ELECTRONIC ARTS INC.
Form 10-Q
August 02, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2013
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)	94-2838567 (I.R.S. Employer Identification No.)
209 Redwood Shores Parkway Redwood City, California (Address of principal executive offices)	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 þ 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 þ NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO þ
As of July 30, 2013, there were 306,617,854 shares of the Registrant's Common Stock, par value $0.01 per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)
ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In millions, except par value data)	June 30, 2013	March 31, 2013 [(a)]
ASSETS		
Current assets:		
Cash and cash equivalents	$1,056	$1,292
Short-term investments	355	388
Receivables, net of allowances of $160 and $200, respectively	120	312
Inventories	41	42
Deferred income taxes, net	51	52
Other current assets	261	239
Total current assets	1,884	2,325
Property and equipment, net	537	548
Goodwill	1,722	1,721
Acquisition-related intangibles, net	234	253
Deferred income taxes, net	50	53
Other assets	178	170
TOTAL ASSETS	$4,605	$5,070
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$48	$136
Accrued and other current liabilities	588	737
Deferred net revenue (online-enabled games)	590	1,044
Total current liabilities	1,226	1,917
0.75% convertible senior notes due 2016, net	564	559
Income tax obligations	201	205
Deferred income taxes, net	1	1
Other liabilities	121	121
Total liabilities	2,113	2,803
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Preferred stock, $0.01 par value. 10 shares authorized	—	—
Common stock, $0.01 par value. 1,000 shares authorized; 306 and 302 shares issued and outstanding, respectively	3	3
Paid-in capital	2,190	2,174
Retained earnings	243	21
Accumulated other comprehensive income	56	69
Total stockholders' equity	2,492	2,267
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,605	$5,070

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

(a) Derived from audited consolidated financial statements.

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ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)	Three Months Ended June 30,	
(In millions, except per share data)	2013	2012
Net revenue:		
Product	$543	$702
Service and other	406	253
Total net revenue	949	955
Cost of revenue:		
Product	130	132
Service and other	64	73
Total cost of revenue	194	205
Gross profit	755	750
Operating expenses:		
Research and development	278	282
Marketing and sales	147	151
General and administrative	85	88
Acquisition-related contingent consideration	7	(20)
Amortization of intangibles	4	7
Restructuring and other charges	1	27
Total operating expenses	522	535
Operating income	233	215
Interest and other income (expense), net	(5)	(5)
Income before provision for income taxes	228	210
Provision for income taxes	6	9
Net income	$222	$201
Net income per share:		
Basic	$0.73	$0.63
Diluted	$0.71	$0.63
Number of shares used in computation:		
Basic	304	317
Diluted	312	320

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

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

(Unaudited)	Three Months Ended June 30,	
(In millions)	2013	2012
Net income	$222	$201
Other comprehensive income (loss), net of tax:		
Change in unrealized gains and losses on available-for-sale securities	(1)	(42)
Change in unrealized losses on derivative instruments	(2)	—
Reclassification adjustment for realized losses on derivative instruments	2	1
Foreign currency translation adjustments	(12)	(17)
Total other comprehensive income (loss), net of tax	(13)	(58)
Total comprehensive income	$209	$143

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

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

(Unaudited)	Three Months Ended June 30,			
(In millions)	2013		2012	
OPERATING ACTIVITIES				
Net income	$222		$201	
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation, amortization and accretion, net	56		56	
Stock-based compensation	33		39	
Acquisition-related contingent consideration	7		(20	)
Non-cash restructuring charges	—		7	
Change in assets and liabilities:				
Receivables, net	192		254	
Inventories	1		(2	)
Other assets	(30	)	(29	)
Accounts payable	(82	)	(157	)
Accrued and other liabilities	(195	)	(119	)
Deferred income taxes, net	2		(10	)
Deferred net revenue (online-enabled games)	(454	)	(464	)
Net cash used in operating activities	(248	)	(244	)
INVESTING ACTIVITIES				
Capital expenditures	(29	)	(31	)
Proceeds from maturities and sales of short-term investments	133		128	
Purchase of short-term investments	(101	)	(137	)
Acquisition of subsidiaries, net of cash acquired	(5	)	—	
Net cash used in investing activities	(2	)	(40	)
FINANCING ACTIVITIES				
Proceeds from issuance of common stock	22		—	
Repurchase and retirement of common stock	—		(71	)
Acquisition-related contingent consideration payment	(1	)	(1	)
Net cash provided by (used in) financing activities	21		(72	)
Effect of foreign exchange on cash and cash equivalents	(7	)	(18	)
Decrease in cash and cash equivalents	(236	)	(374	)
Beginning cash and cash equivalents	1,292		1,293	
Ending cash and cash equivalents	$1,056		$919	
Supplemental cash flow information:				
Cash paid during the period for income taxes, net	$6		$8	
Non-cash investing activities:				
Change in unrealized gains and losses on available-for-sale securities, net of taxes	$(1	)	$(42	)

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

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ELECTRONIC ARTS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

We develop, market, publish and distribute game software content and services that can be played by consumers on a variety of platforms, including video game consoles (such as the Sony PLAYSTATION 3 and Microsoft Xbox 360), personal computers, mobile devices (such as the Apple iPhone and Google Android compatible phones), tablets and electronic readers (such as the Apple iPad and Amazon Kindle), and the Internet. Our ability to publish games across multiple platforms, through multiple distribution channels, and directly to consumers (online and wirelessly) has been, and will continue to be, a cornerstone of our product strategy. We have generated substantial growth in new business models and alternative revenue streams (such as subscription, micro-transactions, and advertising) based on the continued expansion of our online and wireless product and service offerings. Some of our games are based on our wholly-owned intellectual property (e.g., Battlefield, Mass Effect, Need for Speed, The Sims, Bejeweled, and Plants v. Zombies), and some of our games are based on content that we license from others (e.g., FIFA and Madden NFL). Our goal is to turn our core intellectual properties into year-round businesses available on a range of platforms. Our products and services may be purchased through physical and online retailers, platform providers such as console manufacturers and mobile carriers via digital downloads, as well as directly through our own online distribution platform Origin.

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 years ending or ended, as the case may be, March 31, 2014 and 2013 contain 52 weeks each, and ends or ended, as the case may be, on March 29, 2014 and March 30, 2013, respectively. Our results of operations for the three months ended June 30, 2013 and 2012 contained 13 weeks each and ended on June 29, 2013 and June 30, 2012, respectively. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

The Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals unless otherwise indicated) that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates. The results of operations for the current interim periods are not necessarily indicative of results to be expected for the current year or any other period.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, as filed with the United States Securities and Exchange Commission (“SEC”) on May 22, 2013.

Reclassifications

During the fourth quarter of fiscal year 2013, we reviewed our operating expenses and reclassified certain amounts, primarily headcount and facilities costs, to align with our current operating structure. As a result, we also reclassified the related prior year amounts within our Condensed Consolidated Statements of Operations for comparability purposes. These reclassifications did not affect the Company’s consolidated net revenue, gross profit, operating income, or net income. The effect of the reclassifications on the previously-reported Condensed Consolidated Statement of Operations is reflected in the table below:

	Three Months Ended June 30, 2012		
	As Previously Reported	Change	Reclassified Balance
Operating expenses:			
Research and development	$290	$(8)	$282
Marketing and sales	145	6	151
General and administrative	86	2	88

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Recently Adopted Accounting Standards

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to address concerns expressed by preparers while still providing useful information about certain transactions involving master netting arrangements. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. There was no material impact on our Condensed Consolidated Financial Statements with the adoption of ASU 2011-11 and ASU 2013-01.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, effective prospectively for fiscal years beginning after December 15, 2012. The amendments of this ASU require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the statement where net income (loss) is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. There was no material impact on our Condensed Consolidated Financial Statements with the adoption of ASU 2013-02. See Note 5 for details of amounts reclassified out of accumulated other comprehensive income.

Impact of Recently Issued Accounting Standards

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 220): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments of this ASU require that entities that have an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law. The disclosure requirements will be effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2013, and will require prospective application. Early adoption is permitted. We expect to adopt this new standard in the first quarter of fiscal year 2015. While not yet quantified, we anticipate the adoption may have a material impact on the balance sheet only, resulting in equal reductions to both deferred tax assets and noncurrent income tax obligations.

(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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of June 30, 2013 and March 31, 2013, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

		Fair Value Measurements at Reporting Date Using			
	As of June 30, 2013	Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Assets					
Money market funds	$353	$353	$—	$—	Cash equivalents
Available-for-sale securities:					
Corporate bonds	193	—	193	—	Short-term investments
U.S. agency securities	69	—	69	—	Short-term investments
Commercial paper	55	—	55	—	Short-term investments and cash equivalents
U.S. Treasury securities	53	53	—	—	Short-term investments
Deferred compensation plan assets [(a)]	11	11	—	—	Other assets
Foreign currency derivatives	5	—	5	—	Other current assets
Total assets at fair value	$739	$417	$322	$—	
Liabilities					
Contingent consideration [(b)]	$47	$—	$—	$47	Accrued and other current liabilities and other liabilities
Total liabilities at fair value	$47	$—	$—	$47	

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Contingent Consideration
Balance as of March 31, 2013	$43
Change in fair value [(c)]	7
Payments [(d)]	(3)
Balance as of June 30, 2013	$47

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	As of March 31, 2013	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Financial Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Assets					
Money market funds	$469	$ 469	$ —	$ —	Cash equivalents
Available-for-sale securities:					
Corporate bonds	178	—	178	—	Short-term investments
U.S. agency securities	91	—	91	—	Short-term investments and cash equivalents
U.S. Treasury securities	88	88	—	—	Short-term investments and cash equivalents
Commercial paper	73	—	73	—	Short-term investments and cash equivalents
Deferred compensation plan assets (a)	11	11	—	—	Other assets
Foreign currency derivatives	6	—	6	—	Other current assets
Total assets at fair value	$916	$ 568	$ 348	$ —	
Liabilities					
Contingent consideration (b)	$43	$ —	$ —	$ 43	Accrued and other current liabilities and other liabilities
Total liabilities at fair value	$43	$ —	$ —	$ 43	

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Contingent Consideration
Balance as of March 31, 2012	$112
Change in fair value (c)	(64)
Payment (d)	(5)
Balance as of March 31, 2013	$43

(a) The deferred compensation plan assets consist of various mutual funds.

(b) The contingent consideration as of June 30, 2013 and March 31, 2013 represents the estimated fair value of the additional variable cash consideration payable primarily in connection with our acquisitions of PopCap Games, Inc. (“PopCap”), KlickNation Corporation (“KlickNation”), and Chillingo Limited (“Chillingo”) that are contingent upon the achievement of certain performance milestones. We estimated the fair value of the acquisition-related contingent consideration payable using probability-weighted discounted cash flow models, and applied a discount rate that appropriately captures the risk associated with the obligation. The weighted average of the discount rates used during the three months ended June 30, 2013 was 12 percent. The weighted average of the discount rates used during the fiscal year 2013, was 13 percent. The significant unobservable input used in the fair value measurement of the contingent consideration payable are forecasted earnings. Significant changes in forecasted earnings would result in a significantly higher or lower fair value measurement. At June 30, 2013 and March 31, 2013, the fair market value of acquisition-related contingent consideration totaled $47 million and $43 million, respectively, compared to a maximum potential payout of $560 million and $566 million, respectively.

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

(d) During the three months ended June 30, 2013, we made payments totaling $3 million to settle certain performance milestones achieved in connection with one of our acquisitions. During fiscal year 2013, we made payments totaling $5 million to settle certain performance milestones achieved in connection with two of our acquisitions.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

During the three months ended June 30, 2013, our assets that were measured and recorded at fair value on a nonrecurring basis and the related impairments on those assets were as follows (in millions):

		Fair Value Measurements Using			
	Net Carrying Value as of June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Impairments for the Three Months Ended June 30, 2013
Assets					
Royalty-based asset	$—	$—	$—	$—	$ 17
Total impairments recorded for non-recurring measurements on assets held as of June 30, 2013					$ 17

During the three months ended June 30, 2013, we became aware of facts and circumstances that indicated that the carrying value of one of our royalty-based assets was not recoverable. The impairment charge is included in cost of revenue on our Condensed Consolidated Statements of Operations.

During the three months ended June 30, 2012, there were no material impairment charges for assets and liabilities measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

(3) FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

As of June 30, 2013 and March 31, 2013, our cash and cash equivalents were $1,056 million and $1,292 million, respectively. Cash equivalents were valued at their carrying amounts as they approximate fair value due to the short maturities of these financial instruments.

Short-Term Investments

Short-term investments consisted of the following as of June 30, 2013 and March 31, 2013 (in millions):

	As of June 30, 2013				As of March 31, 2013			
	Cost or Amortized Cost	Gross Unrealized		Fair Value	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	$194	$—	$1	$193	$177	$1	$—	$178
U.S. agency securities	69	—	—	69	76	—	—	76
U.S. Treasury securities	53	—	—	53	85	—	—	85
Commercial paper	40	—	—	40	49	—	—	49
Short-term investments	$356	$—	$1	$355	$387	$1	$—	$388

We evaluate our investments for impairment quarterly. Factors considered in the review of investments with an unrealized loss include the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, the severity of the impairment, the reason for the decline in value and potential recovery period, the financial condition and near-term prospects of the investees, our intent to sell and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, and any contractual terms impacting the prepayment or settlement process. Based on our review, we did not consider these investments to be other-than-temporarily impaired as of June 30, 2013 and March 31, 2013.

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The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of June 30, 2013 and March 31, 2013 (in millions):

	As of June 30, 2013		As of March 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Short-term investments				
Due in 1 year or less	$147	$146	$160	$160
Due in 1-2 years	96	96	126	127
Due in 2-3 years	113	113	101	101
Short-term investments	$356	$355	$387	$388

0.75% Convertible Senior Notes Due 2016

The following table summarizes the carrying value and fair value of our 0.75% Convertible Senior Notes due 2016 as of June 30, 2013 and March 31, 2013 (in millions):

	As of June 30, 2013		As of March 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
0.75% Convertible Senior Notes due 2016	$564	$659	$559	$614

The carrying value of the 0.75% Convertible Senior Notes due 2016 excludes the fair value of the equity conversion feature, which was classified as equity upon issuance, while the fair value is based on quoted market prices for the 0.75% Convertible Senior Notes due 2016, which includes the equity conversion feature. The fair value of the 0.75% Convertible Senior Notes due 2016 is classified as Level 2 within the fair value hierarchy. See Note 12 for additional information related to our 0.75% Convertible Senior Notes due 2016.

(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 or accrued and other current 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 and option contracts, generally with maturities of 12 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 and Canadian dollar. In addition, we utilize foreign currency forward contracts to mitigate foreign exchange rate 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 approximately three months or less and are transacted near month-end. At each quarter-end, the fair value of the foreign currency forward contracts generally is not significant. We do not use foreign currency option or foreign currency forward contracts for speculative or trading purposes.

Cash Flow Hedging Activities

Our foreign currency option and 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 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 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 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 to interest and

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other income (expense), net, in our Condensed Consolidated Statements of Operations. During the three months ended June 30, 2013 and 2012, we reclassified an immaterial amount of losses into interest and other income (expense), net. Total gross notional amounts and fair values for currency derivatives with cash flow hedge accounting designation are as follows:

	As of June 30, 2013			As of March 31, 2013		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Asset	Liability	Amount	Asset	Liability
Option contracts to purchase	$40	$—	$—	$84	$—	$—
Forward contracts to purchase	8	—	—	—	—	—
Total	$48	$—	$—	$84	$—	$—
Option contracts to sell	$184	$5	$—	$149	$6	$—
Forward contracts to sell	47	—	—	—	—	—
Total	$231	$5	$—	$149	$6	$—

The net impact of the gains and losses from our cash flow hedging activities in our Condensed Consolidated Statements of Operations as of June 30, 2013 and June 30, 2012 was immaterial.

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. As of June 30, 2013, we had foreign currency forward contracts to purchase and sell approximately $391 million in foreign currencies. Of this amount, $241 million represented contracts to sell foreign currencies in exchange for U.S. dollars, $144 million to purchase foreign currency in exchange for U.S. dollars, and $6 million to sell foreign currency in exchange for British pounds sterling. As of March 31, 2013, we had foreign currency forward contracts to purchase and sell approximately $306 million in foreign currencies. Of this amount, $213 million represented contracts to sell foreign currencies in exchange for U.S. dollars, $87 million to purchase foreign currency in exchange for U.S. dollars, and $6 million to sell foreign currency in exchange for British pounds sterling. The fair value of our foreign currency forward contracts was measured using Level 2 inputs and was immaterial as of June 30, 2013 and March 31, 2013.

For the three months ended June 30, 2013, the effect of our balance sheet hedging activities in our Condensed Consolidated Statements of Operations was immaterial, and is included in interest and other income (expense), net. For the three months ended June 30, 2012, the effect of our balance sheet hedging activities resulted in an $8 million gain in our Condensed Consolidated Statements of Operations included in interest and other income (expense), net.

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(5) ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income by component, net of related tax effects for the three months ended June 30, 2013 are as follows (in millions):

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Balances as of March 31, 2013	$ (4)	$—	$73	$69
Other comprehensive income (loss) before reclassifications	(1)	(2)	(12)	(15)
Amounts reclassified from accumulated other comprehensive income	—	2	—	2
Net current-period other comprehensive income (loss)	(1)	—	(12)	(13)
Balances as of June 30, 2013	$ (5)	$—	$61	$56

The effects on net income of amounts reclassified from accumulated other comprehensive income for the three months ended June 30, 2013 was immaterial and included in net revenue and research and development.

(6) BUSINESS COMBINATIONS

During the three months ended June 30, 2013, we completed one acquisition that did not have a significant impact on our Condensed Consolidated Financial Statements.

(7) GOODWILL AND ACQUISITION-RELATED INTANGIBLES, NET

The changes in the carrying amount of goodwill for the three months ended June 30, 2013 are as follows (in millions):

	As of March 31, 2013	Activity	Effects of Foreign Currency Translation	As of June 30, 2013
Goodwill	$2,089	$5	$(4)	$2,090
Accumulated impairment	(368)	—	—	(368)
Total	$1,721	$5	$(4)	$1,722

Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. Goodwill is not amortized, but rather subject to at least an annual assessment for impairment by applying a fair value-based test. Our goodwill is fully attributed to the EA Labels segment.

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

	As of June 30, 2013			As of March 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Acquisition-Related Intangibles, Net
Developed and core technology	$527	$ (339)	$ 188	$527	$ (324)	$ 203
Trade names and trademarks	130	(101)	29	130	(99)	31
Registered user base and other intangibles	87	(85)	2	87	(84)	3
Carrier contracts and related	85	(74)	11	85	(73)	12
In-process research and development	4	—	4	4	—	4
Total	$833	$ (599)	$ 234	$833	$ (580)	$ 253

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Amortization of intangibles for the three months ended June 30, 2013 and 2012 are classified in the Condensed Consolidated Statement of Operations as follows (in millions):

	Three Months Ended June 30, 2013	2012
Cost of product	$9	$9
Cost of service and other	6	6
Operating expenses	4	7
Total	$19	$22

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 two to 14 years. As of June 30, 2013 and March 31, 2013, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 3.7 years and 3.9 years, respectively.

As of June 30, 2013, 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,	
2014 (remaining nine months)	$55
2015	66
2016	53
2017	32
2018	13
2019	8
Thereafter	7
Total	$234

(8) RESTRUCTURING AND OTHER CHARGES

Restructuring and other restructuring plan-related information as of June 30, 2013 was as follows (in millions):

	Fiscal 2013 Restructuring			Fiscal 2011 Restructuring	Other Restructurings and Reorganization	
	Workforce	Facilities-related	Other	Other	Facilities-related	Total
Balances as of March 31, 2012	$—	$—	$—	$75	$ 3	$78
Charges to operations	10	3	9	6	(1)	27
Charges settled in cash	(10)	—	(1)	(24)	(1)	(36)
Changes settled in non-cash	—	(1)	(7)	—	1	(7)
Balances as of March 31, 2013	—	2	1	57	2	62
Charges to operations	—	—	—	1	—	1
Charges settled in cash	—	(1)	—	(1)	—	(2)
Balances as of June 30, 2013	$—	$1	$1	$57	$ 2	$61

Fiscal 2013 Restructuring

In fiscal year 2013, we announced a restructuring plan to align our cost structure with our ongoing digital transformation. Under this plan, we reduced our workforce, terminated licensing agreements, and consolidated or closed various facilities. We completed all actions under this restructuring plan during fiscal year 2013.

Since the inception of the fiscal 2013 restructuring plan through June 30, 2013, we have incurred charges of $22 million, consisting of (1) $10 million in employee-related expenses, (2) $9 million related to license termination costs, and (3) $3 million related to the closure of certain of our facilities. Substantially all of these costs were settled in cash by March 31, 2013, with the exception of approximately $2 million of license and lease termination costs, which will be settled by August 2016. We do not expect to incur any additional restructuring charges under this plan.

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Fiscal 2011 Restructuring

In fiscal year 2011, we announced a plan focused on the restructuring of certain licensing and developer agreements in an effort to improve the long-term profitability of our packaged goods business. Under this plan, we amended certain licensing and developer agreements. To a much lesser extent, as part of this restructuring we had workforce reductions and facilities closures through March 31, 2011. Substantially all of these exit activities were completed by March 31, 2011.

Since the inception of the fiscal 2011 restructuring plan through June 30, 2013, we have incurred charges of $175 million, consisting of (1) $132 million related to the amendment of certain licensing agreements and other intangible asset impairment costs, (2) $31 million related to the amendment of certain developer agreements, and (3) $12 million in employee-related expenses. The $57 million restructuring accrual as of June 30, 2013 related to the fiscal 2011 restructuring is expected to be settled by June 2016. We currently estimate recognizing in future periods through June 2016, approximately $7 million for the accretion of interest expense related to our amended licensing and developer agreements, of which $3 million will be recognized during the remainder of fiscal year 2014. This interest expense will be included in restructuring and other charges in our Condensed Consolidated Statement of Operations.

Overall, including $175 million in charges incurred through June 30, 2013, we expect to incur total cash and non-cash charges between $180 million and $185 million by June 2016. These charges will consist primarily of (1) charges, including accretion of interest expense, related to the amendment of certain licensing and developer agreements and other intangible asset impairment costs (approximately $170 million) and (2) employee-related costs ($12 million).

Other Restructurings and Reorganization

We also engaged in various other restructurings and a reorganization based on management decisions made prior to fiscal 2011. We do not expect to incur any additional restructuring charges under these plans. The $2 million restructuring accrual as of June 30, 2013 related to our other restructuring plans is expected to be settled by September 2016.

(9) 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. 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. Royalty liabilities are classified as current liabilities to the extent such royalty payments are contractually due within the next 12 months.

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 sales. Any impairments or losses determined before the launch of a product are 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 generally using undiscounted cash flows when impairment indicators exist. 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 months ended June 30, 2013, we recognized impairment charges of $17 million on royalty-based assets. During the three months ended June 30, 2012, we recognized losses of $9 million on previously unrecognized minimum

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royalty-based commitments related to our fiscal 2013 restructuring. The losses related to restructuring and other plan-related activities are presented in Note 8.

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 June 30, 2013	As of March 31, 2013
Other current assets	$102	$63
Other assets	95	93
Royalty-related assets	$197	$156

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 recognize unpaid royalty amounts owed 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 June 30, 2013	As of March 31, 2013
Accrued royalties	$85	$103
Other accrued expenses	21	21
Other liabilities	46	46
Royalty-related liabilities	$152	$170

As of June 30, 2013, $1 million of restructuring accruals related to the fiscal 2013 restructuring plan, and $57 million of restructuring accruals related to the fiscal 2011 restructuring plan are included in royalty-related liabilities in the table above. See Note 8 for details of restructuring and other restructuring plan-related activities and Note 10 for the details of our accrued and other current liabilities.

In addition, as of June 30, 2013, we were committed to pay approximately $1,276 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 13 for further information on our developer and licensor commitments.

(10) BALANCE SHEET DETAILS

Inventories

Inventories as of June 30, 2013 and March 31, 2013 consisted of (in millions):

	As of June 30, 2013	As of March 31, 2013
Raw materials and work in process	$—	$1
Finished goods	41	41
Inventories	$41	$42

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Property and Equipment, Net

Property and equipment, net, as of June 30, 2013 and March 31, 2013 consisted of (in millions):

	As of June 30, 2013	As of March 31, 2013
Computer equipment and software	$673	$660
Buildings	332	336
Leasehold improvements	130	129
Office equipment, furniture and fixtures	71	72
Land	63	64
Warehouse equipment and other	10	10
Construction in progress	9	8
	1,288	1,279
Less: accumulated depreciation	(751)	(731)
Property and equipment, net	$537	$548

Depreciation expense associated with property and equipment was $30 million and $28 million for the three months ended June 30, 2013 and 2012, respectively.

Accrued and Other Current Liabilities

Accrued and other current liabilities as of June 30, 2013 and March 31, 2013 consisted of (in millions):

	As of June 30, 2013	As of March 31, 2013
Other accrued expenses	$257	$338
Accrued compensation and benefits	163	217
Accrued royalties	85	103
Deferred net revenue (other)	83	79
Accrued and other current liabilities	$588	$737

Deferred net revenue (other) includes the deferral of subscription revenue, deferrals related to our Switzerland distribution business, 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 $590 million and $1,044 million as of June 30, 2013 and March 31, 2013, respectively. Deferred net revenue (online-enabled games) generally includes the unrecognized revenue from bundled sales of certain online-enabled games for which we do not have VSOE for the obligation to provide unspecified updates. We recognize revenue from the sales 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 beginning in the month after shipment. However, we expense the cost of revenue related to these transactions during the period in which the product is delivered (rather than on a deferred basis).

(11) INCOME TAXES

We estimate our annual effective tax rate at the end of each quarterly period, and we record the tax effect of certain discrete items, which are unusual or occur infrequently, in the interim period in which they occur, including changes in judgment about deferred tax valuation allowances. In addition, jurisdictions with a projected loss for the year, jurisdictions with a year-to-date loss where no tax benefit can be recognized, and jurisdictions where we are unable to estimate an annual effective tax rate are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter depending on the mix and timing of actual earnings versus annual projections.

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statement amount and the tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards. We record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. In making this determination, we are required to give significant weight to evidence that can be objectively verified. It is generally difficult to conclude that a valuation allowance is not needed when there is significant negative evidence, such as cumulative losses in recent years. Forecasts of future taxable income are considered to be less objective than past results, particularly in light of the economic environment. Therefore, cumulative losses weigh heavily in the overall assessment. Based on the assumptions and requirements noted above, we have recorded a valuation allowance against most of our U.S. deferred tax assets. In addition, we expect to provide a valuation allowance on future U.S. tax benefits until we can sustain a level of profitability or until other significant positive evidence arises that suggest that these benefits are more likely than not to be realized.

The provision for income taxes reported for the three months ended June 30, 2013 is based on our projected annual effective tax rate for fiscal year 2014, and also includes certain discrete tax benefits recorded during the period. Our effective tax rate for the three months ended June 30, 2013 was a tax expense of 2.6 percent, as compared to a tax expense of 4.3 percent, for the same period in fiscal year 2013. The effective tax rate for the three months ended June 30, 2013 and June 30, 2012 differs from the statutory rate of 35.0 percent primarily due to the utilization of U.S. deferred tax assets which were subject to a valuation allowance and non-U.S. profits subject to a reduced or zero tax rate. The effective tax rate for the three months ended June 30, 2013 differs from the same period in fiscal year 2012 primarily due to tax benefits related to the expiration of statutes of limitation recorded during the three months ended June 30, 2013.

During the three months ended June 30, 2013, we recorded a net decrease of $2 million in gross unrecognized tax benefits. The total gross unrecognized tax benefits as of June 30, 2013 is $295 million, of which approximately $46 million is offset by prior cash deposits to tax authorities for issues pending resolution. A portion of our unrecognized tax benefits will affect our effective tax rate if they are recognized upon favorable resolution of the uncertain tax positions. As of June 30, 2013, if recognized, approximately $102 million of the unrecognized tax benefits would affect our effective tax rate and approximately $180 million would result in adjustments to deferred tax assets with corresponding adjustments to the valuation allowance.

During the three months ended June 30, 2013, we recorded a net increase in taxes of $1 million for accrued interest and penalties related to tax positions taken on our tax returns. As of June 30, 2013, the combined amount of accrued interest and penalties related to uncertain tax positions included in income tax obligations on our Condensed Consolidated Balance Sheet was approximately $24 million.

The IRS has completed its examination of our federal income tax returns through fiscal year 2008. As of June 30, 2013, the IRS had proposed certain adjustments to our tax returns. The effects of these adjustments have been considered in estimating our future obligations for unrecognized tax benefits and are not expected to have a material impact on our financial position or results of operations. Some of these proposed adjustments are pending resolution by the Appeals division of the IRS. Furthermore, the IRS is currently examining our returns for fiscal years 2009 through 2011.

We are also currently under income tax examination in Canada for fiscal years 2004 and 2005, in Germany for fiscal years 2008 through 2012, and in Italy for fiscal years 2008 through 2011. We remain subject to income tax examination for several other jurisdictions including Canada for fiscal years after 2005, in France for fiscal years after 2011, in Germany for fiscal years after 2012, in the United Kingdom for fiscal years after 2011, and in Switzerland for fiscal years after 2007.

The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Although potential resolution of uncertain tax positions involve multiple tax periods and jurisdictions, it is reasonably possible that a reduction of up to $80 million of the reserves for unrecognized tax benefits may occur within the next 12 months, some of which, depending on the nature of the settlement or expiration of statutes of limitations, may affect our income tax provision (benefit) and therefore benefit the resulting effective tax rate. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements.

(12) FINANCING ARRANGEMENTS

0.75% Convertible Senior Notes Due 2016

In July 2011, we issued $632.5 million aggregate principal amount of 0.75% Convertible Senior Notes due 2016 (the "Notes"). The Notes are senior unsecured obligations which pay interest semiannually in arrears at a rate of 0.75 percent per annum on January 15 and July 15 of each year, beginning on January 15, 2012 and will mature on July 15, 2016, unless earlier purchased or converted in accordance with their terms prior to such date. The Notes are senior in right of payment to any unsecured indebtedness that is expressly subordinated in right of payment to the Notes.

The Notes are convertible into cash and shares of our common stock based on an initial conversion value of 31.5075 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $31.74 per share). Upon conversion of the Notes, holders will receive cash up to the principal amount of each Note, and any excess conversion value will be delivered in shares of our common stock. Prior to April 15, 2016, the Notes are convertible only if (1) the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130 percent of the conversion price ($41.26 per share) on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per $1,000 principal amount of notes falls below 98 percent of the last reported sale price of our common stock multiplied by the conversion rate on each trading day; or (3) specified corporate transactions, including a change in control, occur. On or after April 15, 2016, a holder may convert any of its Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. The conversion rate is subject to customary anti-dilution adjustments (for example, certain dividend distributions or tender or exchange offer of our common stock), but will not be adjusted for any accrued and unpaid interest. The Notes are not redeemable prior to maturity except for specified corporate transactions and events of default, and no sinking fund is provided for the Notes. The Notes do not contain any financial covenants.

We separately account for the liability and equity components of the Notes. The carrying amount of the equity component representing the conversion option is equal to the fair value of the Convertible Note Hedge, as described below, which is a substantially identical instrument and was purchased on the same day as the Notes. The carrying amount of the liability component was determined by deducting the fair value of the equity component from the par value of the Notes as a whole, and represents the fair value of a similar liability that does not have an associated convertible feature. A liability of $525 million as of the date of issuance was recognized for the principal amount of the Notes representing the present value of the Notes' cash flows using a discount rate of 4.54 percent. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the term of the Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for $15 million of issuance costs related to the Notes issuance, we allocated $13 million to the liability component and $2 million to the equity component. Debt issuance costs attributable to the liability component are being amortized to interest expense over the term of the Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

The carrying values of the liability and equity components of the Notes are reflected in our Condensed Consolidated Balance Sheet as follows (in millions):

	As of June 30, 2013	As of March 31, 2013
Principal amount of Notes	$633	$633
Unamortized discount of the liability component	(69)	(74)
Net carrying amount of Notes	$564	$559
Equity component, net	$105	$105

As of June 30, 2013, the remaining life of the Notes is 3.0 years.

Convertible Note Hedge and Warrants Issuance

In addition, in July 2011, we entered into privately negotiated convertible note hedge transactions (the "Convertible Note Hedge") with certain counterparties to reduce the potential dilution with respect to our common stock upon conversion of the Notes. The Convertible Note Hedge, subject to customary anti-dilution adjustments, provides us with the option to acquire, on a net settlement basis, approximately 19.9 million shares of our common stock at a strike price of $31.74, which corresponds to the conversion price of the Notes and is equal to the number of shares of our common stock that notionally underlie the Notes. As of June 30, 2013, we have not purchased any shares under the Convertible Note Hedge. We paid $107 million for the Convertible Note Hedge, which was recorded as an equity transaction.

Separately, in July 2011 we also entered into privately negotiated warrant transactions with the certain counterparties whereby we sold to independent third parties warrants (the "Warrants") to acquire, subject to customary anti-dilution adjustments that are substantially the same as the anti-dilution provisions contained in the Notes, up to 19.9 million shares of our common stock (which is also equal to the number of shares of our common stock that notionally underlie the Notes), with a strike price of $41.14. The Warrants could have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds $41.14 on or prior to the expiration date of the Warrants. We received proceeds of $65 million from the sale of the Warrants.

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Credit Facility

On August 30, 2012, we entered into a $500 million senior unsecured revolving credit facility with a syndicate of banks. The credit facility terminates on February 29, 2016 and contains an option to arrange with existing lenders and/or new lenders for them 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 February 29, 2016.

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 and a minimum level of domestic liquidity.

The credit agreement contains customary events of default, including among others, non-payment defaults, covenant defaults, bankruptcy and insolvency 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 agreement, an obligation by any guarantors to repay the obligations in full and an increase in the applicable interest rate.

As of June 30, 2013, no amounts were outstanding under the credit facility. During the three months ended September 30, 2012, we paid $2 million of debt issuance costs in connection with obtaining this credit facility. These costs are deferred and are being amortized to interest expense over the 3.5 years term of the credit facility.

The following table summarizes our interest expense recognized for the three months ended June 30, 2013 and 2012 that is included in interest and other income (expense), net on our Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended June 30,	
	2013	2012
Amortization of debt discount	$5	$5
Amortization of debt issuance costs	1	1
Coupon interest expense	1	1
Total interest expense	$7	$7

(13) COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of June 30, 2013, 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: FIFA, FIFPRO Foundation, FAPL (Football Association Premier League Limited), and DFL Deutsche

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Fußball Liga GmbH (German Soccer League) (professional soccer); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Augusta National (professional golf); National Hockey League and NHL Players' Association (professional hockey); National Football League Properties, PLAYERS Inc., and Red Bear Inc. (professional football); Collegiate Licensing Company (collegiate football); Zuffa, LLC (Ultimate Fighting Championship); ESPN (content in EA SPORTS games); Hasbro, Inc. (most of Hasbro's toy and game intellectual properties); and Disney (Star Wars). 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 June 30, 2013 (in millions):

		Fiscal Year Ending March 31,						
	Total	2014 (Remaining nine mos.)	2015	2016	2017	2018	2019	Thereafter
Unrecognized commitments								
Developer/licensor commitments	$1,276	$114	$186	$280	$105	$93	$62	$436
Marketing commitments	219	29	50	35	20	20	21	44
Operating leases	161	38	43	33	18	12	8	9
0.75% Convertible Senior Notes due 2016 interest (a)	17	5	5	5	2	—	—	—
Other purchase obligations	32	20	10	2	—	—	—	—
Total unrecognized commitments	1,705	206	294	355	145	125	91	489
Recognized commitments								
0.75% Convertible Senior Notes due 2016 principal (a)	633	—	—	—	633	—	—	—
Licensing and lease obligations (b)	67	21	17	5	22	1	1	—
Total recognized commitments	700	21	17	5	655	1	1	—
Total commitments	$2,405	$227	$311	$360	$800	$126	$92	$489

(a) Included in the $17 million coupon interest on the 0.75% Convertible Senior Notes due 2016 is $2 million of accrued interest recognized as of June 30, 2013. We will be obligated to pay the $632.5 million principal amount of the 0.75% Convertible Senior Notes due 2016 in cash and any excess conversion value in shares of our common stock upon redemption of the Notes at maturity on July 15, 2016 or upon earlier redemption. The $632.5 million principal amount excludes $69 million of unamortized discount of the liability component. See Note 12 for additional information regarding our 0.75% Convertible Senior Notes due 2016.

(b) See Note 8 for additional information regarding recognized commitments resulting from our restructuring plans. Lease commitments have not been reduced for approximately $7 million due in the future from third parties under non-cancelable sub-leases.

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 June 30, 2013; however, certain payment obligations may be accelerated depending on the performance of our operating results.

In addition to what is included in the table above, as of June 30, 2013, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling $256 million, of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

Also, in addition to what is included in the table above as of June 30, 2013, primarily in connection with our PopCap, KlickNation, and Chillingo acquisitions, we may be required to pay an additional $560 million of cash consideration based upon the achievement of certain performance milestones through March 31, 2015. As of June 30, 2013, we have accrued $47

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million of contingent consideration on our Condensed Consolidated Balance Sheet representing the estimated fair value of the contingent consideration.

Legal Proceedings

In June 2008, Geoffrey Pecover filed an antitrust class action in the United States District Court for the Northern District of California, alleging that EA obtained an illegal monopoly in a discreet antitrust market that consists of “league-branded football simulation video games” by bidding for, and winning, exclusive licenses with the NFL, Collegiate Licensing Company and Arena Football League. In December 2010, the district court granted the plaintiffs’ request to certify a class of plaintiffs consisting of all consumers who purchased EA’s Madden NFL, NCAA Football or Arena Football video games after 2005. In May 2012, the parties reached a settlement in principle to resolve all claims related to this action. As a result, we recognized a $27 million accrual for the fourth quarter of fiscal 2012 associated with the potential settlement. In May 2013, the district court granted its final approval of the settlement, following which we paid $27 million into a settlement fund. The district court's decision has been appealed by a class member. None of the $27 million paid into the settlement fund will be disbursed until this appeal is resolved.

In March 2011, Robin Antonick filed a complaint in the United States District Court for the Northern District of California, alleging that he wrote the source code for the original John Madden Football game published by EA in 1988 and that EA used certain parts of that source code in later editions in the Madden franchise without compensating him. On July 23, 2013, a jury found in favor of Mr. Antonick with respect to John Madden Football games released on the Sega Genesis platform between 1990 and 1996. Mr. Antonick seeks compensatory damages for those games in the amount of approximately $3.5 million, plus an additional $8 million in prejudgment interest. The district court will decide the amount of damages owed by EA to Mr. Antonick. We intend to appeal the verdict.

We are a defendant in several actions that allege we misappropriated the likenesses of various college athletes in certain of our college-themed sports games.

- We are defending a putative class action lawsuit brought by Ryan Hart, a former college football player, in the United States District Court for the District of New Jersey in June 2009, which alleges that we misappropriated his likeness in our college-themed football game. The complaint seeks actual damages and other unspecified damages, which have not been quantified. In September 2011, the district court granted our motion to dismiss the complaint. On May 21, 2013, the Third Circuit Court of Appeal reversed the district court's decision and remanded the case back to the district court.
- The In re NCAA Student-Athlete Name & Likeness Licensing litigation pending in United States District Court for the Northern District of California involves two groups of common claims brought by several different former collegiate student-athletes in 2009. These various actions were consolidated into one action in February 2010. The first group of claims is a class action against us, the NCAA and the Collegiate Licensing Company (CLC) alleging that our college-themed videogames misappropriated the likenesses of collegiate student-athletes without their authorization. This group of claims seeks actual damages, statutory damages and other unspecified damages, which have not been quantified. On July 31, 2013, the Ninth Circuit Court of Appeals affirmed the trial court’s denial of our motion to strike the complaint. We intend to appeal this decision. The second group of claims is a federal antitrust class action against us, the NCAA and the CLC that challenges NCAA/CLC licensing practices and the NCAA By-Laws and regulations. This group of claims seeks unspecified damages, which have not been quantified. In June 2013, the plaintiffs in this second group of claims have asked the district court to certify the case as a class action. The district court has not ruled on their request.

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.

(14) STOCK-BASED COMPENSATION

Valuation Assumptions

We are required to estimate the fair value of share-based payment awards on the date of grant. We recognize compensation costs for stock-based payment 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.

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We determine the fair value of our share-based payment awards as follows:

- Restricted Stock Units, Restricted Stock, and Performance-Based Restricted Stock Units. The fair value of restricted stock units, restricted stock, 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. Performance-based restricted stock units include grants made (1) to certain members of executive management primarily granted in fiscal year 2009 and (2) in connection with certain acquisitions.

- 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 ("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 determination of the fair value of market-based restricted stock units, stock options and ESPP 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.

There were no significant stock options granted and no ESPP shares issued during the three months ended June 30, 2013.

The estimated assumptions used in the Monte-Carlo simulation model to value our market-based restricted stock units were as follows:

	Three Months Ended June 30,	
	2013	2012
Risk-free interest rate	0.4%	0.2 - 0.4%
Expected volatility	16 - 58%	17 - 116%
Weighted-average volatility	31%	36%
Expected dividends	None	None

Stock-Based Compensation Expense

Employee stock-based compensation expense recognized during the three months ended June 30, 2013 and 2012 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. In subsequent periods, if actual forfeitures differ from those estimates, an adjustment to stock-based compensation expense will be recognized at that time.

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

	Three Months Ended June 30,	
	2013	2012
Cost of revenue	$—	$1
Research and development [(a)]	20	21
Marketing and sales [(a)]	7	7
General and administrative [(a)]	6	10
Stock-based compensation expense	$33	$39

(a) During the fourth quarter of fiscal year 2013, we reviewed our operating expenses and reclassified certain amounts, primarily headcount and facilities costs, to align with our current operating structure. As a result, we also reclassified the related prior year stock-based compensation expense amounts within our Condensed Consolidated Statements of Operations for comparability purposes. These reclassifications did not affect the Company's total stock-based compensation expense.

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During the three months ended June 30, 2013 and 2012, we did not recognize any provision for or benefit from income taxes related to our stock-based compensation expense.

As of June 30, 2013, our total unrecognized compensation cost related to stock options was $4 million and is expected to be recognized over a weighted-average service period of 2.1 years. As of June 30, 2013, our total unrecognized compensation cost related to restricted stock and restricted stock units (collectively referred to as “restricted stock rights”) was $330 million and is expected to be recognized over a weighted-average service period of 2.0 years. Of the $330 million of unrecognized compensation cost, $23 million relates to market-based restricted stock units.

Stock Options

The following table summarizes our stock option activity for the three months ended June 30, 2013:

	Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of March 31, 2013	7,802	$34.17		
Granted	4	17.30		
Exercised	(1,227)	17.55		
Forfeited, cancelled or expired	(383)	46.39		
Outstanding as of June 30, 2013	6,196	36.70	4.11	$13
Vested and expected to vest	6,165	36.79	4.08	$12
Exercisable as of June 30, 2013	5,844	37.89	3.89	$10

The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of June 30, 2013, 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 Rights

The following table summarizes our restricted stock rights activity, excluding performance-based and market-based restricted stock unit activity discussed below, for the three months ended June 30, 2013:

	Restricted Stock Rights (in thousands)	Weighted-Average Grant Date Fair Value
Balance as of March 31, 2013	15,918	$16.85
Granted	5,980	22.31
Vested	(4,424)	17.46
Forfeited or cancelled	(637)	16.90
Balance as of June 30, 2013	16,837	18.63

The weighted-average grant date fair values of restricted stock rights granted during the three months ended June 30, 2013 and 2012 were $22.31 and $12.53, respectively.

Performance-Based Restricted Stock Units

The following table summarizes our performance-based restricted stock unit activity for the three months ended June 30, 2013:

	Performance-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Balance as of March 31, 2013	1,324	$51.54
Vested	(36)	15.39
Forfeited or cancelled	(125)	49.60
Balance as of June 30, 2013	1,163	52.87

The performance period for substantially all of the performance-based restricted stock units ended on June 30, 2013. These awards were cancelled subsequent to quarter end.

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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 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 received at vesting will range from zero percent to 200 percent of the target number of 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 a three year period. We present shares granted at 100 percent of target of the number of stock units that may potentially vest. The maximum number of common shares that could vest is approximately 1.1 million for market-based restricted stock units granted during the three months ended June 30, 2013. As of June 30, 2013, the maximum number of shares that could vest is approximately 2.1 million for market-based restricted stock units outstanding.

The following table summarizes our market-based restricted stock unit activity for the three months ended June 30, 2013.

	Market-Based Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value
Balance as of March 31, 2013	925	$19.16
Granted	555	29.52
Vested	(304)	16.01
Forfeited or cancelled	(114)	24.93
Balance as of June 30, 2013	1,062	24.86

The weighted-average grant date fair values of market-based restricted stock units granted during the three months ended June 30, 2013 and 2012 were $29.52 and $10.45, respectively.

Stock Repurchase Program

In February 2011, our Board of Directors authorized a program to repurchase up to $600 million of our common stock over the following 18 months. We completed that program in April 2012. We repurchased approximately 32 million shares in the open market under that program, including pursuant to pre-arranged stock trading plans. During three months ended June 30, 2012, we repurchased and retired approximately 4 million shares of our common stock for approximately $71 million under that program.

In July 2012, our Board of Directors authorized a program to repurchase up to $500 million of our common stock. 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 any specific number of shares under this program and it may be modified, suspended or discontinued at any time. During fiscal year 2013, we repurchased and retired approximately 22 million shares of our common stock for approximately $278 million under this program.

During the three months ended June 30, 2013, we did not repurchase any shares of our common stock.

Annual Meeting of Stockholders

At our Annual Meeting of Stockholders, held on July 31, 2013, our stockholders approved (a) amendments to our 2000 Equity Incentive Plan (the "Equity Plan") to increase the number of shares of common stock authorized under the Equity Plan by 18 million shares, and to increase the limit on the number of shares that may be covered by equity awards to new employees under the Equity Plan from a maximum of 2 million shares in the fiscal year of hire to 4 million shares in the fiscal year of hire, and (b) an amendment to the ESPP to increase the number of shares authorized under the ESPP by 7 million shares.

(15) NET INCOME 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, common stock through our ESPP, warrants,

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and other convertible securities using the treasury stock method.

	Three Months Ended June 30,	
(In millions, except per share amounts)	2013	2012
Net income	$222	$201
Shares used to compute net income per share:		
Weighted-average common stock outstanding - basic	304	317
Dilutive potential common shares	8	3
Weighted-average common stock outstanding - diluted	312	320
Net income per share:		
Basic	$0.73	$0.63
Diluted	$0.71	$0.63

Potentially dilutive shares of common stock related to our 0.75% Convertible Senior Notes due 2016 issued during the fiscal year ended March 31, 2012, which have a conversion price of $31.74 per share and the associated Warrants, which have a conversion price of $41.14 per share were excluded from the computation of Diluted EPS for the three months ended June 30, 2013 and 2012 as their inclusion would have had an antidilutive effect resulting from the conversion price. The associated Convertible Note Hedge was excluded from the calculation of diluted shares as the impact is always considered antidilutive since the call option would be exercised by us when the exercise price is lower than the market price. See Note 12 for additional information related to our 0.75% Convertible Senior Notes due 2016 and related Convertible Note Hedge and Warrants.

(16) SEGMENT INFORMATION

Our reporting segment is based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Executive Chairman, our Chief Operating Decision Maker ("CODM"), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations.

Our business is currently organized around our five labels, EA Games, EA SPORTS, Maxis, PopCap and All Play. Our CODM regularly reviews the aggregated results of the five labels to assess overall performance and allocate resources. All five of the labels comprise our operating segment (the "EA Labels" segment) as shown below. To a lesser degree, our CODM also reviews results based on geographic performance.

The following table summarizes the financial performance of the EA Labels segment and a reconciliation of the EA Labels segment's income to our consolidated operating loss for the three months ended June 30, 2013 and 2012 (in millions):

	Three Months Ended June 30,	
	2013	2012
EA Labels segment:		
Net revenue before revenue deferral	$482	$467
Depreciation and amortization	(13)	(16)
Other expenses	(442)	(461)
EA Labels segment profit (loss)	27	(10)
Reconciliation to consolidated operating income:		
Other:		
Revenue deferral	(355)	(315)
Recognition of revenue deferral	809	779
Other net revenue	13	24
Depreciation and amortization	(36)	(34)
Acquisition-related contingent consideration	(7)	20
Restructuring and other charges	(1)	(27)
Stock-based compensation	(33)	(39)

Other expenses	(184)	(183)
Consolidated operating income	$233	$215

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EA Labels segment profit (loss) differs from consolidated operating income primarily due to the exclusion of (1) certain corporate and other functional costs that are not allocated to EA Labels, (2) the deferral of certain net revenue related to online-enabled games (see Note 10 for additional information regarding deferred net revenue (online-enabled games)), and (3) our Switzerland distribution revenue and expenses that is not allocated to EA Labels. Our CODM reviews assets on a consolidated basis and not on a segment basis.

Information about our total net revenue by revenue composition for the three months ended June 30, 2013 and 2012 is presented below (in millions):

	Three Months Ended June 30,	
	2013	2012
Publishing and other	$452	$592
Wireless, Internet-derived, advertising (digital)	482	342
Distribution	15	21
Net revenue	$949	$955

Information about our operations in North America and internationally as of and for the three months ended June 30, 2013 and 2012 is presented below (in millions):

	Three Months Ended June 30,	
	2013	2012
Net revenue from unaffiliated customers		
North America	$395	$450
International	554	505
Net revenue	$949	$955

	As of June 30,	
	2013	2012
Long-lived assets		
North America	$2,001	$2,123
International	492	498
Total	$2,493	$2,621

We attribute net revenue from external customers to individual countries based on the location of the legal entity that sells the products and/or services. Note that revenue attributed to the legal entity that makes the sale is often not the country where the consumer resides. For example, revenue generated in Switzerland includes revenue derived from Internet game downloads by consumers who reside outside of Switzerland, and some of these consumers reside outside of Europe. Revenue generated in Switzerland during the three months ended June 30, 2013 and 2012 represented $403 million and $273 million, or 43 percent and 29 percent, of our total net revenue, respectively. Revenue generated in the United States represents over 99 percent of our total North America net revenue. There were no other countries with net revenue greater than 10 percent.

Our direct sales to GameStop Corp. represented approximately 11 percent of total net revenue for the three months ended June 30, 2012. Our direct sales to GameStop Corp. did not exceed 10 percent of total net revenue during the three months ended June 30, 2013.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Electronic Arts Inc. and subsidiaries (the Company) as of June 29, 2013 and the related condensed consolidated statements of operations, comprehensive income, and cash flows for the three month period ended June 29, 2013 and June 30, 2012. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review 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 March 30, 2013, and the related consolidated statements of operations, comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated May 22, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 30, 2013 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
August 2, 2013

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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, 2013 as filed with the Securities and Exchange Commission ("SEC") on May 22, 2013 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 is important in order to understand our results for the three months ended June 30, 2013, 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, 2013 as filed with the SEC on May 22, 2013 and in other documents we have filed with the SEC.

About Electronic Arts

We develop, market, publish and distribute game software content and services that can be played by consumers on a variety of platforms, including video game consoles (such as the Sony PLAYSTATION 3 and Microsoft Xbox 360), personal computers, mobile devices (such as the Apple iPhone and Google Android compatible phones), tablets and electronic readers (such as the Apple iPad and Amazon Kindle), and the Internet. Our ability to publish games across multiple platforms, through multiple distribution channels, and directly to consumers (online and wirelessly) has been, and will continue to be, a cornerstone of our product strategy. We have generated substantial growth in new business models and alternative revenue streams (such as subscription, micro-transactions, and advertising) based on the continued expansion of our online and wireless product and service offerings. Some of our games are based on our wholly-owned intellectual property (e.g., Battlefield, Mass Effect, Need for Speed, The Sims, Bejeweled, and Plants v. Zombies), and some of our games are based on content that we license from others (e.g., FIFA and Madden NFL). Our goal is to turn our core intellectual properties into year-round businesses available on a range of platforms. Our products and services may be purchased through physical and online retailers, platform providers such as console manufacturers and mobile carriers via digital downloads, as well as directly through our own distribution platform, including online portals such as Origin.

Financial Results

Total net revenue for the three months ended June 30, 2013 was $949 million, a decrease of $6 million, or 1 percent, as compared to the three months ended June 30, 2012. At June 30, 2013, deferred net revenue associated with sales of online-enabled games decreased by $454 million as compared to March 31, 2013, directly increasing the amount of reported net revenue during the three months ended June 30, 2013. At June 30, 2012, deferred net revenue associated with sales of online-enabled games decreased by $464 million as compared to March 31, 2012, directly increasing the amount of reported net revenue during the three months ended June 30, 2012. Without this change in deferred net revenue, reported net revenue would have increased by approximately $4 million, or 1 percent, during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. Net revenue for the three months ended June 30, 2013 was driven by FIFA 2013, Battlefield 3, and Need for Speed Most Wanted.

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Net income for the three months ended June 30, 2013 was $222 million as compared to $201 million for the three months ended June 30, 2012. Diluted earnings per share for the three months ended June 30, 2013 was $0.71 as compared to a diluted earnings per share of $0.63 for the three months ended June 30, 2012. Net income increased for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 primarily as a result of (1) a $5 million increase in gross profit, (2) a $40 million decrease in operating expenses, excluding acquisition-related contingent consideration charges, and (3) a $3 million decrease in the provision for income taxes. This increase in net income was partially offset by an increase of $27 million of acquisition-related contingent consideration charges.

Trends in Our Business

Next-generation Console Systems. Both Microsoft and Sony have announced their plans to release new video game console systems in November 2013. EA is investing in products and services for these next-generation consoles. In the near term, we expect to continue to develop and market products and services for current-generation consoles including the Xbox 360 and PLAYSTATION 3 while also developing products and services for next-generation console systems. The success of our products and services for these next generation consoles depends in part on the commercial success and adequate supply of these new consoles, our ability to accurately predict which platforms will be successful in the marketplace, and our ability to develop commercially successful products and services for these platforms.

Digital Content Distribution and Services. Consumers are spending an ever-increasing portion of their money and time on interactive entertainment that is accessible online, or through mobile digital devices such as smart phones, or through social networks such as Facebook. We provide a variety of online-delivered products and services including those available through our Origin platform. Many of our games that are available as packaged goods products are also available through direct online download via the Internet. We also offer online-delivered content and services that are add-ons or related to our packaged goods products such as additional game content or enhancements of multiplayer services. Further, we provide other games, content and services that are available only via electronic delivery, such as Internet-only games and game services, and games for mobile devices.

We significantly increased the revenue that we derive from wireless, Internet-derived and advertising (digital) products and services from $1,159 million in fiscal year 2012 to $1,440 million in fiscal year 2013 and we expect this portion of our business to continue to grow in fiscal 2014 and beyond.

Wireless and Internet Platforms; Casual and Mobile Games. Advances in technology have resulted in a variety of platforms for interactive entertainment. Examples include wireless technologies, streaming game services, and Internet-based platforms. These technologies, services and platforms grow the consumer base for our business and have led to the growth of casual and mobile gaming. Casual and mobile games are characterized by their mass appeal, simple controls, flexible monetization (including free-to-play and micro-transaction business models) and fun and approachable gameplay. These games appeal to a larger consumer demographic - including younger and older players and more female players - than video games played on console devices. We expect sales of casual and mobile games for wireless and other emerging platforms to continue to be an important part of our business.

Concentration of Sales Among the Most Popular Games. We see a larger portion of packaged goods games sales concentrated on the most popular titles, and those titles are typically sequels of prior games. We have responded to this trend by significantly reducing the number of games that we produce to provide greater focus on our most promising intellectual properties. We published 36 primary packaged goods titles in fiscal year 2011, 22 in fiscal year 2012, 13 in fiscal year 2013, and in fiscal year 2014, we expect to release 11 major titles.

Evolving Sales Patterns. Our business has evolved from a traditional packaged goods business model to one where our games are played on a variety of platforms including mobile devices and social networking sites. Our strategy is to transform our core intellectual properties into year-round businesses, with a steady flow of downloadable content and extensions on new platforms. Our increasingly digital, multi-platform business no longer reflects the retail sales patterns associated with traditional packaged goods launches. For example, we offer our consumers additional services and/or additional content available through online services to further enhance the gaming experience and extend the time that consumers play our games after their initial purchase. Our casual and mobile games offer free-to-play and micro-transaction models. The revenue we derive from these services has become increasingly more significant year-over-year. Our service revenue represented 24 percent, 13 percent, and 8 percent of total net revenue in fiscal years 2013, 2012, and 2011, respectively.

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Recent Developments

Stock Repurchase Program. In July 2012, our Board of Directors authorized a program to repurchase up to $500 million of our common stock. 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 any specific number of shares under this program and it may be modified, suspended or discontinued at any time. During fiscal year 2013, we repurchased and retired approximately $22 million shares of our common stock for approximately $278 million under this program. During the three months ended June 30, 2013, we did not repurchase any shares of our common stock.

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 (1) video game consoles (such as the PLAYSTATION 3 and Xbox 360) and PCs, (2) mobile devices (such as the Apple iPhone and Google Android compatible phones), and (3) tablets and electronic readers (such as the Apple iPad and Amazon Kindle). 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 content, whether delivered via a physical disc (e.g., packaged goods) or via the Internet (e.g., full-game downloads, micro-transactions), 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, 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 and games or related content that requires our hosting support in order to utilize the game or related content (i.e., cannot be played without an Internet connection). This includes (1) entitlements to content that are accessed through hosting services (e.g., micro-transactions for Internet-based, social network and mobile games), (2) massively multi-player online (“MMO”) games (both software game and subscription sales), (3) subscriptions for our Pogo-branded online game services, and (4) allocated service revenue from sales of software games with an online service element (i.e., “matchmaking” service). Our other revenue includes advertising and non-software licensing revenue.

With respect to the allocated service revenue from sales of software games with a matchmaking service 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 matchmaking service with the residual value allocated to product revenue. Our estimate of the selling price of the matchmaking service is comprised of several factors including, but not limited to, prior selling prices for the matchmaking service, 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 matchmaking service on a regular basis and use this methodology consistently to allocate revenue between product and service for software game sales with a matchmaking service.

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.

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- 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. 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.

Online-Enabled Games

The majority of our software games can be connected to the Internet 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 an online matchmaking service that permits consumers to play against each other via the Internet without a separate fee. U.S. GAAP requires us to account for the consumer’s right to receive unspecified updates or the matchmaking service for no additional fee as a “bundled” sale, or multiple-element arrangement.

We have an established historical pattern of providing unspecified updates to online-enabled games (e.g., player roster updates to Madden NFL 13) at no additional charge to the consumer. We do not have vendor-specific objective evidence of fair value (“VSOE”) for these unspecified updates, and thus, as required by U.S. GAAP, we recognize revenue from the sale of these online-enabled games over the period we expect to offer the unspecified updates to the consumer (“estimated offering period”).

Estimated Offering Period

The offering period is not an explicitly defined period and thus, we recognize revenue over an estimated offering period, which is generally estimated to be six months beginning in the month after delivery.

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, 2013, we evaluate all online-enabled games released between April 1, 2011 and March 31, 2012. 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. Based on the sum of these two calculations, we then consider the results from prior years, known online gameplay trends, as well as disclosed service periods for competitors’ games to determine the estimated offering period for future sales. Similar computations are also made for the estimated service period related to our MMO games, which is generally estimated to be eighteen months. While we have not yet completed our fiscal year 2014 evaluation of our estimated offering period, we anticipate our weighted-average estimated offering period for our products and services to be longer than our historical experience of generally six months as consumers are spending more time playing our games online. We expect the weighted-average estimated offering period to be between six to nine months for all new sales beginning in the second quarter of fiscal year 2014.

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.

Other Multiple-Element Arrangements

In some of our multiple-element arrangements, we sell tangible products with software and/or software-related offerings. These tangible products are generally either 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

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software deliverable, the arrangement consideration is allocated to the software deliverables as a group and then allocated to each software deliverable in accordance with ASC 985-605.

We determine the selling price for a tangible product deliverable based on the following selling price hierarchy: VSOE (i.e., the price we charge when the tangible product is sold separately) if available, third-party evidence ("TPE") of fair value (i.e., the price charged by others for similar tangible 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. In accordance with ASC 605, 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.

Sales Returns and Allowances and Bad Debt Reserves

We reduce revenue primarily 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 in the channel. 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 partner's 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, 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.

Fair Value Estimates

The preparation of financial statements in conformity with U.S. GAAP often requires us to determine the fair value of a particular item in order to fairly present our financial statements. Without an independent market or another representative transaction, determining the fair value of a particular item requires us to make several assumptions that are inherently difficult to predict and can have a material impact on the accounting.

There are various valuation techniques used to estimate fair value. These include (1) the market approach where market transactions for identical or comparable assets or liabilities are used to determine the fair value, (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present value amount, and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which require us to make various estimates including, but not limited to (1) the potential future cash flows for the asset or liability being measured, (2) the timing of receipt or payment of those future cash flows, (3) the time value of money associated with the expected receipt or payment of such cash flows, and (4) the

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inherent risk associated with the cash flows (risk premium). Making these cash flow estimates is inherently difficult and subjective, and if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively impacted. Furthermore, relatively small changes in many of these estimates can have a significant impact to the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired.

While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to these assessments:

Business Combinations. We must estimate the fair value of assets acquired, liabilities and contingencies assumed, acquired in-process technology, and contingent consideration issued in a business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various estimated useful lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount we recognize as goodwill, which is an asset that is not amortized. Determining the fair value of assets acquired requires an assessment of the highest and best use or the expected price to sell the asset and the related expected future cash flows. Determining the fair value of acquired in-process technology also requires an assessment of our expectations related to the use of that asset. Determining the fair value of an assumed liability requires an assessment of the expected cost to transfer the liability. Determining the fair value of contingent consideration requires an assessment of the probability-weighted expected future cash flows over the period in which the obligation is expected to be settled, and applying a discount rate that appropriately captures the risk associated with the obligation. The significant unobservable input used in the fair value measurement of the contingent consideration payable are forecasted earnings. Significant changes in forecasted earnings would result in significantly higher or lower fair value measurement. This fair value assessment is also required in periods subsequent to a business combination. Such estimates are inherently difficult and subjective and can have a material impact on our Condensed Consolidated Financial Statements.

Assessment of Impairment of Goodwill, Intangibles, and Other Long-Lived Assets. Current accounting standards require that we assess the recoverability of our finite lived acquisition-related intangible assets and other long-lived assets whenever events or changes in circumstances indicate the remaining value of the assets recorded on our Condensed Consolidated Balance Sheets is potentially impaired. In order to determine if a potential impairment has occurred, management must make various assumptions about the estimated fair value of the asset by evaluating future business prospects and estimated future cash flows. For some assets, our estimated fair value is dependent upon predicting which of our products will be successful. This success is dependent upon several factors, which are beyond our control, such as which operating platforms will be successful in the marketplace. Also, our revenue and earnings are dependent on our ability to meet our product release schedules.

In assessing impairment on our goodwill, we first analyze qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The qualitative factors we assess include long-term prospects of our performance, share price trends, and Company specific events. If we conclude it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, we do not need to perform the two-step impairment test. If based on that assessment, we believe it is more likely than not that the fair value of the reporting unit is less than its carrying value, a two-step goodwill impairment test will be performed. The first step measures for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to the individual assets and liabilities within each reporting unit. Reporting units are determined by the components of operating segments that constitute a business for which (1) discrete financial information is available and (2) segment management regularly reviews the operating results of that component. We determined that it was more likely than not that the fair value of our reporting unit exceeded its carrying amount, and, as such, we did not need to perform the two-step impairment test.

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To determine the fair value of each reporting unit used in the first step, we use the market approach, which utilizes comparable companies' data, the income approach, which utilizes discounted cash flows, or a combination thereof. Determining whether an event or change in circumstances does or does not indicate that the fair value of a reporting unit is below its carrying amount is inherently subjective. Each step requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include long-term growth rates, tax rates, and operating margins used to calculate projected future cash flows, risk-adjusted discount rates based on a weighted average cost of capital, future economic and market conditions and determination of appropriate market comparables. As of our last annual assessment of goodwill in the fourth quarter of fiscal year 2013, we concluded that the estimated fair value of our reporting unit significantly exceeded its carrying amount and we have not identified any indicators of impairment since that assessment. Our estimates for market growth, our market share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business.

Our business consists of developing, marketing and distributing video game software using both established and emerging intellectual properties and our forecasts for emerging intellectual properties are based upon internal estimates and external sources rather than historical information and have an inherently higher risk of inaccuracy. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

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 we expect to sell, which can be impacted by a number of variables, including product quality, 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. Royalty liabilities are classified as current liabilities to the extent such royalty payments are contractually due within the next 12 months.

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 sales. Any impairments or losses determined before the launch of a product are 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 generally using undiscounted cash flows when impairment indicators exist. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when

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

In addition to considering forecasts of future taxable income, we are also required to evaluate and quantify other possible sources of taxable income in order to assess the realization of our deferred tax assets, namely the reversal of existing deferred tax liabilities, the carry back 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. Certain taxable temporary differences that are not expected to reverse during the carry forward periods permitted by tax law cannot be considered as a source of future taxable income that may be available to realize the benefit of deferred tax assets.

Based on the assumptions and requirements noted above, we have recorded a valuation allowance against most of our U.S. deferred tax assets. In addition, we expect to provide a valuation allowance on future U.S. tax benefits until we can sustain a level of profitability in the United States, or until other significant positive evidence arises that suggest that these benefits are more likely than not to be realized.

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 of the jurisdictions 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 actually 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 income tax rate.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States, and accordingly, no U.S. taxes have been provided thereon. We currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries outside of the United States.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 220): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments of this ASU require that entities that have an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law. The disclosure requirements will be effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2013, and will require prospective application.

Early adoption is permitted. We expect to adopt this new standard in the first quarter of fiscal year 2015. While not yet quantified, we anticipate the adoption may have a material impact on the balance sheet only, resulting in equal reductions to both deferred tax assets and noncurrent income tax obligations.

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 years ending or ended, as the case may be, March 31, 2014 and 2013 contain 52 weeks each and ends or ended, as the case may be, on March 29, 2014 and March 30, 2013, respectively. Our results of operations for the three months ended June

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30, 2013 and 2012 contained 13 weeks each and ended on June 29, 2013 and June 30, 2012, 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 packaged goods or as digital downloads and designed for play on video game consoles (such as the PLAYSTATION 3 and Xbox 360) and PCs, (2) video games for mobile devices (such as the Apple iPhone and Google Android compatible phones), (3) video games for tablets and electronic readers (such as the Apple iPad and Amazon Kindle), (4) separate software products and content and online game services associated with these products, (5) programming third-party websites with our game content, (6) allowing other companies to manufacture and sell our products in conjunction with other products, and (7) advertisements on our online web pages and in our games.

We provide three different measures of our Net Revenue. Two of these measures are presented in accordance with U.S. GAAP - (1) Net Revenue by Product revenue and Service and other revenue and (2) Net Revenue by Geography. The third measure is a non-GAAP financial measure - Net Revenue before Revenue Deferral by Revenue Composition, which is primarily based on method of distribution. We use this third non-GAAP financial measure internally to evaluate our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team.

Management places a greater emphasis and focus on assessing our business through a review of the Net Revenue before Revenue Deferral by Revenue Composition than by Net Revenue by Product revenue and Service and other revenue. These two measures differ as (1) Net Revenue by Product revenue and Service and other revenue reflects the deferral and recognition of revenue in periods subsequent to the date of sale due to U.S. GAAP while Net Revenue before Revenue Deferral by Revenue Composition does not, and (2) both measures contain a different aggregation of sales from one another. For instance, Service and other revenue does not include a portion of our full-game digital download and mobile sales that are fully included in our Digital revenue. Further, Service and other revenue includes all of our revenue associated with MMO games while software sales associated with our MMOs are included in either Digital revenue or Publishing and other revenue depending on whether the sale was a full-game digital download or a packaged goods sale.

Net Revenue Quarterly Analysis

Net Revenue

For the three months ended June 30, 2013, Net Revenue was $949 million and decreased $6 million, or 1 percent, as compared to the three months ended June 30, 2012. This decrease was driven by a $296 million decrease in revenue primarily from the Battlefield, Mass Effect, and FIFA Street franchises. This decrease was partially offset by a $290 million increase in revenue primarily from the FIFA, SimCity, Crysis, and Dead Space franchises.

Net Revenue by Product Revenue and Service and Other Revenue

Our total net revenue by product revenue and service and other revenue for the three months ended June 30, 2013 and 2012 was as follows (in millions):

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Net revenue:				
Product	$543	$702	$(159)	(23)%
Service and other	406	253	153	60%
Total net revenue	$949	$955	$(6)	(1)%

Product Revenue

For the three months ended June 30, 2013, product revenue was $543 million, primarily driven by FIFA 2013, Need for Speed Most Wanted, and Crysis 3. Product revenue for the three months ended June 30, 2013 decreased $159 million, or 23 percent, as compared to the three months ended June 30, 2012. This decrease was driven by a $328 million decrease primarily from the Battlefield, Mass Effect, and FIFA Street franchises. This decrease was partially offset by a $169 million increase primarily from the Crysis, Dead Space, and FIFA franchises.

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Service and Other Revenue

For the three months ended June 30, 2013, service and other revenue was $406 million, primarily driven by FIFA 13 Ultimate Team and SimCity, as well as Battlefield 3 Premium subscriptions. Service and other revenue for the three months ended June 30, 2013 increased $153 million, or 60 percent, as compared to the three months ended June 30, 2012. This increase was driven by a $184 million increase primarily from the SimCity, Battlefield, and FIFA franchises. This increase was partially offset by a $31 million decrease primarily from lower subscription revenue from Star Wars: The Old Republic, as well as Pogo-branded online game services and The Sims franchise.

Net Revenue by Geography

We attribute net revenue from external customers to individual countries based on the location of the legal entity that sells the products and/or services. Note that revenue attributed to the legal entity that makes the sale is often not the country where the consumer resides. For example, revenue generated in Switzerland includes revenue derived from Internet game downloads by consumers who reside outside of Switzerland, and some of these consumers reside outside of Europe. Revenue generated in Switzerland during the three months ended June 30, 2013 and 2012 represented $403 million and $273 million, or 43 percent and 29 percent, of our total net revenue, respectively. Revenue generated in the United States represents over 99 percent of our total North America net revenue. There were no other countries with net revenue greater than 10 percent.

	Three Months Ended June 30,			
(In millions)	2013	2012	$ Change	% Change
North America	$395	$450	$(55)	(12)%
International	554	505	49	10%
Total net revenue	$949	$955	$(6)	(1)%

Net revenue in North America was $395 million, or 42 percent of total net revenue for the three months ended June 30, 2013, compared to $450 million, or 47 percent of total net revenue for the three months ended June 30, 2012, a decrease of $55 million, or 12 percent. Net revenue in North America decreased primarily due to decreased revenue in our Mass Effect, Battlefield and SSX franchises, partially offset by increased revenue in our Dead Space, Crysis, and SimCity franchises during the three months ended June 30, 2013. International net revenue was $554 million, or 58 percent of total net revenue during the three months ended June 30, 2013, compared to $505 million, or 53 percent of total net revenue during the three months ended June 30, 2012, an increase of $49 million, or 10 percent. We estimate that foreign exchange rates (primarily due to the Swiss Franc) decreased reported International net revenue by approximately $8 million, or 2 percent, for the three months ended June 30, 2013. Excluding the effect of foreign exchange rates from International net revenue, we estimate that International net revenue increased by approximately $57 million, or 11 percent, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. International net revenue increased primarily due to our FIFA, SimCity, and Crysis franchises, partially offset by decreased revenue in our Battlefield, Mass Effect, and FIFA Street franchises during the three months ended June 30, 2013.

Supplemental Net Revenue by Revenue Composition

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

Net Revenue before Revenue Deferral, a non-GAAP financial measure, is provided in this section of MD&A, including a discussion of the components of this measure: (1) publishing and other, (2) wireless, Internet-derived, and advertising (digital), and (3) distribution. See “Non-GAAP Financial Measures” below for an explanation of our use of this non-GAAP financial measure. A reconciliation to the corresponding measure calculated in accordance with U.S. GAAP is provided in the discussion below.

“Revenue Deferral” in this “Net Revenue” section generally includes the unrecognized revenue from bundled sales of certain online-enabled games for which we do not have VSOE for the unspecified updates. Fluctuations in the Revenue Deferral are largely dependent upon the amounts of products that we sell with the online features and services previously discussed, while the Recognition of Revenue Deferral for a period is also dependent upon (1) the amount deferred, (2) the period of time the software-related offerings are to be provided, and (3) the timing of the sale. For example, most Revenue Deferrals incurred in the first half of a fiscal year are recognized within the same fiscal year; however, substantially all of the Revenue Deferrals incurred in the last month of a fiscal year will be recognized in the subsequent fiscal year.

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Our total net revenue by revenue composition for the three months ended June 30, 2013 and 2012 was as follows (in millions):

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Publishing and other	$102	$146	$(44)	(30)%
Wireless, Internet-derived, and advertising (digital)	378	324	54	17%
Distribution	15	21	(6)	(29)%
Net Revenue before Revenue Deferral	495	491	4	1%
Revenue Deferral	(355)	(315)	(40)	13%
Recognition of Revenue Deferral	809	779	30	4%
Total net revenue	$949	$955	$(6)	(1)%

Net Revenue before Revenue Deferral

Publishing and Other Revenue

Publishing and other revenue includes (1) sales of our internally-developed and co-published game software distributed physically through traditional channels such as brick and mortar retailers, (2) our non-software licensing revenue, and (3) our software licensing revenue from third parties (for example, makers of personal computers or computer accessories) who include certain of our products for sale with their products ("OEM bundles").

For the three months ended June 30, 2013, publishing and other Net Revenue before Revenue Deferral was $102 million, primarily driven by FIFA 2013, Battlefield 3, and Sims 3 Island Paradise. Publishing and other Net Revenue before Revenue Deferral for the three months ended June 30, 2013 decreased $44 million, or 30 percent, as compared to the three months ended June 30, 2012. This decrease was driven by a $74 million decrease in sales primarily from the FIFA Street, Battlefield and FIFA franchises. This decrease was partially offset by a $30 million increase in sales primarily from the Mass Effect and Army of Two franchises, as well as Star Wars: The Old Republic.

Wireless, Internet-derived, and Advertising (Digital) Revenue

Digital revenue includes revenue from sales of our internally-developed and co-published game software distributed through direct download through the Internet, including through our direct-to-consumer platform Origin, or distributed wirelessly through mobile carriers. This includes our full-game downloads, mobile and tablet revenue (each of which are generally classified as product revenue with the exception of our MMO game downloads and freemium mobile games which are classified as service revenue) as well as subscription services, micro-transactions, and advertising revenues (each of which is generally classified as service and other revenue).

For the three months ended June 30, 2013, digital Net Revenue before Revenue Deferral was $378 million, an increase of $54 million, or 17 percent, as compared to the three months ended June 30, 2012. This increase is due to (1) a $46 million or 35 percent increase in extra content and free-to-play sales primarily driven by the FIFA franchise and Star Wars: The Old Republic, (2) a $24 million or 30 percent increase in mobile sales primarily driven by The Simpsons: Tapped Out, and (3) a $4 million or 12 percent increase in full-game download sales primarily driven by the Battlefield franchise. These increases were partially offset by a $20 million or 25 percent decrease in subscription and advertising sales primarily driven by Star Wars: The Old Republic.

Distribution Revenue

Distribution revenue includes (1) sales of game software developed by independent game developers that we distribute and (2) sales through our Switzerland distribution business. For the three months ended June 30, 2013, distribution net revenue was $15 million and decreased $6 million, or 29 percent, as compared to the three months ended June 30, 2012. This decrease was primarily driven by a decrease in sales from our Switzerland distribution business.

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Revenue Deferral

Revenue Deferral for the three months ended June 30, 2013 increased $40 million, or 13 percent, as compared to the three months ended June 30, 2012. This increase was primarily due to a $54 million increase in Net Revenue before Revenue Deferral related to our digital sales, which is deferred and recognized over time, due in part to a $46 million increase in extra content and free-to-play sales and a $24 million increase in mobile sales, all of which contain an online service component which requires revenue recognition over the period of time that the service is delivered.

Recognition of Revenue Deferral

Our non-distribution sales are generally deferred and recognized over a weighted-average six-month period, and therefore, the related revenue recognized during the fiscal quarter ended June 30 is primarily due to sales that occurred during the respective three-month period ended March 31. The Recognition of Revenue Deferral for the three months ended June 30, 2013 increased $30 million, or 4 percent, as compared to the three months ended June 30, 2012. This increase was primarily due to higher sales during the quarter ended March 31, 2013 as compared to the same period in the prior year.

We anticipate that our fiscal year 2014 net revenue will be lower than our fiscal year 2013 net revenue as a result of a change in our estimated offering period, partially offset by an increase in sales. While we have not yet completed our fiscal year 2014 evaluation of our estimated offering period, we anticipate our weighted-average estimated offering period for our products and services to be longer than our historical experience of generally six months as consumers are spending more time playing our games online. We do not expect this change in estimated offering period to impact the amount of Net Revenue before Revenue Deferral or the operating cash flows that we report. We expect net revenue to be up to $500 million lower than Net Revenue Before Deferral in fiscal year 2014 due primarily to the change in our estimated offering period.

Product Revenue and Service and Other Revenue by Revenue Composition

Our product and service and other revenue by revenue composition for the three months ended June 30, 2013 and 2012 was as follows (in millions):

	Three Months Ended June 30,	
	2013	2012
Product revenue:		
Publishing and other	$394	$565
Wireless, Internet-derived, and advertising (digital)	134	116
Distribution	15	21
Total product revenue	543	702
Service and other revenue:		
Publishing and other	58	27
Wireless, Internet-derived, and advertising (digital)	348	226
Total service and other revenue	406	253
Total net revenue	$949	$955

Non-GAAP Financial Measures

Net Revenue before Revenue Deferral is a non-GAAP financial measure that excludes the impact of Revenue Deferral and the Recognition of Revenue Deferral on Net Revenue related to sales of games and digital content.

We believe that excluding the impact of Revenue Deferral and the Recognition of Revenue Deferral related to games and digital content from our operating results is important to facilitate comparisons between periods in understanding our underlying sales performance for the period, and understanding our operations because all related costs of revenues are expensed as incurred instead of deferred and recognized ratably. We use this non-GAAP financial measure internally to evaluate our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team. While we believe that this non-GAAP financial measure is useful in evaluating our business, this information should be

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considered as supplemental in nature and is not meant to be considered in isolation from or as a substitute for the related financial information prepared in accordance with GAAP. In addition, this non-GAAP financial measure may not be the same as non-GAAP financial measures presented by other companies.

Cost of Revenue

Total cost of revenue for the three months ended June 30, 2013 and 2012 was as follows (in millions):

	June 30, 2013	% of Related Net Revenue	June 30, 2012	% of Related Net Revenue	% Change	Change as a % of Related Net Revenue
Cost of revenue:						
Product	$130	23.9 %	$132	18.8 %	(1.5)%	5.1 %
Service and other	64	15.8 %	73	28.9 %	(12.3)%	(13.1)%
Total cost of revenue	$194	20.4 %	$205	21.5 %	(5.4)%	(1.1)%

Cost of Product Revenue

Cost of product revenue consists of (1) product costs, (2) certain royalty expenses for celebrities, professional sports and other organizations, and independent software developers, (3) manufacturing royalties, net of volume discounts and other vendor reimbursements, (4) expenses for defective products, (5) write-offs of post launch prepaid royalty costs, (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.
During the three months ended June 30, 2013, cost of product revenue remained relatively consistent as compared to the three months ended June 30, 2012. Cost of product revenue as a percentage of related revenue increased to 23.9 percent primarily due to a $17 million impairment on royalty-based assets during the three months ended June 30, 2013.

Cost of Service and Other Revenue

Cost of service and other revenue consists primarily of (1) data center and bandwidth costs associated with hosting our online games and websites, (2) associated royalty costs, (3) credit card fees associated with our service revenue, (4) server costs related to our website advertising business, and (5) platform processing fees from operating our website-based games on third-party platforms.

Cost of service and other revenue decreased by $9 million, or 12.3 percent in the three months ended June 30, 2013, as compared to the three months ended June 30, 2012. The decrease was primarily due to a decrease in server and support costs related to Star Wars: The Old Republic, partially offset by an increase in royalties costs primarily associated with The Simpsons: Tapped Out.

Total Cost of Revenue as a Percentage of Total Net Revenue

During the three months ended June 30, 2013, total cost of revenue as a percentage of total net revenue decreased by 1.1 percent as compared to the three months ended June 30, 2012. This decrease as a percentage of net revenue was primarily due to (1) a 29 percent decrease in distribution revenue which has higher costs and (2) a 41 percent increase in net revenue from our digital products and services that have a lower cost than our publishing and other products.
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 the development of website content, software licenses and maintenance, network infrastructure and management overhead.

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Research and development expenses for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue		June 30, 2012	% of Net Revenue		$ Change		% Change	
$278	29	%	$282	30	%	$(4	)	(1	)%

Research and development expenses decreased by $4 million, or 1 percent, during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012, primarily due to a $7 million decrease in contracted services and a $4 million decrease in personnel-related costs. This was partially offset by an $8 million increase in IT and facility-related costs.

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 months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue		June 30, 2012	% of Net Revenue		$ Change		% Change	
$147	15	%	$151	16	%	$(4	)	(3	)%

Marketing and sales expenses decreased by $4 million, or 3 percent, during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012, primarily due to a $5 million decrease in contracted services.

General and Administrative

General and administrative expenses consist of personnel and related expenses of executive and administrative staff, related overhead costs, fees for professional services such as legal and accounting, and allowances for doubtful accounts.

General and administrative expenses for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue		June 30, 2012	% of Net Revenue		$ Change		% Change	
$85	9	%	$88	9	%	$(3	)	(3	)%

General and administrative expenses decreased $3 million, or 3 percent, during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012 primarily due to an $8 million decrease in contracted services in connection with litigation matters and IT-related costs incurred in the prior year. This was partially offset by a $4 million increase in personnel-related costs including termination costs.

Acquisition-Related Contingent Consideration

Acquisition-related contingent consideration for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue		June 30, 2012		% of Net Revenue		$ Change	% Change	
$7	1	%	$(20	)	(2	)%	$27	135	%

During the three months ended June 30, 2013, acquisition-related contingent consideration increased by $27 million, or 135 percent, as compared to the three months ended June 30, 2012, primarily resulting from revisions in our accrual related to our PopCap acquisition.

Amortization of Intangibles

Amortization of intangibles for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue		June 30, 2012	% of Net Revenue		$ Change		% Change	
$4	—	%	$7	1	%	$(3	)	(43	)%

During the three months ended June 30, 2013, amortization of intangibles decreased by $3 million, or 43 percent, as compared to the three months ended June 30, 2012, primarily due to certain intangible assets from our prior acquisitions being fully amortized during the first half of fiscal year 2013.

Restructuring and Other Charges

Restructuring and other charges for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue	June 30, 2012	% of Net Revenue	$ Change	% Change
$1	— %	$27	3 %	$(26)	(96)%

During the three months ended June 30, 2013, restructuring and other charges decreased by $26 million, or 96 percent, as compared to the three months ended June 30, 2012, primarily due to no new restructuring initiatives occurring in the current fiscal year. See the "Liquidity and Capital Resources" section on page 45 for additional information regarding our previous restructuring plans.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	% of Net Revenue	June 30, 2012	% of Net Revenue	$ Change	% Change
$(5)	(1)%	$(5)	(1)%	$—	— %

During the three months ended June 30, 2013, interest and other income (expense), net remained relatively consistent as compared to the three months ended June 30, 2012.

Income Taxes

Provisions for income taxes for the three months ended June 30, 2013 and 2012 were as follows (in millions):

June 30, 2013	Effective Tax Rate	June 30, 2012	Effective Tax Rate	% Change
$6	2.6 %	$9	4.3 %	(33 %)

The provision for income taxes reported for the three months ended June 30, 2013 is based on our projected annual effective tax rate for fiscal year 2014, and also includes certain discrete tax benefits recorded during the period. Our effective tax rate for the three months ended June 30, 2013 was a tax expense of 2.6 percent, as compared to a tax expense of 4.3 percent, for the same period of fiscal 2013. The effective tax rate for the three months ended June 30, 2013 and June 30, 2012 differs from the statutory rate of 35.0 percent primarily due to the utilization of U.S. deferred tax assets which were subject to a valuation allowance and non-U.S. profits subject to a reduced or zero tax rate. The effective tax rate for the three months ended June 30, 2013 differs from the same period in fiscal year 2012 primarily due to tax benefits related to the expiration of statutes of limitation recorded during the three months ended June 30, 2013.

Our effective income tax rates for fiscal year 2014 and future periods will depend on a variety of factors, including changes in the deferred tax valuation allowance, as well as changes in our business such as acquisitions and intercompany transactions, changes in our international structure, changes in the geographic location of business functions or assets, changes in the geographic mix of income, changes in or termination of our agreements with tax authorities, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in our annual pre-tax income or loss. We incur certain tax expenses that do not decline proportionately with declines in our pre-tax consolidated income or loss. As a result, in absolute dollar terms, our tax expense will have a greater influence on our effective tax rate at lower levels of pre-tax income or loss than at higher levels. In addition, at lower levels of pre-tax income or loss, our effective tax rate will be more volatile.

Certain taxable temporary differences that are not expected to reverse during the carryforward periods permitted by tax law cannot be considered as a source of future taxable income that may be available to realize the benefit of deferred tax assets.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States, and accordingly, no U.S. taxes have been provided thereon. We currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries outside of the United States.

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LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of June 30, 2013	As of March 31, 2013	(Decrease)
Cash and cash equivalents	$1,056	$1,292	$(236)
Short-term investments	355	388	(33)
Total	$1,411	$1,680	$(269)
Percentage of total assets	31%	33%	

	Three Months Ended June 30,		
(In millions)	2013	2012	Change
Cash used in operating activities	$(248)	$(244)	$(4)
Cash used in investing activities	(2)	(40)	38
Cash provided by (used in) financing activities	21	(72)	93
Effect of foreign exchange on cash and cash equivalents	(7)	(18)	11
Net decrease in cash and cash equivalents	$(236)	$(374)	$138

Changes in Cash Flow

Operating Activities. Cash used in operating activities remained relatively consistent during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012. The change is primarily due to a payment for the settlement of the Pecover antitrust lawsuit, and an increase in prepaid royalties, partially offset by a decrease in incentive-based compensation payments.

Investing Activities. Cash used in investing activities decreased $38 million during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 primarily driven by (1) a $36 million decrease in the amount of short-term investments purchased in the three months ended June 30, 2013, as compared to the three months ended June 30, 2012, and (2) a $5 million increase in proceeds received from maturities and sales of short-term investments during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This was partially offset by a $5 million increase in cash used for an acquisition during the three months ended June 30, 2013.

Financing Activities. Cash provided by financing activities increased $93 million during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 primarily due to (1) $71 million used to repurchase and retire common stock during the three months ended June 30, 2012 as compared to none in the three months ended June 30, 2013 and (2) $22 million in proceeds received from the exercise of stock options during the three months ended June 30, 2013 as compared to an immaterial amount during the three months ended June 30, 2012.

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 June 30, 2013, our short-term investments had gross unrealized gains of less than $1 million, or less than 1 percent of the total in short-term investments, and gross unrealized losses of $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.

Fiscal 2013 Restructuring

In fiscal year 2013, we announced a restructuring plan to align our cost structure with our ongoing digital transformation. Under this plan, we reduced our workforce, terminated licensing agreements, and consolidated or closed various facilities. We completed all actions under this restructuring plan during fiscal year 2013.

Since the inception of the fiscal 2013 restructuring plan through June 30, 2013, we have incurred charges of $22 million, consisting of (1) $10 million in employee-related expenses, (2) $9 million related to license termination costs, and (3) $3

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million related to the closure of certain of our facilities. Substantially all of these costs were settled in cash by March 31, 2013, with the exception of approximately $2 million of license and lease termination costs, which will be settled by August 2016. We expect to incur cash expenditures of approximately $2 million through fiscal year 2015 and the remainder thereafter.

Fiscal 2011 Restructuring

In connection with our fiscal 2011 restructuring plan, we expect to incur cash expenditures through June 2016 of approximately (1) $19 million during the remainder of fiscal year 2014, (2) $15 million in fiscal year 2015, (3) $3 million in fiscal year 2016, and (4) $21 million in fiscal year 2017. The actual cash expenditures are variable as they will be dependent upon the actual revenue we generate from certain games.

Financing Arrangement

In July 2011, we issued $632.5 million aggregate principal amount of 0.75% Convertible Senior Notes due 2016 (the “Notes”). The Notes are senior unsecured obligations which pay interest semiannually in arrears at a rate of 0.75 percent per annum on January 15 and July 15 of each year, beginning on January 15, 2012 and will mature on July 15, 2016, unless earlier purchased or converted in accordance with their terms prior to such date. The Notes are convertible into cash and shares of our common stock based on an initial conversion value of 31.5075 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $31.74 per share). Upon conversion of the Notes, holders will receive cash up to the principal amount of each Note, and any excess conversion value will be delivered in shares of our common stock. We used the net proceeds of the Notes to finance the cash consideration of our acquisition of PopCap, which closed in August 2011.

Prior to April 15, 2016, the Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. The Notes do not contain any financial covenants.

The conversion rate is subject to customary anti-dilution adjustments, but will not be adjusted for any accrued and unpaid interest. Following certain corporate events described in the indenture governing the notes (the “Indenture”) that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances. The Notes are not redeemable prior to maturity, and no sinking fund is provided for the Notes.

If we undergo a “fundamental change,” as defined in the Indenture, subject to certain conditions, holders may require us to purchase for cash all or any portion of their Notes. The fundamental change purchase price will be 100 percent of the principal amount of the Notes to be purchased plus any accrued and unpaid interest up to but excluding the fundamental change purchase date.

The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee or the holders of at least 25 percent in principal amount of the outstanding Notes may declare 100 percent of the principal and accrued and unpaid interest on all the Notes to be due and payable.

In addition, in July 2011, we entered into privately negotiated convertible note hedge transactions (the “Convertible Note Hedge”) with certain counterparties to reduce the potential dilution with respect to our common stock upon conversion of the Notes. The Convertible Note Hedge, subject to customary anti-dilution adjustments, provides us with the option to acquire, on a net settlement basis, approximately 19.9 million shares of our common stock at a strike price of $31.74, which corresponds to the conversion price of the Notes and is equal to the number of shares of our common stock that notionally underlie the Notes. As of June 30, 2013, we have not purchased any shares under the Convertible Note Hedge. We paid $107 million for the Convertible Note Hedge.

Separately, we have also entered into privately negotiated warrant transactions with the certain counterparties whereby we sold to independent third parties warrants (the “Warrants”) to acquire, subject to customary anti-dilution adjustments that are substantially the same as the anti-dilution provisions contained in the Notes, up to 19.9 million shares of our common stock (which is also equal to the number of shares of our common stock that notionally underlie the Notes), with a strike price of $41.14. The Warrants could have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds $41.14 on or prior to the expiration date of the Warrants.

We received proceeds of $65 million from the sale of the Warrants.

See Note 12 to the Condensed Consolidated Financial Statements for additional information related to our 0.75% Convertible Senior Notes due 2016.

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Credit Facility

On August 30, 2012, we entered into a $500 million senior unsecured revolving credit facility with a syndicate of banks. The credit facility terminates on February 29, 2016 and contains an option to arrange with existing lenders and/or new lenders for them 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 February 29, 2016.

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 and a minimum level of domestic liquidity.

The credit agreement contains customary events of default, including among others, non-payment defaults, covenant defaults, bankruptcy and insolvency 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 agreement, an obligation by any guarantors to repay the obligations in full and an increase in the applicable interest rate.

As of June 30, 2013, no amounts were outstanding under the credit facility.

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, and potentially, future acquisitions, stock repurchases, or strategic investments. We may choose at any time to raise additional capital to 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 June 30, 2013, approximately $857 million 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 would 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 July 2012, our Board of Directors authorized a program to repurchase up to $500 million of our common stock. 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 any specific number of shares under this program and it may be modified, suspended or discontinued at any time. During fiscal year 2013, we repurchased and retired approximately $22 million shares of our common stock for approximately $278 million under this program. During the three months ended June 30, 2013, we did not repurchase any shares of our common stock.

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

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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

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: FIFA, FIFPRO Foundation, FAPL (Football Association Premier League Limited), and DFL Deutsche Fußball Liga GmbH (German Soccer League) (professional soccer); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Augusta National (professional golf); National Hockey League and NHL Players' Association (professional hockey); National Football League Properties, PLAYERS Inc., and Red Bear Inc. (professional football); Collegiate Licensing Company (collegiate football); Zuffa, LLC (Ultimate Fighting Championship); ESPN (content in EA SPORTS games); Hasbro, Inc. (most of Hasbro's toy and game intellectual properties); and Disney (Star Wars). 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 June 30, 2013, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

		Fiscal Year Ending March 31,						
	Total	2014 (Remaining three mos.)	2015	2016	2017	2018	2019	Thereafter
Unrecognized commitments								
Developer/licensor commitments	$1,276	$114	$186	$280	$105	$93	$62	$436
Marketing commitments	219	29	50	35	20	20	21	44
Operating leases	161	38	43	33	18	12	8	9
0.75% Convertible Senior Notes due 2016 interest [(a)]	17	5	5	5	2	—	—	—
Other purchase obligations	32	20	10	2	—	—	—	—
Total unrecognized commitments	1,705	206	294	355	145	125	91	489