

ELECTRONIC ARTS INC.

FORM 10-Q (Quarterly Report)

Filed 11/07/17 for the Period Ending 09/30/17

Address	209 REDWOOD SHORES PARKWAY REDWOOD CITY, CA, 94065
Telephone	650-628-1500
CIK	0000712515
Symbol	EA
SIC Code	7372 - Services-Prepackaged Software
Industry	Software
Sector	Technology
Fiscal Year	03/31

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, 2017

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

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

Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/> (Do not check if a smaller reporting company)	<input type="checkbox"/>

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

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

As of November 2, 2017, there were 307,925,453 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, 2017**

Table of Contents

	<u>Page</u>
<u>Part I - FINANCIAL INFORMATION</u>	
Item 1.	Condensed Consolidated Financial Statements (Unaudited)
	Condensed Consolidated Balance Sheets as of September 30, 2017 and March 31, 2017 3
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2017 and 2016 4
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended September 30, 2017 and 2016 5
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2017 and 2016 6
	Notes to Condensed Consolidated Financial Statements 7
	Report of Independent Registered Public Accounting Firm 26
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 27
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 47
Item 4.	Controls and Procedures 49
<u>Part II - OTHER INFORMATION</u>	
Item 1.	Legal Proceedings 50
Item 1A.	Risk Factors 50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 59
Item 3.	Defaults Upon Senior Securities 59
Item 4.	Mine Safety Disclosures 59
Item 6.	Exhibits 59
	Signature 60
	Exhibit Index 61

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, 2017	March 31, 2017 ^(a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,067	\$ 2,565
Short-term investments	2,288	1,967
Receivables, net of allowances of \$116 and \$145, respectively	812	359
Other current assets	248	308
Total current assets	5,415	5,199
Property and equipment, net	444	434
Goodwill	1,711	1,707
Acquisition-related intangibles, net	5	8
Deferred income taxes, net	248	286
Other assets	99	84
TOTAL ASSETS	\$ 7,922	\$ 7,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 187	\$ 87
Accrued and other current liabilities	969	789
Deferred net revenue (online-enabled games)	1,116	1,539
Total current liabilities	2,272	2,415
Senior notes, net	991	990
Income tax obligations	122	104
Deferred income taxes, net	1	1
Other liabilities	148	148
Total liabilities	3,534	3,658
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Common stock, \$0.01 par value. 1,000 shares authorized; 308 and 308 shares issued and outstanding, respectively	3	3
Additional paid-in capital	817	1,049
Retained earnings	3,641	3,027
Accumulated other comprehensive loss	(73)	(19)
Total stockholders' equity	4,388	4,060
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,922	\$ 7,718

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,	
	2017	2016	2017	2016
Net revenue:				
Product	\$ 454	\$ 420	\$ 1,282	\$ 1,104
Service and other	505	478	1,126	1,065
Total net revenue	959	898	2,408	2,169
Cost of revenue:				
Product	300	317	364	407
Service and other	89	84	179	173
Total cost of revenue	389	401	543	580
Gross profit	570	497	1,865	1,589
Operating expenses:				
Research and development	331	291	656	585
Marketing and sales	160	143	281	271
General and administrative	118	111	223	219
Amortization of intangibles	2	1	3	3
Total operating expenses	611	546	1,163	1,078
Operating income (loss)	(41)	(49)	702	511
Interest and other income (expense), net	3	(3)	9	(11)
Income (loss) before provision for (benefit from) income taxes	(38)	(52)	711	500
Provision for (benefit from) income taxes	(16)	(14)	89	98
Net income (loss)	\$ (22)	\$ (38)	\$ 622	\$ 402
Earnings (loss) per share:				
Basic	\$ (0.07)	\$ (0.13)	\$ 2.01	\$ 1.34
Diluted	\$ (0.07)	\$ (0.13)	\$ 1.99	\$ 1.28
Number of shares used in computation:				
Basic	309	301	309	301
Diluted	309	301	313	315

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited) (In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$ (22)	\$ (38)	\$ 622	\$ 402
Other comprehensive income (loss), net of tax:				
Net losses on available-for-sale securities	—	(2)	—	—
Net gains (losses) on derivative instruments	(34)	(5)	(90)	17
Foreign currency translation adjustments	32	(6)	36	(11)
Total other comprehensive income (loss), net of tax	(2)	(13)	(54)	6
Total comprehensive income (loss)	\$ (24)	\$ (51)	\$ 568	\$ 408

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,	
	2017	2016
OPERATING ACTIVITIES		
Net income	\$ 622	\$ 402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	63	91
Stock-based compensation	110	96
Change in assets and liabilities:		
Receivables, net	(454)	(493)
Other assets	66	37
Accounts payable	104	133
Accrued and other liabilities	100	109
Deferred income taxes, net	40	20
Deferred net revenue (online-enabled games)	(423)	(391)
Net cash provided by operating activities	228	4
INVESTING ACTIVITIES		
Capital expenditures	(63)	(69)
Proceeds from maturities and sales of short-term investments	1,050	644
Purchase of short-term investments	(1,395)	(824)
Net cash used in investing activities	(408)	(249)
FINANCING ACTIVITIES		
Payment of convertible notes	—	(163)
Proceeds from issuance of common stock	57	31
Cash paid to taxing authorities for shares withheld from employees	(105)	(106)
Repurchase and retirement of common stock	(303)	(256)
Net cash used in financing activities	(351)	(494)
Effect of foreign exchange on cash and cash equivalents	33	(8)
Decrease in cash and cash equivalents	(498)	(747)
Beginning cash and cash equivalents	2,565	2,493
Ending cash and cash equivalents	\$ 2,067	\$ 1,746
Supplemental cash flow information:		
Cash paid during the period for income taxes, net	\$ 28	\$ 26
Cash paid during the period for interest	21	22
Non-cash investing activities:		
Change in accrued capital expenditures	\$ (6)	\$ (17)

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. We develop, market, publish and deliver games, content and online services that can be played by consumers on a variety of platforms, which include game consoles, PCs, mobile phones and tablets. In our games, we use established brands that we either wholly own (such as Battlefield, Mass Effect, Need for Speed, The Sims and Plants v. Zombies) or license from others (such as FIFA, Madden NFL and Star Wars). We also publish and distribute games developed by third parties (e.g. , Titanfall).

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, 2018 contains 52 weeks and ends on March 31, 2018. Our results of operations for the fiscal year ended March 31, 2017 contained 52 weeks and ended on April 1, 2017. Our results of operations for the three months ended September 30, 2017 and 2016 contained 13 weeks each and ended on September 30, 2017 and October 1, 2016, respectively. Our results of operations for the six months ended September 30, 2017 and 2016 contained 26 each and ended on September 30, 2017 and October 1, 2016, 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 Condensed Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 , as filed with the United States Securities and Exchange Commission (“SEC”) on May 24, 2017 .

Reclassifications

Certain prior year amounts were reclassified to conform to current year presentation.

Recently Adopted Accounting Standards

As a result of the adoption of ASU 2016-09 at the beginning of fiscal year 2018, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* , excess tax benefits of \$3 million and \$42 million for the three and six months ended September 30, 2017 , respectively, were reflected in the Condensed Consolidated Statement of Income as a component of the provision for income taxes, whereas for the three and six months ended September 30, 2016 , they were recognized in additional paid-in-capital.

The pronouncement also resulted in two changes to our cash flow presentation, which we applied retrospectively for comparability. Excess tax benefits are now presented as operating activities rather than financing activities, and cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements are now presented as a financing activity. The net increase to our reported net cash provided by operating activities and corresponding increase to cash used in financing activities resulting from the adoption of ASU 2016-09 for the six months ended September 30, 2017 and 2016 are as follows:

(In millions):	Six months ended September 30,	
	2017	2016
Excess tax benefit from stock-based compensation	\$ 42	\$ 37
Cash paid to taxing authorities for shares withheld from employees	105	106
Increase to net cash provided by operating activities and net cash used in financing activities	\$ 147	\$ 143

(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, 2017 and March 31, 2017, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

	As of September 30, 2017	Fair Value Measurements at Reporting Date Using			Balance Sheet Classification
		Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Bank and time deposits	\$ 304	\$ 304	\$ —	\$ —	Cash equivalents
Money market funds	93	93	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	1,247	—	1,247	—	Short-term investments and cash equivalents
U.S. Treasury securities	453	453	—	—	Short-term investments and cash equivalents
U.S. agency securities	133	—	133	—	Short-term investments and cash equivalents
Commercial paper	320	—	320	—	Short-term investments and cash equivalents
Foreign government securities	101	—	101	—	Short-term investments
Asset-backed securities	119	—	119	—	Short-term investments
Certificates of deposit	26	—	26	—	Short-term investments
Foreign currency derivatives	9	—	9	—	Other current assets and other assets
Deferred compensation plan assets ^(a)	10	10	—	—	Other assets
Total assets at fair value	\$ 2,815	\$ 860	\$ 1,955	\$ —	
Liabilities					
Foreign currency derivatives	48	—	48	—	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities ^(a)	10	10	—	—	Other liabilities
Total liabilities at fair value	\$ 58	\$ 10	\$ 48	\$ —	

	Fair Value Measurements at Reporting Date Using				Balance Sheet Classification
	As of March 31, 2017	Quoted Prices in Active Markets for Identical Financial Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	
		(Level 1)	(Level 2)	(Level 3)	
Assets					
Bank and time deposits	\$ 233	\$ 233	\$ —	\$ —	Cash equivalents
Money market funds	405	405	—	—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	963	—	963	—	Short-term investments and cash equivalents
U.S. Treasury securities	460	460	—	—	Short-term investments and cash equivalents
U.S. agency securities	172	—	172	—	Short-term investments and cash equivalents
Commercial paper	270	—	270	—	Short-term investments and cash equivalents
Foreign government securities	113	—	113	—	Short-term investments
Asset-backed securities	135	—	135	—	Short-term investments
Foreign currency derivatives	19	—	19	—	Other current assets and other assets
Deferred compensation plan assets ^(a)	8	8	—	—	Other assets
Total assets at fair value	\$ 2,778	\$ 1,106	\$ 1,672	\$ —	
Liabilities					
Foreign currency derivatives	8	—	8	—	Accrued and other current liabilities and other liabilities
Deferred compensation plan liabilities ^(a)	9	9	—	—	Other liabilities
Total liabilities at fair value	\$ 17	\$ 9	\$ 8	\$ —	

(a) The Deferred Compensation Plan assets consist of various mutual funds. See Note 13 in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, for additional information regarding our Deferred Compensation Plan.

(3) FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

As of September 30, 2017 and March 31, 2017, our cash and cash equivalents were \$2,067 million and \$2,565 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, 2017 and March 31, 2017 (in millions):

	As of September 30, 2017				As of March 31, 2017			
	Cost or Amortized Cost	Gross Unrealized		Fair Value	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 1,235	\$ —	\$ (1)	\$ 1,234	\$ 944	\$ —	\$ (1)	\$ 943
U.S. Treasury securities	410	—	(1)	409	414	—	(1)	413
U.S. agency securities	132	—	(1)	131	152	—	(1)	151
Commercial paper	268	—	—	268	212	—	—	212
Foreign government securities	101	—	—	101	113	—	—	113
Asset-backed securities	119	—	—	119	135	—	—	135
Certificates of deposit	26	—	—	26	—	—	—	—
Short-term investments	\$ 2,291	\$ —	\$ (3)	\$ 2,288	\$ 1,970	\$ —	\$ (3)	\$ 1,967

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of September 30, 2017 and March 31, 2017 (in millions):

	As of September 30, 2017		As of March 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due within 1 year	\$ 1,592	\$ 1,591	\$ 1,237	\$ 1,236
Due 1 year through 5 years	696	694	721	719
Due after 5 years	3	3	12	12
Short-term investments	\$ 2,291	\$ 2,288	\$ 1,970	\$ 1,967

(4) DERIVATIVE FINANCIAL INSTRUMENTS

The 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 and South Korean won. 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 3 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 effective portion of 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 the effective portion 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 gains or losses in accumulated other comprehensive income (loss) are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to interest and other income (expense), net, 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 interest and other income (expense), net, 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, 2017			As of March 31, 2017		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Forward contracts to purchase	\$ 167	\$ 8	\$ —	\$ 185	\$ —	\$ 5
Forward contracts to sell	\$ 1,146	\$ 1	\$ 48	\$ 840	\$ 19	\$ 3

The net impact of the effective portion of gains and losses from our cash flow hedging activities in our Condensed Consolidated Statements of Operations was a gain of \$5 million for the three months ended September 30, 2017 and a gain of \$5 million for the three months ended September 30, 2016 .

The net impact of the effective portion of gains and losses from our cash flow hedging activities in our Condensed Consolidated Statements of Operations was a gain of \$22 million for the six months ended September 30, 2017 and a gain of \$11 million for the six months ended September 30, 2016 .

The amount excluded from the assessment of hedge effectiveness during the three months ended September 30, 2017 and 2016 and recognized in interest and other income (expense), net, was immaterial.

The amount excluded from the assessment of hedge effectiveness was a gain of \$5 million for the six months ended September 30, 2017 and recognized in interest and other income (expense), net. The amount excluded from the assessment of hedge effectiveness was immaterial for the six months ended September 30, 2016 .

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.

[Table of Contents](#)

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, 2017				As of March 31, 2017			
	Notional Amount	Fair Value		Notional Amount	Fair Value			
		Asset	Liability		Asset	Liability		
Forward contracts to purchase	\$ 139	\$ —	\$ —	\$ 87	\$ —	\$ —		
Forward contracts to sell	\$ 425	\$ —	\$ —	\$ 166	\$ —	\$ —		

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, 2017 and 2016 , was as follows (in millions):

	Statement of Operations Classification	Amount of Gain (Loss) Recognized in the Statement of Operations			
		Three Months Ended September 30,		Six Months Ended September 30,	
		2017	2016	2017	2016
Foreign currency forward contracts not designated as hedging instruments	Interest and other income (expense), net	\$ (3)	\$ 3	\$ (9)	\$ 1

(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, 2017 and 2016 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, 2017	\$ (3)	\$ (24)	\$ (44)	\$ (71)
Other comprehensive income (loss) before reclassifications	—	(29)	32	3
Amounts reclassified from accumulated other comprehensive income (loss)	—	(5)	—	(5)
Total other comprehensive income (loss), net of tax	—	(34)	32	(2)
Balance as of September 30, 2017	\$ (3)	\$ (58)	\$ (12)	\$ (73)

	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, 2016	\$ 3	\$ 36	\$ (36)	\$ 3
Other comprehensive income (loss) before reclassifications	(1)	(1)	(6)	(8)
Amounts reclassified from accumulated other comprehensive income (loss)	(1)	(4)	—	(5)
Total other comprehensive income (loss), net of tax	(2)	(5)	(6)	(13)
Balance as of September 30, 2016	\$ 1	\$ 31	\$ (42)	\$ (10)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended September 30, 2017 and 2016 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, 2017	\$ (3)	\$ 32	\$ (48)	\$ (19)
Other comprehensive income (loss) before reclassifications	—	(68)	46	(22)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(22)	(10)	(32)
Total other comprehensive income (loss), net of tax	—	(90)	36	(54)
Balance as of September 30, 2017	\$ (3)	\$ (58)	\$ (12)	\$ (73)

	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, 2016	\$ 1	\$ 14	\$ (31)	\$ (16)
Other comprehensive income (loss) before reclassifications	1	27	(11)	17
Amounts reclassified from accumulated other comprehensive income (loss)	(1)	(10)	—	(11)
Total other comprehensive income (loss), net of tax	—	17	(11)	6
Balance as of September 30, 2016	\$ 1	\$ 31	\$ (42)	\$ (10)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2017 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended September 30, 2017	Six Months Ended September 30, 2017
(Gains) losses on cash flow hedges from forward contracts		
Net revenue	\$ (3)	\$ (22)
Research and development	(2)	—
Total, net of tax	\$ (5)	\$ (22)
(Gains) losses on foreign currency translation		
Interest and other income (expense), net	\$ —	\$ (10)
Total, net of tax	\$ —	\$ (10)
Total net (gain) loss reclassified, net of tax	\$ (5)	\$ (32)

The effects on net income of amounts reclassified from accumulated other comprehensive income (loss) for the three and six months ended September 30, 2016 were as follows (in millions):

Statement of Operations Classification	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	
	Three Months Ended September 30, 2016	Six Months Ended September 30, 2016
(Gains) losses on available-for-sale securities		
Interest and other income (expense), net	\$ (1)	\$ (1)
Total, net of tax	\$ (1)	\$ (1)
(Gains) losses on cash flow hedges from forward contracts		
Net revenue	\$ (4)	\$ (9)
Research and development	—	(1)
Total, net of tax	\$ (4)	\$ (10)
Total net (gain) loss reclassified, net of tax	\$ (5)	\$ (11)

(6) GOODWILL AND ACQUISITION-RELATED INTANGIBLES, NET

The changes in the carrying amount of goodwill for the six months ended September 30, 2017 are as follows (in millions):

	As of March 31, 2017	Activity	Effects of Foreign Currency Translation	As of September 30, 2017
Goodwill	\$ 2,075	\$ —	\$ 4	\$ 2,079
Accumulated impairment	(368)	—	—	(368)
Total	\$ 1,707	\$ —	\$ 4	\$ 1,711

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, 2017			As of March 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net
Developed and core technology	\$ 412	\$ (412)	\$ —	\$ 412	\$ (412)	\$ —
Trade names and trademarks	106	(101)	5	106	(98)	8
Registered user base and other intangibles	5	(5)	—	5	(5)	—
Carrier contracts and related	85	(85)	—	85	(85)	—
Total	\$ 608	\$ (603)	\$ 5	\$ 608	\$ (600)	\$ 8

Amortization of intangibles for the three and six months ended September 30, 2017 and 2016 are classified in the Condensed Consolidated Statement of Operations as follows (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Cost of service and other	\$ —	\$ 8	\$ —	\$ 16
Cost of product	—	4	—	9
Operating expenses	2	1	3	3
Total	\$ 2	\$ 13	\$ 3	\$ 28

Acquisition-related intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, typically from 2 to 14 years. As of September 30, 2017 and March 31, 2017, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 0.9 years and 1.4 years, respectively.

As of September 30, 2017, future amortization of acquisition-related intangibles that will be recorded in the Condensed Consolidated Statement of Operations is estimated as follows (in millions):

Fiscal Year Ending March 31,	
2018 (remaining six months)	\$ 3
2019	2
Total	\$ 5

(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.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally made in connection with the development of a particular product, and therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed to research and development over the development period as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of revenue.

Our contracts with some licensors include minimum guaranteed royalty payments, which are initially recorded as an asset and as a liability at the contractual amount when no performance remains with the licensor. When performance remains with the licensor, we record guarantee payments as an asset when actually paid and as a liability when incurred, rather than recording the asset and liability upon execution of the contract.

[Table of Contents](#)

Each quarter, we also evaluate the expected future realization of our royalty-based assets, as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product and service sales. Any impairments or losses determined before the launch of a product are generally charged to research and development expense. Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment using undiscounted cash flows when impairment indicators exist. If an impairment exists, then the assets are written down to fair value. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (*i.e.*, cease use) or the contractual rights to use the intellectual property are terminated.

During the three and six months ended September 30, 2017 and 2016, we did not recognize any material losses or impairment charges on royalty-based commitments.

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

	As of September 30, 2017	As of March 31, 2017
Other current assets	\$ 47	\$ 79
Other assets	38	39
Royalty-related assets	<u>\$ 85</u>	<u>\$ 118</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, 2017	As of March 31, 2017
Accrued royalties	\$ 183	\$ 165
Other liabilities	85	97
Royalty-related liabilities	<u>\$ 268</u>	<u>\$ 262</u>

As of September 30, 2017, we were committed to pay approximately \$1,061 million to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (*i.e.*, delivery of the product or content or other factors) and such commitments were therefore not recorded in our Condensed Consolidated Financial Statements. See Note 11 for further information on our developer and licensor commitments.

(8) BALANCE SHEET DETAILS

Property and Equipment, Net

Property and equipment, net, as of September 30, 2017 and March 31, 2017 consisted of (in millions):

	As of September 30, 2017	As of March 31, 2017
Computer, equipment and software	\$ 726	\$ 723
Buildings	327	316
Leasehold improvements	136	126
Equipment, furniture and fixtures, and other	80	82
Land	61	61
Construction in progress	6	7
	<u>1,336</u>	<u>1,315</u>
Less: accumulated depreciation	(892)	(881)
Property and equipment, net	<u>\$ 444</u>	<u>\$ 434</u>

During the three and six months ended September 30, 2017, depreciation expense associated with property and equipment was \$30 million and \$59 million, respectively.

[Table of Contents](#)

During the three and six months ended September 30, 2016 , depreciation expense associated with property and equipment was \$28 million and \$57 million , respectively.

Accrued and Other Current Liabilities

Accrued and other current liabilities as of September 30, 2017 and March 31, 2017 consisted of (in millions):

	As of September 30, 2017	As of March 31, 2017
Other accrued expenses	\$ 374	\$ 210
Accrued compensation and benefits	186	267
Accrued royalties	183	165
Deferred net revenue (other)	226	147
Accrued and other current liabilities	<u>\$ 969</u>	<u>\$ 789</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 (Online-Enabled Games)

Deferred net revenue (online-enabled games) was \$1,116 million and \$1,539 million as of September 30, 2017 and March 31, 2017 , respectively. Deferred net revenue (online-enabled games) generally includes the unrecognized revenue from bundled sales of online-enabled games for which we do not have VSOE for the obligation to provide unspecified updates. We recognize revenue from the sale of online-enabled games for which we do not have vendor-specific objective evidence of fair value (“VSOE”) for the unspecified updates on a straight-line basis, generally over an estimated nine-month period beginning in the month after shipment for physical games sold through retail and an estimated six-month period for digitally-distributed games. However, we expense the cost of revenue related to these transactions generally during the period in which the product is delivered (rather than on a deferred basis).

(9) INCOME TAXES

The provision for income taxes for the three and six months ended September 30, 2017 is based on our projected annual effective tax rate for fiscal year 2018 , adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and six months ended September 30, 2017 was 42.1 percent and 12.5 percent , respectively, as compared to 26.9 percent and 19.6 percent , respectively, for the same period in fiscal year 2017 . The effective tax rate for the three and six months ended September 30, 2017 , as compared to the three and six months ended September 30, 2016, benefited primarily due to the impact of the adoption of ASU 2016-09, which required us to recognize during the three and six months ended September 30, 2017 , \$3 million and \$42 million , respectively, of excess tax benefits as a component of the provision for income taxes (previously excess tax benefits and tax deficiencies were recognized in additional paid-in-capital). Although the \$3 million of excess tax benefits for the three months ended September 30, 2017 reduced tax expense, the effective tax rate for the three months ended September 30, 2017 increased due to the pre-tax book loss for the three months ended September 30, 2017.

When compared to the statutory rate of 35.0 percent , the effective tax rate for the three and six months ended September 30, 2017 benefited primarily due to earnings realized in countries that have lower statutory tax rates and the recognition of excess tax benefits from stock-based compensation. We anticipate that the impact of excess tax benefits and tax deficiencies may result in significant fluctuations to our effective tax rate in the future. Excluding excess tax benefits, our effective tax rate would have been 34.2 percent and 18.4 percent , respectively, for the three and six months ended September 30, 2017 .

We file income tax returns and are subject to income tax examinations in various jurisdictions with respect to fiscal years after 2008. 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 \$55 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.

(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, 2017	As of March 31, 2017
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	(2)	(2)
Unamortized debt issuance costs	(7)	(8)
Net carrying value of Senior Notes	\$ 991	\$ 990
Fair value of Senior Notes (Level 2)	\$ 1,069	\$ 1,054

As of September 30, 2017, the remaining life of the 2021 Notes and 2026 Notes is approximately 3.4 years and 8.4 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

In March 2015, we entered into a \$500 million senior unsecured revolving credit facility (“Credit Facility”) with a syndicate of banks. The Credit Facility terminates on March 19, 2020. The Credit Facility contains an option to arrange with existing lenders and/or new lenders to provide up to an aggregate of \$250 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 consolidated leverage ratio for the preceding fiscal quarter. 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 on March 19, 2020.

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, dispose of all or substantially all assets and pay dividends or make distributions, 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 capitalization ratio and maintain a minimum level of total liquidity.

[Table of Contents](#)

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, an obligation by any guarantors to repay the obligations in full and an increase in the applicable interest rate.

As of September 30, 2017, 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, 2017 and 2016 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,	
	2017	2016	2017	2016
Amortization of debt discount	\$ —	\$ (1)	\$ —	\$ (2)
Amortization of debt issuance costs	—	—	(1)	(1)
Coupon interest expense	(11)	(10)	(21)	(21)
Total interest expense	\$ (11)	\$ (11)	\$ (22)	\$ (24)

(11) COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of September 30, 2017, we leased certain facilities, furniture and equipment under non-cancelable operating lease agreements. We were required to pay property taxes, insurance and normal maintenance costs for certain of these facilities and any increases over the base year of these expenses on the remainder of our facilities.

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

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

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include, but are not limited to: FIFA (Fédération Internationale de Football Association), FIFPRO Foundation, FAPL (Football Association Premier League Limited), and DFL Deutsche Fußball Liga E.V. (German Soccer League) (professional soccer); Dr. Ing. h.c. F. Porsche AG, Ferrari S.p.A. (Need For Speed and Real Racing games); National Basketball Association (professional basketball); PGA TOUR (professional golf); National Hockey League and NHL Players’ Association (professional hockey); National Football League Properties and PLAYERS Inc. (professional football); Zuffa, LLC (Ultimate Fighting Championship); ESPN (content in EA SPORTS games); Disney Interactive (Star Wars); Fox Digital Entertainment, Inc. (The Simpsons); and Respawn. 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, 2017 (in millions):

	Fiscal Years Ending March 31,							
	Total	2018	2019	2020	2021	2022	2023	Thereafter
		(Remaining six mos.)						
Unrecognized commitments								
Developer/licensor commitments	\$ 1,061	\$ 78	\$ 296	\$ 243	\$ 206	\$ 194	\$ 43	\$ 1
Marketing commitments	422	26	115	103	77	74	27	—
Operating leases	231	18	41	37	37	30	22	46
Senior Notes interest	237	17	41	41	41	20	19	58
Other purchase obligations	97	14	28	22	10	5	4	14
Total unrecognized commitments	<u>2,048</u>	<u>153</u>	<u>521</u>	<u>446</u>	<u>371</u>	<u>323</u>	<u>115</u>	<u>119</u>
Recognized commitments								
Senior Notes principal and interest	1,003	3	—	—	600	—	—	400
Licensing obligations	114	12	24	25	26	27	—	—
Total recognized commitments	<u>1,117</u>	<u>15</u>	<u>24</u>	<u>25</u>	<u>626</u>	<u>27</u>	<u>—</u>	<u>400</u>
Total commitments	<u>\$ 3,165</u>	<u>\$ 168</u>	<u>\$ 545</u>	<u>\$ 471</u>	<u>\$ 997</u>	<u>\$ 350</u>	<u>\$ 115</u>	<u>\$ 519</u>

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, 2017 ; however, certain payment obligations may be accelerated depending on the performance of our operating results. Furthermore, up to \$32 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, 2017 , we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$122 million , of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

Legal Proceedings

On July 29, 2010, Michael Davis, a former NFL running back, filed a putative class action in the United States District Court for the Northern District of California against the Company, alleging that certain past versions of *Madden NFL* included the images of certain retired NFL players without their permission. In March 2012, the trial court denied the Company's request to dismiss the complaint on First Amendment grounds. In January 2015, that trial court decision was affirmed by the Ninth Circuit Court of Appeals and the case was remanded back to the United States District Court for the Northern District of California, where the case is pending.

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

(12) STOCK-BASED COMPENSATION

Valuation Assumptions

We estimate the fair value of stock-based awards on the date of grant. We recognize compensation costs for stock-based awards to employees based on the grant-date fair value using a straight-line approach over the service period for which such awards are expected to vest.

The determination 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 determine 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 determined 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 determined 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. Expected term is determined based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.

There were an insignificant number of stock options granted during the three and six months ended September 30, 2017 and 2016 .

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

	ESPP Purchase Rights	
	Three Months Ended September 30,	
	2017	2016
Risk-free interest rate	1.13 - 1.24%	0.5 - 0.6%
Expected volatility	28%	29 - 32%
Weighted-average volatility	28%	31%
Expected term	6 - 12 months	6 - 12 months
Expected dividends	None	None

There were no market-based restricted stock units granted during the three months ended September 30, 2017 and 2016.

Stock-Based Compensation Expense

Employee stock-based compensation expense recognized during the three and six months ended September 30, 2016 was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures. We adopted ASU 2016-09 at the beginning of fiscal year 2018 and elected to account for forfeitures as they occur. The adoption resulted in a cumulative-effect adjustment of \$8 million , net of tax, decrease to retained earnings.

[Table of Contents](#)

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,	
	2017	2016	2017	2016
Cost of revenue	\$ 1	\$ 1	\$ 2	\$ 2
Research and development	36	27	64	54
Marketing and sales	9	8	16	15
General and administrative	16	12	28	25
Stock-based compensation expense	\$ 62	\$ 48	\$ 110	\$ 96

During the three months ended September 30, 2017, we recognized a \$12 million deferred income tax benefit related to our stock-based compensation expense. During the three months ended September 30, 2016, we recognized a \$9 million deferred income tax benefit related to our stock-based compensation expense.

During the six months ended September 30, 2017, we recognized a \$22 million deferred income tax benefit related to our stock-based compensation expense. During the six months ended September 30, 2016, we recognized an \$18 million deferred income tax benefit related to our stock-based compensation expense.

As of September 30, 2017, our total unrecognized compensation cost related to restricted stock units, market-based restricted stock units, performance-based restricted stock units, and stock options was \$429 million and is expected to be recognized over a weighted-average service period of 2.0 years. Of the \$429 million of unrecognized compensation cost, \$320 million relates to restricted stock units, \$67 million relates to market-based restricted stock units, \$41 million relates to performance-based restricted stock units at target, and \$1 million relates to stock options.

Stock Options

The following table summarizes our stock option activity for the six months ended September 30, 2017:

	Options (in thousands)	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2017	2,377	\$ 33.35		
Granted	2	105.99		
Exercised	(744)	40.47		
Forfeited, cancelled or expired	(2)	46.31		
Outstanding as of September 30, 2017	1,633	\$ 30.19	5.91	\$ 143
Vested and expected to vest	1,633	\$ 30.19	5.91	\$ 143
Exercisable as of September 30, 2017	1,553	\$ 30.40	5.90	\$ 136

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of September 30, 2017, 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, 2017:

	Restricted Stock Rights (in thousands)	Weighted- Average Grant Date Fair Values
Outstanding as of March 31, 2017	5,153	\$ 65.03
Granted	1,881	110.72
Vested	(2,158)	110.98
Forfeited or cancelled	(244)	74.73
Outstanding as of September 30, 2017	4,632	\$ 61.67

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 and 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 specified performance criteria will be achieved. We amortize the fair values of performance-based restricted stock units over the requisite service period. 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.

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, 2017 :

	Performance-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding as of March 31, 2017	—	\$ —
Granted	796	110.51
Forfeited or cancelled	—	—
Outstanding as of September 30, 2017	<u>796</u>	<u>\$ 110.51</u>

Market-Based Restricted Stock Units

Our market-based restricted stock units vest contingent upon the achievement of pre-determined market and service conditions. If these market conditions are not met but service conditions are met, the market-based restricted stock units will not vest; however, any compensation expense we have recognized to date will not be reversed. The number of shares of common stock to be issued at vesting will range from zero 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, generally over either a one-year, two-year cumulative and three-year cumulative period, or over a two-year and four-year cumulative period.

The following table summarizes our market-based restricted stock unit activity, presented with the maximum number of shares that could potentially vest, for the six months ended September 30, 2017 :

	Market-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding as of March 31, 2017	1,282	\$ 87.37
Granted	706	140.93
Vested	(430)	76.27
Forfeited or cancelled	(216)	91.88
Outstanding as of September 30, 2017	<u>1,342</u>	<u>\$ 118.35</u>

Stock Repurchase Program

In May 2015, our Board of Directors authorized a program to repurchase up to \$1 billion of our common stock. We repurchased approximately 0.3 million shares for approximately \$31 million under this program during the three months ended June 30, 2017. We completed repurchases under the May 2015 program in April 2017.

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. This stock repurchase program expires on May 31, 2019. 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, 2017, we repurchased approximately 1.3 million and 2.4 million shares for approximately \$153 million and \$272 million, respectively, under this 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, 2017 and 2016 :

(in millions)	May 2015 Program		May 2017 Program		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Three months ended September 30, 2017	—	\$ —	1.3	\$ 153	1.3	\$ 153
Six months ended September 30, 2017	0.3	\$ 31	2.4	\$ 272	2.7	\$ 303
Three months ended September 30, 2016	1.6	\$ 127	—	\$ —	1.6	\$ 127
Six months ended September 30, 2016	3.5	\$ 256	—	\$ —	3.5	\$ 256

(13) EARNINGS (LOSS) 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,	
	2017	2016	2017	2016
Net income (loss)	\$ (22)	\$ (38)	\$ 622	\$ 402
Shares used to compute earnings (loss) per share:				
Weighted-average common stock outstanding — basic	309	301	309	301
Dilutive potential common shares related to stock award plans and from assumed exercise of stock options	—	—	4	3
Dilutive potential common shares related to the Convertible Notes ^(a)	—	—	—	2
Dilutive potential common shares related to the Warrants ^(a)	—	—	—	9
Weighted-average common stock outstanding — diluted	309	301	313	315
Earnings (loss) per share:				
Basic	\$ (0.07)	\$ (0.13)	\$ 2.01	\$ 1.34
Diluted	\$ (0.07)	\$ (0.13)	\$ 1.99	\$ 1.28

As a result of our net loss for the three months ended September 30, 2017, we have excluded all potentially dilutive common shares from the diluted loss per share calculation as their inclusion would have had an antidilutive effect. Had we reported net income for this period, an additional 3 million shares of common stock related to our outstanding equity-based instruments would have been included in the number of shares used to calculate Diluted EPS for the three months ended September 30, 2017.

As a result of our net loss for the three months ended September 30, 2016, we have excluded all potentially dilutive common shares from the diluted loss per share calculation as their inclusion would have had an antidilutive effect. Had we reported net income for this period, an additional 3 million shares of common stock related to our outstanding equity-based instruments and an additional 10 million shares related to the Warrants would have been included in the number of shares used to calculate Diluted EPS for the three months ended September 30, 2016.

For the six months ended September 30, 2017 and 2016, an immaterial amount of stock options, 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.

- (a) See Note 10 - Financing Arrangements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, for additional information regarding the potential dilutive shares related to our Convertible Notes and Warrants.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have reviewed the condensed consolidated balance sheet of Electronic Arts Inc. and subsidiaries as of September 30, 2017, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended September 30, 2017 and October 1, 2016, and the related condensed consolidated statements of cash flows for the six-month periods ended September 30, 2017 and October 1, 2016. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of 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 Public Company Accounting Oversight Board (United States), 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.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Electronic Arts Inc. and subsidiaries as of April 1, 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 24, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of April 1, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Santa Clara, California
November 6, 2017

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 within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, made in this Quarterly Report are forward looking. Examples of forward-looking statements include statements related to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, including our intended product releases, and may include certain assumptions that underlie the forward-looking statements. We use words such as “anticipate,” “believe,” “expect,” “intend,” “estimate” (and the negative of any of these terms), “future” and similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk and reflect management’s current expectations, and involve subjects that are inherently uncertain and difficult to predict. Our actual results could differ materially from those in the forward-looking statements. We will not necessarily update information if any forward-looking statement later turns out to be inaccurate. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed in this report under the heading “Risk Factors” in Part II, Item 1A, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 as filed with the Securities and Exchange Commission (“SEC”) on May 24, 2017 and in other documents we have filed with the SEC.

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 and six months ended September 30, 2017, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-Q, including in the remainder of “Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”),” “Risk Factors,” and the Condensed Consolidated Financial Statements and related Notes. Additional information can be found in the “Business” section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 as filed with the SEC on May 24, 2017 and in other documents we have filed with the SEC.

About Electronic Arts

We are a global leader in digital interactive entertainment. We develop, market, publish and deliver games, content and online services that can be played by consumers on a variety of platforms, which include game consoles, PCs, mobile phones and tablets. In our games, we use established brands that we either wholly own (such as Battlefield, Mass Effect, Need for Speed, The Sims and Plants v. Zombies), or license from others (such as FIFA, Madden NFL and Star Wars). We also publish and distribute games developed by third parties (e.g., Titanfall).

Financial Results

Our key financial results for our fiscal quarter ended September 30, 2017 were as follows:

- Total net revenue was \$959 million, up 7 percent year-over-year. On a constant currency basis, we estimate that total net revenue would have been \$978 million, up 9 percent year over year.
- Digital net revenue was \$689 million, up 22 percent year-over-year.
- International net revenue was \$532 million, up 5 percent year-over-year. On a constant currency basis, we estimate that international net revenue would have been \$550 million, up 8 percent year over year.
- Gross margin was 59.4 percent, up 4.1 percentage points year-over-year.
- Operating expenses were \$611 million, up 12 percent year-over-year. On a constant currency basis, we estimate that total operating expenses would have been \$608 million, up 11 percent year over year.
- Net loss was \$22 million with diluted loss per share of \$0.07.
- Total cash, cash equivalents and short-term investments were \$4,355 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 digitally and engage with the live services associated with our portfolio of games. For example, the Ultimate Team mode incorporated into iterations of our FIFA, Madden NFL and NHL franchises and live services available digitally for our Star Wars, Battlefield and The Sims franchises have extended the life of those games by engaging players for longer periods of time. Our digital transformation is also creating opportunities in platforms, content models and modalities of play. For example, we have leveraged franchises typically associated with consoles and traditional PC gaming, such as FIFA, Madden NFL, The Sims, SimCity and Star Wars, to create mobile and PC free-to-download games that are monetized through a business model in which we sell incremental content and/or features in discrete transactions. We also provide our EA Access service on Xbox One and Origin Access service on PC which offer players access to a selection of EA games and other benefits for a monthly or annual fee.

Our digital transformation also gives us the opportunity to strengthen our player network. We are investing in a technology foundation to enable us to build personalized player relationships that can last for years instead of days or weeks by connecting our players to us and to each other. This connection allows us to market and deliver content and services for popular franchises like FIFA, Battlefield and Star Wars to our players more efficiently. That same foundation also enables new player-centric ways to discover and try new experiences, such as our subscription-based EA Access and Origin Access services.

We significantly increased our digital net revenue from \$2,199 million in fiscal year 2015 to \$2,409 million in fiscal year 2016 and \$2,874 million during fiscal year 2017. We expect this portion of our business to continue to grow through fiscal year 2018 and beyond as we continue to focus on developing and monetizing products and services that can be delivered digitally.

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 and South Korean won) 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. Volatility in exchange rates remains elevated as compared to historical standards, and macroeconomic factors such as events related to the United Kingdom's vote to leave the European Union inject uncertainty. 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.

Mobile and PC Free-to-Download 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 pay for additional content or in-game items, has led to significant growth in the mobile gaming industry. We expect this growth to continue during our 2018 fiscal year. Likewise, the wide consumer acceptance of free-to-download, microtransaction-based PC games played over the Internet has broadened our consumer base. We expect revenue generated from mobile and PC free-to-download 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. The increased importance to our business of revenue attributable to our live services, has accelerated this trend. For example, we derive a material portion of our revenue from the Ultimate Team game mode which is available in our annualized FIFA, Madden NFL and NHL games.

Recurring Revenue Sources. Our business model includes revenue that we deem recurring in nature, such as revenue from our annualized titles (such as FIFA and Madden NFL) and associated live services, our ongoing mobile business and subscription programs. We have been able to forecast revenue from these areas of our business with greater confidence than for new offerings. As we continue to leverage the digital transformation in our industry and incorporate new content models and modalities of play into our games, our goal is to continue to look for opportunities to expand the recurring portion of our business.

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

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

(In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Total net revenue	\$ 959	\$ 898	\$ 2,408	\$ 2,169
Change in deferred net revenue (online-enabled games)	220	200	(454)	(389)
Net bookings	\$ 1,179	\$ 1,098	\$ 1,954	\$ 1,780

Net bookings were \$1,179 million for the three months ended September 30, 2017, driven by sales related to *FIFA Ultimate Team*, *Madden 18*, and *FIFA Online 3* in Asia. Net bookings increased \$81 million or 7 percent as compared to the three months ended September 30, 2016 due primarily to stronger sales related to the FIFA, Battlefield, and Madden franchises on a year-over-year basis. Digital net bookings were \$579 million for the three months ended September 30, 2017, an increase of \$93 million or 19 percent as compared to three months ended September 30, 2016. The increase in digital net bookings was driven by live services which grew \$55 million or 22 percent year-over-year, primarily due to *FIFA Ultimate Team*, *Madden Ultimate Team*, *Battlefield 1*, *FIFA Online 3* in Asia and *The Sims 4*; full game PC and console downloads which grew \$26 million or 28 percent year-over-year, primarily due to full game downloads of *Battlefield 1* and *Madden NFL 18*; and our mobile business which grew \$12 million or 9 percent year-over-year, primarily due to *Star Wars: Galaxy of Heroes* and *Madden NFL Mobile*.

Recent Developments

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. This stock repurchase program expires on May 31, 2019. 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, 2017, we repurchased approximately 1.3 million and 2.4 million shares for approximately \$153 million and \$272 million, respectively, under this program. We are actively repurchasing shares under this program.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition, Sales Returns and Allowances, and Bad Debt Reserves

We derive revenue principally from sales of interactive software games, and related content and services on game consoles, PCs, mobile phones and tablets. We evaluate revenue recognition based on the criteria set forth in FASB Accounting Standards Codification (“ASC”) 605, *Revenue Recognition* and ASC 985-605, *Software: Revenue Recognition*. We classify our revenue as either product revenue or service and other revenue.

Product revenue. Our product revenue includes revenue associated with the sale of software games or related product content or updates, whether delivered digitally (e.g., full-game downloads, extra-content) or via a physical disc (e.g., packaged goods), and licensing of game software to third-parties. Product revenue also includes revenue from mobile full game downloads that do not require our hosting support (e.g., premium mobile games) in order to utilize the game or related content (i.e. can be played with or without an Internet connection), and sales of tangible products such as hardware, peripherals, or collectors’ items.

Service and other revenue. Our service revenue includes revenue recognized from time-based subscriptions, games, content or updates that requires our hosting support in order to utilize the game or related content (i.e., can only be played with an Internet connection). This includes (1) entitlements to content that are accessed through hosting services (e.g., microtransactions for Internet-based, social network and free-to-download mobile games), (2) massively multi-player online (“MMO”) games (both

[Table of Contents](#)

software game and subscription sales), (3) subscriptions for our Battlefield Premium, EA and Origin Access, and Pogo-branded online game services, and (4) allocated service revenue from sales of software games with a service of online activities (*e.g.* , online playability). Our other revenue includes advertising and non-software licensing revenue.

With respect to the allocated service revenue from sales of software games with a service of online activities (“online services”) mentioned above, our allocation of proceeds between product and service revenue for presentation purposes is based on management’s best estimate of the selling price of the online services with the residual value allocated to product revenue. Our estimate of the selling price of the online services are comprised of several factors including, but not limited to, prior selling prices for the online services, prices charged separately by other third-party vendors for similar service offerings, and a cost-plus-margin approach. We review the estimated selling price of the online services on a regular basis and use this methodology consistently to allocate revenue between product and service for software game sales with online services.

We evaluate and recognize revenue when all four of the following criteria are met:

- *Evidence of an arrangement* . Evidence of an agreement with the customer that reflects the terms and conditions to deliver the related products or services must be present.
- *Fixed or determinable fee* . If a portion of the arrangement fee is not fixed or determinable, we recognize revenue as the amount becomes fixed or determinable.
- *Collection is deemed probable* . Collection is deemed probable if we expect the customer to be able to pay amounts under the arrangement as those amounts become due. If we determine that collection is not probable as the amounts become due, we generally conclude that collection becomes probable upon cash collection.
- *Delivery* . For packaged goods, delivery is considered to occur when a product is shipped and the risk of loss and rewards of ownership have transferred to the customer. For digital downloads, delivery is considered to occur when the software is made available to the customer for download. For services and other, delivery is generally considered to occur as the service is delivered, which is determined based on the underlying service obligation. If there is significant uncertainty of acceptance, revenue is recognized once acceptance is reasonably assured.

Online-Enabled Games

The majority of our software games and related content have online connectivity whereby a consumer may be able to download unspecified content or updates on a when-and-if-available basis (“unspecified updates”) for use with the original game software. In addition, we may also offer a service of online activities (*e.g.* , online playability) without a separate fee. U.S. GAAP requires us to account for the consumer’s right to receive unspecified updates or the service of online activities for no additional fee as a “bundled” sale, or multiple-element arrangement.

We have an established historical pattern of providing unspecified updates (*e.g.* , player roster updates to *Madden NFL 18*) to online-enabled games and related content at no additional charge to the consumer. Because we do not have vendor-specific objective evidence of fair value (“VSOE”) for these unspecified updates, we are required by current U.S. GAAP to recognize as revenue the entire sales price of these online-enabled games and related content over the period we expect to offer the unspecified updates to the consumer (“estimated offering period”).

Estimated Offering Period

Because the offering period is not an explicitly defined period, we must make an estimate of the offering period. Determining the estimated offering period is inherently subjective and is subject to regular revision based on historical online usage. For example, in determining the estimated offering period for unspecified updates associated with our online-enabled games, we consider the period of time consumers are online as online connectivity is required. On an annual basis, we review consumers’ online gameplay of all online-enabled games that have been released 12 to 24 months prior to the evaluation date. For example, if our evaluation date is April 1, 2017, we evaluate all online-enabled games released between April 1, 2015 and March 31, 2016. Based on this population of games, for all players that register the game online within the first six months of release of the game to the general public, we compute the weighted-average number of days for each online-enabled game, based on when a player initially registers the game online to when that player last plays the game online. We then compute the weighted-average number of days for all online-enabled games by multiplying the weighted-average number of days for each online-enabled game by its relative percentage of total units sold from these online-enabled games (*i.e.* , a game with more units sold will have a higher weighting to the overall computation than a game with fewer units sold). Under a similar computation, 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 an end consumer (*i.e.*, time in channel). Based on these two calculations we then consider the method of distribution. For example, physical software games sold at retail would have a composite offering period equal to the online gameplay plus time in channel as opposed to digitally distributed software games which are delivered immediately via digital download and thus have no concept of channel. 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.

While we consistently apply this methodology, inherent assumptions used in this methodology include which online-enabled games to sample, whether to use only units that have registered online, whether to weight the number of days for each game, whether to weight the days based on the units sold of each game, determining the period of time between the date of sale to reseller and the date of sale to the consumer and assessing online gameplay trends.

We recognize revenue from the sale of online-enabled games for which we do not have VSOE for the unspecified updates on a straight-line basis, generally over an estimated nine-month period beginning in the month after shipment for physical games sold through retail and an estimated six-month period for digitally-distributed games.

Deferred Net Revenue (online-enabled games)

Because the majority of our sales are subject to a deferral period of generally six to nine months, our deferred net revenue (online-enabled games) balance is material. This balance increases from period to period by the revenue being deferred for current sales and is reduced by the recognition of revenue from prior sales that were deferred (*i.e.*, the "net change" in the deferred balance). However, given the seasonal sales nature of our business, the net change in the deferred balance may be material from period to period. For example, because our sales have historically been highest in the fiscal third quarter, the deferred net revenue (online-enabled games) balance generally increases significantly in the third fiscal quarter. Similarly, because sales have historically been lowest in the first fiscal quarter, the deferred net revenue (online-enabled games) balance generally decreases significantly in the first fiscal quarter of a fiscal year.

Other Multiple-Element Arrangements

In some of our multiple-element arrangements, we sell non-software products with software and/or software-related offerings. These non-software products are generally music soundtracks, peripherals or ancillary collectors' items, such as figurines and comic books. Revenue for these arrangements is allocated to each separate unit of accounting for each deliverable using the relative selling prices of each deliverable in the arrangement based on the selling price hierarchy described below. If the arrangement contains more than one software deliverable, the arrangement consideration is allocated to the software deliverables as a group and then allocated to each software deliverable.

We determine the selling price for a non-software product deliverable based on the following selling price hierarchy: VSOE (*i.e.*, the price we charge when the non-software product is sold separately) if available, third-party evidence ("TPE") of fair value (*i.e.*, the price charged by others for similar non-software products) if VSOE is not available, or our best estimate of selling price ("BESP") if neither VSOE nor TPE is available. Determining the BESP is a subjective process that is based on multiple factors including, but not limited to, recent selling prices and related discounts, market conditions, customer classes, sales channels and other factors. Provided the other three revenue recognition criteria other than delivery have been met, we recognize revenue upon delivery to the customer as we have no further obligations.

We must make assumptions and judgments in order to (1) determine whether and when each element is delivered, (2) determine whether VSOE exists for each undelivered element, and (3) allocate the total price among the various elements, as applicable. Changes to any of these assumptions and judgments, or changes to the elements in the arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Principal Agent Considerations

We evaluate sales of our interactive software games, extra-content, and services from our subscription offerings via third party storefronts, including digital channel storefronts such as Microsoft's Xbox Store, Sony's PlayStation Store, Apple App Store, and Google Play, in order to determine whether or not we are acting as the primary obligor in the sale to the end consumer, which we consider in determining if revenue should be reported gross or net of fees retained by the storefront. Key indicators that we evaluate in determining gross versus net treatment include but are not limited to the following:

- The party responsible for delivery/fulfillment of the product or service to the end consumer
- The party responsible for the billing, collection of fees and refunds to the end consumer
- The storefront and Terms of Sale that govern the end consumer's purchase of the product or service
- The party that sets the pricing with the end consumer and has credit risk

Based on evaluation of the above indicators, we have determined that generally the third party is considered the primary obligor to end consumers for the sale of our interactive software games. We therefore report revenue related to these arrangements net of the fees retained by the storefront.

Sales Returns and Allowances and Bad Debt Reserves

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 product that they have not resold to end consumers. The amount of the price protection is generally the difference between the old wholesale price and the new reduced wholesale price. In certain countries for our PC and console packaged goods software products, we also have a practice of allowing channel partners to return older software products in the channel in exchange for a credit allowance. As a general practice, we do not give cash refunds.

When evaluating the adequacy of sales returns and price protection allowances, we analyze the following: historical credit allowances, current sell-through of our channel partners' inventory of our software products, current trends in retail and the video game industry, changes in customer demand, acceptance of our software 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 software products in the distribution channels are exposed to rapid changes in consumer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing software 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 allowances would change and would impact the total net revenue, accounts receivable and deferred net revenue that we report.

We determine our allowance for doubtful accounts by evaluating the following: customer creditworthiness, current economic trends, historical experience, age of current accounts receivable balances, and changes in financial condition or payment terms of our customers. Significant management judgment is required to estimate our allowance for doubtful accounts in any accounting period. The amount and timing of our bad debt expense and cash collection could change significantly as a result of a change in any of the evaluation factors mentioned above.

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.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue generally at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. Significant judgment is required to estimate the effective royalty rate for a particular contract. Because the computation of effective royalty rates requires us to project future revenue, it is inherently subjective as

our future revenue projections must anticipate a number of factors, including (1) the total number of titles subject to the contract, (2) the timing of the release of these titles, (3) the number of software units and amount of extra content that we expect to sell, which can be impacted by a number of variables, including product quality, number of platforms we release on, the timing of the title's release and competition, and (4) future pricing. Determining the effective royalty rate for our titles is particularly challenging due to the inherent difficulty in predicting the popularity of entertainment products. Furthermore, if we conclude that we are unable to make a reasonably reliable forecast of projected net revenue, we recognize royalty expense at the greater of contract rate or on a straight-line basis over the term of the contract. Accordingly, if our future revenue projections change, our effective royalty rates would change, which could impact the amount and timing of royalty expense we recognize.

Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally made in connection with the development of a particular product, and therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed to research and development over the development period as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of revenue.

Our contracts with some licensors include minimum guaranteed royalty payments, which are initially recorded as an asset and as a liability at the contractual amount when no performance remains with the licensor. When performance remains with the licensor, we record guarantee payments as an asset when actually paid and as a liability when incurred, rather than recording the asset and liability upon execution of the contract.

Each quarter, we also evaluate the expected future realization of our royalty-based assets, as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product and service sales. Any impairments or losses determined before the launch of a product are generally charged to research and development expense. Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment using undiscounted cash flows when impairment indicators exist. If impairment exists, then the assets are written down to fair value. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (*i.e.*, cease use) or the contractual rights to use the intellectual property are terminated.

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.

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; this evaluation involves assumptions about future activity.

In the fourth quarter of fiscal year 2016, we realized significant U.S. pre-tax income for both the fourth quarter and the fiscal year ended March 31, 2016. As a result, we released the valuation allowance against all of the U.S. federal deferred tax assets and a portion of the U.S. state deferred tax assets during the fourth quarter of fiscal year 2016. We continue to maintain a valuation allowance related to specific U.S. state deferred tax assets and foreign capital loss carryovers, due to uncertainty about the future realization of these assets.

Prior to the fourth quarter of fiscal year 2016, we considered all undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States and, accordingly, no U.S. taxes had been provided thereon. During the fourth quarter of fiscal year 2016, we reevaluated our intent to indefinitely reinvest all earnings of foreign subsidiary companies, and concluded that a portion of earnings of certain subsidiaries will no longer be considered to be indefinitely reinvested. We currently intend to continue to indefinitely reinvest a substantial majority of the undistributed earnings of our foreign subsidiaries outside of the United States. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our Condensed Consolidated Financial Statements, we are required to estimate our income taxes in each jurisdiction in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates 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.

Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of new tax legislation, with a corresponding, one-time, non-cash increase in income tax expense.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), (the “New Revenue Standard”), which will replace existing guidance under U.S. GAAP, including industry-specific requirements, and will provide companies with a single principles-based revenue recognition model for recognizing revenue from contracts with customers. The core principle of the New Revenue Standard is that a company should recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In addition, the FASB has issued several amendments to the New Revenue Standard, including principal versus agent considerations, clarifications on identification of performance obligations, and accounting for licenses of intellectual property. The amendments are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients to reduce the cost and complexity of adoption.

The New Revenue Standard is effective for us beginning in the first quarter of fiscal year 2019 and permits the use of either the full retrospective or modified retrospective transition methods. We anticipate adopting the New Revenue Standard on April 1, 2018 using the modified retrospective method, which recognizes the cumulative effect of initially applying the New Revenue Standard as an adjustment to retained earnings at the adoption date.

The New Revenue Standard will have a significant impact on our Condensed Consolidated Financial Statements and related disclosures as it relates to the accounting for substantially all of our transactions with multiple elements or “bundled” arrangements. For example, for sales of online-enabled games, as currently reported we do not have vendor-specific objective evidence of fair value (“VSOE”) for unspecified future updates, and thus, revenue from the entire sales price is recognized ratably over the estimated offering period. However, under the New Revenue Standard, the VSOE requirement for undelivered elements is eliminated, allowing us to essentially “break-apart” our online-enabled games and account for the various promised goods or services identified as separate performance obligations.

For example, for the sale of an online-enabled game, we usually have multiple distinct performance obligations such as software, future update rights, and an online service. The software performance obligation represents the initial game delivered digitally or via physical disc. The future update rights performance obligation may include software patches or updates, maintenance, and/or additional free content to be delivered in the future. And lastly, the online service performance obligation consists of providing the customer with a service of online activities (e.g., online playability). Under current software revenue recognition rules, we recognize as revenue the entire sales price over the estimated offering period. However, under the New Revenue Standard, we will recognize a portion of the sales price as revenue upon delivery of the software performance obligation with the future update rights and online services portions recognized ratably over the estimated offering period. We currently estimate that a significant portion of the sales price will be allocated to the software performance obligation and recognized upon delivery, and the remaining will be allocated to the future update rights and the online service performance obligations and recognized ratably over the estimated offering period. As a result, we expect a significant portion of our annual revenue, and thereby annual profit, will shift from the first and fourth fiscal quarters to the second and third fiscal quarters which is historically when a significant portion of our annual bookings and software deliveries have been made.

In addition, both portions of sales price allocated to future update rights and online services will be classified as service revenue under the New Revenue Standard (currently, only future update rights are generally presented as product revenue). Therefore, upon adoption, an increased portion of our sales from online-enabled games will be presented as service revenue than is currently reported today. Also, upon adoption of the New Revenue Standard, we will present our sales returns and price protection reserves as liabilities (currently, sales returns and price protection reserves are classified as contra-assets within receivables on our Condensed Consolidated Balance Sheets).

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments* (Topic 825-10), which requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The ASU also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments.

[Table of Contents](#)

The requirements will be effective for us beginning in the first quarter of fiscal year 2019. We are currently evaluating the impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities* (Subtopic 405-20): *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The amendments in the ASU are designed to provide guidance and eliminate diversity in the accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each period. The amendments in this ASU are effective for us beginning in the first quarter of fiscal year 2019. Early adoption is permitted. We do not expect the adoption to have a material impact on our Condensed Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*. This update is intended to reduce the existing diversity in practice in how certain transactions are classified in the statement of cash flows. This update is effective for us beginning in the first quarter of fiscal year 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. We do not expect the adoption to have a material impact on our Condensed Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. This update is effective for us beginning in the first quarter of fiscal year 2019. Early adoption is permitted. We do not expect the adoption to have a material impact on our Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The FASB issued this standard to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. We anticipate adopting this standard beginning in the first quarter of fiscal year 2020, when the updated guidance is effective for us. We are currently evaluating the impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

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. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. This update is effective for us beginning in the first quarter of fiscal year 2020. Early adoption is permitted. We are currently evaluating the timing of adoption and impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for us beginning in the first quarter of fiscal year 2021. Early adoption is permitted beginning in the first quarter of fiscal year 2020. We are currently evaluating the timing of adoption and impact of this new standard on our Condensed Consolidated Financial Statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other* (Topic 350). The standard simplifies the goodwill impairment test. This update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This update is effective for us beginning in the first quarter of fiscal year 2021. Early adoption is permitted for any impairment tests performed after January 1, 2017. We anticipate early adopting ASU 2017-04 during the fourth quarter of fiscal year 2018. We do not expect the adoption to have a material impact on our Condensed Consolidated Financial Statements.

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, 2018 contains 52 weeks and ends on March 31, 2018. Our results of operations for the fiscal year ended March 31, 2017 contained 52 weeks and ended on April 1, 2017. Our results of operations for the three months ended September 30, 2017 and 2016 contained 13 weeks each and ended on September 30, 2017 and October 1, 2016, respectively. Our results of operations for the six months ended September 30, 2017 and 2016 contained 26 weeks each and

ended on September 30, 2017 and October 1, 2016, 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) video games sold as digital downloads or as packaged goods and designed for play on game consoles and PCs, (2) video games for mobile phones and tablets, (3) separate software products and extra-content and online game services associated with these products, (4) licensing our game software to third parties, (5) allowing other companies to manufacture and sell our products in conjunction with other products, and (6) advertisements on our online web pages and in our games. We recognize revenue from the sale of online-enabled games for which we do not have VSOE for the unspecified updates on a straight-line basis, generally over an estimated six-month period for digitally-delivered games and content and an estimated nine-month period beginning in the month after shipment for physical games sold through retail.

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 Type, 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 Type (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, 2017, net revenue was \$959 million and increased \$61 million, or 7 percent, as compared to the three months ended September 30, 2016. This increase was driven by a \$280 million increase in revenue primarily from the Battlefield and FIFA franchises, and *Mass Effect: Andromeda*. This increase was partially offset by a \$219 million decrease in revenue primarily from the 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, 2017 and 2016 was as follows (in millions):

	Three Months Ended September 30,			
	2017	2016	\$ Change	% Change
Net revenue:				
Product	\$ 454	\$ 420	\$ 34	8%
Service and other	505	478	27	6%
Total net revenue	<u>\$ 959</u>	<u>\$ 898</u>	<u>\$ 61</u>	7%

Product Revenue

For the three months ended September 30, 2017, Product net revenue was \$454 million, primarily driven by *Battlefield 1*, *FIFA 17*, and *FIFA Online 3* in Asia. Product net revenue increased \$34 million, or 8 percent, as compared to the three months ended September 30, 2016. This increase was driven by a \$197 million increase primarily from *Battlefield 1* and *Mass Effect: Andromeda*. This increase was partially offset by a \$163 million decrease primarily from *Star Wars Battlefront* and *UFC 2*.

Service and Other Revenue

For the three months ended September 30, 2017, Service and other net revenue was \$505 million, primarily driven by *FIFA Ultimate Team*, *Star Wars: Galaxy of Heroes* and *Battlefield 1 Premium*. Service and other net revenue for the three months ended September 30, 2017 increased \$27 million, or 6 percent, as compared to the three months ended September 30, 2016. This increase was driven by a \$95 million increase primarily from *FIFA Ultimate Team* and *Battlefield 1 Premium*. This increase was partially offset by a \$68 million decrease primarily from *Need for Speed 2015* and the *Plants vs. Zombies* franchise.

Supplemental Net Revenue by Type

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

Our net revenue by type for the three months ended September 30, 2017 and 2016 was as follows (in millions):

	Three Months Ended September 30,			
	2017	2016	\$ Change	% Change
Full game downloads	\$ 123	\$ 94	\$ 29	31 %
Live services ^(a)	408	323	85	26 %
Mobile	158	149	9	6 %
Total Digital	\$ 689	\$ 566	\$ 123	22 %
Packaged goods and other	\$ 270	\$ 332	\$ (62)	(19)%
Net revenue	\$ 959	\$ 898	\$ 61	7 %

(a) Live services net revenue is comprised of net revenue previously presented as “Extra content” and “Subscription, advertising, and other” through the fourth quarter of fiscal 2017.

Digital Net Revenue

Digital net revenue includes full game downloads, live services, and mobile revenue. Digital net revenue includes game software distributed through our direct-to-consumer PC platform Origin, distributed wirelessly through mobile carriers, or licensed to our third-party publishing partners who distribute our games digitally.

For the three months ended September 30, 2017, digital net revenue was \$689 million primarily driven by *FIFA Ultimate Team*, *FIFA Online 3* in Asia, *Battlefield 1*, and *Star Wars: Galaxy of Heroes*. Digital net revenue for the three months ended September 30, 2017 increased \$123 million, or 22 percent, as compared to the three months ended September 30, 2016. This increase is due to (1) a \$29 million or 31 percent increase in full-game download net revenue primarily driven by *Mass Effect: Andromeda* and *Battlefield 1*, (2) an \$85 million or 26 percent increase in live services net revenue primarily driven by our Ultimate Team game mode and *Battlefield 1 Premium*, and (3) a \$9 million or 6 percent increase in mobile net revenue primarily driven by *FIFA Mobile*.

Packaged Goods and Other Net Revenue

Packaged goods and other 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 (“OEM bundles”).

For the three months ended September 30, 2017, packaged goods and other net revenue was \$270 million, primarily driven by *Battlefield 1*, *FIFA 17*, and *Mass Effect: Andromeda*. Packaged goods and other net revenue for the three months ended September 30, 2017 decreased \$62 million, or 19 percent, as compared to the three months ended September 30, 2016. This decrease was driven by a \$187 million decrease in net revenue primarily from the Star Wars and Need for Speed franchises. This decrease was partially offset by a \$125 million increase primarily from the Battlefield and Mass Effect franchises.

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

For the six months ended September 30, 2017, net revenue was \$2,408 million and increased \$239 million, or 11 percent, as compared to the three months ended September 30, 2016. This increase was driven by a \$741 million increase in revenue primarily from the Battlefield and FIFA franchises, and *Mass Effect: Andromeda*. This increase was partially offset by a \$502 million decrease in revenue primarily from the 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, 2017 and 2016 was as follows (in millions):

	Six Months Ended September 30,			
	2017	2016	\$ Change	% Change
Net revenue:				
Product	\$ 1,282	\$ 1,104	\$ 178	16%
Service and other	1,126	1,065	61	6%
Total net revenue	<u>\$ 2,408</u>	<u>\$ 2,169</u>	<u>\$ 239</u>	11%

Product Revenue

For the six months ended September 30, 2017, Product net revenue was \$1,282 million, primarily driven by *Battlefield 1*, *FIFA 17*, and *Mass Effect: Andromeda*. Product net revenue increased \$178 million, or 16 percent, as compared to the six months ended September 30, 2016. This increase was driven by a \$560 million increase primarily from *Battlefield 1* and *Mass Effect: Andromeda*. This increase was partially offset by a \$382 million decrease primarily from *Star Wars Battlefront* and *UFC 2*.

Service and Other Revenue

For the six months ended September 30, 2017, Service and other net revenue was \$1,126 million, primarily driven by *FIFA Ultimate Team*, *Star Wars: Galaxy of Heroes* and *Battlefield 1 Premium*. Service and other net revenue for the six months ended September 30, 2017 increased \$61 million, or 6 percent, as compared to the six months ended September 30, 2016. This increase was driven by a \$214 million increase primarily from *FIFA Ultimate Team* and *Battlefield 1 Premium*. This increase was partially offset by a \$153 million decrease primarily from *Need for Speed 2015* and the *Plants vs. Zombies* franchise.

Supplemental Net Revenue by Type

Our net revenue by type for the six months ended September 30, 2017 and 2016 was as follows (in millions):

	Six Months Ended September 30,			
	2017	2016	\$ Change	% Change
Full game downloads	\$ 332	\$ 231	\$ 101	44%
Live services ^(a)	909	710	199	28%
Mobile	327	314	13	4%
Total Digital	<u>\$ 1,568</u>	<u>\$ 1,255</u>	<u>\$ 313</u>	25%
Packaged goods and other	<u>\$ 840</u>	<u>\$ 914</u>	<u>\$ (74)</u>	(8)%
Net revenue	<u>\$ 2,408</u>	<u>\$ 2,169</u>	<u>\$ 239</u>	11%

(a) Live services net revenue is comprised of net revenue previously presented as “Extra content” and “Subscription, advertising, and other” through the fourth quarter of fiscal 2017.

Digital Net Revenue

For the six months ended September 30, 2017, digital net revenue was \$1,568 million primarily driven by *FIFA Ultimate Team*, *Battlefield 1*, and *FIFA Online 3* in Asia. Digital net revenue for the six months ended September 30, 2017 increased \$313 million, or 25 percent, as compared to the six months ended September 30, 2016. This increase is due to (1) a \$101 million or 44 percent increase in full-game download net revenue primarily driven by *Battlefield 1* and *Mass Effect: Andromeda*, (2) a \$199 million or 28 percent increase in live services net revenue primarily driven by our *Ultimate Team* game mode and *Battlefield 1 Premium*, and (3) a \$13 million or 4 percent increase in mobile net revenue primarily driven by *Star Wars: Galaxy of Heroes* and *FIFA Mobile*.

Packaged Goods and Other Net Revenue

For the six months ended September 30, 2017, packaged goods and other net revenue was \$840 million, primarily driven by *FIFA 17*, *Battlefield 1* and *Madden NFL 17*. Packaged goods and other net revenue for the six months ended September 30, 2017 decreased \$74 million, or 8 percent, as compared to the six months ended September 30, 2016. This decrease was driven by a \$351 million decrease in net revenue primarily from the Star Wars and Need for Speed franchises. This decrease was partially offset by a \$425 million increase primarily from the Battlefield and Mass Effect franchises.

Cost of Revenue Quarterly Analysis

Cost of revenue for the three months ended September 30, 2017 and 2016 was as follows (in millions):

	September 30, 2017	% of Related Net Revenue	September 30, 2016	% of Related Net Revenue	% Change	Change as a % of Related Net Revenue
Cost of revenue:						
Product	\$ 300	66.1%	\$ 317	75.5%	(5.4)%	(9.4)%
Service and other	89	17.6%	84	17.6%	6.0%	—%
Total cost of revenue	<u>\$ 389</u>	40.6%	<u>\$ 401</u>	44.7%	(3.0)%	(4.1)%

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 \$17 million, or 5.4 percent during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This decrease was primarily due to a decrease in inventory and warehouse operations costs as a result of the closure of our Switzerland distribution business in fiscal year 2017, as well as a decrease in intangible amortization.

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) platform processing fees from operating our website-based games on third party platforms, and (5) credit card fees associated with our service revenue.

Cost of service and other revenue increased by \$5 million, or 6.0 percent during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This increase was primarily due to an increase in royalty costs associated with higher sales from *FIFA Ultimate Team* and *Madden Ultimate Team*, offset by an \$8 million decrease in intangible amortization.

Total Cost of Revenue as a Percentage of Total Net Revenue

During the three months ended September 30, 2017, total cost of revenue as a percentage of total net revenue decreased by 4.1 percent as compared to the three months ended September 30, 2016. This decrease was primarily due to a decrease in inventory and warehouse operations costs as a result of the closure of our Switzerland distribution business in fiscal year 2017, and an increase in the proportion of our digital net revenues to packaged goods and other net revenues.

Cost of Revenue Year-to-Date Analysis

Cost of revenue for the six months ended September 30, 2017 and 2016 was as follows (in millions):

	September 30, 2017	% of Related Net Revenue	September 30, 2016	% of Related Net Revenue	% Change	Change as a % of Related Net Revenue
Cost of revenue:						
Product	\$ 364	28.4%	\$ 407	36.9%	(10.6)%	(8.5)%
Service and other	179	15.9%	173	16.2%	3.5 %	(0.3)%
Total cost of revenue	<u>\$ 543</u>	22.5%	<u>\$ 580</u>	26.7%	(6.4)%	(4.2)%

Cost of Product Revenue

Cost of product revenue decreased by \$43 million , or 10.6 percent during the six months ended September 30, 2017 , as compared to the six months ended September 30, 2016 . This decrease was primarily due to a decrease in inventory and warehouse operations costs as a result of the closure of our Switzerland distribution business in fiscal year 2017 along with a decrease in packaged good sales during the six months ended September 30, 2017 , as compared to the six months ended September 30, 2016 , and a \$9 million decrease in intangible amortization.

Cost of Service and Other Revenue

Cost of service and other revenue increased by \$6 million , or 3.5 percent during the six months ended September 30, 2017 , as compared to the six months ended September 30, 2016 . This increase was primarily due to an increase in royalty costs associated with *FIFA Ultimate Team* and *Madden Ultimate Team* , offset by a \$16 million decrease in intangible amortization.

Total Cost of Revenue as a Percentage of Total Net Revenue

During the six months ended September 30, 2017 , total cost of revenue as a percentage of total net revenue decreased by 4.2 percent as compared to the six months ended September 30, 2016 . This decrease was primarily due to a decrease in inventory and warehouse operations costs as a result of the closure of our Switzerland distribution business in fiscal year 2017, and an increase in the proportion of our digital net revenues to packaged goods and other net revenues.

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, 2017 and 2016 were as follows (in millions):

	September 30, 2017	% of Net Revenue	September 30, 2016	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 331	35%	\$ 291	32%	\$ 40	14%
Six months ended	\$ 656	27%	\$ 585	27%	\$ 71	12%

Research and development expenses increased by \$40 million , or 14 percent , during the three months ended September 30, 2017 , as compared to the three months ended September 30, 2016 . This \$40 million increase was primarily due to (1) a \$15 million increase in personnel-related costs primarily resulting from an increase in headcount, (2) a \$9 million increase in contracted services and development advances to third-party developers, (3) a \$9 million increase in stock-based compensation, and (4) a \$5 million increase in third-party hosting costs related to development efforts.

Research and development expenses increased by \$71 million , or 12 percent , during the six months ended September 30, 2017 , as compared to the six months ended September 30, 2016 . This \$71 million increase was primarily due to (1) a \$29 million increase in personnel-related costs primarily resulting from an increase in headcount, (2) a \$15 million increase in contracted services and development advances to third-party developers primarily related to *Star Wars*, *Need for Speed* and *Titanfall*

franchises, (3) a \$10 million increase in stock-based compensation, (4) a \$7 million increase in facility-related costs, and (5) a \$6 million increase in third-party hosting costs related to development efforts.

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, 2017 and 2016 were as follows (in millions):

	September 30, 2017	% of Net Revenue	September 30, 2016	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 160	17%	\$ 143	16%	\$ 17	12%
Six months ended	\$ 281	12%	\$ 271	12%	\$ 10	4%

Marketing and sales expenses increased by \$17 million, or 12 percent, during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This \$17 million increase was primarily due to a \$22 million increase in advertising expenses primarily related to *Madden NFL 18*, *FIFA 18* and *Star Wars: Galaxy of Heroes* during the three months ended September 30, 2017, partially offset by a \$4 million decrease in contracted services as a result of a reduction in creative agency costs during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Marketing and sales expenses increased by \$10 million, or 4 percent, during the six months ended September 30, 2017, as compared to the six months ended September 30, 2016. This \$10 million increase was primarily due to a \$22 million increase in advertising expenses primarily related to *Madden NFL 18*, *FIFA 18* and *Star Wars: Galaxy of Heroes* during the six months ended September 30, 2017, partially offset by a \$8 million decrease in contracted services as a result of a reduction in creative agency costs during the six months ended September 30, 2017, as compared to the six months ended September 30, 2016.

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, 2017 and 2016 were as follows (in millions):

	September 30, 2017	% of Net Revenue	September 30, 2016	% of Net Revenue	\$ Change	% Change
Three months ended	\$ 118	12%	\$ 111	12%	\$ 7	6%
Six months ended	\$ 223	9%	\$ 219	10%	\$ 4	2%

General and administrative expenses increased by \$7 million, or 6%, three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This \$7 million increase was primarily due to a \$4 million increase in contracted services and a \$4 million increase in stock-based compensation.

General and administrative expenses remained relatively consistent during the six months ended September 30, 2017, as compared to the six months ended September 30, 2016.

Income Taxes

Provision for income taxes for the three and six months ended September 30, 2017 and 2016 were as follows (in millions):

	September 30, 2017		September 30, 2016	
		Effective Tax Rate		Effective Tax Rate
Three Months Ended	\$ (16)	42.1%	\$ (14)	26.9%
Six Months Ended	\$ 89	12.5%	\$ 98	19.6%

The provision for income taxes for the three and six months ended September 30, 2017 is based on our projected annual effective tax rate for fiscal year 2018, adjusted for specific items that are required to be recognized in the period in which they are incurred. Our effective tax rate for the three and six months ended September 30, 2017 was 42.1 percent and 12.5 percent, respectively, as compared to 26.9 percent and 19.6 percent, respectively, for the same period in fiscal year 2017. The effective tax rate for the three and six months ended September 30, 2017, as compared to the three and six months ended September 30, 2016, benefited primarily due to the impact of the adoption of ASU 2016-09, which required us to recognize during the three and six months ended September 30, 2017, \$3 million and \$42 million, respectively, of excess tax benefits as a component of the provision for income taxes (previously excess tax benefits and tax deficiencies were recognized in additional paid-in-capital). Although the \$3 million of excess tax benefits for the three months ended September 30, 2017 reduced tax expense, the effective tax rate for the three months ended September 30, 2017 increased due to the pre-tax book loss for the three months ended September 30, 2017.

When compared to the statutory rate of 35.0 percent, the effective tax rate for the three and six months ended September 30, 2017 benefited primarily due to earnings realized in countries that have lower statutory tax rates and the recognition of excess tax benefits from stock-based compensation. We anticipate that the impact of excess tax benefits and tax deficiencies may result in significant fluctuations to our effective tax rate in the future. Excluding excess tax benefits, our effective tax rate would have been 34.2 percent and 18.4 percent, respectively, for the three and six months ended September 30, 2017.

Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of new tax legislation, with a corresponding, one-time, non-cash increase in income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of September 30, 2017	As of March 31, 2017	Increase/(Decrease)
Cash and cash equivalents	\$ 2,067	\$ 2,565	\$ (498)
Short-term investments	2,288	1,967	321
Total	\$ 4,355	\$ 4,532	\$ (177)
Percentage of total assets	55%	59%	

(In millions)	Six Months Ended September 30,		
	2017	2016	Change
Net cash provided by operating activities	\$ 228	\$ 4	\$ 224
Net cash used in investing activities	(408)	(249)	(159)
Net cash used in financing activities	(351)	(494)	143
Effect of foreign exchange on cash and cash equivalents	33	(8)	41
Net decrease in cash and cash equivalents	\$ (498)	\$ (747)	\$ 249

Changes in Cash Flow

Operating Activities. Net cash provided by operating activities increased by \$224 million during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016. The increase is primarily driven by a \$239 million increase in net revenue, primarily related to the Battlefield and FIFA franchises, and *Mass Effect: Andromeda* during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016.

Investing Activities. Net cash used in investing activities increased by \$159 million during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016 primarily driven by a \$571 million increase in the purchase of short-term investments. The increase is partially offset by a \$406 million increase in proceeds from the sales and maturities of short-term investments.

Financing Activities. Net cash used in financing activities decreased by \$143 million during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016 primarily due to a repayment of \$163 million of indebtedness during the six months ended September 30, 2016 and a \$26 million increase in proceeds from the exercise of stock options and the purchase of ESPP, during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016. This decrease was partially offset by a \$47 million increase in the repurchase and retirement of common stock during the six months ended September 30, 2017 as compared to the six months ended September 30, 2016.

Cash Flow Reclassifications. The adoption of ASU 2016-09 at the beginning of fiscal year 2018 resulted in two changes to our cash flow presentation. First, excess tax benefits are now presented as operating activities rather than financing activities. Second, cash payments to taxing authorities in connection with shares withheld to meet statutory tax withholding requirements are now presented as a financing activity rather than as an operating activity. Both of these changes had the effect of increasing our cash provided by operating activities and increasing our cash used in financing activities for the six months ended September 30, 2017 and 2016. We recast our cash flow presentation for the six months ended September 30, 2016 to reflect the adoption of ASU 2016-09. For more information, see Note 1 - Description of Business and Basis of Presentation to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to ASU 2016-09.

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, 2017, our short-term investments had gross unrealized losses of \$3 million, or less than 1 percent of the total in short-term investments, and gross unrealized gains of less than \$1 million, or less than 1 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs. Depending on which short-term investments we liquidate to fund these activities, we could recognize a portion, or all, of the gross unrealized gains or losses.

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 amounts due upon conversion of our Convertible Notes and the repurchase of our common stock, including under the \$500 million stock repurchase program approved in February 2016 and completed in March 2016. 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

In March 2015, we entered into a \$500 million senior unsecured revolving credit facility with a syndicate of banks. As of September 30, 2017, 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 above items, 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, 2017, approximately \$2.8 billion of our cash, cash equivalents, and short-term investments were domiciled in foreign tax jurisdictions. While we have no plans to repatriate these funds to the United States in the short term, if we choose to do so, we may be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

In May 2015, our Board of Directors authorized a program to repurchase up to \$1 billion of our common stock. We repurchased approximately 0.3 million shares for approximately \$31 million under this program during the three months ended June 30, 2017. We completed repurchases under the May 2015 program in April 2017.

In May 2017, a Special Committee of our Board of Directors, on behalf of the full Board of Directors, authorized a new program to repurchase up to \$1.2 billion of our common stock. This stock repurchase program expires on May 31, 2019. 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, 2017, we repurchased approximately 1.3 million and 2.4 million shares for approximately \$153 million and \$272 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, including 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 11 - Commitments and Contingencies to the Condensed Consolidated Financial Statements in this Form 10-Q as it relates to our contractual obligations and commercial commitments, which is incorporated by reference into this Item 2.

OFF-BALANCE SHEET COMMITMENTS

As of September 30, 2017, 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 and South Korean won) 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. The 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, 2017, 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 \$136 million or \$272 million, respectively. As of September 30, 2017, 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 \$56 million or \$112 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 such 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.

[Table of Contents](#)

As of September 30, 2017, 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. Fluctuations in interest rates could have a significant impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in the fair value of our short-term investment portfolio as of September 30, 2017, arising from potential changes in interest rates. The modeling technique estimates the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS.

(In millions)	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of September 30, 2017	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
Corporate bonds	\$ 1,248	\$ 1,243	\$ 1,239	\$ 1,234	\$ 1,230	\$ 1,225	\$ 1,221
U.S. Treasury securities	416	413	411	409	406	403	401
U.S. agency securities	134	133	132	131	131	130	130
Commercial paper	269	269	268	268	267	267	266
Foreign government securities	102	102	101	101	100	100	99
Asset-backed securities	120	120	119	119	118	118	117
Certificates of deposit	26	26	26	26	26	26	26
Total short-term investments	<u>\$ 2,315</u>	<u>\$ 2,306</u>	<u>\$ 2,296</u>	<u>\$ 2,288</u>	<u>\$ 2,278</u>	<u>\$ 2,269</u>	<u>\$ 2,260</u>

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, 2017 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Limitations on effectiveness of disclosure controls

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information under the subheading “Legal Proceedings” in Note 11 - Commitments and Contingencies to the Condensed Consolidated Financial Statements in this Form 10-Q is incorporated by reference into this Part II.

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 free-to-download), 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 with the potential to become hits. High-quality titles, even if highly-reviewed, may not turn into hit products. Many hit products within our industry are iterations of prior hit products with large established consumer bases and significant brand recognition, which makes competing in certain product categories challenging. In addition, hit products or services of our competitors 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 games 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. The increased importance of live services revenue to our business heightens the risks associated with our limited product portfolio as live services that are either poorly-received or provided in connection with underperforming games may generate lower than expected sales.

Our business is dependent on the success and availability of platforms developed by third parties, as well as our ability to develop commercially successful products and services for these 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 will be successful in the marketplace, our ability to develop commercially successful products and services for these platforms and our ability to effectively manage the transition from one generation of platforms to the next. We must make product development decisions and commit significant resources well in advance of anticipated platform release dates and 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.

Technology changes rapidly in our business and if we fail to anticipate or successfully implement new technologies or adopt new business strategies, technologies or methods, the quality, timeliness and competitiveness of our products and services may suffer.

Rapid technology changes in our industry require us to anticipate, sometimes years in advance, which technologies we must develop, implement and take advantage of in order to make our products and services competitive in the market. We have invested, and in the future may invest, in new business strategies, technologies, products, and services. For example, we are investing in the infrastructure for our EA Player Network which we expect will allow us to market and deliver content and services for our franchises more efficiently as well as enable new player-centric ways to discover and try new experiences. Such endeavors may involve significant risks and uncertainties, and no assurance can be given that the technology we choose to adopt and the products and services that we pursue will be successful. If we do not successfully implement these new technologies, our reputation may be materially adversely affected and our financial condition and operating results may be impacted. We also may miss opportunities to adopt technology, or develop products and services that become popular with consumers, which could adversely affect our financial results. It may take significant time and resources to shift our focus to such technologies, 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 and feature 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 effectively than we can. 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 technology 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.

We continually face cyber risks and threats that seek to damage, disrupt or gain access to our networks, our products and services, supporting infrastructure, intellectual property and other assets. 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. Such cyber risks and threats may be difficult to detect. Both our partners and we have implemented certain systems and processes to guard against cyber risks and to help protect our data and systems. However, the techniques that may be used to obtain unauthorized access or disable, degrade, exploit or sabotage our products, services and systems change frequently and often are not detected. Our systems and processes, and the systems and processes of our business partners, may not be adequate. Any failure to prevent or mitigate security breaches or cyber risks, or respond adequately to a security breach or cyber risk, could result in interruptions to our products and services, degrade the user experience, cause consumers to lose confidence in our products, as well as significant legal and financial exposure. This could harm our business and reputation, disrupt our relationships with partners and diminish our competitive position.

Successful exploitation of our systems can have other negative effects upon the products, services and user experience we offer. In particular, 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 in black markets. Our online services have been impacted by in-game exploits and the use of automated processes to generate virtual currency illegitimately, and such activity may continue. These kinds of activities and the steps that we take to address these issues may result in a loss of anticipated revenue, interfere with players' enjoyment of a balanced game environment and cause reputational harm.

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 and other information, including personal information, passwords and credit card information. Although we take measures to protect this information from unauthorized access, acquisition, disclosure and misuse, our security controls, policies and practices may not be able to prevent the improper or unauthorized access, acquisition or disclosure of such information. For example, third parties may fraudulently induce employees or customers into

disclosing identification or other sensitive information which may, in turn, be used to access our information technology systems. The unauthorized access, acquisition or disclosure of this information, or a perception that we do not adequately secure consumer and other information could result in legal liability, costly remedial measures, governmental and regulatory investigations, harm our profitability and reputation 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 harm to them and/or negatively impact our ability to offer our products and services.

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.

Data privacy, data protection, localization, security and consumer-protection laws are evolving, and the interpretation and application of these laws in the United States, Europe and elsewhere often are uncertain, contradictory and changing. It is possible that these laws may be interpreted or applied in a manner that is adverse to us or otherwise inconsistent with our practices, which could result in litigation, regulatory investigations and potential legal liability or require us to change our practices in a manner adverse to our business. 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 and disruptions of our online services.

We are investing and expect to continue to invest in technology, hardware and software to support the online functionality of our portfolio of products and services. In addition, we rely on technological infrastructure provided by third party business partners. Launching and operating games and services with online features, developing related technologies and implementing online business initiatives is expensive and complex. Implementation of these technologies and execution of these initiatives could result in operational failures and other issues impacting the technical stability of our products and services. In addition, having access to the necessary infrastructure to support the online functionality of our products and services is vital to our growth and success. Our products and services could be adversely impacted by outages, disruptions and failures in our network and related infrastructure, as well as in the online platforms or services of key business partners who offer or support our products and services.

We may not consistently meet our product development schedules or key events, sports seasons or movies that we tie our product release schedules 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 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.

Our business is highly seasonal with the highest percentage of our sales occurring in the quarter ending in December. While our sales generally follow this seasonal trend, there can be no assurance that this trend will continue. If we miss key selling periods for products, for any reason, including product delays, product cancellations, or delayed introduction of a new platform for which we have developed products and services or through which we distribute our products and services, our sales likely will suffer significantly. Additionally, macroeconomic conditions or the occurrence of unforeseen events that negatively impact retailer or consumer buying patterns, particularly during the quarter ending in December, likely will harm our financial performance disproportionately.

Our financial results are subject to currency fluctuations.

International sales are a fundamental part of our business. For our fiscal year ended March 31, 2017, international net revenue comprised 56 percent of our total net revenue, and we expect our international business to continue to account for a significant

portion of our total net revenue. As a result of our international sales, and also the denomination of our foreign investments and our cash and cash equivalents in foreign currencies, we are exposed to the effects of fluctuations in foreign currency exchange rates. Strengthening of the U.S. dollar, particularly relative to the Euro, British pound sterling, Australian dollar, Chinese yuan and South Korean won, 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 may not attract 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. Our leading position within the interactive entertainment industry makes us a prime target for recruiting our executives, as well as key creative and technical talent. If we cannot successfully recruit 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 titles (e.g., FIFA and Madden NFL), and associated services, and ongoing mobile businesses. While we have been able to forecast the revenue from these areas of our business with greater certainty than for new offerings, we cannot provide assurances that consumers will purchase these games and services on a consistent basis. Furthermore, we may cease to offer games and services that we previously had deemed to be recurring in nature. Consumer purchases of our games and services 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, 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 licensed sports games may be adversely impacted by circumstances outside our control impacting the sports leagues and organizations. 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. Additionally, 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.

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 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 and successful and engaging games 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.

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.

Negative player perceptions about our brands, products, services and/or business practices may damage our business and the costs incurred in addressing player concerns may increase our operating expenses.

Player expectations regarding the quality, performance and integrity of our products and services are high. Players may be critical of our brands, products, services and/or business practices for a wide variety of reasons. These negative player reactions may not be foreseeable or within our control to manage effectively, including perceptions about gameplay fairness, negative player reactions to game content, components and services, or objections to certain of our business practices. In the past, we have taken actions, including delaying the release of our games and discontinuing services for our games, after taking into consideration, among other things, feedback from the player 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 player sentiment about our business practices also can lead to investigations from regulatory agencies and consumer groups, as well as litigation, which, regardless of their outcome, may be costly, damaging to our reputation and harm our business.

The products or services we release may contain defects.

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 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 in our products and services before they have been released into the marketplace. In such an event, 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, each of which could significantly harm our business and operating results.

Our business is subject to regulation, and changes in applicable regulations may negatively impact our business.

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. In addition, laws and regulations relating to user privacy, data collection, retention, electronic commerce, virtual items and currency, consumer protection, content, advertising, localization, and information security have been adopted or are being considered for adoption by many jurisdictions and countries throughout the world. 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. Furthermore, 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.

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 customers. 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.

In addition, we may include modes in our games that allow players to compete against each other and we may manage player competitions based on our products and services. Although we structure and operate these skill-based competitions with applicable laws in mind, our skill based competitions in the future could become subject to evolving rules and regulations and expose us to significant liability, penalties and reputational harm.

Our marketing and advertising efforts may fail to resonate with our customers.

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, event sponsorship and direct communications with our consumers including via email. Furthermore, an increasing portion of our marketing activity is taking place on social media platforms 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, marketing regulations, technology changes or service disruptions may negatively impact our ability to reach our customers. Moreover, if the marketing for our products and services 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.

A significant portion of our sales are made to a relatively small number of customers, and these sales may be disrupted.

We derive a significant percentage of our net revenue through sales to our top customers. The concentration of a significant percentage of our sales through a few large customers could lead to a short-term disruption to our business if certain of these customers significantly reduced their purchases or ceased to offer our products and services. We also could be more vulnerable to collection risk if one or more of these large customers experienced a deterioration of their business or declared bankruptcy. Additionally, receivables from our customers generally increase in our December fiscal quarter as sales of our products and services generally increase in anticipation of the holiday season. Having a significant portion of our net revenue concentrated in sales through a few customers could reduce our negotiating leverage with them. If one or more of our key customers experience deterioration in their business, or become unable to obtain sufficient financing to maintain their operations, our business could be harmed.

Our channel partners have significant influence over the products and services that we offer on their platforms.

Our agreements with our channel 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 and distributed to customers. For our digital products and services delivered via digital channels such as Sony's PlayStation Store, Microsoft's Xbox Store, Apple's App Store and Google Play, each respective channel 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 channel 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 channels 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 channel 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 channel 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 channel partners control the information technology systems through which online sales of our products and service channels are captured. If our channel partners establish terms that restrict our offerings through their channels, significantly impact the financial terms on which these products or services are offered to our customers, or their information technology systems fail or cause an unanticipated delay in reporting, our business and/or financial results could be materially affected.

Our business is subject to risks generally associated with the entertainment industry.

Our business is subject to risks that are generally associated with the entertainment industry, many of which are beyond our control. These risks could negatively impact our operating results and include: the popularity, price and timing of our games, economic conditions that adversely affect discretionary consumer spending, 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 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.

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, operating results, or financial condition.

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

We may 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, 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, including experiencing difficulty in the integration of business systems and technologies, the integration and retention of new employees, or in 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.

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 and disruptions of our infrastructure.

We may experience outages or disruptions of our infrastructure, including information technology system failures and network disruptions. These may be caused by natural disasters, cyber-incidents, weather events, power disruptions, telecommunications failures, acts of terrorism or other events. 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. Our corporate headquarters in Redwood City, CA and our studio 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 of any of our critical business or information technology systems could harm our ability to conduct normal business operations.

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 committed \$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;
- Utilizing funds that are domiciled in foreign tax jurisdictions in order to make the cash payments upon any repayment of our indebtedness. If we were to choose to use such funds, we would be required to accrue any additional taxes on any portion of the repatriation where no United States income tax had been previously provided; and
- Limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

The agreements governing our indebtedness impose restrictions on us and require us to maintain compliance with specified covenants. In particular, the revolving credit facility includes a maximum capitalization ratio and minimum liquidity requirements. 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 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 could be adversely affected by our profit levels, changes in our business, reorganization of our business and operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in applicable tax laws or interpretations of existing tax laws, or changes in the valuation allowance for deferred tax assets, as well as other factors. We are also 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. Furthermore, we are regularly subject to audit by tax authorities with respect to both income and

such other non-income taxes. Adverse changes in our effective income tax rate, 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. In addition, the United States and other countries in which we do business consider changes to tax laws applicable to corporate multinationals, which could adversely affect our effective tax rates, cause us to change the way in which we structure our business or result in other costs to us.

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 adversely affect our reported financial position and financial results. For example, recently issued accounting standards are expected to materially change the way in which we recognize revenue and account for leases upon adoption. For more information, see Part I, Item 1 of this Form 10-Q in the Notes to Consolidated Financial Statements in Note 1 - Description of Business and Basis of Presentation under the subheading “Impact of 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 factors specific to us (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), to changes in securities analysts’ earnings estimates or ratings, to our results or future financial guidance falling below our expectations and analysts’ and investors’ expectations, to factors affecting the entertainment, computer, software, Internet, media or electronics industries, to our ability to successfully integrate any acquisitions we may make, or to national or international economic conditions. 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**Stock Purchase Programs**

In May 2015, our Board of Directors authorized a program to repurchase up to \$1 billion of our common stock. We repurchased approximately 0.3 million shares for approximately \$31 million under this program during the three months ended June 30, 2017. We completed repurchases under the May 2015 program in April 2017.

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. This stock repurchase program expires on May 31, 2019. 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, 2017, we repurchased approximately 1.3 million and 2.4 million shares for approximately \$153 million and \$272 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, 2017 :

Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Still Be Purchased Under the Programs (in millions)
July 2 - July 29, 2017	414,947	\$ 109.18	414,947	\$ 1,035
July 30 - August 26, 2017	407,307	\$ 117.11	407,307	\$ 987
August 27 - September 30, 2017	502,727	\$ 118.61	502,727	\$ 928
	<u>1,324,981</u>	\$ 115.19	<u>1,324,981</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 61 are filed or incorporated by reference as part of this report.

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

DATED:
November 6, 2017

Blake Jorgensen
Executive Vice President,
Chief Financial Officer

**ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

EXHIBIT INDEX

Number	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
10.1*	Form of Restricted Stock Unit Award Agreement for Outside Directors				X
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm				X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
Additional exhibits furnished with this report:					
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS †	XBRL Instance Document				X
101.SCH †	XBRL Taxonomy Extension Schema Document				X
101.CAL †	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF †	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB †	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE †	XBRL Taxonomy Extension Presentation Linkbase Document				X

* Management contract or compensatory plan or arrangement

† Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 are the following formatted in eXtensible Business Reporting Language (“XBRL”): (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Operations, (3) Condensed Consolidated Statements of Comprehensive Income (Loss), (4) Condensed Consolidated Statements of Cash Flows, and (5) Notes to Condensed Consolidated Financial Statements.

**ELECTRONIC ARTS INC.
2000 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD NOTICE
FOR OUTSIDE DIRECTORS**

[Participant Information]

Electronic Arts Inc., a Delaware corporation (the “Company”), hereby grants on the date hereof (the “Award Date”) to the individual named above (the “Participant”) an award of Restricted Stock Units with a deferral feature (the “Award”) issued under the Company’s 2000 Equity Incentive Plan, as amended (the “Plan”), to receive the total number of shares of the Company’s Common Stock set forth below (the “Award Shares”). The Award is subject to all the terms and conditions set forth herein, including the terms and conditions in the attached Appendix A (collectively, the “Award Agreement”) and in the Plan, the provisions of which are incorporated herein by reference. All capitalized terms used in this Award Agreement that are not defined herein have the meanings defined in the Plan. The principal features of the Restricted Stock Units are as follows:

[Grant information Award Date/number of shares subject to Award]

Vesting Schedule: Subject to the terms and conditions of the Plan and the Award Agreement, the Restricted Stock Units shall vest on the earlier of (i) the 2018 Annual Meeting of the Stockholders or (ii) 12 months from the Award Date, provided in the case of clause (i) or clause (ii) that the Participant is and has remained continuously in the service of the Company as a member of the Board of Directors.

PLEASE READ ALL OF APPENDIX A WHICH CONTAIN THE SPECIFIC TERMS AND CONDITIONS OF THE AWARD.

ELECTRONIC ARTS INC.
/s/ Jacob J. Schatz
Jacob J. Schatz
Senior Vice President, General Counsel

ACCEPTANCE:

By accepting the Award, Participant acknowledges the receipt of the Award and agrees to voluntarily participate in the Plan. Participant hereby acknowledges that a copy of the Plan and a copy of the Prospectus, as amended, are available upon request from the Company’s Stock Administration department and can also be accessed electronically. Participant represents that Participant has read and understands the contents of the Plan, the Prospectus and the Award Agreement, and accepts the Restricted Stock Units subject to all the terms and conditions of the Plan and the Award Agreement. Participant understands and acknowledges that there may be tax consequences related to the grant and vesting of the Restricted Stock Units and the sale of the underlying Award Shares and that Participant should consult a tax advisor to determine his or her actual tax consequences. Participant must accept this Award by executing and delivering a signed copy of this Award Agreement to the Company or by electronically accepting this Award Agreement pursuant to the online acceptance procedure established by the Company within thirty (30) days of receipt of the Award Agreement. Otherwise, the Company may, at its discretion, rescind the Award Agreement and the Restricted Stock Units granted thereunder in its entirety.

ACKNOWLEDGED AND AGREED :

[NAME] Date

APPENDIX A
ELECTRONIC ARTS INC.
2000 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR OUTSIDE DIRECTORS

All capitalized terms used in this Appendix A that are not defined herein have the meanings defined in the Plan. This Appendix A constitutes part of the Award Agreement.

1. **Form of Award.** Each Restricted Stock Unit granted under the Plan shall be evidenced by an Award Agreement in such form (which need not be the same for each Participant) as the Committee shall from time to time approve, which shall comply with and be subject to the terms and conditions of the Plan.
2. **Award Date.** The Award Date of the Restricted Stock Units shall be the date on which the Committee makes the determination to grant such Restricted Stock Units, unless otherwise specified by the Committee. The Award Agreement evidencing the grant of the Restricted Stock Units will be delivered to Participant within a reasonable time after the Award Date.
3. **Award.** Each Restricted Stock Unit represents the unsecured right to receive one Award Share, subject to certain restrictions and subject to the terms and conditions contained in this Award Agreement and the Plan. In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.
4. **No Shareholder Rights.** The Restricted Stock Units do not entitle Participant to any rights of a holder of Common Stock. The rights of Participant with respect to the Restricted Stock Units shall remain forfeitable at all times prior to the date on which such rights become vested.
5. **Conversion of Restricted Stock Units; Issuance of Award Shares.**

(a) No Award Shares shall be issued to Participant prior to the date on which the Restricted Stock Units vest. After any Restricted Stock Units vest pursuant to the vesting schedule set forth in the first page of the Award Agreement, or, if earlier, pursuant to Section 8(b) below, the Company shall promptly cause to be issued in book-entry form, registered in Participant's name or in the name of Participant's legal representatives or heirs, as the case may be, Award Shares in payment of such vested whole Restricted Stock Units; provided, however, that in the event such Restricted Stock Units do not vest on a day during which the Common Stock is quoted on the Nasdaq Global Select Market (or traded on such other principal national securities market or exchange on which the Common Stock may then be listed) ("Trading Day"), the Company shall cause Award Shares to be issued on the next Trading Day following the date on which such Restricted Stock Units vest; provided, further, that in no event shall the Company cause such Award Shares to be issued later than two (2) months after the date on which such Restricted Stock Units vest. For purposes of this Award, the date on which vested Restricted Stock Units are converted into Award Shares shall be referred to as the "Conversion Date."

(b) Notwithstanding the foregoing, Participant may have elected to defer payment of his or her Restricted Stock Units if Participant completed a deferral election in the calendar year preceding the Award Date. Deferral elections must be made no later than the last day of the calendar year preceding the year in which the Award is granted; provided, however, that a newly-eligible Participant may make a deferral election, provided that the election is made not more than thirty days after the Participant first becomes eligible for an Award under the Plan and applies only to that portion of the Award earned after the date the election is made.

(c) An election Participant made to defer payment of Awards will remain in effect until Participant modifies or revokes the election. Participant may modify or revoke the deferral election with respect to payment of future Awards, provided that the modification or revocation of the election is made not later than last day of the calendar year preceding the year in which the modification or revocation will become effective.

(d) Participant is required to indicate on the initial deferral election the date on which the Participant elects to receive payment of his or her deferred Awards, provided that payment shall be made on (i) the fifth anniversary of the date the Restricted Stock Units vest, (ii) the tenth anniversary of the date the Restricted Stock Units vest, or (iii) the date Participant Separates from Service. Shares subject to deferred Awards are paid in a lump sum within two (2) months of the elected deferral date.

(e) Notwithstanding Participant's election to receive payment of his or her Restricted Stock Units on the fifth or tenth anniversary of the vesting date, all Shares subject to vested Restricted Stock Units shall be distributed within two (2) months following Participant's Separation from Service. For purposes of this Award Agreement, "Separation from Service" means termination of service with the Company as described in Section 409A of the Code.

(f) Notwithstanding any other provision of the Plan or this Appendix A to the contrary, no distribution of Award Shares shall be made that would constitute an impermissible acceleration of payments as defined in Section 409A(a)(3) of the Code and regulations promulgated thereunder.

6. **Fractional Restricted Stock Units.** In the event Participant would otherwise become vested in a fractional portion of a Restricted Stock Unit (a "Fractional Portion") based on the vesting terms of the Restricted Stock Units, such Fractional Portion shall instead remain unvested until the final vesting date for the Restricted Stock Units; provided, however, that if Participant would otherwise vest in a subsequent Fractional Portion prior to the final vesting date for the Restricted Stock Units and such Fractional Portion taken together with a previous Fractional Portion that remained unvested would equal a whole Award Share, then such Fractional Portions shall vest and be converted into one Share. Upon the final vesting date, the value of any remaining Fractional Portion(s) shall be rounded up to the nearest whole Award Share at the same time as the conversion of the remaining Restricted Stock Units and issuance of Award Shares described in Section 5 above.

7. **Restriction on Transfer.** Neither the Restricted Stock Units nor any rights under this Award may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by Participant other than by will or by the laws of descent and distribution, and any such purported sale, assignment, transfer, pledge, hypothecation or other disposition shall be void and unenforceable against the Company. Notwithstanding the foregoing, Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to receive any property distributable with respect to the Restricted Stock Units upon Participant's death.

8. **Termination of Service.** In the event that Participant's service is Terminated for any reason and the Restricted Stock Units have not vested as of the date the Participant's Separation from Service, then the unvested Restricted Stock Units shall be forfeited immediately upon such Separation from Service and Participant will have no right to the Restricted Stock Units or the underlying Award Shares.

9. **Nature of Plan and Award.** In accepting the Award, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future Awards, or benefits in lieu of Awards, even if Awards have been granted in the past;

(c) all decisions with respect to future grants of Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;

(d) nothing in the Plan or the Award shall confer on Participant any right to continue in the service with, the Company or limit in any way the ability of the Company to terminate Participant's service relationship with or without cause;

(e) Participant is voluntarily participating in the Plan;

(f) the Restricted Stock Units and the Award Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(g) the Restricted Stock Units and the Award Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, pension or retirement or welfare benefits or similar mandatory payments;

(h) in the event that Participant is not an employee of the Company, the Award and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company;

(i) the future value of the underlying Award Shares is unknown, indeterminable and cannot be predicted with certainty;

(j) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from Termination of Participant's service;

(k) for purposes of the Restricted Stock Units, Participant's service relationship will be considered terminated as of the date of Participant's Separation from Service and, unless otherwise expressly provided in this Award Agreement or determined by the Company, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period; the Committee shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the Award (including whether Participant may still be considered to be providing services while on a leave of absence); and

10. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Award Shares. Participant is hereby advised to consult with his or her own tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

11. **Responsibility for Taxes.** Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items") is and remains Participant's responsibility. Participant further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting, deferral or settlement of the Restricted Stock Units, the issuance of Award Shares upon settlement of the Restricted Stock Units, the subsequent sale of Award Shares acquired pursuant to such settlement; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result.

12. **Termination of the Deferral Feature.**

(a) The Board, in its discretion, may terminate the deferral feature of the Award at any time and for any reason and may distribute the Award Shares subject to the deferred Restricted Stock Units within the period beginning twelve months after the date the deferral feature is terminated and ending twenty-four months after the date the deferral feature is terminated, or pursuant to Section 5(d) or 5(e) if earlier. If the deferral feature of this Award is terminated and the Award Shares subject to the deferred Restricted Stock Units are distributed, the Company shall terminate all substantially similar non-qualified deferred equity compensation arrangements with respect to all participants and shall not adopt a new, similar non-qualified deferred equity compensation arrangement for at least five years after the date the deferral feature is terminated, in accordance with Section 409A of the Code and the regulations promulgated thereunder.

(b) The deferral feature of this Award shall automatically terminate upon a dissolution of the Company that is taxed under Section 331 of the Code or with the approval of a bankruptcy court pursuant to 11 U.S.C. section 503(b)(1)(A), provided that the Award Shares subject to the deferred Restricted Stock Units are distributed and included in the gross income of the Participant by the latest of (i) the calendar year in which the deferral feature is terminated or (ii) the first calendar year in which payment of the deferred Restricted Stock Units is administratively practicable.

(c) The Board, in its discretion, may terminate the deferral feature of the Award thirty days prior to or twelve months following a Change in Control (as defined in the Attachment 1) and distribute the Shares subject to the deferred Restricted Stock Units within the twelve-month period following the termination of the deferral feature. If the deferral feature of the Award is terminated and the Award Shares subject to the deferred Restricted Stock Units are distributed, the Company shall terminate all substantially similar non-qualified deferred equity compensation arrangements sponsored by the Company and all of the benefits of the terminated arrangements shall be distributed within twelve months following the termination of the arrangements.

13. **Compliance with Laws and Regulations.** The issuance and transfer of Award Shares shall be subject to compliance by the Company and Participant with all applicable requirements of federal, state and foreign laws and with all applicable requirements of any stock exchange or national market system on which the Company's common stock may be listed at the time of such issuance or transfer. The Company is not required to issue or transfer Award Shares if to do so would violate such requirements.

14. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that, depending on his or her country of residence, Participant may be subject to insider trading restrictions and/or market abuse laws, which may affect his or her ability to acquire or sell Award Shares or rights to Award Shares (*e.g.* , Restricted Stock Units) under the Plan during such times as Participant is considered to have "inside information" regarding the Company. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy.

Participant is solely responsible for ensuring his or her compliance with any applicable restrictions and is advised to consult his or her personal legal advisor on this matter.

15. **Electronic Delivery and Participation** . The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

16. **Authority of the Board and the Committee.** Any dispute regarding the interpretation of the Award shall be submitted by Participant or the Company to the Board or the Committee, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board or Committee shall be final and binding on the Participant and the Company.

17. **409(A).** Payments made pursuant to this Plan and Award are intended to comply with Section 409A of the Code. The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement to ensure that the Award is made in a manner that qualifies for exemption from or complies with Section 409A of the Code or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code if compliance is not practical; provided, however, that the Company makes no representation that the Award will be exempt from or compliant with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to the Award. Nothing in the Plan or this Award Agreement shall provide a basis for any person to take any action against the Company or any of its Subsidiaries based on matters covered by Section 409A of the Code, including the tax treatment of any payments made under this Award Agreement, and neither the Company nor any of its Subsidiaries will have any liability under any circumstances to the Participant or any other party if the grant of the Award, the conversion of the Restricted Stock Units or other event hereunder that is intended to be exempt from, or compliant with, Code Section 409A, is not so exempt or compliant or for any action taken by the Board or the Committee with respect thereto.

18. **Governing Law and Choice of Venue.** The Award as well as the terms and conditions set forth in the Plan shall be governed by, and subject to, the laws of the State of California, U.S.A., without regard to such state's conflict of laws provisions, as provided in the Plan. For purposes of any action, lawsuit or other proceedings brought to enforce this Award Agreement, relating to it, or arising from it, the parties hereby submit to and consent to the exclusive jurisdiction of the courts of San Mateo County, California, U.S.A., or the federal courts for the United States for the Northern District of California, U.S.A., and no other courts, where this grant is made and/or to be performed.

19. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award.

20. **Language.** If Participant has received this Award Agreement or any other document related to the Award and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

21. **Severability.** The provisions of this Award Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. Further, upon a determination that any term or other provision of this Award Agreement is illegal or otherwise incapable of being enforced, such term or other provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the illegal or unenforceable term or provision.

22. **Entire Agreement.** The Award Agreement, including this Appendix A and Appendix B, and the Plan constitute the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof.
23. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Award Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
24. **Waiver.** Participant acknowledges that a waiver by the Company of breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by Participant or any other Plan participant.
25. **Notice.** Copies of the Plan and Prospectus are available electronically at <http://eaworld.ea.com/StockAdministrationServices>. The Company's most recent annual report and published financial statements are available electronically as soon as practicable after their publication by clicking the "Financial Reports" link at <http://investor.ea.com>. The Plan, Prospectus, the Company's annual report, and the Company's financial statements are also available at no charge by submitting a request to the Company's Stock Administration Department at [Stock Admin@ea.com](mailto:StockAdmin@ea.com).
-

**ELECTRONIC ARTS INC.
2000 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR OUTSIDE DIRECTORS**

ATTACHMENT 1

A “*Change in Control*” shall be deemed to have occurred if the event set forth in any one of the following subsections shall have occurred:

(i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”)) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of (A) the then outstanding common stock of the Company or (B) the total voting power represented by the Company’s then outstanding voting securities; or

(ii) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets, other than a sale or disposition by the Company of all or substantially all of the Company’s assets to an entity, which would result in the common stock or voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the outstanding shares or common stock or total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such sale or disposition; or

(iii) The consummation of a merger or consolidation of the Company or any direct or indirect subsidiary of the Company by virtue of the closing or effective date of such merger or consolidation with any other corporation, other than a merger or consolidation which would result in the common stock or voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the outstanding shares or common stock or total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(iv) A change in the composition of the Board during any twelve-month period, as a result of which less than a majority of the Directors are Incumbent Directors. “*Incumbent Directors*” shall mean Directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described in subsections (i), (ii) or (iii) or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

Notwithstanding the foregoing, the definition of Change in Control is intended to comply with Section 409A of the Code, Notice 2005-1, and the regulations promulgated thereunder, and the definition of Change in Control shall be construed in a manner to so comply.

Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm

Electronic Arts Inc.
Redwood City, California:

With respect to the subject registration statements on Form S-8 (Nos. 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, 333-190355, and 333-213044) and the registration statement on Form S-3 (No. 333-199995) of Electronic Arts Inc., we acknowledge our awareness of the incorporation by reference therein of our report dated November 6, 2017 related to our review of interim financial information included in Form 10-Q for the quarterly period ended September 30, 2017.

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
November 6, 2017

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 6, 2017

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

ELECTRONIC ARTS INC.

**Certification of Executive Vice President, 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 6, 2017

By: /s/ Blake Jorgensen

Blake Jorgensen
Executive Vice President,
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, 2017 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

Andrew Wilson

Chief Executive Officer

Electronic Arts Inc.

November 6, 2017

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 Executive Vice President, 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, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Blake Jorgensen, Executive Vice President 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

Blake Jorgensen
Executive Vice President,
Chief Financial Officer
Electronic Arts Inc.

November 6, 2017

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.