FIFPRO Foundation, FAPL

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(Football Association Premier League Limited), and DFL Deutsche Fußball Liga E.V. (German Soccer League) (professional soccer); Liga Nacional De Futbol Profesional (professional soccer); National Basketball Association and National Basketball Players Association (professional basketball); National Hockey League and NHL Players' Association (professional hockey); National Football League Properties and PLAYERS Inc. (professional football); William Morris Endeavor Entertainment LLC (professional mixed martial arts); ESPN (content in EA SPORTS games); Disney Interactive (Star Wars); and Fox Digital Entertainment, Inc. (The Simpsons). These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations as of September 30, 2019 (in millions):

	Fiscal Years Ending March 31,							
	Total	2020	2021	2022	2023	2024	2025	Thereafter
		(Remaining six mos.)						
<b>Unrecognized commitments</b>								
Developer/licensor commitments	\$ 854	\$ 62	\$ 297	\$ 260	\$ 94	\$ 76	\$ 61	\$ 4
Marketing commitments	320	29	98	86	41	39	27	—
Senior Notes interest	155	17	41	20	20	19	19	19
Operating lease imputed interest	20	3	6	4	3	2	1	1
Other purchase obligations	90	20	34	25	7	2	2	—
<b>Total unrecognized commitments</b>	<b>1,439</b>	<b>131</b>	<b>476</b>	<b>395</b>	<b>165</b>	<b>138</b>	<b>110</b>	<b>24</b>
<b>Recognized commitments</b>								
Senior Notes principal and interest	1,003	3	600	—	—	—	—	400
Operating leases	256	31	59	58	42	23	18	25
Transition and other taxes	74	6	23	24	3	5	5	8
Licensing commitments	66	13	26	27	—	—	—	—
<b>Total recognized commitments</b>	<b>1,399</b>	<b>53</b>	<b>708</b>	<b>109</b>	<b>45</b>	<b>28</b>	<b>23</b>	<b>433</b>
<b>Total commitments</b>	<b>\$ 2,838</b>	<b>\$ 184</b>	<b>\$ 1,184</b>	<b>\$ 504</b>	<b>\$ 210</b>	<b>\$ 166</b>	<b>\$ 133</b>	<b>\$ 457</b>

The unrecognized amounts represented in the table above reflect our minimum cash obligations for the respective fiscal years, but do not necessarily represent the periods in which they will be recognized and expensed in our Condensed Consolidated Financial Statements.

In addition, the amounts in the table above are presented based on the dates the amounts are contractually due as of September 30, 2019; however, certain payment obligations may be accelerated depending on the performance of our operating results. Furthermore, up to \$20 million of the unrecognized amounts in the table above may be payable, at the licensor's election, in shares of our common stock, subject to a \$10 million maximum during any fiscal year. The number of shares to be issued will be based on their fair market value at the time of issuance.

In addition to what is included in the table above, as of September 30, 2019, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$337 million, of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

Also, in addition to what is included in the table above, as of September 30, 2019, we may be required to pay up to \$70 million of cash consideration in connection with the December 1, 2017 acquisition of Respawn based on the achievement of certain performance milestones through the end of calendar year 2022. As of September 30, 2019, we have recorded \$69 million of contingent consideration on our Condensed Consolidated Balance Sheet representing the estimated fair value.

Subsequent to September 30, 2019, we entered into licensor and office lease agreements with third parties, which are not included in the table above, and contingently commit us to pay an additional \$91 million at various dates through fiscal year 2036.

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

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

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

	<b>ESPP Purchase Rights</b>	
	<b>Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Risk-free interest rate	1.7 - 1.9%	2.2 - 2.5%
Expected volatility	34 - 37%	29%
Weighted-average volatility	36%	29%
Expected term	6 - 12 months	6 - 12 months
Expected dividends	None	None

**Stock Options**

The following table summarizes our stock option activity for the six months ended September 30, 2019:

	Options (in thousands)	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2019	1,375	\$ 30.63		
Granted	3	94.74		
Exercised	(160)	30.29		
Forfeited, cancelled or expired	—	—		
Outstanding as of September 30, 2019	<u>1,218</u>	\$ 30.81	4.36	\$ 79
Vested and expected to vest	<u>1,218</u>	\$ 30.81	4.36	\$ 79
Exercisable as of September 30, 2019	<u>1,218</u>	\$ 30.81	4.36	\$ 79

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of September 30, 2019, which would have been received by the option holders had all the option holders exercised their options as of that date. We issue new common stock from our authorized shares upon the exercise of stock options.

#### ***Restricted Stock Units***

The following table summarizes our restricted stock unit activity for the six months ended September 30, 2019:

	Restricted Stock Rights (in thousands)	Weighted- Average Grant Date Fair Values
Outstanding as of March 31, 2019	4,960	\$ 111.03
Granted	3,699	92.57
Vested	(1,519)	106.86
Forfeited or cancelled	(285)	109.45
Outstanding as of September 30, 2019	<u>6,855</u>	\$ 102.06

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

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

The following table summarizes our performance-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the six months ended September 30, 2019:

	Performance- Based Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Value
Outstanding as of March 31, 2019	579	\$ 110.51
Granted	—	—
Forfeited or cancelled	—	—
Outstanding as of September 30, 2019	<u>579</u>	\$ 110.51

### *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 percent to 200 percent of the target number of market-based restricted stock units based on our total stockholder return (“TSR”) relative to the performance of companies in the NASDAQ-100 Index for each measurement period, over either a one-year, two-year cumulative and three-year cumulative period.

The following table summarizes our market-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the six months ended September 30, 2019:

	Market-Based Restricted Stock Units (in thousands)	Weighted- Average Grant Date Fair Value
Outstanding as of March 31, 2019	958	\$ 155.64
Granted	785	105.05
Vested	(93)	109.05
Forfeited or cancelled	(260)	137.05
Outstanding as of September 30, 2019	1,390	\$ 133.66

### *Stock-Based Compensation Expense*

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Cost of revenue	\$ 1	\$ 1	\$ 2	\$ 2
Research and development	61	39	110	86
Marketing and sales	10	9	17	16
General and administrative	20	17	36	32
Stock-based compensation expense	\$ 92	\$ 66	\$ 165	\$ 136

During the three and six months ended September 30, 2019, we recognized a \$5 million and a \$11 million deferred income tax benefit, respectively, related to our stock-based compensation expense. During the three and six months ended September 30, 2018, we recognized a \$9 million and a \$17 million deferred income tax benefit, respectively, related to our stock-based compensation expense.

As of September 30, 2019, our total unrecognized compensation cost related to restricted stock units, market-based restricted stock units, performance-based restricted stock units was \$648 million and is expected to be recognized over a weighted-average service period of 2.1 years. Of the \$648 million of unrecognized compensation cost, \$571 million relates to restricted stock units, \$68 million relates to market-based restricted stock units, and \$9 million relates to performance-based restricted stock units at 66 percent average payout.

### *Stock Repurchase Program*

In May 2017, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a program to repurchase up to \$1.2 billion of our common stock. During the three months ended June 30, 2018, we repurchased approximately 0.6 million shares for approximately \$76 million under this program. This program was superseded and replaced by a new stock repurchase program approved in May 2018.

In May 2018, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a program to repurchase up to \$2.4 billion of our common stock. This stock repurchase program superseded and replaced the May 2017 program, and expires on May 31, 2020. 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.

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The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase a specific number of shares under this program and it may be modified, suspended or discontinued at any time. During the three and six months ended September 30, 2019, we repurchased approximately 3.3 million and 6.5 million shares for approximately \$306 million and \$611 million, respectively, under this program. During the three and six months ended September 30, 2018, we repurchased approximately 2.3 million and 4.0 million shares for approximately \$299 million and \$523 million, respectively, under the May 2018 program. We are actively repurchasing shares under this program.

The following table summarizes total shares repurchased during the three and six months ended September 30, 2019 and 2018:

(in millions)	May 2017 Program		May 2018 Program		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Three months ended September 30, 2019	—	\$ —	3.3	\$ 306	3.3	\$ 306
Six months ended September 30, 2019	—	\$ —	6.5	\$ 611	6.5	\$ 611
Three months ended September 30, 2018	—	\$ —	2.3	\$ 299	2.3	\$ 299
Six months ended September 30, 2018	0.6	\$ 76	4.0	\$ 523	4.6	\$ 599

**(14) EARNINGS PER SHARE**

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

(In millions, except per share amounts)	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 854	\$ 255	\$ 2,275	\$ 548
Shares used to compute earnings per share:				
Weighted-average common stock outstanding — basic	295	305	296	305
Dilutive potential common shares related to stock award plans and from assumed exercise of stock options	1	2	1	4
Weighted-average common stock outstanding — diluted	296	307	297	309
Earnings per share:				
Basic	\$ 2.89	\$ 0.84	\$ 7.69	\$ 1.80
Diluted	\$ 2.89	\$ 0.83	\$ 7.66	\$ 1.77

For the three and six months ended September 30, 2019, 2 million of restricted stock units and market-based restricted stock units were excluded from the treasury stock method computation of diluted shares as their inclusion would have had an antidilutive effect. Our performance-based restricted stock units, which are considered contingently issuable shares, are also excluded from the treasury stock method computation because the related performance-based milestones were not achieved as of the end of the reporting period.

For the three and six months ended September 30, 2018, an immaterial amount of restricted stock units and market-based restricted stock units were excluded from the treasury stock method computation of diluted shares as their inclusion would have had an antidilutive effect.

**(15) SEGMENT INFORMATION**

Our reporting segment is based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our Chief Operating Decision Maker (“CODM”), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations. Our CODM currently reviews total company operating results to assess overall performance and allocate resources. As of September 30, 2019, we have only one reportable segment, which represents our only operating segment.

Information about our total net revenue by composition and by platform for the three and six months ended September 30, 2019 and 2018 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Net revenue by composition</b>				
Full game downloads	\$ 180	\$ 148	\$ 312	\$ 264
Live services	573	412	1,304	1,022
Mobile	169	220	355	451
<b>Total Digital</b>	<b>922</b>	<b>780</b>	<b>1,971</b>	<b>1,737</b>
<b>Packaged goods and other</b>	<b>426</b>	<b>506</b>	<b>586</b>	<b>686</b>
Net revenue	\$ 1,348	\$ 1,286	\$ 2,557	\$ 2,423

Digital net revenue includes full-game downloads, live services, and mobile revenue. Full game downloads includes revenue from digital sales of full games on console and PC. Live services includes revenue from sales of extra content for console, PC, browser games, game software licensed to our third-party publishing partners who distribute our games digitally, subscriptions, and advertising. Mobile includes revenue from the sale of full games and extra content on mobile phones and tablets.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Platform net revenue</b>				
Console	\$ 923	\$ 917	\$ 1,683	\$ 1,622
PC / Browser	242	149	491	346
Mobile	177	220	373	453
Other	6	—	10	2
Net revenue	\$ 1,348	\$ 1,286	\$ 2,557	\$ 2,423

Information about our operations in North America and internationally for the three and six months ended September 30, 2019 and 2018 is presented below (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<u>Net revenue from unaffiliated customers</u>				
North America	\$ 531	\$ 475	\$ 1,021	\$ 917
International	817	811	1,536	1,506
Net revenue	<u>\$ 1,348</u>	<u>\$ 1,286</u>	<u>\$ 2,557</u>	<u>\$ 2,423</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 September 28, 2019, the related condensed consolidated statements of operations, comprehensive income, and stockholders' equity for the three-month and six-month periods ended September 28, 2019 and September 29, 2018, the related condensed consolidated statements of cash flows for the six-month periods ended September 28, 2019 and September 29, 2018, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of March 30, 2019, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 23, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 30, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

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

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

(Signed) KPMG LLP

*Santa Clara, California*

*November 5, 2019*

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

**CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Quarterly Report contains forward-looking statements. We use words such as “anticipate,” “believe,” “expect,” “intend,” “estimate,” “plan,” “predict,” “seek,” “goal,” “will,” “may,” “likely,” “should,” “could” (and the negative of any of these terms), “future” and similar expressions to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our business, projections of markets relevant to our business, uncertain events and assumptions and other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements consist of, among other things, statements related to industry prospects, our future financial performance, and our business plans and objectives, and may include certain assumptions that underlie the forward-looking statements. These forward-looking statements are not guarantees of future performance and reflect management’s current expectations. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that might cause or contribute to such differences include those discussed in Part II, Item 1A of this Quarterly Report under the heading “Risk Factors” in, as well as in other documents we have filed with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for the fiscal year ended March 31, 2019. We assume no obligation to revise or update any forward-looking statement for any reason, except as required by law.

**OVERVIEW**

The following overview is a high-level discussion of our operating results, as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers provides important context for our results for the three months ended September 30, 2019, 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 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, 2019 as filed with the SEC on May 24, 2019 and in other documents we have filed with the SEC.

***About Electronic Arts***

We are a global leader in digital interactive entertainment, with a mission to inspire the world to play. We develop, market, publish and deliver games and services that can be played and watched on a variety of platforms, including game consoles, PCs, mobile phones and tablets. In our games and services, we use brands that we either wholly own (such as Battlefield, The Sims, Apex Legends, Anthem, Need for Speed and Plants v. Zombies) or license from others (such as FIFA, Madden NFL and Star Wars). We develop and publish games and services across diverse genres such as sports, first-person shooter, action, role-playing and simulation, and offer our games and services through diverse business models and distribution channels, such as retail, download, subscription and free-to-play. We believe that the breadth and depth of our portfolio and our flexibility in business models and distribution channels provide us with strategic advantages.

***Financial Results***

Our key financial results for our fiscal quarter ended September 30, 2019 were as follows:

- Total net revenue was \$1,348 million, up 5 percent year-over-year. On a constant currency basis, we estimate total net revenue would have been \$1,362 million, up 6 percent year-over-year.
- Digital net revenue was \$922 million, up 18 percent year-over-year.
- Gross margin was 70.0 percent, up 2.5 percentage points year-over-year.
- Operating expenses were \$675 million, up 11 percent year-over-year. On a constant currency basis, we estimate that operating expenses would have been \$683 million, up 12 percent year over year.
- Operating income was \$268 million, up 4 percent year-over-year.
- Net income was \$854 million with diluted earnings per share of \$2.89. A substantial amount of net income for the quarter is due to one-time income tax benefits. See [Note 9](#).
- Operating cash flow was \$37 million, up \$163 million year-over-year.
- Total cash, cash equivalents and short-term investments were \$4,883 million.
- We repurchased 3.3 million shares of our common stock for \$306 million.

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

### ***Trends in Our Business***

***Digital Business.*** Players increasingly purchase our games as digital downloads, as opposed to purchasing physical discs, and engage with the live services that we provide on an ongoing basis. Our live services provide additional depth and engagement opportunities for our players and include extra content, subscriptions, and esports. Our net revenue attributable to live services comprised 45 percent of our total net revenue during fiscal year 2019 and we expect that live services net revenue will continue to be material to our business. Our most popular live service is the *Ultimate Team* mode associated with our sports franchises. *Ultimate Team* allows players to collect current and former professional players in order to build and compete as a personalized team. Net revenue from *Ultimate Team* represented approximately 28 percent of our total net revenue during fiscal year 2019, a substantial portion of which was derived from *FIFA Ultimate Team*. Our digital transformation also is creating opportunities in platforms, content models and the way in which players engage with our games and services. For example, we have leveraged brands and assets from franchises historically associated traditional gaming, such as FIFA, Madden NFL, The Sims, SimCity and Star Wars, to create free-to-play games that are monetized through live services provided with the game. We also offer subscription services, such as EA Access, Origin Access and Origin Access Premier, as we look to build deeper relationships with our players and offer increased choice and flexibility for our players to try new games. The portion of our revenue attributable to our digital business has significantly increased from 59 percent in fiscal year 2017 to 67 percent in fiscal year 2018 and 75 percent during fiscal year 2019. We expect this portion of our business to continue to increase during fiscal year 2020 relative to packaged goods revenue as we continue to focus on developing and monetizing products and services that can be delivered digitally.

***Technological Infrastructure.*** As our digital business has grown, our games and services increasingly depend on the reliability, availability and security of our technological infrastructure. We are investing and expect to continue to invest in technology, hardware and software to support our games and services, including with respect to security protections. Our industry is prone to, and our systems and networks are subject to, cyber-attacks, computer viruses, worms, phishing attacks, malicious software programs, and other information security incidents that seek to exploit, disable, damage, disrupt or gain access to our networks, our products and services, supporting technological infrastructure, intellectual property and other assets. We expect these threats to our systems and networks to continue.

***Rapidly Changing Industry.*** We operate in a dynamic industry that regularly experiences periods of rapid, fundamental change. In order to remain successful, we are required to anticipate, sometimes years in advance, the ways in which our products and services will compete in the market. We adapt our business by investing in creative and technical talent and new technologies, evolving our business strategies and distribution methods and developing new and engaging products and services. In fiscal 2019, we launched two new intellectual properties (Anthem and Apex Legends), brought Apex Legends to market as our first free-to-play console product, added frontline titles to our Origin Access Premier subscription service, and invested in more ways to reach our players now and in the future, such as cloud gaming and esports. We expect to continue to invest in our business to remain competitive, including investments in, among other things, technology to connect our players to each other and to the games they love and the infrastructure to power our games and services. We are adopting consistent, cross-company methodologies to better understand our players' needs and continue to invest in technology that enables us to deliver content that will resonate with players, and provide more choice in the way that players connect with their games, with each other, and with new types of content, including esports broadcasts. This connection also allows us to market and deliver content and services for popular franchises like FIFA, Battlefield and Star Wars to our players more efficiently.

***Free-to-Play Games.*** The global adoption of mobile devices and a business model for those devices that allows consumers to try new games with no up-front cost, and that are monetized through the live service associated with the game, has led to significant growth in the mobile gaming industry. We expect the mobile gaming industry to continue to grow during our 2020 fiscal year. Likewise, the consumer acceptance of free-to-play, live service-based, online PC games has broadened our consumer base, and this free-to-play, live service business model is beginning to gain consumer acceptance with respect to console games. We expect revenue generated from mobile, PC and console free-to-play games to remain an important part of our business.

***Concentration of Sales Among the Most Popular Games.*** In all major segments of our industry, we see a large portion of games sales concentrated on the most popular titles. Similarly, a significant portion of our revenue historically has been derived from games based on a few popular franchises, several of which we have released on an annual or bi-annual basis. In particular, we

have historically derived a significant portion of our net revenue from our largest and most popular game, FIFA, the annualized version of which is consistently one of the best-selling games in the marketplace.

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

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

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

(In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Total net revenue	\$ 1,348	\$ 1,286	\$ 2,557	\$ 2,423
Change in deferred net revenue (online-enabled games)	(35)	(20)	(462)	(359)
Mobile platform fees	(36)	(44)	(75)	(93)
Net bookings	\$ 1,277	\$ 1,222	\$ 2,020	\$ 1,971

Net bookings were \$1,277 million for the three months ended September 30, 2019 driven by sales related to *FIFA 20*, *Madden NFL 20* and *Apex Legends*. Net bookings increased \$55 million or 5 percent as compared to the three months ended September 30, 2018 due primarily to *Apex Legends* and an increase in the Madden franchise, partially offset by the FIFA franchise due to lower retail packaged goods sales of *FIFA 20* versus *FIFA 19*. Digital net bookings were \$790 million for the three months ended September 30, 2019, an increase of \$153 million or 24 percent as compared to three months ended September 30, 2018. The increase in digital net bookings was primarily driven by our live services which grew \$165 million or 50 percent year-over-year, primarily due to *Apex Legends*, Ultimate team including Madden, FIFA and NHL, *The Sims 4* and *FIFA Online* partially offset by *Battlefield 1* extra content; and full game downloads which grew \$18 million or 11 percent due to net bookings associated with the Madden and Plants v. Zombies franchises. These increases were partially offset by a decrease of \$30 million or 20 percent in our mobile business due to declines from aging titles.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

### ***Revenue Recognition***

We derive revenue principally from sales of our games, and related extra-content and services that can be played by customers on a variety of platforms which include 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”);

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- 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 Origin Access, Origin Access Premier and EA Access, that generally offers access to a selection of full games, in-game content, online services and other benefits typically for a recurring monthly or annual fee; and
- licensing our games to third parties to distribute and host our games.

We evaluate revenue recognition based on the criteria set forth in ASC 606, *Revenue from Contracts with Customers*.

We evaluate and recognize revenue by:

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

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

### *Online-Enabled Games*

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

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

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

*Extra Content.* Revenue received from sales of downloadable content are derived primarily from the sale of virtual currencies and digital in-game content that enhance players’ game experience. Sales of extra content are accounted for in a manner consistent with the treatment for our Games with Services and Online-Hosted Service Games as discussed above, depending upon whether or not the extra content has offline functionality.

### *Subscriptions*

Revenue from subscriptions is recognized over the subscription term as the service is provided.

### *Licensing Revenue*

In certain countries, we utilize third-party licensees to distribute and host our games 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.

#### *Revenue Classification*

We classify our revenue as either product revenue or service and other revenue. Generally, performance obligations that are recognized upfront upon transfer of control are classified as product revenue, while performance obligations that are recognized over the Estimated Offering Period or subscription period as the services are provided are classified as service revenue.

*Product revenue.* Our product revenue includes revenue allocated to the software license performance obligation. Product revenue also includes revenue from the licensing of software to third-parties.

*Service and other revenue.* Our service revenue includes revenue allocated to the future update rights and the online hosting performance obligations. This also includes revenue allocated to the future update rights from the licensing of software to third-parties, software that offers an online-only service such as our Ultimate Team game mode, and subscription services.

#### *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 significant 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. See below for additional information regarding our sales returns and price protection reserves. In addition, the transaction price does not include an estimate of the variable consideration related to sales-based royalties. Sales-based royalties are recognized as the sales occur.

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

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

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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 are played. We recognize revenue for future update rights and online hosting performance obligations ratably on a straight-line basis over this period as there is a consistent pattern of delivery for these performance obligations. These performance obligations are generally recognized over an estimated nine-month period beginning in the month after shipment for software licenses sold through retail and an estimated six-month period for digitally-distributed software licenses beginning in the month of sale.

### *Deferred Net Revenue*

Because the majority of our sales transactions include future update rights and online hosting performance obligations, which are subject to a recognition period of generally six to nine months, our deferred net revenue balance is material. This balance increases from period to period by the revenue being deferred for current sales with these service obligations and is reduced by the recognition of revenue from prior sales that were deferred. Generally, revenue is recognized as the services are provided.

### *Principal Agent Considerations*

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

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

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

### *Payment Terms*

Substantially all of our transactions have payment terms, whether customary or on an extended basis, of less than one year; therefore, we generally do not adjust the transaction price for the effects of any potential financing components that may exist.

### *Sales and Value-Added Taxes*

Revenue is recorded net of taxes assessed by governmental authorities that are imposed at the time of the specific revenue-producing transaction between us and our customer, such as sales and value-added taxes.

### *Sales Returns and Price Protection Reserves*

Sales returns and price protection are considered variable consideration under ASC 606. We reduce revenue for estimated future returns and price protection which may occur with our distributors and retailers ("channel partners"). Price protection represents our practice to provide our channel partners with a credit allowance to lower their wholesale price on a particular game unit that they have not resold to customers. The amount of the price protection for permanent markdowns is the difference between the old wholesale price and the new reduced wholesale price. Credits are also given for short-term promotions that temporarily reduce the wholesale price. In certain countries we also have a practice for allowing channel partners to return older products in the channel in exchange for a credit allowance.

When evaluating the adequacy of sales returns and price protection reserves, we analyze the following: historical credit allowances, current sell-through of our channel partners' inventory of our products, current trends in retail and the video game industry, changes in customer demand, acceptance of our products, and other related factors. In addition, we monitor the volume of sales to our channel partners and their inventories, as substantial overstocking in the distribution channel could result in high returns or higher price protection in subsequent periods.

In the future, actual returns and price protections may materially exceed our estimates as unsold products in the distribution channels are exposed to rapid changes in customer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing products. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates change, our returns and price protection reserves would change and would impact the transaction price and thus, the total net revenue and related balance sheet accounts that we report.

### *Income Taxes*

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

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

During the three months ended June 30, 2019, we completed the Swiss intra-entity sale. The transaction did not result in a taxable gain. Under U.S. GAAP, any profit resulting from this intercompany transaction will be eliminated upon consolidation. However, the transaction resulted in a step-up of the Swiss tax-deductible basis in the transferred intellectual property rights and, accordingly, created a temporary difference between the book basis and the tax basis of such intellectual property rights. The Swiss Deferred Tax Asset and the one-time tax benefit was measured and will be periodically remeasured based on the Swiss tax rate in effect for the years the asset will be recovered. As a result, we recognized a \$1.17 billion net Swiss Deferred Tax Asset, which is net of the impact of the Altera opinion and of a \$0.1 billion valuation allowance. Separately, during the three months ended September 30, 2019, Switzerland enacted a new statutory tax rate. As a result of the enactment, we remeasured our Swiss deferred taxes and recognized an additional net tax benefit of \$630 million through continuing operations.

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 taxable income as the primary source of taxable income but considers all available sources of income based on the positive and negative evidence. We give more weight to evidence that can be objectively verified. However, there is significant judgment involved in estimating future taxable income over the 20-year period over which the Swiss Deferred Tax Asset will reverse, specifically related to assumptions about expected growth rates of future Swiss taxable income. Actual results that differ materially from those estimates could have a material impact on our valuation allowance assessment. Switzerland has a seven-year carryforward period and does not permit the carry back of losses. We will not recognize any deferred taxes related to the U.S. taxes on foreign earnings associated with this transfer due to our policy election to recognize these taxes as a period cost. We do not expect the transaction to impact our cash taxes or our operating cash flow in fiscal year 2020.

As a result of our analysis as of September 30, 2019, we increased the valuation allowance from \$0.1 billion to \$0.2 billion due to the enactment of a new statutory tax rate in Switzerland, resulting in a net Swiss Deferred Tax Asset of \$1.8 billion.

During the three months ended June 30, 2019, the Altera opinion was issued which requires related parties in an intercompany cost-sharing arrangement to share stock-based compensation expenses. This opinion reversed the prior United States Tax Court decision, resulting in a reduction of the Swiss Deferred Tax Asset. We also recognized a liability for approximately \$90 million of unrecognized tax benefits related to U.S. uncertain tax positions.

Our foreign subsidiaries will generally be subject to U.S. tax and to the extent earnings from these subsidiaries can be repatriated without a material tax cost, they will not be indefinitely reinvested. Any earnings in excess of these amounts are indefinitely reinvested. As of September 30, 2019, we have \$0.8 billion that is indefinitely reinvested, which consists of both prior and current year earnings.

As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each jurisdiction in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to our preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective tax rate.

### **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

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

### **RESULTS OF OPERATIONS**

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal year ending March 31, 2020 contains 52 weeks and ends on March 28, 2020. Our results of operations for the fiscal year ended March 31, 2019 contained 52 weeks and ended on March 30, 2019. Our results of operations for the three months ended September 30, 2019 and 2018 contained 13 weeks each and ended on September 28, 2019 and September 29, 2018, respectively. 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 and PCs, (2) full games for mobile phones and tablets, (3) live services associated with these games, such as extra-content, (4) subscriptions that generally offer access to a selection of full games, in-game content, online services and other benefits, and (5) licensing our games to third parties to distribute and host our games.

We provide two different measures of our Net Revenue: (1) Net Revenue by Product revenue and Service and other revenue, and (2) Net Revenue by Composition, which is primarily based on method of distribution. Management places a greater emphasis and focus on assessing our business through a review of the Net Revenue by Composition (Digital, and Packaged goods and other) than by Net Revenue by Product revenue and Service and other revenue.

#### **Net Revenue Quarterly Analysis**

##### *Net Revenue*

For the three months ended September 30, 2019, net revenue was \$1,348 million, an increase of \$62 million, or 5 percent, as compared to the three months ended September 30, 2018. This increase was driven by a \$200 million increase in revenue primarily from *Apex Legends* and *Anthem*. This increase was partially offset by a \$138 million decrease in revenue primarily from the FIFA, Star Wars and Need for Speed franchises.

**Net Revenue by Product Revenue and Service and Other Revenue**

Our Net Revenue by Product revenue and Service and other revenue for the three months ended September 30, 2019 and 2018 was as follows (in millions):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Net revenue:				
Product	\$ 568	\$ 623	\$ (55)	(9)%
Service and other	780	663	117	18 %
Total net revenue	\$ 1,348	\$ 1,286	\$ 62	5 %

**Product Revenue**

For the three months ended September 30, 2019, Product net revenue was \$568 million, primarily driven by *FIFA 20*, *Madden NFL 20* and *The Sims 4*. Product net revenue for the three months ended September 30, 2019 decreased \$55 million, or 9 percent, as compared to the three months ended September 30, 2018. This decrease in revenue was driven by an \$86 million decrease in revenue primarily from the FIFA franchise due to lower retail packaged goods sales of *FIFA 20* versus *FIFA 19*. This decrease in revenue was partially offset by a \$31 million increase in revenue primarily from The Sims franchise.

**Service and Other Revenue**

For the three months ended September 30, 2019, Service and other net revenue was \$780 million, primarily driven by *FIFA Ultimate Team*, *Apex Legends* and *Anthem*. Service and other net revenue for the three months ended September 30, 2019 increased \$117 million, or 18 percent, as compared to the three months ended September 30, 2018. This increase in revenue was driven by a \$195 million increase in revenue primarily from *Apex Legends* and *Anthem*. This increase in revenue was partially offset by a \$78 million decrease in revenue primarily from the Star Wars, Need for Speed and Battlefield franchises.

**Supplemental Net Revenue by Composition**

As we continue to evolve our business and more of our products are delivered to consumers digitally, we place a significant emphasis and focus on assessing our business performance through a review of net revenue by composition.

Our net revenue by composition for the three months ended September 30, 2019 and 2018 was as follows (in millions):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 180	\$ 148	\$ 32	22 %
Live services	573	412	161	39 %
Mobile	169	220	(51)	(23)%
Total Digital	\$ 922	\$ 780	\$ 142	18 %
Packaged goods and other	\$ 426	\$ 506	\$ (80)	(16)%
Total net revenue	\$ 1,348	\$ 1,286	\$ 62	5 %

**Digital Net Revenue**

Digital net revenue includes full-game downloads, live services, and mobile revenue. Full game download includes revenue from digital sales of full games on console and PC. Live services includes revenue from sales of extra content for console, PC, browser games, game software licensed to our third-party publishing partners who distribute our games digitally, subscriptions, and advertising. Mobile includes revenue from the sale of full games, extra content, and advertising on mobile phones and tablets.

For the three months ended September 30, 2019, digital net revenue was \$922 million primarily driven by *FIFA Ultimate Team*, *Apex Legends* and *The Sims 4*. Digital net revenue for the three months ended September 30, 2019 increased \$142 million, or

18 percent, as compared to the three months ended September 30, 2018. This increase is due to a \$161 million increase in live services revenue primarily driven by *Apex Legends* and *The Sims 4* and a \$32 million increase in full-game downloads revenue primarily driven by *Anthem*, partially offset by a \$51 million decrease in mobile revenue primarily driven by *Star Wars: Galaxy of Heroes*, *Madden Mobile 15* and *FIFA Online 4*.

### **Packaged Goods and Other Net Revenue**

Packaged goods net revenue includes revenue from software that is distributed physically. This includes (1) net revenue from game software distributed physically through traditional channels such as brick and mortar retailers, and (2) our software licensing revenue from third parties (for example, makers of console platforms, personal computers or computer accessories) who include certain of our products for sale with their products (for example, OEM bundles). Other net revenue includes our non-software licensing revenue.

For the three months ended September 30, 2019, packaged goods and other net revenue was \$426 million, primarily driven by *FIFA 20*, *Madden NFL 20* and *Anthem*. Packaged goods and other net revenue for the three months ended September 30, 2019 decreased \$80 million, or 16 percent, as compared to the three months ended September 30, 2018. This decrease in revenue was driven by a \$127 million decrease in revenue primarily from the FIFA franchise and *Star Wars Battlefront II*, partially offset by a \$47 million increase in revenue primarily from *Anthem* and the Battlefield franchise.

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

#### **Net Revenue**

For the six months ended September 30, 2019, net revenue was \$2,557 million and increased \$134 million, or 6 percent, as compared to the six months ended September 30, 2018. This increase in revenue was driven by a \$417 million increase in revenue primarily from *Apex Legends* and *Anthem*. This increase in revenue was partially offset by a \$283 million decrease in revenue primarily from the FIFA, Star Wars and Need for Speed franchises.

#### **Net Revenue by Product Revenue and Service and Other Revenue**

Our Net Revenue by Product revenue and Service and other revenue for the six months ended September 30, 2019 and 2018 was as follows (in millions):

	Six Months Ended September 30,			
	2019	2018	\$ Change	% Change
Net revenue:				
Product	\$ 734	\$ 825	\$ (91)	(11)%
Service and other	1,823	1,598	225	14 %
Total net revenue	\$ 2,557	\$ 2,423	\$ 134	6 %

#### **Product Revenue**

For the six months ended September 30, 2019, Product net revenue was \$734 million, primarily driven by *FIFA 20*, *The Sims 4* and *Madden NFL 20*. Product net revenue for the six months ended September 30, 2019 decreased \$91 million, or 11 percent, as compared to the six months ended September 30, 2018. This decrease in revenue was driven by a \$146 million decrease in revenue primarily from the FIFA franchise, primarily due to lower retail packaged goods sales of *FIFA 20* versus *FIFA 19* and due to higher catalog sales in the first quarter of prior year due to the FIFA World Cup. This decrease in revenue was partially offset by a \$55 million increase in revenue primarily from *The Sims* and the Battlefield franchises.

#### **Service and Other Revenue**

For the six months ended September 30, 2019, Service and other net revenue was \$1,823 million, primarily driven by *FIFA Ultimate Team*, *Apex Legends* and *Anthem*. Service and other net revenue for the six months ended September 30, 2019 increased \$225 million, or 14 percent, as compared to the six months ended September 30, 2018. This increase in revenue was driven by a \$423 million increase in revenue primarily from *Apex Legends* and *Anthem*. This increase in revenue was partially offset by a \$198 million decrease in revenue primarily from the Star Wars, Need for Speed and Madden franchises.

## Supplemental Net Revenue by Composition

Our net revenue by composition for the six months ended September 30, 2019 and 2018 was as follows (in millions):

	Six Months Ended September 30,			
	2019	2018	\$ Change	% Change
Net revenue:				
Full game downloads	\$ 312	\$ 264	\$ 48	18 %
Live services	1,304	1,022	282	28 %
Mobile	355	451	(96)	(21)%
Total Digital	\$ 1,971	\$ 1,737	\$ 234	13 %
Packaged goods and other	\$ 586	\$ 686	\$ (100)	(15)%
Total net revenue	\$ 2,557	\$ 2,423	\$ 134	6 %

### Digital Net Revenue

For the six months ended September 30, 2019, digital net revenue was \$1,971 million primarily driven by *FIFA Ultimate Team*, *Apex Legends* and *The Sims 4*. Digital net revenue for the six months ended September 30, 2019 increased \$234 million, or 13 percent, as compared to the six months ended September 30, 2018. This increase is due to a \$282 million increase in live services revenue primarily driven by *Apex Legends* and *The Sims 4* and a \$48 million increase in full-game downloads revenue primarily driven by *Anthem*, partially offset by a \$96 million decrease in mobile revenue primarily driven by *Star Wars: Galaxy of Heroes* and *Madden Mobile 15*.

### Packaged Goods and Other Net Revenue

For the six months ended September 30, 2019, packaged goods and other net revenue was \$586 million, primarily driven by *FIFA 20*, *FIFA 19* and *Madden NFL 20*. Packaged goods and other net revenue for the six months ended September 30, 2019 decreased \$100 million, or 15 percent, as compared to the six months ended September 30, 2018. This decrease in revenue was driven by a \$193 million decrease in revenue primarily from the FIFA franchises, primarily due to lower retail packaged goods sales of *FIFA 20* versus *FIFA 19* and due to higher catalog sales in the first quarter of prior year due to the FIFA World Cup, and *Star Wars Battlefront II*, partially offset by a \$93 million increase in revenue primarily from *Anthem* and the Battlefield franchise.

### Cost of Revenue Quarterly Analysis

Cost of revenue for the three months ended September 30, 2019 and 2018 was as follows (in millions):

	September 30, 2019	% of Related Net Revenue	September 30, 2018	% of Related Net Revenue	% Change	Change as a % of Related Net Revenue
Cost of revenue:						
Product	\$ 193	34.0%	\$ 222	35.6%	(13.1)%	(1.6)%
Service and other	212	27.2%	196	29.6%	8.2 %	(2.4)%
Total cost of revenue	\$ 405	30.0%	\$ 418	32.5%	(3.1)%	(2.5)%

### Cost of Product Revenue

Cost of product revenue consists of (1) manufacturing royalties, net of volume discounts and other vendor reimbursements, (2) certain royalty expenses for celebrities, professional sports leagues, movie studios and other organizations, and independent software developers, (3) inventory costs, (4) expenses for defective products, (5) write-offs of post launch prepaid royalty costs and losses on previously unrecognized licensed intellectual property commitments, (6) amortization of certain intangible assets, (7) personnel-related costs, and (8) warehousing and distribution costs. We generally recognize volume discounts when they are earned from the manufacturer (typically in connection with the achievement of unit-based milestones); whereas other vendor reimbursements are generally recognized as the related revenue is recognized.

Cost of product revenue decreased by \$29 million, or 13.1 percent during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This decrease was primarily due to a decrease in inventory costs associated with the FIFA franchise.

***Cost of Service and Other Revenue***

Cost of service and other revenue consists primarily of (1) royalty costs, (2) data center, bandwidth and server costs associated with hosting our online games and websites, (3) inventory costs, (4) payment processing fees and (5) 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).

Cost of service and other revenue increased by \$16 million, or 8.2 percent during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This increase was primarily due to an increase in royalty costs driven by higher sales associated with the Madden franchise and a higher royalty rate associated with the FIFA franchise.

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

Cost of revenue for the six months ended September 30, 2019 and 2018 was as follows (in millions):

	September 30, 2019	% of Related Net Revenue	September 30, 2018	% of Related Net Revenue	% Change	Change as a % of Related Net Revenue
Cost of revenue:						
Product	\$ 228	31.1%	\$ 290	35.2%	(21.4)%	(4.1)%
Service and other	364	20.0%	343	21.5%	6.1 %	(1.5)%
Total cost of revenue	<u>\$ 592</u>	<u>23.2%</u>	<u>\$ 633</u>	<u>26.1%</u>	<u>(6.5)%</u>	<u>(2.9)%</u>

***Cost of Product Revenue***

Cost of product revenue decreased by \$62 million, or 21.4 percent during the six months ended September 30, 2019, as compared to the six months ended September 30, 2018. This decrease was primarily due to a decrease in inventory costs associated with the FIFA franchise and a decrease in royalty costs associated with *A Way Out* that was launched in March of 2018.

***Cost of Service and Other Revenue***

Cost of service and other revenue increased by \$21 million, or 6.1 percent during the six months ended September 30, 2019, as compared to the six months ended September 30, 2018. This increase was primarily due to an increase in royalty costs driven by higher sales associated with Madden franchise and a higher royalty rate associated with the FIFA franchise, and an increase in costs associated with *Apex Legends* and *Anthem*, which launched as online-only titles during fiscal year 2019.

**Research and Development**

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

Research and development expenses for the three and six months ended September 30, 2019 and 2018 were as follows (in millions):

	September 30, 2019	% of Net Revenue	September 30, 2018	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 387	29%	\$ 339	26%	\$ 48	14%
Six months ended	\$ 768	30%	\$ 701	29%	\$ 67	10%

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Research and development expenses increased by \$48 million, or 14 percent, during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This increase was primarily due to a \$23 million increase in personnel-related costs primarily resulting from an increase in headcount due to our continued investment in our studios and an increase in variable compensation and related expenses, and a \$22 million increase in stock-based compensation.

Research and development expenses increased by \$67 million, or 10 percent, during the six months ended September 30, 2019, as compared to the six months ended September 30, 2018. This increase was primarily due to a \$28 million increase in personnel-related costs primarily resulting from an increase in headcount due to our continued investment in our studios and an increase in variable compensation and related expenses, a \$24 million increase in stock-based compensation, an \$8 million increase in contracted services, and a \$7 million increase in third party development.

### **Marketing and Sales**

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

Marketing and sales expenses for the three and six months ended September 30, 2019 and 2018 were as follows (in millions):

	September 30, 2019	% of Net Revenue	September 30, 2018	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 152	11%	\$ 146	11%	\$ 6	4%
Six months ended	\$ 262	10%	\$ 286	12%	\$ (24)	(8)%

Marketing and sales expenses increased by \$6 million, or 4 percent, during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This increase was primarily due to a \$6 million increase in advertising and promotional on *Apex Legends*.

Marketing and sales expenses decreased by \$24 million, or 8 percent, during the six months ended September 30, 2019, as compared to the six months ended September 30, 2018. This decrease was primarily due to a \$17 million decrease in advertising and promotional spending primarily on *Star Wars: Galaxy of Heroes* and the FIFA franchise during the six months ended September 30, 2019, and a \$8 million decrease in personnel-related costs primarily resulting from a decrease in headcount.

### **General and Administrative**

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

General and administrative expenses for the three and six months ended September 30, 2019 and 2018 were as follows (in millions):

	September 30, 2019	% of Net Revenue	September 30, 2018	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 128	9%	\$ 117	9%	\$ 11	9%
Six months ended	\$ 238	9%	\$ 231	10%	\$ 7	3%

General and administrative expenses increased by \$11 million, or 9 percent, during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This increase was primarily due to an increase in personnel-related costs and an increase in variable compensation and related expenses.

General and administrative expenses increased by \$7 million, or 3 percent, during the six months ended September 30, 2019, as compared to the six months ended September 30, 2018. This increase was primarily due to an increase in personnel-related costs and an increase in variable compensation and related expenses.

**Income Taxes**

Provision for (benefit from) income taxes for the three and six months ended September 30, 2019 and 2018 were as follows (in millions):

	<u>September 30, 2019</u>	<u>Effective Tax Rate</u>	<u>September 30, 2018</u>	<u>Effective Tax Rate</u>
Three months ended	\$ (570)	(201)%	21	7.6%
Six months ended	(1,555)	(216)%	47	7.9%

The provision for income taxes for the three and six months ended September 30, 2019 is based on our projected annual effective tax rate for fiscal year 2020, adjusted for specific items that are required to be recognized in the period in which they are incurred.

During the three months ended June 30, 2019, we completed the Swiss intra-entity sale. The transaction resulted in the recognition of a \$1.17 billion net Swiss Deferred Tax Asset as of June 30, 2019. During the three months ended September 30, 2019, Switzerland enacted a new statutory tax rate. As a result of the enactment, we remeasured our Swiss deferred taxes and recognized an additional net tax benefit of \$630 million through continuing operations. The new statutory tax rate in Switzerland also resulted in a \$0.1 billion increase to our valuation allowance recognized against the Swiss Deferred Tax Asset. As of September 30, 2019, our Swiss Deferred Tax Asset is \$1.8 billion, net of a \$0.2 billion valuation allowance.

The Altera opinion was also issued during the three months ended June 30, 2019, which requires related parties in an intercompany cost-sharing arrangement to share stock-based compensation expenses. The Altera opinion resulted in the recognition of \$90 million of unrecognized tax benefits related to U.S. uncertain tax positions.

Our effective tax rates for the three and six months ended September 30, 2019 were negative 201 percent and 216 percent, respectively, as compared to 7.6 percent and 7.9 percent, for the same periods in fiscal year 2019. Excluding the impacts of the Swiss rate change benefit, Swiss Deferred Tax Asset, and Altera opinion, our effective tax rates for the three and six months ended September 30, 2019 would have been 12.7 percent and 13.6 percent, respectively, which was higher than the same periods in fiscal year 2019 primarily due to an increase in US taxes on foreign earnings in fiscal year 2020.

When compared to the statutory rate of 21 percent, the effective tax rates for the three and six months ended September 30, 2019 were significantly lower primarily due to the recognition of the Swiss tax rate change, Swiss Deferred Tax Asset and earnings realized in countries that have lower statutory tax rates, partially offset by the recognition of unrecognized tax benefits associated with the Altera opinion.

**LIQUIDITY AND CAPITAL RESOURCES**

(In millions)	As of September 30, 2019	As of March 31, 2019	Increase/(Decrease)
Cash and cash equivalents	\$ 2,940	\$ 4,708	\$ (1,768)
Short-term investments	1,943	737	1,206
Total	\$ 4,883	\$ 5,445	\$ (562)
Percentage of total assets	46%	61%	

(In millions)	Six Months Ended September 30,		Change
	2019	2018	
Net cash provided by (used in) operating activities	\$ 195	\$ (6)	\$ 201
Net cash used in investing activities	(1,263)	(704)	(559)
Net cash used in financing activities	(697)	(659)	(38)
Effect of foreign exchange on cash and cash equivalents	(3)	(8)	5
Net decrease in cash and cash equivalents	\$ (1,768)	\$ (1,377)	\$ (391)

**Changes in Cash Flow**

**Operating Activities.** Net cash provided by operating activities increased by \$201 million during the six months ended September 30, 2019 as compared to the six months ended September 30, 2018 primarily driven by a \$187 million decrease in accounts receivable due to improved collections and business performance, primarily driven by the sales of *Apex Legends* and *Anthem*, a \$20 million increase in gains from hedging activities and lower variable compensation payments. These increases were partially offset by larger marketing and advertising payments for new titles, particularly *Apex Legends* and *Anthem*.

**Investing Activities.** Net cash used in investing activities increased by \$559 million during the six months ended September 30, 2019 as compared to the six months ended September 30, 2018 primarily driven by a \$955 million increase in the purchase of short-term investments. This increase was partially offset by a \$347 million increase in proceeds from the sales and maturities of short-term investments during the six months ended September 30, 2019 as compared to the six months ended September 30, 2018 and the payment of \$58 million in connection with mergers and acquisitions activity during the six months ended September 30, 2018.

**Financing Activities.** Net cash used in financing activities increased by \$38 million during the six months ended September 30, 2019 as compared to the six months ended September 30, 2018 primarily driven by the payment of \$64 million of contingent consideration in connection with our acquisition of Respawn and a \$12 million increase in the repurchase and retirement of our common stock during the six months ended September 30, 2019 as compared to the six months ended September 30, 2018. This increase was partially offset by a \$41 million decrease in cash paid to taxing authorities for shares withheld from employees.

**Short-term Investments**

Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of September 30, 2019, our short-term investments had gross unrealized losses of less than \$1 million, or less than 1 percent of the total in short-term investments, and gross unrealized gains of \$2 million, or less than 1 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs.

**Senior Notes**

In February 2016, we issued \$600 million aggregate principal amount of the 2021 Notes and \$400 million aggregate principal amount of the 2026 Notes. We used the net proceeds of \$989 million for general corporate purposes, including the payment of our formerly outstanding convertible notes and repurchases of our common stock. The effective interest rate is 3.94% for the 2021 Notes and 4.97% for the 2026 Notes. Interest is payable semiannually in arrears, on March 1 and September 1 of each year. See [Note 10 — Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our Senior Notes, which is incorporated by reference into this Item 2.

### ***Credit Facility***

On August 29, 2019, we entered into a \$500 million unsecured revolving credit facility (“Credit Facility”) with a syndicate of banks. The Credit Facility terminates on August 29, 2024 unless the maturity is extended in accordance with the terms of the Credit Facility and replaces the Company’s existing \$500 million unsecured revolving credit facility (the “Prior Credit Facility”), which was due to expire on March 19, 2020. As of September 30, 2019, no amounts were outstanding under the Credit Facility. See [Note 10—Financing Arrangements](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to the Credit Facility, which is incorporated by reference into this Item 2.

### ***Financial Condition***

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

As of September 30, 2019, approximately \$3.7 billion of our cash, cash equivalents, and short-term investments were domiciled in foreign tax jurisdictions, of which approximately \$2.9 billion is available for repatriation. The remaining \$0.8 billion is considered to be indefinitely reinvested.

In May 2018, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a program to repurchase up to \$2.4 billion of our common stock. This stock repurchase program expires on May 31, 2020. Under this program, we may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase a specific number of shares under this program and it may be modified, suspended or discontinued at any time. During the three and six months ended September 30, 2019, we repurchased approximately 3.3 million and 6.5 million shares for approximately \$306 million and \$611 million, respectively, under this program. We are actively repurchasing shares under this program.

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, those related 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, the impact of acquisitions and other strategic transactions in which we may engage, the impact of competition, economic conditions in the United States and abroad, the seasonal and cyclical nature of our business and operating results, risks of product returns and the other risks described in the [“Risk Factors”](#) section, included in Part II, Item 1A of this report.

### **Contractual Obligations and Commercial Commitments**

[Note 12—Commitments and Contingencies](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our contractual obligations and commercial commitments, which is incorporated by reference into this Item 2.

**OFF-BALANCE SHEET COMMITMENTS**

As of September 30, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues and expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

### Item 3: Quantitative and Qualitative Disclosures About Market Risk

#### **MARKET RISK**

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

#### ***Foreign Currency Exchange Risk***

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

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

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

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

Notwithstanding our efforts to mitigate some foreign currency exchange risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. As of September 30, 2019, 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 \$130 million or \$260 million, respectively. As of September 30, 2019, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 20 percent would have resulted in potential losses on our foreign currency forward contracts used in balance sheet hedging of \$82 million or \$164 million, respectively. This sensitivity analysis assumes an adverse shift of all foreign currency exchange rates; however, all foreign currency exchange rates do not always move in the same manner and actual results may differ materially. See [Note 4 — Derivative Financial Instruments](#) to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our derivative financial instruments, which is incorporated by reference into this Item 3.

#### ***Interest Rate Risk***

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

As of September 30, 2019, our short-term investments were classified as available-for-sale securities and, consequently, were recorded at fair value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of tax, in stockholders' equity.

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. Changes in interest rates affect the fair value of our short-term investment portfolio. To provide a meaningful assessment of the interest rate risk associated with our short-term investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the portfolio assuming a 150 basis point parallel shift in the yield curve. As of September 30, 2019, a hypothetical 150 basis point increase in interest rates would have resulted in an \$18 million, or less than 1%, decrease in the fair market value of our short-term investments.

**Item 4. Controls and Procedures**

***Evaluation of disclosure controls and procedures***

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

***Changes in internal control over financial reporting***

There has been no change in our internal controls over financial reporting identified in connection with our evaluation that occurred during the fiscal quarter ended September 30, 2019 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

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.

### Item 1A. Risk Factors

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

#### **Our business is intensely competitive and “hit” driven. We may not deliver “hit” products and services, or consumers may prefer our competitors’ products or services over our own.**

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

We maintain a relatively limited product portfolio in an effort to focus on developing high-quality and engaging products and services with the potential to become hits. High-quality titles, even if highly-reviewed, may not turn into a hit. Many hit products and services within our industry are iterations of prior hits with large established consumer bases and significant brand recognition, which makes competing in certain categories challenging. In addition, hit 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. Publishing a relatively small number of major titles each year also concentrates risk in those titles and means each major title has greater associated risk. 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 could have a material adverse impact on our financial results. For example, we have historically derived a significant portion of our net revenue from sales related to our largest and most popular game, FIFA, the annualized version of which is consistently one of the best-selling games in the marketplace. Any events or circumstances that negatively impact our FIFA franchise, such as product or service quality, competing products that take a portion of consumer spending and time, the delay or cancellation of a product or service launch, or real or perceived security risks could negatively impact our financial results to a disproportionate extent.

The increased importance of live services revenue to our business heightens the risks associated with our limited product portfolio. Live services that are either poorly-received or provided in connection with underperforming games may generate lower than expected sales. Any lapse, delay or failure in our ability to provide high-quality live services content to consumers over an extended period of time could materially and adversely affect our financial results, consumer engagement with our live services, and cause harm to our reputation and brand. Our most popular live service is the *Ultimate Team* mode associated with our sports franchises. Any events or circumstances that negatively impact our ability to reliably provide content or sustain engagement for *Ultimate Team*, particularly *FIFA Ultimate Team*, would negatively impact our financial results to a disproportionate extent.

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

Rapid changes in our industry require us to anticipate, sometimes years in advance, the ways in which our products and services will be competitive in the market. We have invested, and in the future may invest, in new business strategies, technologies, distribution methods, products, and services. There can be no assurance that these investments will achieve expected returns. For example, we are investing in the technological infrastructure that we expect will enable us to deliver content that will resonate with players and provide more choice in the way that players connect with their games, with each other, and with new types of content. We also recently expanded our free-to-play business model by launching our first free-to-play console game. Such

endeavors may involve significant risks and uncertainties, and no assurance can be given that the technology we choose to implement, the business strategies we choose to adopt and the products and services that we pursue will be successful. If we do not successfully evolve our business in a manner that meets or exceeds player expectations, our reputation and brand may be materially adversely affected and our financial condition and operating results may be impacted. We also may miss opportunities to adopt technology or distribution methods or develop products, services or new ways to engage with our games that become popular with consumers, which could adversely affect our financial results. It may take significant time and resources to shift our focus to alternatives, putting us at a competitive disadvantage.

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

**We may experience security breaches and cyber threats.**

Our industry is prone to, and our systems and networks are subject to, cyber-attacks, computer viruses, worms, phishing attacks, malicious software programs and other information security incidents that seek to exploit, disable, damage, disrupt or gain access to our networks, our products and services, supporting technological infrastructure, intellectual property and other assets. We expect these threats to our systems and networks to continue. In addition, we rely on technological infrastructure provided by third-party business partners to support the online functionality of our products and services. These business partners, as well as our channel partners, also are subject to cyber risks and threats. Both our partners and we have expended, and expect to continue to expend, financial and operational resources to implement certain systems, processes and technologies to guard against cyber risks and to help protect our data and systems. However, the techniques used to exploit, disable, damage, disrupt or gain access to our networks, our products and services, supporting technological infrastructure, intellectual property and other assets change frequently, continue to evolve in sophistication and volume, and often are not detected for long periods of time. Our systems, processes and technologies, and the systems, processes and technologies of our business partners, may not be adequate against all eventualities. The costs to respond to, mitigate, and/or notify affected parties of cyber-attacks and other security vulnerabilities are significant. Any failure to prevent or mitigate security breaches or cyber risks, or detect or respond adequately to a security breach or cyber risk, could result in a loss of anticipated revenue, interruptions to our products and services, cause us to incur significant remediation and notification costs, degrade the user experience, cause consumers to lose confidence in our products and services and cause us to incur significant legal and financial costs. This could harm our business, reputation and brand, disrupt our relationships with partners and customers and diminish our competitive position.

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 include the illegitimate generation and sale of virtual items, including in black markets. Our online services have been impacted by in-game exploits and the use of automated or other fraudulent processes to generate virtual item or currency illegitimately, and such activity may continue. These abuses and exploits, and the steps that we take to address these abuses and exploits may result in a loss of anticipated revenue, increased costs to protect against or remediate these issues, interfere with players' enjoyment of a balanced game environment and cause harm to our reputation and brand.

**Our business could be adversely affected if our consumer protection, data privacy and security practices are not adequate, or perceived as being inadequate, to prevent data breaches, or by the application of consumer protection and data privacy and security laws generally.**

In the course of our business, we collect, process, store and use consumer, employee and other information, including personal information, passwords, credit card information, gameplay details and banking information. Although we expend, and expect to continue to expend, financial and operational resources to create and enforce security measures, policies and controls that are designed to protect this information from improper or unauthorized access, acquisition and misuse and/or the uninformed disclosure, our security measures, policies and controls may not be able to successfully protect against all eventualities. The improper or unauthorized access, acquisition or misuse and/or uninformed disclosure of consumer 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

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

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

As a global company, we are subject to global data privacy, data protection, localization, security and consumer-protection laws and regulations. These laws and regulations are emerging and evolving in countries worldwide and the interpretation and application of these laws and regulations in the United States, Europe and elsewhere often are uncertain, contradictory and changing. For example, the European General Data Protection Regulation (GDPR) applies to us, creating a range of new compliance obligations regarding the treatment of personal data. In addition, the GDPR contains significant penalties for non-compliance. It is possible that these laws may be interpreted or applied in a manner that is adverse to us, unforeseen, or otherwise inconsistent with our practices or that we may not adequately adapt our internal policies and/or procedures to evolving regulations, any of which could result in litigation, regulatory investigations and potential legal liability, require us to change our practices in a manner adverse to our business or limit access to our products and services in certain countries. As a result, our reputation and brand may be harmed, we could incur substantial costs, and we could lose both consumers and revenue.

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

The reliable performance of our products and services increasingly depends on the continuing operation and availability of our information technology systems and those of our external service providers, including third-party “cloud” computing services. Our games and services are complex software products, and maintaining the sophisticated internal and external technological infrastructure required to reliably deliver these games and services is expensive and complex. The reliable delivery and stability of our products and services could 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 who offer, support or host our products and services. Possible causes of these outages, disruptions, failures or degradations include natural disasters, power loss, terrorism, cyber-attacks, computer viruses, bugs or other malware or ransomware that may harm our systems or the systems of our external business partners. In addition, the migration of data among data centers and to third-party hosted environments and the performance of upgrades and maintenance on our systems could impact the reliability and stability of our products and services if not managed properly.

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 consumers. 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, but it is possible that we may fail to scale effectively and grow this technical infrastructure to accommodate these 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.

**Negative perceptions about and responses to our brands, products, services and/or business practices may damage our business, and we may incur costs to address concerns.**

Expectations regarding the quality, performance and integrity of our products and services are high. Players may be critical of our brands, products, services, business models and/or business practices for a wide variety of reasons, including perceptions about gameplay fun, fairness, game content, features or services, or objections to certain of our business practices. These negative responses may not be foreseeable. We also may not effectively manage these responses because of reasons within or outside of our control. For example, we have included in certain games the ability for players to purchase digital items, including in some instances virtual “packs”, “boxes” or “crates” that contain variable digital items. The inclusion of variable digital items in certain of our games has attracted the attention of our community and if the future implementation of these features creates a negative perception of gameplay fairness or other negative perceptions, our reputation and brand could be harmed and our revenue could be negatively impacted. In addition, we have taken actions, including delaying the release of our games and delaying or discontinuing features and services for our games, after taking into consideration, among other things, feedback from our community even if those decisions negatively impacted our operating results in the short term. We expect to continue to take actions to address concerns as appropriate, including actions that may result in additional expenditures and the loss of revenue. Negative sentiment about gameplay fairness, our business practices, business models or game content also can lead to investigations or increased scrutiny from governmental bodies and consumer groups, as well as litigation, which, regardless of their outcome, may be costly, damaging to our reputation and harm our business.

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

The success of our business is driven in part by the commercial success and adequate supply of third party platforms for which we develop our products and services or through which our products and services are distributed. Our success also depends on our ability to accurately predict which platforms and distribution methods will be successful in the marketplace, our ability to develop commercially successful products and services for these platforms, our ability to simultaneously manage products and services on multiple platforms and our ability to effectively transition our products and services to new platforms. We must make product development decisions and commit significant resources well in advance of the commercial availability of new platforms, and we may incur significant expense to adjust our product portfolio and development efforts in response to changing consumer platform preferences. Additionally, we may enter into certain exclusive licensing arrangements that affect our ability to deliver or market products or services on certain platforms. A platform for which we are developing products and services may not succeed as expected or new platforms may take market share and interactive entertainment consumers away from platforms for which we have devoted significant resources. If consumer demand for the platforms for which we are developing products and services is lower than our expectations, we may be unable to fully recover the investments we have made in developing our products and services, and our financial performance will be harmed. Alternatively, a platform for which we have not devoted significant resources could be more successful than we initially anticipated, causing us to not be able to take advantage of meaningful revenue opportunities.

**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, content, advertising, localization, information security, intellectual property, competition and taxation, among others. Many of these laws and regulations are continuously evolving and developing, and the application to, and impact on, us is uncertain. 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 interpretation. Any failure on our part to comply with these laws or the application of these laws in an unanticipated manner may harm our business and result in penalties or significant legal liability.

Certain of our business models are subject to new laws or regulations or evolving interpretations and application of existing laws and regulations. For example, the growth and development of electronic commerce, virtual items and virtual currency have prompted calls for new laws and regulations, or the application of existing laws or regulations, that could limit or restrict the sale of our products and services or otherwise impact our products and services. In addition, we include modes in our games that allow players to compete against each other and manage player competitions that are based on our products and services. Although we structure and operate our skill-based competitions with applicable laws in mind, our skill-based competitions in the future could become subject to evolving laws and regulations. New laws related to these business models or changes in the interpretation or application of current laws that impact these business models - each of which could vary significantly across jurisdictions - could subject us to additional regulation and oversight, lessen the engagement with, and growth of, profitable business models, and expose us to increased compliance costs, significant liability, penalties and harm to our reputation and brand.

We are subject to laws in certain foreign countries, and adhere to industry standards in the United States, that mandate rating requirements or set other restrictions on the advertisement or distribution of interactive entertainment software based on content.

In addition, certain foreign countries allow government censorship of interactive entertainment software products. Adoption of ratings systems, censorship or restrictions on distribution of interactive entertainment software based on content could harm our business by limiting the products we are able to offer to our consumers. In addition, compliance with new and possibly inconsistent regulations for different territories could be costly, delay or prevent the release of our products in those territories.

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

Our ability to meet product development schedules is affected by a number of factors both within and outside our control, including feedback from our players, the creative processes involved, the coordination of large and sometimes geographically dispersed development teams, the complexity of our products and the platforms for which they are developed, the need to fine-tune our products prior to their release and, in certain cases, approvals from third parties. We have experienced development delays for our products in the past, which caused us to delay or cancel release dates. We also seek to release certain products and significant content for our ongoing live services - such as within our Ultimate Team live service - in conjunction with key events, such as the beginning of a sports season, major sporting event, or the release of a related movie. If such a key event were delayed, cancelled or poorly received, our sales likely would suffer materially. 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.

Historically our business has been highly seasonal with the highest percentage of our sales occurring in the quarter ending in December. While we expect this trend to continue in fiscal year 2020, there is no assurance that it will be so. If we miss key selling periods for products or services for any reason, including product delays or product cancellations our sales likely will suffer significantly. Additionally, macroeconomic conditions or the occurrence of unforeseen events that negatively impact consumer or retailer buying patterns, particularly during the quarter ending in December, likely will harm our financial performance disproportionately.

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

Our products and services are marketed worldwide through a diverse spectrum of advertising and promotional programs, such as online and mobile advertising, television advertising, retail merchandising, marketing through websites and streaming services, event sponsorship, partnerships with influencers and content creators and direct communications with consumers including via email. Furthermore, an increasing portion of our marketing activity is taking place on social media platforms and through streaming networks, influencers and content creators that are outside of our direct control. Our ability to sell our products and services is dependent in part upon the success of these programs, and changes to consumer preferences, actions by influencers or content creators, marketing regulations, technology changes or service disruptions may negatively impact our ability to reach our customers or otherwise negatively impact our marketing campaigns or the franchises associated with those marketing campaigns. Moreover, if the marketing for our products and services is not innovative, agile or fails to resonate with our customers, particularly during the critical holiday season or during other key selling periods, or if advertising rates or other media placement costs increase, our business and operating results could be harmed.

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

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

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

Our business model includes revenue that we deem recurring in nature, such as revenue from our annualized sports franchises (e.g., FIFA, Madden NFL), our console, PC and mobile catalog titles (i.e., titles that did not launch in the current fiscal year), the associated live services and our subscriptions business. 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. Furthermore, we may cease to offer games and services that we previously had deemed to be recurring in nature. Consumer demand may decline or fluctuate as a result of a number of factors, including their level of

satisfaction with our games and services, our ability to improve and innovate our annualized titles, our ability to adapt our games and services to new platforms and business models, outages and disruptions of online services, the games and services offered by our competitors, our marketing and advertising efforts or declines in consumer activity generally as a result of economic downturns, among others. The reception to our sports games also depends, in part, on the popularity, reputation and brand of the leagues, organizations and individual athletes with whom we partner. Events and circumstances outside of our control that have a negative impact on the popularity, reputation and brand of these partners could also negatively impact sales related to our annualized sports games. Any decline or fluctuation in the recurring portion of our business may have a negative impact on our financial and operating results.

**We could fail to successfully adopt new business models.**

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

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

We have made and may continue to make acquisitions or enter into other strategic transactions including (1) acquisitions of companies, businesses, intellectual properties, and other assets, (2) minority investments in strategic partners, and (3) investments in new interactive entertainment businesses as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we do not realize a satisfactory return on our investment, that we acquire liabilities, that our due diligence process does not identify significant issues, liabilities or other challenges, diversion of management's attention from our other businesses, the incurrence of debt, contingent liabilities or amortization expenses, write-offs of goodwill, intangibles, or acquired in-process technology, or other increased cash and non-cash expenses. In addition, we may not integrate these businesses successfully or achieve expected synergies. For example, we may experience difficulties with the integration of business systems and technologies, the integration and retention of new employees, the implementation or remediation of the internal control environment of the acquired entity, or the maintenance of key business and customer relationships. These events could harm our operating results or financial condition. We also may divest or sell assets or a business and we may have difficulty selling such assets or business on acceptable terms in a timely manner. This could result in a delay in the achievement of our strategic objectives, cause us to incur additional expense, or the sale of such assets or business at a price or on terms that are less favorable than we anticipated.

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

Many of our products and services are based on or incorporate intellectual property owned by others. For example, our EA Sports products include rights licensed from major sports leagues, teams and players' associations and our Star Wars products include rights licensed from Disney. Competition for these licenses and rights is intense. If we are unable to maintain these licenses and rights or obtain additional licenses or rights with significant commercial value, our ability to develop successful and engaging products and services may be adversely affected and our revenue, profitability and cash flows may decline significantly. Competition for these licenses also may 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.

**We rely on the systems of our platform partners who have significant influence over the products and services that we offer on their systems.**

A significant percentage of our digital net revenue is attributable to sales of products and services through our significant platform partners, including Sony, Microsoft, Nintendo, Apple and Google. The concentration of a material portion of our digital sales in these platform partners exposes us to risks associated with these businesses. Any deterioration in the businesses of our platform 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 with our platform partners typically give them significant control over the approval, manufacturing and distribution of the products and services that we develop for their platform. In particular, our arrangements with Sony and Microsoft could, in certain circumstances, leave us unable to get our products and services approved, manufactured or distributed to consumers. For our digital products and services delivered via digital channels maintained by, among others, Sony, Microsoft, Nintendo, Apple and Google, each respective platform partner has policies and guidelines that control the promotion and distribution of these titles and the features and functionalities that we are permitted to offer through the channel. In addition, we are dependent on our platform partners to invest in, and upgrade, digital commerce capabilities in a manner than corresponds to the way in which consumers purchase our products and services. Failure by our platform partners to keep pace with consumer preferences could have an adverse impact on our ability to merchandise and commercialize our products and services which could harm our business and/or financial results.

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

**Our business is subject to economic and market conditions, particularly risks generally associated with the entertainment industry.**

Our business is subject to economic and market conditions, which are beyond our control. The United States and other international economies have experienced cyclical downturns from time to time. Worsening economic conditions that negatively impact discretionary consumer spending, including inflation, slower growth, recession and other macroeconomic conditions, including those resulting from geopolitical issues and uncertainty, could have a material adverse impact on our business and operating results. For example, the government of the United Kingdom has initiated a process to leave the European Union ("Brexit") and may do so without an agreement governing the terms and conditions of their exit. Brexit has caused economic and legal uncertainty in the region and may result in macroeconomic conditions that adversely affect our business. In addition, evolving immigration rules and trade regimes could negatively impact our business. We have taken precautionary measures with respect to these matters, in relation to Brexit and otherwise, but given the significant uncertainty our precautions may not be adequate.

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

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

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

alternative partner or vendor. If we lose one or more significant business partners, our business could be harmed and our financial results could be materially affected.

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

Our products and services are extremely complex software programs, and are difficult to develop and distribute. We have quality controls in place to detect defects, bugs or other errors in our products and services before they are released. Nonetheless, these quality controls are subject to human error, overriding, and reasonable resource or technical constraints. Therefore, 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 consumers 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.

**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. For example, patent holding companies may assert patent claims against us in which they seek to monetize patents they have purchased or otherwise obtained. 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, whether valid or not, 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 interactive entertainment software 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 to consumers may be precluded by existing patents that we are unable to 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 the threat of piracy, unauthorized copying and other forms of intellectual property infringement.**

We regard our products and brands as proprietary and take measures to protect our products, brands and other confidential information 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.

Piracy and other forms of unauthorized copying and use of our content and brands are persistent problems for us, and policing is difficult. Further, the laws of some countries in which our products are or may be distributed either do not protect our products and intellectual property rights to the same extent as the laws of the United States, or are poorly enforced. Legal protection of our rights may be ineffective in such countries. In addition, although we take steps to enforce and police our rights, factors such as the proliferation of technology designed to circumvent the protection measures used by our business partners or by us, the availability of broadband access to the Internet, the refusal of Internet service providers or platform holders to remove infringing content in certain instances, and the proliferation of online channels through which infringing product is distributed all have contributed to an expansion in unauthorized copying of our products and brands.

**We may experience outages, disruptions and/or degradations of our infrastructure.**

We may experience outages, disruptions and/or degradations of our infrastructure, including information technology system failures and network disruptions that harm our ability to conduct normal business operations. These may be caused by natural disasters, cyber-incidents, weather events, power disruptions, telecommunications failures, failed upgrades of existing systems or migrations to new systems, acts of terrorism or other events, including cyber-attacks or malicious software programs that exploit vulnerabilities. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to our products, services or online stores selling our products and services, interruption in our ability to conduct critical business functions, breaches of data security or the loss of critical data. Our corporate headquarters in Redwood City, CA and our studios in Los Angeles, California, Seattle, Washington and in Burnaby, British Columbia are located in seismically active regions, and certain of our game development activities and other essential business operations are conducted at these locations. An event that results in the disruption or degradation of any of our critical business or information technology systems could harm our ability to conduct normal business operations and materially impact our reputation and brand, financial condition and operating results.

**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. We also could be more vulnerable to collection risk if one or more of these partners experienced a 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. 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.

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

We may 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, and we depend on their ability to meet product development schedules. In addition, we may have disputes with external developers over game content, launch timing, achievement of certain milestones, the game development timeline, marketing campaigns or other matters. If we have disputes with external developers or they cannot meet product development schedules, acquire certain approvals or are otherwise unable or unwilling to honor their obligations to us, we may delay or cancel previously announced games, alter our launch schedule or experience increased costs and expenses, which could result in a delay or significant shortfall in anticipated revenue, harm our profitability and reputation, and cause our financial results to be materially affected.

**Our financial results are subject to currency fluctuations.**

International sales are a fundamental part of our business. For our fiscal year ended March 31, 2019, international net revenue comprised 61 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. Strengthening of the U.S. dollar, particularly relative to the Euro, British pound sterling, Australian dollar, Chinese yuan, South Korean won and Polish zloty, has a negative impact on our reported international net revenue but a positive impact on our reported international operating expenses (particularly when the U.S. dollar strengthens against the Swedish krona and the Canadian dollar) because these amounts are translated at lower rates. We use foreign currency hedging contracts to mitigate some foreign currency risk. However, these activities are limited in the protection they provide us from foreign currency fluctuations and can themselves result in losses.

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

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

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

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

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

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

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

In addition, any further changes to U.S. federal, state or international tax laws applicable to corporate multinationals in the countries in which we do business, particularly in Switzerland, where our international publishing business is headquartered, and changes in such jurisdictions' interpretations, decisions, policies or positions with respect to existing tax laws, could adversely affect our effective tax rates, cause us to change the way in which we structure our business or result in other costs. Our effective tax rate also could be adversely affected by changes in the valuation allowance for deferred tax assets, the analysis of which could be impacted by changes in our profit level, changes in our business, changes in our mix of foreign earnings, as well as other factors. In fiscal year 2020, we recorded a partial valuation allowance against our Swiss Deferred Tax Asset. The partial valuation allowance was due to the limited seven-year carry forward period and our scheduling of our future taxable income. Significant judgment was involved in determining the amount of the valuation allowance, particularly in estimating future taxable income over the period in which the Swiss Deferred Tax Asset will reverse and assumptions related to expected growth rates. Actual financial results may differ materially from our current estimates and could have a material impact on our assessment of the valuation allowance.

We are required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property 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. There is limited guidance about the applicability to these new taxes to our business and significant uncertainty as to of the digital services that will be deemed in scope. If these new taxes are applied to the Company's revenue in these foreign jurisdictions, it could have an adverse impact on our business and financial performance. Furthermore, we are regularly subject to audit by tax authorities with respect to both income and such other non-income taxes. Unfavorable audit results or tax rulings, or other changes resulting in significant additional tax liabilities, could have material adverse effects upon our earnings, cash flows, and financial condition.

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

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

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

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

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

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

In May 2018, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a program to repurchase up to \$2.4 billion of our common stock. This stock repurchase program expires on May 31, 2020. Under this program, we may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans.

The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase a specific number of shares under this program and it may be modified, suspended or discontinued at any time. During the three and six months ended September 30, 2019, we repurchased approximately 3.3 million and 6.5 million shares for approximately \$306 million and \$611 million, respectively, under this program. We are actively repurchasing shares under this program.

The following table summarizes the number of shares repurchased during the three months ended September 30, 2019:

<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>
June 30, 2019 - July 27, 2019	987,351	\$ 93.24	987,351	\$ 887
July 28, 2019 - August 24, 2019	1,064,890	\$ 91.00	1,064,890	\$ 790
August 25, 2019 - September 28, 2019	1,200,397	\$ 96.88	1,200,397	\$ 674
	<u>3,252,638</u>	<u>\$ 93.85</u>	<u>3,252,638</u>	

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

The exhibits listed in the accompanying index to exhibits on Page 64 are filed or incorporated by reference as part of this report.

**ELECTRONIC ARTS INC.**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

**EXHIBIT INDEX**

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
<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

\* Management contract or compensatory plan or arrangement

\*\* Portions of this exhibit have been redacted pursuant to a confidential treatment request filed with the SEC.

† Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 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 (5) Notes to Condensed Consolidated Financial Statements.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRONIC ARTS INC.

(Registrant)

/s/ Blake Jorgensen

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Blake Jorgensen  
Chief Operating Officer and  
Chief Financial Officer

DATED:

November 5, 2019

**Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm**

November 5, 2019  
Electronic Arts Inc.  
Redwood City, California:

Re: Registration Statements on Form S-8 Nos. 333-233182, 333-213044, 333-190355, 333-183077, 333-176181, 333-168680, 333-161229, 333-152757, 333-145182, 333-138532, 333-127156, 333-117990, 333-107710, 333-99525, 333-67430, 333-44222, and 333-39432 and Form S-3 No. 333-221481

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated November 5, 2019 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP  
Santa Clara, California

## ELECTRONIC ARTS INC.

**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**

I, Andrew Wilson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2019

By: /s/ Andrew Wilson  
Andrew Wilson  
Chief Executive Officer

## ELECTRONIC ARTS INC.

**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**

I, Blake Jorgensen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2019

By: /s/ Blake Jorgensen

Blake Jorgensen

Chief Operating Officer and

Chief Financial Officer

**ELECTRONIC ARTS INC.**

**Certification of Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Electronic Arts Inc. on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Wilson, Chief Executive Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Andrew Wilson

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Andrew Wilson

Chief Executive Officer

Electronic Arts Inc.

November 5, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.

**ELECTRONIC ARTS INC.**

**Certification of Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Electronic Arts Inc. on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Blake Jorgensen, Chief Operating Officer and Chief Financial Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Blake Jorgensen

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Blake Jorgensen  
Chief Operating Officer and  
Chief Financial Officer  
Electronic Arts Inc.

November 5, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.