UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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 number 001-38908

DRAFTKINGS INC.

(Exact name of registrant as specified in its charter)

Nevada	**84-4052441**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

222 Berkeley Street, 5th Floor
Boston, MA 02116
(Address of principal executive offices) (Zip Code)

(617) 986-6744
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report).

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value	DKNG	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 5, 2021, there were 400,980,887 shares of the registrant's Class A common stock, par value $0.0001 per share, and 393,013,951 shares of the registrant's Class B common stock, par value $0.0001 per share, outstanding.

DraftKings Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2021

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PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements.

DRAFTKINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	March 31, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 2,818,128	$ 1,817,258
Cash reserved for users	305,732	287,718
Receivables reserved for users	24,036	30,249
Accounts receivable	48,359	44,522
Prepaid expenses and other current assets	15,226	14,558
Total current assets	**3,211,481**	**2,194,305**
Property and equipment, net	42,985	40,827
Intangible assets, net	532,077	555,930
Goodwill	612,479	569,603
Operating lease right-of-use assets	73,022	68,077
Equity method investment	2,802	2,955
Deposits and other non-current assets	8,305	7,632
Total assets	**$ 4,483,151**	**$ 3,439,329**
Liabilities and Stockholders' equity (deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 295,306	$ 223,633
Liabilities to users	329,742	317,942
Operating lease liabilities, current portion	13,370	12,837
Total current liabilities	**638,418**	**554,412**
Convertible notes	1,247,113	—
Non-current operating lease liabilities	66,811	68,775
Warrant liabilities	90,862	65,444
Long-term income tax liability	70,296	72,066
Other long-term liabilities	48,421	47,287
Total liabilities	**$ 2,161,921**	**$ 807,984**
Commitments and contingent liabilities		
Stockholders' equity (deficit):		
Class A common stock, $0.0001 par value; 900,000 shares authorized as of March 31, 2021 and December 31, 2020; 406,747 and 403,110 shares issued and 399,892 and 396,303 outstanding as of March 31, 2021 and December 31, 2020, respectively	40	40
Class B common stock, $0.0001 par value; 900,000 shares authorized as of March 31, 2021 and December 31, 2020; 393,014 shares issued and outstanding as of March 31, 2021 and December 31, 2020	39	39
Treasury stock, at cost; 6,855 and 6,807 shares as of March 31, 2021 and December 31, 2020, respectively	(291,908)	(288,784)
Additional paid-in capital	5,133,806	5,067,135
Accumulated deficit	(2,576,963)	(2,230,619)
Accumulated other comprehensive income	56,216	83,534
Total stockholders' equity (deficit)	**2,321,230**	**2,631,345**
Total liabilities and stockholders' equity (deficit)	**$ 4,483,151**	**$ 3,439,329**

See accompanying notes to unaudited condensed consolidated financial statements.

DRAFTKINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except loss per share data)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue	**$** 312,276	$ 88,542
Cost of revenue	183,225	43,416
Sales and marketing	228,686	53,706
Product and technology	56,159	18,041
General and administrative	168,997	39,496
Loss from operations	**(324,791)**	**(66,117)**
Other income (expense):		
Interest income (expense), net	985	(2,351)
Loss on remeasurement of warrant liabilities	(26,980)	—
Loss before income tax (benefit) provision and loss from equity method investment	**(350,786)**	**(68,468)**
Income tax (benefit) provision	(4,595)	9
Loss from equity method investment	153	203
Net loss attributable to common stockholders	**$ (346,344)**	**$ (68,680)**
Loss per share attributable to common stockholders:		
Basic and diluted	**$** (0.87)	$ (0.37)

See accompanying notes to unaudited condensed consolidated financial statements.

Due to the timing of the Business Combination, the above periods, to the extent applicable, exclude B2B/SBTech activity which occurred prior to April 24, 2020.

DRAFTKINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(Amounts in thousands)

	Three months ended March 31,			
	2021		2020	
Net loss	$	(346,344)	$	(68,680)
Other comprehensive loss:				
Foreign currency translation adjustments arising during period, net of nil tax		(27,318)		—
Comprehensive loss	**$**	**(373,662)**	**$**	**(68,680)**

See accompanying notes to unaudited condensed consolidated financial statements.

Due to the timing of the Business Combination, the above periods, to the extent applicable, exclude B2B/SBTech activity which occurred prior to April 24, 2020.

DRAFTKINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(Amounts in thousands)

	Class A Common Stock		Class B Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Treasury Stock	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid in Capital	Deficit	Income	Amount	(Deficit)/Equity
Balances at December 31, 2020	**396,303**	**$ 40**	**393,014**	**$ 39**	**$ 5,067,135**	**$ (2,230,619)**	**$ 83,534**	**$(288,784)**	**$ 2,631,345**
Exercise of stock options	2,857	—	—	—	7,638	—	—	—	7,638
Stock-based compensation expense	—	—	—	—	151,843	—	—	—	151,843
Purchase of capped call options	—	—	—	—	(123,970)	—	—	—	(123,970)
Equity consideration issued for acquisition	464	—	—	—	29,399	—	—	—	29,399
Shares issued for exercise of warrants	138	—	—	—	1,761	—	—	—	1,761
Purchase of treasury stock	(48)	—	—	—	—	—	—	(3,124)	(3,124)
Restricted stock unit vesting	178	—	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	—	(27,318)	—	(27,318)
Net loss	—	—	—	—	—	(346,344)	—	—	(346,344)
Balances at March 31, 2021	**399,892**	**$ 40**	**393,014**	**39**	**$ 5,133,806**	**$ (2,576,963)**	**$ 56,216**	**$(291,908)**	**$ 2,321,230**

	Class A Common Stock		Class B Common Stock		Additional	Accumulated	Total Stockholder's
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	(Deficit)/Equity
Balances at December 31, 2019	**184,626**	**$ 18**	**—**	**$ —**	**$ 949,186**	**$ (998,784)**	**$ (49,580)**
Issuance of Series F preferred stock	1,526	—	—	—	11,000	—	11,000
Exercise of stock options	456	—	—	—	467	—	467
Stock-based compensation expense	—	—	—	—	4,842	—	4,842
Net loss	—	—	—	—	—	(68,680)	(68,680)
Balances at March 31, 2020	**186,608**	**$ 18**	**—**	**$ —**	**$ 965,495**	**$ (1,067,464)**	**$ (101,951)**

See accompanying notes to unaudited condensed consolidated financial statements.

Due to the timing of the Business Combination, the above periods, to the extent applicable, exclude B2B/SBTech activity which occurred prior to April 24, 2020.

DRAFTKINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in thousands)

	Three Months ended March 31, 2021	Three Months ended March 31, 2020
Operating Activities:		
Net loss	$ (346,344)	$ (68,680)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	28,193	4,704
Non-cash interest expense	112	2,583
Stock-based compensation expense	151,843	4,842
Loss from equity method investment	153	203
Loss on remeasurement of warrant liabilities	26,980	—
Deferred income taxes	(8,104)	9
Change in operating assets and liabilities, net of effect of business combinations:		
Cash reserved for users	(18,014)	29,135
Receivables reserved for users	6,213	9,302
Accounts receivable	(4,180)	—
Prepaid expenses and other current assets	(519)	4,091
Deposits and other non-current assets	(1,527)	(411)
Operating leases, net	(239)	(88)
Accounts payable and accrued expenses	71,392	(2,410)
Other long-term liabilities	2,968	3,627
Long-term income tax liability	1,522	—
Liabilities to users	11,800	(37,669)
Net cash flows used in operating activities	**(77,751)**	**(50,762)**
Cash Flows from Investing Activities:		
Purchases of property and equipment	(2,389)	(1,871)
Cash paid for internally developed software costs	(8,686)	(3,887)
Acquisition of gaming licenses	(305)	(571)
Cash paid for acquisition, net of cash acquired	(40,541)	—
Net cash flows used in investing activities	**(51,921)**	**(6,329)**
Financing Activities:		
Proceeds from term notes, net	—	37,750
Proceeds from issuance of convertible notes, net	1,248,025	39,440
Purchase of capped call options	(123,970)	—
Proceeds from shares issued for warrants	199	—
Purchase of treasury stock	(3,124)	—
Proceeds from exercise of stock options	7,638	467
Net cash flows provided by financing activities	**1,128,768**	**77,657**
Effect of foreign exchange rates on cash and cash equivalents	1,774	—
Net increase in cash, cash equivalents and restricted cash	1,000,870	20,566
Cash and cash equivalents at the beginning of period	1,817,258	76,533
Cash and cash equivalents, end of period	$ 2,818,128	$ 97,099
Supplemental Disclosure of Noncash Investing and Financing Activities		
Equity consideration issued for acquisition	$ 29,399	$ —
Increase in accounts payable and accrued expenses from property and equipment and internally developed software costs	680	—
Increase in accounts payable and accrued expenses from convertible notes financing costs	1,024	—
Decrease of accounts payable and accrued expenses from gaming licenses	(100)	(1,000)
Extinguishment of promissory notes for Series F Redeemable Convertible Preferred Stock	—	(11,000)
Supplemental Disclosure of Cash Activities		
Cash paid for interest	$ —	$ 80

Due to the timing of the Business Combination, the above periods, to the extent applicable, exclude B2B/SBTech activity which occurred prior to April 24, 2020.

DRAFTKINGS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except loss per share data, unless otherwise noted)

1. Description of Business

DraftKings Inc., a Nevada corporation (the "Company" or "DraftKings"), was incorporated in Nevada as DEAC NV Merger Corp., a wholly owned subsidiary of our legal predecessor, Diamond Eagle Acquisition Corp. ("DEAC"), a special purpose acquisition company. On April 23, 2020, DEAC consummated the transactions contemplated by the Business Combination Agreement (the "Business Combination") dated December 22, 2019, as amended on April 7, 2020 and, in connection therewith, (i) DEAC merged with and into the Company, whereby the Company survived the merger and became the successor issuer to DEAC by operation of Rule 12g-3(a) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (ii) the Company changed its name to "DraftKings Inc.," (iii) the Company acquired DraftKings Inc., a Delaware corporation ("Old DK"), by way of a merger and (iv) the Company acquired all of the issued and outstanding share capital of SBTech (Global) Limited ("SBTech"). Upon consummation of the preceding transactions, Old DK and SBTech became wholly owned subsidiaries of the Company.

DraftKings is a digital sports entertainment and gaming company. The Company's business-to-consumer ("B2C") segment provides users with daily fantasy sports ("DFS"), sports betting ("Sportsbook") and online casino ("iGaming") products. The Company's business-to-business ("B2B") segment is involved in the design, development and licensing of sports betting and casino gaming software for its Sportsbook and casino gaming products.

In May 2018, the Supreme Court (the "Court") struck down on constitutional grounds the Professional and Amateur Sports Protection Act of 1992 ("PASPA"), a law that prohibited most states from authorizing and regulating sports betting. Since the Court's decision, many states have legalized sports betting. As of March 31, 2021, the U.S. jurisdictions with statutes legalizing online sports betting are Colorado, Illinois, Indiana, Iowa, Michigan, Nevada, New Hampshire, New Jersey, Oregon, Pennsylvania, Puerto Rico, Rhode Island, Tennessee, Virginia, Washington, D.C and West Virginia. The jurisdictions with statutes legalizing sports betting at certain land-based retail locations are Arkansas, Colorado, Delaware, Illinois, Indiana, Iowa, Michigan, Mississippi, Montana, Nevada, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Puerto Rico, Rhode Island, Virginia, Washington, Washington, D.C and West Virginia. A few jurisdictions have enacted laws authorizing sports betting in retail locations but have yet to begin operations in those jurisdictions. The jurisdictions with statutes legalizing online casinos are Delaware, Michigan, New Jersey, Pennsylvania and West Virginia.

As of March 31, 2021, the Company operates online Sportsbooks in Colorado, Illinois, Indiana, Iowa, Michigan, New Hampshire, New Jersey, Oregon (B2B), Pennsylvania, Tennessee, Virginia and West Virginia and has retail Sportsbooks in Colorado, Illinois, Iowa, Mississippi, New Hampshire, New Jersey and New York. As of March 31, 2021 the Company offers iGaming products in Michigan, New Jersey, Pennsylvania and West Virginia. The Company also has arrangements in place with land-based casinos to expand operations into additional states upon the passing of the relevant legislation, the issuance of related regulations and the receipt of required licenses.

The novel coronavirus ("COVID-19") has adversely impacted global commercial activity, disrupted supply chains and contributed to significant volatility in financial markets. In 2020 and continuing into 2021, the COVID-19 pandemic adversely impacted many different industries. The ongoing COVID-19 pandemic could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the extent and the duration of the impact of COVID-19. COVID-19 therefore presents material uncertainty and risk with respect to us and our performance and could affect our financial results in a materially adverse way.

Since the start of the COVID-19 pandemic, the primary impacts to the Company have been the suspension, cancellation and rescheduling of sports seasons and sporting events. Beginning in March 2020 and continuing through the end of the second quarter of 2020, many sports seasons and sporting events, including the MLB regular season, domestic soccer leagues and European Cup competitions, the NBA regular season and playoffs, the NCAA college basketball tournament, the Masters golf tournament, and the NHL regular season and playoffs, were suspended or cancelled. The suspension of sports seasons and sporting events reduced customers' use of, and spending on, the Company's Sportsbook and DFS product offerings. Starting in the third quarter of 2020 and continuing into the fourth quarter of 2020, major professional sports leagues resumed their activities, many of which were held at limited or reduced capacity. MLB began its season after a three-month delay and also completed the World Series, the NHL resumed its season and completed the Stanley Cup Playoffs, the Masters golf tournament was held, most domestic soccer leagues resumed and several European cup competitions were held, and the NFL season began on its regular schedule. During this period, the NBA also resumed its season, completed the NBA Finals and commenced its 2020-2021 season. In the first quarter of 2021, many sports seasons continued and multiple sporting events were held as planned, including the NFL regular season, the NFL Playoffs and Superbowl LV, the NBA regular season, the NHL regular season, the NASCAR Cup Series, various NCAA football bowl games and the NCAA college basketball season and tournament. The continued return of major sports and sporting events generated significant user interest and activity in our Sportsbook and DFS product offerings. However, the possibility remains that sports seasons and sporting events may be suspended, cancelled or rescheduled due to COVID-19 outbreaks. The suspension and alteration of sports seasons and sporting events earlier in 2020 reduced customers' use of, and spending on, the Company's Sportsbook and DFS product offerings and caused the Company to issue refunds for canceled events. Additionally, while retail casinos where the Company has branded Sportsbooks have reopened, they continue to operate with reduced capacity.

The Company's revenues vary based on sports seasons and sporting events amongst other things, and cancellations, suspensions or alterations resulting from COVID-19 have the potential to adversely affect its revenue, possibly materially. However, the Company's product offerings that do not rely on sports seasons and sporting events, such as iGaming, may partially offset this adverse impact on revenue. DraftKings is also innovating to develop more products that do not rely on traditional sports seasons and sporting events, for example, products that permit wagering and contests on events such as eSports, simulated NASCAR and League of Legends.

A significant or prolonged decrease in consumer spending on entertainment or leisure activities would likely have an adverse effect on demand for the Company's product offerings, reducing cash flows and revenues, and thereby materially harming the Company's business, financial condition and results of operations. In addition, a recurrence of COVID-19 cases or an emergence of additional variants or strains of COVID-19 could cause other widespread or more severe impacts depending on where infection rates are highest. As steps taken to mitigate the spread of COVID-19 have necessitated a shift away from a traditional office environment for many employees, the Company has business continuity programs in place to ensure that employees are safe and that the business continues to function with minimal disruptions to normal work operations while employees work remotely. The Company will continue to monitor developments relating to disruptions and uncertainties caused by COVID-19.

2. Summary of Significant Accounting Policies and Practices

Basis of Presentation and Principles of Consolidation

These unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States ("U.S. GAAP") for interim reporting. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been omitted if they substantially duplicate the disclosures contained in the Company's annual audited consolidated financial statements. Accordingly, the unaudited condensed consolidated financial statements should be read in connection with the Company's audited financial statements and related notes as of and for the fiscal year ended December 31, 2020, which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 as filed with the SEC on February 26, 2021 and as amended by the Form 10-K/A filed with the SEC on May 3, 2021. The accompanying unaudited condensed consolidated financial statements are unaudited; however, in the opinion of management, they include all normal and recurring adjustments necessary for a fair presentation of the Company's unaudited condensed consolidated financial statements for the periods presented. Results of operations reported for interim periods are not necessarily indicative of results for the entire year, due to seasonal fluctuations in the Company's revenue as a result of timing of the various sports seasons, sporting events and other factors.

As the Company completed its acquisition of SBTech on April 23, 2020, the presented financial information for the three months ended March 31, 2021 includes the financial information and activities for SBTech; whereas, the financial information for the three months ended March 31, 2020 excludes the financial information and activities for SBTech.

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of the Company. All intercompany balances and transactions have been eliminated. Certain amounts from a prior period, which are not material, have been reclassified to conform with the current period presentation.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid, unrestricted savings, checking and other bank accounts. The Company also utilizes short-term certificates of deposit and money market funds, each with original maturities of three months or less.

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06")* to simplify accounting for certain financial instruments. ASU 2020-06 eliminates the current models that require separation of beneficial conversion and cash conversion features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity's own equity. The new standard also introduces additional disclosures for convertible debt and freestanding instruments that are indexed to and settled in an entity's own equity. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. ASU 2020-06 is effective January 1, 2022 and should be applied on a full or modified retrospective basis, with early adoption permitted beginning on January 1, 2021. The Company elected to early adopt the new standard as of January 1, 2021 using the modified retrospective approach. In the first quarter of 2021, the Company issued convertible senior notes, whereby the entire proceeds from issuance were recognized as a liability, net of any lender fees and debt financing costs, on our condensed consolidated balance sheet as there is no longer a discount from separation of the conversion feature within equity. Please refer to Note 5 included herein for additional information.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted this standard as of January 1, 2021. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

3. Business Combinations

On March 24, 2021, the Company acquired 100% of the equity of Vegas Sports Information Network, Inc. ("VSiN"). The following summarizes the consideration transferred at closing for the VSiN acquisition:

Cash consideration	$	40,599
Share consideration (1)		29,399
Total consideration	**$**	**69,998**

(1) Represents the issuance of 0.5 million shares of the Company's Class A common stock at a fair value of $63.32 per share to the former stockholders of VSiN.

The acquired assets and assumed liabilities of VSiN were recorded at their estimated fair values. The purchase price allocation is preliminary and as additional information becomes available, we may further revise the preliminary purchase price allocation during the remainder of the measurement period, which will not exceed 12 months from the closing of the acquisition. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined. Any such adjustments may be material.

The purchase price of the VSiN acquisition was allocated on a preliminary basis as follows:

Operating lease right-of-use assets	$	6,120
Intangible assets		14,628
Other assets		4,516
Liabilities		(7,910)
Goodwill		52,644
Total	**$**	**69,998**

Goodwill represents the excess of the gross considerations transferred over the fair value of the underlying net assets acquired and liabilities assumed. Goodwill associated with the VSiN acquisition is assigned as of the acquisition date to the Company's Media reporting unit. Goodwill recognized is not deductible for local tax purposes.

The intangible assets acquired as part of the VSiN acquisition were as follows:

		Fair Value	Weighted-Average Useful Life (in years)
Developed technology - software	$	558	3.0
Customer relationships		11,170	6.0
Trademarks and trade names		2,900	6.0
Total	**$**	**14,628**	

As VSiN's financial results are not material to the Company's condensed consolidated financial statements, the Company has elected to not include pro forma results.

4. Intangible Assets and Goodwill

Intangible Assets

The Company has the following intangible assets, net as of March 31, 2021:

	Weighted-Average Remaining Amortization Period		Gross Carrying Amount		Accumulated Amortization		Net
Developed technology	7.1 years	$	420,349	$	(49,121)	$	371,228
Internally developed software	2.2 years		80,727		(37,068)		43,659
Gaming licenses	3.3 years		23,851		(8,397)		15,454
Trademarks and tradenames	3.9 years		9,215		(1,565)		7,650
Customer relationships	4.3 years		113,186		(19,100)		94,086
Intangible Assets, net		**$**	**647,328**	**$**	**(115,251)**	**$**	**532,077**

The Company has the following intangible assets, net as of December 31, 2020:

	Weighted-Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7.3 years	$ 439,624	$ (37,704)	$ 401,920
Internally developed software	2.3 years	72,268	(33,179)	39,089
Gaming licenses	3.5 years	23,685	(6,354)	17,331
Trademarks and tradenames	2.8 years	6,537	(1,123)	5,414
Customer relationships	4.3 years	106,836	(14,660)	92,176
Intangible Assets, net		**$ 648,950**	**$ (93,020)**	**$ 555,930**

Amortization expense was $25.2 million and $3.3 million for the three months ended March 31, 2021 and 2020 respectively.

Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2021 by reporting unit are:

	B2C	B2B	Media	Total
Balance as of December 31, 2020	$ 353,083	$ 216,520	$ —	$ 569,603
Goodwill resulting from acquisitions*	—	—	52,644	52,644
Cumulative translation adjustment	—	(9,768)	—	(9,768)
Balance as of March 31, 2021	**$ 353,083**	**$ 206,752**	**$ 52,644**	**$ 612,479**

* = Preliminary allocation

5. Current and Long-term Liabilities

Convertible Notes

In March 2021, the Company issued zero-coupon convertible senior notes in an aggregate principal amount of $1,265.0 million, which includes proceeds from the full exercise of the over-allotment option (collectively the “Convertible Notes”). In connection with the issuance of the Convertible Notes, the Company incurred $17.0 million of lender fees and $1.0 million of debt financing costs. The Convertible Notes represent senior unsecured obligations of the Company. The Convertible Notes mature on March 15, 2028, subject to earlier conversion, redemption or repurchase.

The Convertible Notes are convertible at an initial conversion rate of 10.5430 shares of the Company’s Class A common stock per $1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of approximately $94.85 per share of Class A common stock. The conversion rate is subject to adjustment upon the occurrence of certain specified events and includes a make-whole adjustment upon early conversion in connection with a make-whole fundamental change (as defined within the indenture agreement).

Prior to September 15, 2027, the Convertible Notes will be convertible only upon satisfaction of certain conditions 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. The Company will satisfy any conversion election by paying or delivering, as the case may be, cash, shares of Class A common stock or a combination of cash and shares of Class A common stock. During the three months ended March 31, 2021, the conditions allowing holders of the Convertible Notes to convert were not met.

In connection with the pricing of the Convertible Notes and the exercise of the option to purchase additional notes, the Company entered into a privately negotiated capped call transaction (“Capped Call Transactions”). The Capped Call Transactions have a strike price of $94.85 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Convertible Notes. The Capped Call Transactions have an initial cap price of $135.50 per share, subject to certain adjustments. The Capped Call Transactions are expected generally to reduce potential dilution to the Company's Class A common stock upon any conversion of Convertible Notes. As the transaction qualifies for equity classification, the net cost of $124.0 million incurred in connection with the Capped Call Transactions was recorded as a reduction to additional paid-in capital on the Company's consolidated balance sheet during the quarter ended March 31, 2021.

Revolving Line of Credit

In October 2016, the Company entered into an amended and restated loan and security agreement with Pacific Western Bank, which was most recently amended in September 2020 (as amended, the “Credit Agreement”). The Credit Agreement provides a revolving line of credit of up to $60.0 million. The Credit Agreement has a maturity date of March 1, 2022.

Borrowings under the Credit Agreement bear interest at a variable annual rate equal to the greater of (i) 1.00% above the prime rate then in effect and (ii) 6.50%, and the Credit Agreement requires monthly, interest-only payments. In addition, the Company is required to pay quarterly in arrears a fee equal to 0.25% per annum of the unused portion of the revolving line of credit. As of March 31, 2021 and December 31, 2020, the Credit Agreement provided a revolving line of credit of up to $60.0 million. There was no principal outstanding as of March 31, 2021 or December 31, 2020. Net facility available from the Credit Agreement as of March 31, 2021 and December 31, 2020 totaled $55.8 million, which, in each case, excludes the letters of credit outlined in Note 12. The Company is also subject to certain affirmative and negative covenants until maturity. In connection with the issuance of the Convertible Notes and the entry into the Capped Call Transactions, the Company obtained a waiver from Pacific Western Bank for any breach of the credit agreement that would have resulted from entering into these financing transactions. The Company obtained a waiver from Pacific Western Bank for any breach of the credit agreement that would have resulted from its Form 10-K/A filed with the SEC on May 3, 2021.

Indirect Taxes

Taxation of e-commerce is becoming more prevalent and could negatively affect the Company’s business as it pertains to DFS and its users. The ultimate impact of indirect taxes on the Company’s business is uncertain, as is the period required to resolve this uncertainty. The Company’s estimated contingent liability for indirect taxes represents the Company’s best estimate of tax liability in jurisdictions in which the Company believes taxation is probable. The Company frequently reevaluates its tax positions for appropriateness.

Indirect tax statutes and regulations are complex and subject to differences in application and interpretation. Tax authorities may impose indirect taxes on Internet-delivered activities based on statutes and regulations which, in some cases, were established prior to the advent of the Internet and do not apply with certainty to the Company’s business. The Company’s estimated contingent liability for indirect taxes may be materially impacted by future audit results, litigation and settlements, should they occur. The Company’s activities by jurisdiction may vary from period to period, which could result in differences in the applicability of indirect taxes from period to period.

As of March 31, 2021 and December 31, 2020, the Company’s estimated contingent liability for indirect taxes was $47.3 million and $45.9 million, respectively. The estimated contingent liability for indirect taxes is recorded within other long-term liabilities on the consolidated balance sheets and general and administrative expenses on the consolidated statements of operations.

Warrant Liabilities

As part of DEAC’s initial public offering on May 14, 2019, DEAC issued 13.3 million warrants each of which entitles the holder to purchase one share of Class A common stock at an exercise price of $11.50 per share (the “Public Warrants”). Simultaneously with the closing of the IPO, DEAC completed the private sale of 6.3 million warrants to DEAC’s sponsor (the “Private Warrants”). As of March 31, 2021, there were no Public Warrants outstanding. The fair value of the Company’s warrant liability as of March 31, 2021 was measured utilizing a binomial lattice model (level 2). As of March 31, 2021, 1.8 million Private Warrants remained outstanding at a fair value of $90.9 million. Due to fair value changes throughout the three months ended March 31, 2021, the Company recorded a loss on remeasurement of warrant liabilities of $27.0 million.

6. Revenue Recognition

Deferred Revenue

The Company included deferred revenue within accounts payable and accrued expenses and liabilities to users in the consolidated balance sheets. The deferred revenue balances were as follows:

	Three months ended March 31,	
	2021	2020
Deferred revenue, beginning of the period	$ 30,627	$ 20,760
Deferred revenue, end of the period	41,849	24,094
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period	24,493	5,470

Deferred revenue primarily represents contract liabilities related to the Company's obligation to transfer future value in relation to in period transactions in which the Company has received consideration. Such obligations are recognized as liabilities when awarded to users and are recognized as revenue when those liabilities are later resolved. The Company included deferred revenue within accounts payable and accrued expenses and liabilities to users on its consolidated balance sheets.

Revenue Disaggregation

Disaggregation of revenue for the three months ended March 31, 2021 and 2020 is as follows:

	Three months ended March 31,	
	2021	2020
Online gaming	$ 272,661	$ 83,705
Gaming software	31,429	—
Other	8,186	4,837
Total Revenue	**$ 312,276**	**$ 88,542**

The following table presents the Company's revenue by geographic region for the periods indicated:

	Three months ended March 31,	
	2021	2020
United States	$ 280,117	$ 90,810
International	32,159	(2,268)
Total Revenue	**$ 312,276**	**$ 88,542**

7. Stock-Based Compensation

The Company, historically, has issued three types of stock-based compensation: Time-Based awards, Long Term Incentive Plan ("LTIP") awards and Performance-Based Stock Compensation Plan ("PSP") awards. Time-Based awards are options which generally vest over a 4-year period. LTIP awards are performance-based equity awards that are used to establish longer-term performance objectives and incentivize management to meet those objectives. PSP awards are short-term performance-based equity awards which establish performance objectives related to one or two particular fiscal years. LTIP awards generally vest when longer-term revenue, adjusted EBITDA or share price targets are achieved amongst other conditions, while PSP awards generally vest upon achievement of revenue or adjusted EBITDA targets amongst other conditions.

The following table shows stock option activity for the three months ended March 31, 2021:

	Time-based		PSP		LTIP		Total	Weighted Average Exercise Price of Options	Weighted Average FMV of RSUs
	Options	RSUs	Options	RSUs	Options	RSUs			
Outstanding at December 31, 2020	**20,519**	**3,548**	**3,023**	**907**	**13,854**	**12,800**	**54,651**	**$ 3.57**	**$ 47.01**
Granted	150	1,276	—	548	—	5,682	7,656	60.91	53.53
Exercised options / vested RSUs	(2,049)	(178)	(287)	—	(521)	—	(3,035)	2.67	33.28
Forfeited	(41)	(29)	(1)	—	—	(14)	(85)	4.19	41.02
Outstanding at March 31, 2021	**18,579**	**4,617**	**2,735**	**1,455**	**13,333**	**18,468**	**59,187**	**$ 3.41**	**$ 49.09**

As of March 31, 2021, total unrecognized stock-based compensation expense of $1,087.1 million related to granted and unvested share-based compensation arrangements is expected to be recognized over a weighted-average period of 2.1 years. The following table shows stock compensation expense for the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Options	RSUs	Total	Options	RSUs	Total
Time Based	$ 2,433	$ 14,268	**$ 16,701**	$ 1,634	$ —	**$ 1,634**
PSP	—	16,314	**16,314**	1,633	—	**1,633**
LTIP	—	118,828	**118,828**	1,575	—	**1,575**
Total	**$ 2,433**	**$ 149,410**	**$ 151,843**	**$ 4,842**	**$ —**	**$ 4,842**

8. Income Taxes

Three months ended March 31, 2021 and 2020 is as follows:

	Three months ended March 31,	
	2021	2020
(Benefit) provision for income taxes	$ (4,595)	$ 9

The effective tax rates for the three months ended March 31, 2021 and 2020 were 1.3% and (.01)%, respectively. The difference between the Company’s effective tax rates for the 2021 and 2020 periods and the U.S. statutory tax rate of 21% was primarily due to a full valuation allowance related to the Company’s net US deferred tax assets, offset partially by current state tax and current foreign tax. Additionally, the Company recorded a discrete income tax benefit of $6.8 million during the quarter, which is attributable to a non-recurring partial release of the Company's U.S. valuation allowance recorded with VSiN's preliminary purchase price accounting. The Company regularly evaluates the realizability of its deferred tax assets and establishes a valuation allowance if it is more likely than not that some or all the deferred tax assets will not be realized.

9. Segment Information

The Company operates its business and reports its results through two operating and reportable segments: B2C and B2B, in accordance with ASC Topic 280, *Segment Reporting*. The Company’s B2C segment is comprised of the Old DK business and the Company’s B2B segment is comprised of SBTech in its entirety. The B2C segment primarily provides users with DFS, Sportsbook and iGaming products while the B2B segment is involved in the design, development and licensing of sports betting and casino gaming software for its sportsbook and casino gaming products.

Operating segments are components of the Company for which separate discrete financial information is available to and evaluated regularly by the chief operating decision maker (“CODM”), who is the Company’s Chief Executive Officer, in making decisions regarding resource allocation and assessing performance. The CODM assesses a combination of metrics such as revenue and Adjusted EBITDA to evaluate the performance of each operating and reportable segment.

Any intercompany revenues or expenses are eliminated in consolidation. All of the Company’s operating revenues and expenses, other than those excluded from Adjusted EBITDA as detailed below, are allocated to the Company’s reportable segments. We define and calculate Adjusted EBITDA as net loss before the impact of interest income or expense, income tax expense and depreciation and amortization, and further adjusted for the following items: stock-based compensation, transaction-related costs, litigation, settlement and related costs and certain other non-recurring, non-cash and non-core items, as described in the reconciliation below.

A measure of segment assets and liabilities has not been currently provided to the Company's CODM and therefore is not shown below. Summarized financial information for the Company's segments is shown in the following tables:

Summarized financial information for the Company's segments is shown in the following tables:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue:		
B2C	$ 280,847	$ 88,542
B2B	31,429	—
Total revenue	**312,276**	**88,542**
Adjusted EBITDA:		
B2C	(141,355)	(49,460)
B2B	2,093	—
Total adjusted EBITDA	**(139,262)**	**(49,460)**
Adjusted for:		
Depreciation and amortization	28,193	4,704
Interest (income) expense, net	(985)	2,351
Income tax (benefit) provision	(4,595)	9
Stock-based compensation	151,843	4,842
Transaction-related costs	3,023	5,652
Litigation, settlement and related costs	622	1,330
Loss on remeasurement of warrant liabilities	26,980	—
Other non-recurring costs and special project costs	1,848	129
Non-operating costs	153	203
Net Loss attributable to common shareholders	**$ (346,344)**	**$ (68,680)**

Due to the timing of the Business Combination, the three-month period ended March 31, 2020 excludes B2B/SBTech activity.

10. Loss Per Share

The computation of loss per share and weighted-average shares of the Company's Class A common stock outstanding for the periods presented are as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Net loss	$ (346,344)	$ (68,680)
Basic and diluted weighted-average common shares outstanding	397,621	184,863
Loss per share attributable to common stockholders:		
Basic and diluted	$ (0.87)	$ (0.37)

For the periods presented, the following securities were not required to be included in the computation of diluted shares outstanding (calculated on a gross settlement or a full conversion basis):

	Three months ended March 31,	
	2021	2020
Warrants	1,812	182
Stock options and RSUs	59,187	47,410
Convertible notes	13,337	11,186
Total	**74,336**	**58,778**

11. Related-Party Transactions

Media Purchase Agreement ("MPA")

In July 2015, Old DK entered into an MPA with a related party for various media placements from 2015 through 2018. The MPA was amended to extend through 2021. The annual commitment for calendar years 2017 through 2021 was $15.0 million per year, plus an additional contingent commitment of $5.0 million per year. The contingent commitment relates to the Company's allocation of its non-integration advertising with other advertisers. Effective January 2019, the future minimum commitments related to the MPA were reduced to $15.0 million in the aggregate through December 31, 2021 (equivalent to $5.0 million per year) and the contingent commitment was removed. If the Company satisfies its $15.0 million commitment prior to December 31, 2021, the MPA will expire unless the Company elects to extend the MPA through the following NFL season with no required minimum. The Company recorded expense of $0.0 million and $3.5 million related to the MPA for the three months ended March 31, 2021 and 2020, respectively, in sales and marketing expenses in the consolidated statements of operations.

Private Placement Agent

Old DK entered into an engagement letter with a related party (the "Private Placement Agent") in August 2019, as amended in December 2019. Pursuant to the engagement letter, the Private Placement Agent has acted as the exclusive financial advisor to Old DK, and Old DK agreed to pay certain acquisition and financing fees in connection with the Business Combination with SBTech and DEAC. For the three months ended March 31, 2021 and 2020, Old DK incurred $0.0 million and $0.6 million, respectively, of fees with the Private Placement Agent.

Receivables from Equity Method Investment

The Company provides office space and general operational support to DKFS, LLC, an equity-method affiliate. The operational support is primarily in the form of general and administrative services. As of March 31, 2021 and December 31, 2020, the Company had $1.3 million and $1.1 million, respectively, of receivables from DKFS, LLC related to those services and expenses to be reimbursed to the Company, which are included within non-current assets in the consolidated balance sheets. In the first quarter of 2021, the Company committed to invest up to $17.0 million into DBDK Venture Fund I, LP, a Delaware limited partnership and a subsidiary of DKFS LLC.

Transactions with a Shareholder and their Immediate Family Members

As of March 31, 2021 and December 31, 2020, the Company had $1.9 million of receivables from a shareholder and director included in other receivables. In addition, the Company had $1.4 million in sales and $0.2 million of lease expenses to entities related to an immediate family member of the shareholder for the three months ended March 31, 2021. The Company had an associated accounts receivable balance of $0.5 million as of March 31, 2021 and as of December 31, 2020 included in accounts receivable in its consolidated balance sheets. There were no related party transactions with the shareholder or their immediate family members for the three months ended March 31, 2020.

12. Leases, Commitments and Contingencies

Leases

The Company leases corporate office facilities, data centers, and motor vehicles under operating lease agreements. The Company's lease agreements have terms not exceeding ten years.

The components of lease expense are as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Operating lease cost	4,133	2,365
Short term lease cost	426	579
Variable lease cost	701	1,076
Sublease income	(111)	(410)
Total lease cost	**5,149**	**3,610**

Other information related to leases are as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	4,378	2,305
Right-of-use assets obtained in exchange for new operating lease liabilities	8,790	132

The weighted-average remaining lease term and weighted-average discount rate for the Company's operating leases were 6.4 years and 6.5% as of March 31, 2021. The Company calculated the weighted-average discount rates using incremental borrowing rates, which equal the rates of interest that it would pay to borrow funds on a fully collateralized basis over a similar term.

Maturity of lease liabilities are as follows:

		Years ending December 31,
From April 1, 2021 to December 31, 2021	$	13,463
2022		16,609
2023		15,475
2024		12,965
2025		11,338
Thereafter		28,521
Total undiscounted future cash flows		98,371
Less: Imputed interest		(18,190)
Present value of undiscounted future cash flows	**$**	**80,181**

Other Contractual Obligations and Contingencies

The Company is a party to several non-cancelable contracts with vendors where the Company is obligated to make future minimum payments under the terms of these contracts as follows:

		Years ending December 31,
From April 1, 2021 to December 31, 2021	$	160,525
2022		168,325
2023		149,129
2024		126,876
2025		122,450
Thereafter		309,900
Total	**$**	**1,037,205**

* The above commitments include $430.6 million of future expected contractual obligations to a media company as part of a multi-year content integration agreement.

Contingencies

From time to time, and in the ordinary course of business, the Company may be subject to certain claims, charges and litigation concerning matters arising in connection with the conduct of the Company's business activities.

In Re: Daily Fantasy Sports Litigation (Multi-District Litigation)

Between late 2015 and early 2016, certain individuals who allegedly registered and competed in daily sports fantasy contests on our and FanDuel's websites, and their family members, filed numerous actions (primarily purported class actions) against us, FanDuel, and other related parties in courts across the United States. In February 2016, these actions were consolidated in a multi-district litigation in the U.S. District Court for the District of Massachusetts. The plaintiffs asserted 27 claims arising under both state and federal law against the DFS defendants. The plaintiffs' claims against us generally fall into four categories: (1) the Company's online daily fantasy sports contests constitute illegal gambling; (2) the Company promulgated false or misleading advertisements that emphasized the ease of play and likelihood of winning; (3) the Company induced consumers to lose money through a deceptive bonus program; and (4) the Company allowed our employees to participate in competitors' fantasy sports contests using non-public information, which gave such employees an unfair advantage over other contestants. The plaintiffs seek money damages, equitable relief, and disgorgement of gains against the Company. DraftKings intend to vigorously defend this case. If the plaintiffs obtain a judgment in their favor in this matter, the Company could be subject to substantial damages and it could be restricted from offering DFS contests in certain states. The Company has established an accrual for this matter, but it cannot provide any assurance as to the outcome of this lawsuit.

Despite the potential for significant damages, the Company does not believe, based on currently available information, that the outcome of this proceeding will have a material adverse effect on DraftKings' financial condition, although the outcome could be material to DraftKings' operating results for any particular period, depending, in part, upon the operating results for such period.

1,000 Mass Arbitration Demands Filed by One Law Firm

On October 21, 2019, a law firm filed 1,000 "mass arbitrations" against the Company with the American Arbitration Association ("AAA") on behalf of purported DraftKings users that assert claims similar to those in the multi-district litigation described above. After the law firm filed the 1,000 "mass arbitrations," the AAA informed DraftKings in writing that it would close their files on, and decline to administer, the 1,000 "mass arbitrations" unless the Company waived two provisions in its terms of use and that the parties would then be free to bring their claims in court. The Company elected not to waive the subject terms of use provisions. On November 6, 2020 the law firm filed a complaint against DraftKings in Massachusetts Superior Court (Suffolk County), entitled *Aaron Abramson, et al. v. DraftKings*. In *Abramson*, the law firm is seeking, among other things, to compel arbitration against DraftKings on behalf of nine-hundred and ninety-nine (999) individuals.

The Company intends to vigorously defend all claims. If the claimants successfully compel arbitration and then obtain a judgment in their favor in these arbitrations, the Company could be subject to substantial damages and it could be restricted from offering DFS contests in certain states. Despite the potential for significant damages, the Company does not believe, based on currently available information, that the outcome of this proceeding will have a material adverse effect on DraftKings' financial condition, although the outcome could be material to DraftKings' operating results for any particular period, depending, in part, upon the operating results for such period. The Company cannot predict with any degree of certainty the outcome of *Abramson* or determine the extent of any potential liability or damages should the cases proceed to arbitration. The Company also cannot provide an estimate of the possible loss or range of loss.

Interactive Games LLC

On June 14, 2019, Interactive Games LLC ("IG") filed suit against the Company in the U.S. District Court for the District of Delaware, alleging that our Daily Fantasy Sports product offering infringes two patents and the Company's Sportsbook product offering infringes two additional patents. DraftKings intends to vigorously defend this case. In the event that a court ultimately determines that the Company is infringing the asserted patents, it may be subject to substantial damages, which may include treble damages and/or an injunction that could require the Company to modify certain features that we currently offer. The Company cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages. The Company also cannot provide an estimate of the possible loss or range of loss.

Internal Revenue Service

The Company is currently under Internal Revenue Service audit for prior tax years, with the primary unresolved issues relating to excise taxation of fantasy sports contests and informational reporting and withholding. The final resolution of that audit, and other audits or litigation, may differ from the amounts recorded in these consolidated financial statements and may materially affect the Company's consolidated financial statements in the period or periods in which that determination is made.

Letters of Credit

In connection with the Credit Agreement with Pacific Western Bank, the Company has entered into several letters of credit totaling $4.2 million as of March 31, 2021 and December 31, 2020 for the Company's leases of office space.

13. Subsequent Events

In April 2021, the Company acquired Blue Ribbon Software Ltd. ("Blue Ribbon") for $18.3 million of cash and $3.7 million in the Company's class A common stock. Blue Ribbon is a leading global jackpot and gamification company that provides platform-agnostic, real-time gamification tools that allow for fully customizable jackpot promotions. The Company is currently in process of finalizing the preliminary accounting for this transaction and expects to complete its preliminary accounting of the assets acquired and liabilities assumed by the end of the second quarter of 2021.

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

The following discussion and analysis should be read in conjunction with our financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q (the "Report") and the section entitled "Risk Factors." Unless otherwise indicated, the terms "DraftKings," "we," "us," or "our" refer to DraftKings Inc., a Nevada corporation, together with its consolidated subsidiaries.

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 that reflect future plans, estimates, beliefs and expected performance. The forward-looking statements depend upon events, risks and uncertainties that may be outside of our control. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. You are cautioned that our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control, and, consequently, our actual results may differ materially from those projected.

Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled "Risk Factors" included elsewhere in this Report. Any statements contained herein that are not statements of historical fact may be forward-looking statements.

- factors relating to our business, operations and financial performance, including:
  - our ability to effectively compete in the global entertainment and gaming industries;
  - our ability to successfully acquire and integrate new operations;
  - our ability to obtain and maintain licenses with gaming authorities;
  - our inability to recognize deferred tax assets and tax loss carryforwards;
- market and global conditions and economic factors beyond our control, including the potential adverse effects of the ongoing global coronavirus ("COVID-19") pandemic on capital markets, general economic conditions, unemployment and our liquidity, operations and personnel;
- intense competition and competitive pressures from other companies worldwide in the industries in which we operate;
- our ability to raise financing in the future;
- our success in retaining or recruiting officers, key employees or directors; and
- litigation and the ability to adequately protect our intellectual property rights.

These risks and other factors include those set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 ("2020 Annual Report"), filed with the SEC on February 26, 2020 and as amended on Form 10-K/A on May 3, 2021. Due to the uncertain nature of these factors, management cannot assess the impact of each factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any of these statements to reflect events or circumstances occurring after the date of this Report. New factors may emerge and it is not possible to predict all factors that may affect our business and prospects.

Our Business

We are a digital sports entertainment and gaming company. We provide users with daily fantasy sports ("DFS"), sports betting ("Sportsbook") and online casino ("iGaming") opportunities, and we are also involved in the design, development, and licensing of sports betting and casino gaming software for online and retail sportsbook and casino gaming products.

Our mission is to make life more exciting by responsibly creating the world's favorite real-money games and betting experiences. We accomplish this by creating an environment where our users can find enjoyment and fulfillment through DFS, Sportsbook and iGaming.

We make deliberate and substantial investments in support of our mission and long-term growth. For example, we have invested in our products and technology in order to continually launch new product innovations, improve marketing, merchandising, and operational efficiency through data science, and deliver a great user experience. We also make significant investments in sales and marketing and incentives to grow and retain our paid user base, including personalized cross-product offers and promotions, and promote brand awareness to attract the "skin-in-the-game" sports fan. Together, these investments have enabled us to create a leading product offering built on scalable technology, while attracting a user base that has resulted in the rapid growth of our business.

Our priorities are to (a) continue to invest in our products and services, (b) launch our product offerings in new geographies, (c) effectively integrate SBTech (Global) Limited ("SBTech") to form a vertically integrated business, (d) create replicable and predictable state-level unit economics in sports betting and iGaming and (e) expand our consumer offerings. When we launch Sportsbook and iGaming offerings in a new jurisdiction, we invest in user acquisition, retention and cross-selling until the new jurisdiction provides a critical mass of users engaged across our product offerings.

Our current technology is highly scalable with relatively minimal incremental spend required to launch our product offerings in new jurisdictions. We will continue to manage our fixed-cost base in conjunction with our market entry plans and focus our variable spend on marketing, user experience and support and regulatory compliance to become the product of choice for users and maintain favorable relationships with regulators. We expect to further improve our profitability (excluding the impact of amortization of acquired intangibles) through cost synergies and new opportunities driven by vertical integration with SBTech's technology and expertise.

Our path to profitability is based on the acceleration of positive contribution profit growth driven by marketing efficiencies as we continue the transition from local to regional to national advertising and scale benefits on the technology development component of our cost of revenue. On a consolidated Adjusted EBITDA basis, we expect to achieve profitability when total contribution profit exceeds the fixed costs of our business, which depends, in part, on the percentage of the U.S. adult population that has access to our product offerings and the other factors summarized in the section entitled "*Cautionary Statement Regarding Forward-Looking Statements*".

Basis of Presentation

We operate two complementary business segments: our business-to-consumer ("B2C") business and our business-to-business ("B2B") business.

B2C

Our B2C business is comprised of the legacy business of DraftKings Inc., a Delaware corporation ("Old DK"), which includes our DFS, Sportsbook and iGaming product offerings. Across these principal offerings, we offer users a single integrated product that provides one account, one wallet, a centralized payment system and responsible gaming controls. Currently, we operate our B2C segment primarily in the United States.

B2B

Our B2B business is comprised of the entirety of the operations of SBTech, which we acquired on April 23, 2020. Our B2B segment's principal activities involve the design and development of sports betting and casino gaming software. Our B2B services are delivered through our proprietary software, and our complementary service offerings include trading and risk management and support for reporting, customer management and regulatory reporting requirements. The operations of our B2B segment are concentrated mainly in Europe, Asia and the United States.

Impact of COVID-19

The COVID-19 pandemic has adversely impacted global commercial activity, disrupted supply chains and contributed to significant volatility in financial markets. In 2020, the COVID-19 pandemic adversely impacted many different industries. The ongoing COVID-19 pandemic could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the extent and the duration of the impact of COVID-19. The COVID-19 pandemic therefore presents material uncertainty and risk with respect to us and our performance and could affect our financial results in a materially adverse way.

Since the start of the COVID-19 pandemic, the primary impacts to us have been the suspension, cancellation and rescheduling of sports seasons and sporting events. Beginning in March 2020 and continuing through the end of the second quarter of 2020, many sports seasons and sporting events, including the MLB regular season, domestic soccer leagues and European Cup competitions, the NBA regular season and playoffs, the NCAA college basketball tournament, the Masters golf tournament, and the NHL regular season and playoffs, were suspended or cancelled. The suspension of sports seasons and sporting events reduced customers' use of, and spending on, our Sportsbook and DFS product offerings. Starting in the third quarter of 2020 and continuing into the fourth quarter of 2020, major professional sports leagues resumed their activities, many of which were held at limited or reduced capacity. MLB began its season after a three-month delay and also completed the World Series, the NHL resumed its season and completed the Stanley Cup Playoffs, the Masters golf tournament was held, most domestic soccer leagues resumed and several European cup competitions were held, and the NFL season began on its regular schedule. During this period, the NBA also resumed its season, completed the NBA Finals and commenced its 2020-2021 season. In the first quarter of 2021, many sports seasons continued and multiple sporting events were held as planned, including the NFL regular season, the NFL Playoffs and Superbowl LV, the NBA regular season, the NHL regular season, the NASCAR Cup Series, various NCAA football bowl games and the NCAA college basketball season and tournament. The continued return of major sports and sporting events generated significant user interest and activity in our Sportsbook and DFS product offerings. However, the possibility remains that sports seasons and sporting events may be suspended, cancelled or rescheduled due to COVID-19 outbreaks. The suspension and alteration of sports seasons and sporting events in 2020 reduced customers' use of, and spending on, our Sportsbook and DFS product offerings and caused us to issue refunds for canceled events. Additionally, while retail casinos where we have branded Sportsbooks have reopened, they continue to operate with reduced capacity.

Our revenues vary based on sports seasons and sporting events amongst other things, and cancellations, suspensions or alterations resulting from COVID-19 have the potential to adversely affect our revenue, possibly materially. However, our product offerings that do not rely on sports seasons and sporting events, such as iGaming, may partially offset this adverse impact on revenue. DraftKings is also innovating to develop more products that do not rely on traditional sports seasons and sporting events, for example, products that permit wagering and contests on events such as eSports, simulated NASCAR and League of Legends.

A significant or prolonged decrease in consumer spending on entertainment or leisure activities would likely have an adverse effect on demand for our product offerings, reducing cash flows and revenues, and thereby materially harming our business, financial condition and results of operations. In addition, a recurrence of COVID-19 cases or an emergence of additional variants or strains of COVID-19 could cause other widespread or more severe impacts depending on where infection rates are highest. As steps taken to mitigate the spread of COVID-19 have necessitated a shift away from a traditional office environment for many employees, we have business continuity programs in place to ensure that employees are safe and that the business continues to function with minimal disruptions to normal work operations while employees work remotely. We will continue to monitor developments relating to disruptions and uncertainties caused by COVID-19.

Financial Highlights and Trends

The following table sets forth a summary of our financial results for the periods indicated:

(amounts *in thousands*)	Three months ended March 31, 2021	2020
Revenue [(1)]	$ 312,276	$ 88,542
Pro Forma Revenue [(2)]	312,276	113,445
Net Loss [(1)]	(346,344)	(68,680)
Pro Forma Net Loss [(2)]	(346,344)	(82,081)
Adjusted EBITDA [(3)]	(139,262)	(49,460)
Pro Forma Adjusted EBITDA [(3)]	(139,262)	(51,600)

(1) Due to the timing of the Business Combination (as defined below), the three month period ended March 31, 2021 reflects B2B/SBTech activity and the three month period ending March 31, 2020 excludes B2B/SBTech activity.

(2) Assumes that the Business Combination was consummated on January 1, 2019. See "—*Comparability of Financial Information*" below.

(3) Adjusted EBITDA and Pro Forma Adjusted EBITDA are non-GAAP financial measures. See "—*Non-GAAP Information*" below for additional information about these measures and a reconciliation of these measures.

Revenue grew in the quarter ended March 31, 2021 compared to the quarter ended March 31, 2020 by $223.7 million primarily due to the strong performance of our B2C product offerings as a result of robust customer acquisition and retention, successful launches of our Sportsbook and iGaming product offerings in a number of states since the first quarter of 2020 and the acquisition of SBTech. In addition, revenue growth in the first quarter of 2021 when compared to the same period in 2020 was positively impacted by the suspension and cancellation of major sporting events beginning in early March of 2020 as a result of COVID-19, and resulted in a reduction in customers' use of, and spending on, our Sportsbook and DFS product offerings.

Pro forma revenue increased by $198.8 million in the three months ended March 31, 2021, compared to the same period in 2020, mainly reflecting the strong performance of our B2C product offerings, as discussed above, and an increase in SBTech revenues as our B2B business was also negatively impacted in the first quarter of 2020 by COVID-19.

Comparability of Financial Results

On April 23, 2020, we completed the business combination, by and among DEAC, Old DK and SBTech (the "Business Combination"). The Business Combination resulted in, among other things, a considerable increase in amortizable intangible assets and goodwill. The amortization of acquired intangibles has materially increased our consolidated cost of sales (and adversely affected our consolidated gross profit margin) for periods after the acquisition and is expected to continue to do so for the foreseeable future. As a result of the Business Combination, we became a public company listed on The Nasdaq Stock Market LLC and have hired personnel and incurred costs that are necessary and customary for our operations as a public company, which has contributed to, and is expected to continue to contribute to, higher general and administrative costs.

In March 2021, we issued zero-coupon convertible senior notes in an aggregate principal amount of $1,265.0 million, which includes proceeds from the full exercise of the over-allotment option (collectively the "Convertible Notes"). In connection with the pricing of the Convertible Notes and the exercise of the option to purchase additional notes, the Company entered into a privately negotiated capped call transaction ("Capped Call Transactions"). The Capped Call Transactions are expected generally to reduce potential dilution to our Class A common stock upon any conversion of the Convertible Notes. The net cost to enter into the Capped Call Transactions was $124.0 million.

We had cash on hand, excluding cash held on behalf of customers, of $2.8 billion as of March 31, 2021, compared to $1.8 billion as of December 31, 2020.

We recorded a loss on remeasurement warrant liabilities of $27.0 million in the three months ended March 31, 2021 due to fair value changes in the warrant liability. We did not have similar instruments in the three months ended March 31, 2020 and therefore no loss on remeasurement was recorded in the prior period.

The following discussion of our results of operations for the three months ended March 31, 2021 includes the financial results of SBTech. Accordingly, our consolidated results of operations for the three months ended March 31, 2021 are not comparable to our consolidated results of operations for prior periods. Our B2C segment results, presented and discussed below, are comparable to DraftKings' legacy operations and our reported consolidated results for prior periods.

To facilitate comparability between periods, we have included in this Report a supplemental discussion of our results of operations for the three months ended March 31, 2021 compared with our unaudited pro forma results of operations for the three months ended March 31, 2020. The pro forma results for the three months ended March 31, 2020 were prepared giving effect to the Business Combination as if it had been consummated on January 1, 2019, and are based on estimates and assumptions, which we believe are reasonable and consistent with Article 11 of Regulation S-X.

Key Performance Indicators – B2C Operations

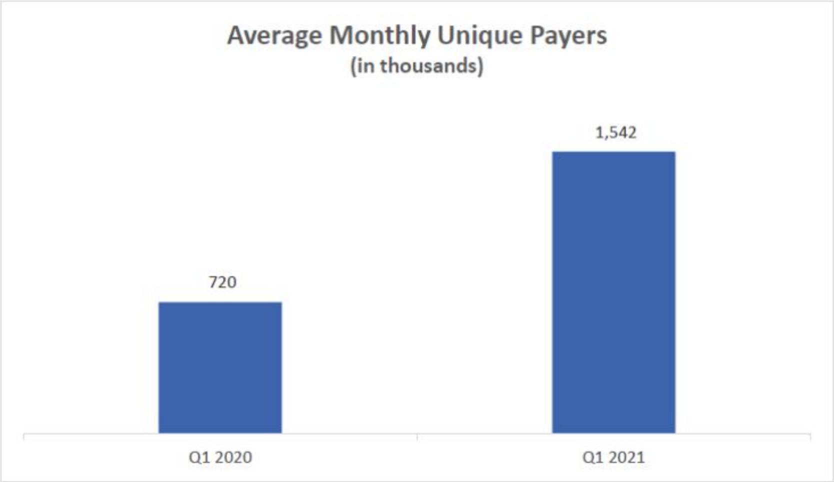
Monthly Unique Payers ("MUPs"). MUPs is the average number of unique paid users ("unique payers") that use our B2C product offerings on a monthly basis.

MUPs is a key indicator of the scale of our B2C user base and awareness of our brand. We believe that year-over-year MUPs is also generally indicative of the long-term revenue growth potential of our B2C segment, although MUPs in individual periods may be less indicative of our longer-term expectations. We expect the number of MUPs to grow as we attract, retain and re-engage users in new and existing jurisdictions and expand our product offerings to appeal to a wider audience.

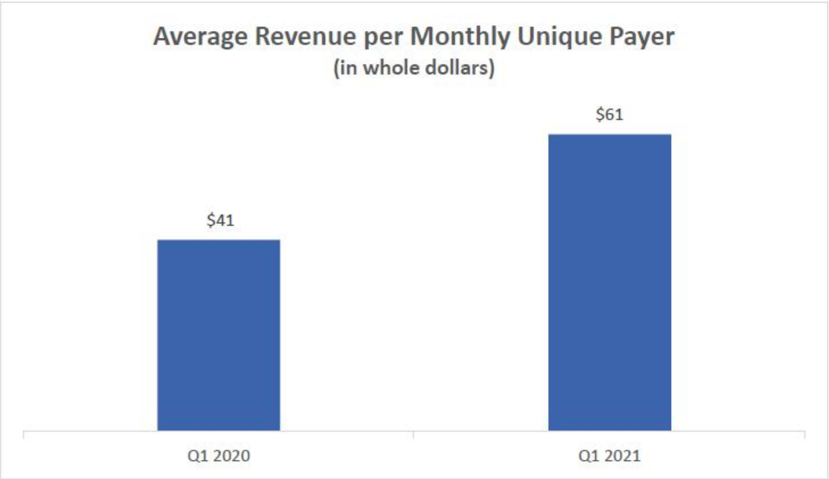
We define MUPs as the number of unique payers per month who had a paid engagement (*i.e.*, participated in a real-money DFS contest, sports bet, or casino game) across one or more of our product offerings via our technology. For reported periods longer than one month, we average the MUPs for the months in the reported period.

A "unique paid user" or "unique payer" is any person who had one or more paid engagements via our B2C technology during the period (*i.e.*, a user that participates in a paid engagement with one of our B2C product offerings counts as a single unique paid user or unique payer for the period). We exclude users who have made a deposit but have not yet had a paid engagement. Unique payers or unique paid users include users who have participated in a paid engagement with promotional incentives, which are fungible with other funds deposited in their wallets on our technology. The number of these users included in MUPs has not been material to date and a substantial majority of such users are repeat users who have had paid engagements both prior to and after receiving incentives.

The chart below presents our MUPs for the three months ended March 31, 2021 and 2020 respectively:



Average Revenue per MUP ("ARPMUP"). ARPMUP is the average B2C segment revenue per MUP, and this key metric represents our ability to drive usage and monetization of our B2C product offerings. The chart below presents our ARPMUP for the three months ended March 31, 2021 and 2020 respectively:



We define and calculate ARPMUP as the average monthly B2C segment revenue for a reporting period, divided by MUPs (*i.e.*, the average number of unique payers) for the same period.

Our period-on-period increase in MUPs for the three months ended March 31, 2021, compared to the same period in 2020, reflects growth in DFS, the expansion of our Sportsbook and iGaming product offerings into new states and increased response rates to our advertising spending. Year-over-year growth in MUPs in the first quarter of 2021 was also positively impacted by the suspension and cancellation of major sporting events beginning in March of 2020 as a result of COVID-19. ARPMUP increased in the three months ended March 31, 2021, compared to the same period in 2020, due to our continued focus on driving engagement across our B2C product offerings, specifically with our Sportsbook and iGaming products being offered in additional jurisdictions but also as we cross sell our users into more products. As a result, we experienced a favorable change in revenue mix as a higher percentage of our total customers engaged with our Sportsbook and iGaming product offerings. There was also some favorability from the normalized sports schedule as our users in Sportsbook and DFS were able to engage with our products for the entire quarter, including the NCAA basketball tournament and the regular seasons of the NBA and NHL.

Non-GAAP Information

This Report includes Adjusted EBITDA and Pro Forma Adjusted EBITDA, which are non-GAAP performance measures that we use to supplement our results presented in accordance with U.S. GAAP. We believe Adjusted EBITDA and Pro Forma Adjusted EBITDA are useful in evaluating our operating performance, similar to measures reported by our publicly-listed U.S. competitors, and regularly used by security analysts, institutional investors and other interested parties in analyzing operating performance and prospects. Adjusted EBITDA and Pro Forma Adjusted EBITDA are not intended to be a substitute for any U.S. GAAP financial measure. As calculated, it may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry.

We define and calculate Adjusted EBITDA as net loss before the impact of interest income or expense, income tax expense or benefit, depreciation and amortization, and further adjusted for the following items: stock-based compensation, transaction-related costs, non-core litigation, settlement and related costs, remeasurement of warrant liabilities, and certain other non-recurring, non-cash or non-core items, as described in the reconciliation below. We define and calculate Pro Forma Adjusted EBITDA as pro forma net loss (giving effect to the Business Combination as if it were consummated on January 1, 2019) before the impact of interest income or expense, income tax expense or benefit and depreciation and amortization, and further adjusted for the same items as Adjusted EBITDA.

We include these non-GAAP financial measures because they are used by management to evaluate our core operating performance and trends and to make strategic decisions regarding the allocation of capital and new investments. Adjusted EBITDA excludes certain expenses that are required in accordance with U.S. GAAP because they are non-recurring items (for example, in the case of transaction-related costs), non-cash expenditures (for example, in the case of depreciation, amortization, and stock-based compensation), or are not related to our underlying business performance (for example, in the case of interest income and expense and litigation settlement and related costs). Pro Forma Adjusted EBITDA excludes the same categories of expenses and is prepared to give effect to the Business Combination as if it occurred on January 1, 2019.

Adjusted EBITDA

The table below presents our Adjusted EBITDA reconciled to our net loss, the closest U.S. GAAP measure, for the periods indicated:

	Three months ended March 31,	
	2021	2020
(amounts in thousands)		
Net loss	$ (346,344)	$ (68,680)
Adjusted for:		
Depreciation and amortization (excluding acquired intangibles)	9,062	4,704
Amortization of acquired intangibles	19,131	—
Interest (income) expense, net	(985)	2,351
Income tax (benefit) provision	(4,595)	9
Stock-based compensation (1)	151,843	4,842
Transaction-related costs (2)	3,023	5,652
Litigation, settlement, and related costs (3)	622	1,330
Loss on remeasurement of warrant liabilities	26,980	—
Other non-recurring costs and special project costs (4)	1,848	129
Other non-operating costs (5)	153	203
Adjusted EBITDA	$ (139,262)	$ (49,460)
Adjusted EBITDA by segment:		
B2B	$ 2,093	$ —
B2C	$ (141,355)	$ (49,460)

(1) The amounts for the three months ended March 31, 2021 primarily reflect stock-based compensation expenses resulting from the issuance of awards under long-term incentive plans and, for the three months ended March 31, 2020, primarily reflects stock-based compensation expenses resulting from the issuance of awards under time-based, performance-based and long-term incentive plans.

(2) Includes capital markets advisory, consulting, accounting and legal expenses related to evaluation, negotiation and integration costs incurred in connection with transactions and offerings, including those relating to the Business Combination for the three months ended March 31, 2020.

(3) Includes primarily external legal costs related to litigation and litigation settlement costs deemed unrelated to our core business operations.

(4) Includes primarily consulting, advisory and other costs relating to non-recurring items and special projects.

(5) Includes our equity method share of the investee's losses.

Pro Forma Adjusted EBITDA

The table below presents our Actual Non-GAAP Adjusted EBITDA reconciled to net loss for the three-month period ending March 31, 2021 compared to a similar reconciliation of our Non-GAAP Pro Forma Adjusted EBITDA to our pro forma net income for the same period in 2020:

	Three months ended March 31,	
	2021	2020
(amounts in thousands)	Actual	Pro Forma
Net loss	$ (346,344)	$ (82,081)
Adjusted for:		
Depreciation and amortization (excluding acquired intangibles)	9,062	5,552
Amortization of acquired intangibles	19,131	17,699
Interest (income) expense, net	(985)	2,798
Income tax (benefit) provision	(4,595)	(2,088)
Stock-based compensation (1)	151,843	4,858
Transaction-related costs (2)	3,023	—
Litigation, settlement, and related costs (3)	622	1,330
Loss on remeasurement of warrant liabilities	26,980	—
Other non-recurring costs and special project costs (4)	1,848	129
Other non-operating costs (5)	153	203
Pro forma Adjusted EBITDA	$ (139,262)	$ (51,600)

(1) The amounts for the three months ended March 31, 2021, primarily reflect stock-based compensation expenses resulting from the issuance of awards under long-term incentive plans and, for the three months ended March 31, 2020, primarily reflects stock-based compensation expenses resulting from the issuance of awards under time-based, performance-based and long-term incentive plans.

(2) Includes capital markets advisory, consulting, accounting and legal expenses related to evaluation, negotiation and integration costs incurred in connection with transactions and offerings. The transaction costs related to the Business Combination described in footnote 1 to the preceding table have been eliminated in calculating our pro forma net income for the three months ended March 31, 2020 pursuant to the principles of Article 11 of Regulation S-X.

(3) Includes primarily external legal costs related to litigation and litigation settlement costs deemed unrelated to our core business operations.

(4) Includes primarily consulting, advisory and other costs relating to non-recurring items and special projects.

(5) Includes our equity method share of the investee's losses.

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Results of Operations

Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020

The following table sets forth a summary of our consolidated results of operations for the interim periods indicated, and the changes between periods.

	Three months ended March 31,			
(amounts in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Revenue	$ 312,276	$ 88,542	$ 223,734	252.7 %
Cost of revenue	183,225	43,416	(139,809)	(322.0)%
Sales and marketing	228,686	53,706	(174,980)	(325.8)%
Product and technology	56,159	18,041	(38,118)	(211.3)%
General and administrative	168,997	39,496	(129,501)	(327.9)%
Loss from operations	(324,791)	(66,117)	(258,674)	(391.2)%
Interest income (expense), net	985	(2,351)	3,336	141.9 %
Loss on remeasurement of warrant liabilities	(26,980)	—	(26,980)	n.m.
Loss before income tax (benefit) provision and loss from equity method investment	(350,786)	(68,468)	(282,318)	(412.3)%
Income tax (benefit) provision	(4,595)	9	4,604	n.m.
Loss from equity method investment	153	203	50	24.6 %
Net loss	$ (346,344)	$ (68,680)	$ (277,664)	(404.3)%

n.m. = not meaningful

Revenue. Revenue increased $223.8 million, or 252.7%, to $312.3 million in the three months ended March 31, 2021 from $88.5 million in the three months ended March 31, 2020. The increase was partially attributable to $31.4 million in revenue from SBTech, which we acquired on April 23, 2020.

Excluding the impact of the SBTech Acquisition, revenue would have increased by $192.4 million in the three months ended March 31, 2021, reflecting strong customer acquisition and retention as well as successful launches of Sportsbook and iGaming in additional states since the first quarter of 2020, as well as a more favorable sport schedule especially as it relates to the COVID-19 impact on the 2020 period. Quarter-on-quarter, MUPs for our B2C segment increased by 114.1%, while ARPMUP for our B2C segment increased by 48.1%.

Cost of Revenue. Cost of revenue increased $139.8 million, or 322.0%, to $183.2 million in the three months ended March 31, 2021 from $43.4 million in the three months ended March 31, 2020. Of this increase, $31.7 million was attributable to SBTech, including $19.1 million in amortization of acquired intangibles.

Excluding the impact of the SBTech Acquisition, the cost of revenue increase would have been $108.1 million in the three months ended March 31, 2021. This increase is largely due to variable costs that relate to the expanded product and geographic footprint of our B2C segment. These variable costs primarily include an increase in product taxes and revenue share agreements with the expansion into new states, as well as the variable impact of continued growth in existing states. In addition, we have certain technology and merchant processing partners with variable costs that increased as well from additional customer engagement. B2C segment cost of revenue as a percentage of B2C revenue increased by 4.9 percentage points to 53.9% in the three months ended March 31, 2021 from 49.0% in the three months ended March 31, 2020, reflecting our changed revenue mix from our more mature DFS product to our iGaming and Sportsbook product offerings as well as higher promotional investment in new geographies. In general, our iGaming and Sportsbook product offerings produce revenue at a higher cost per revenue dollar relative to our more mature DFS offering.

Sales and Marketing. Sales and marketing expense increased $175.0 million, or 325.8%, to $228.7 million in the three months ended March 31, 2021 from $53.7 million in the three months ended March 31, 2020, of which $2.5 million was attributable to SBTech. Excluding the impact of the SBTech Acquisition, the increase was $172.5 million and was primarily due to higher advertising and marketing spending to increase awareness and user acquisition for our Sportsbook and iGaming offerings, particularly in newly launched states, and an increase in stock-based compensation expense.

Product and Technology. Product and technology expense increased $38.1 million, or 211.3%, to $56.2 million in the three months ended March 31, 2021 from $18.0 million in the three months ended March 31, 2020, of which $20.3 million was attributable to SBTech. Excluding the impact of the acquisition of SBTech, the increase would have been $17.9 million and primarily reflects an increase in stock-based compensation expense from the issuance of awards under our long-term incentive plans, as well as additions to our product operations and engineering headcount in our B2C segment.

General and Administrative. General and administrative expense increased $129.5 million, or 327.9%, to $169.0 million in the three months ended March 31, 2021 from $39.5 million in the three months ended March 31, 2020. Of this increase, $7.6 million was attributable to SBTech. Excluding the impact of the acquisition of SBTech, the increase would have been $121.9 million, primarily due to an increase in stock-based compensation expense from the issuance of awards granted under our long-term incentive plans as well as an increase in personnel costs, reflecting headcount growth, including new hires to support our operations as a public company.

Interest Income (Expense). Interest income was $1.0 million in the three months ended March 31, 2021 compared to interest expense of $2.4 million in the three months ended March 31, 2020.

Loss on Remeasurement of Warrant Liabilities. We recorded a loss on remeasurement of warrant liabilities of $27.0 million in the three months ended March 31, 2021 due to fair value changes in the warrant liability. We did not have similar instruments in the three months ended March 31, 2020 and therefore no loss on remeasurement was recorded in the prior period.

Net Loss. Net loss increased by $277.7 million to $346.3 million in the three months ended March 31, 2021 from $68.7 million in the three months ended March 31, 2020, for the reasons discussed above.

Results of Operations for the Three Months Ended March 31, 2021 Compared to the Supplemental Unaudited Pro Forma Results of Operations for the Three Months Ended March 31, 2020

Set forth below are our results of operations for the three months ended March 31, 2021 compared with the pro forma results of operations for the three months ended March 31, 2020. These pro forma results assume that the Business Combination, including our acquisition of SBTech, which comprises the entirety of our new B2B segment, occurred on January 1, 2019 and are based on estimates and assumptions which we believe are reasonable. They are not the results that would have been realized had the Business Combination actually occurred on January 1, 2019 and are not indicative of our consolidated results of operations for future periods.

	Three months ended March 31,			
(amounts in thousands, except percentages)	2021 Actual	2020 Pro Forma	$ Change	% Change
Revenue	$ 312,276	$ 113,445	$ 198,831	175.3 %
Cost of revenue	183,225	68,458	(114,767)	(167.6)%
Sales and marketing	228,686	57,273	(171,413)	(299.3)%
Product and technology	56,159	29,742	(26,417)	(88.8)%
General and administrative	168,997	39,140	(129,857)	(331.8)%
Loss from operations	(324,791)	(81,168)	(243,623)	(300.1)%
Interest income (expense), net	985	(2,798)	3,783	135.2 %
Loss on remeasurement of warrant liabilities	(26,980)	—	(26,980)	n.m.
Loss before income tax benefit and loss from equity method investment	(350,786)	(83,966)	(266,820)	(317.8)%
Income tax benefit	(4,595)	(2,088)	2,507	120.1 %
Loss from equity method investment	153	203	50	24.6 %
Net loss	$ (346,344)	$ (82,081)	$ (264,263)	(322.0)%

Revenue. Revenue increased $198.8 million, or 175.3%, to $312.3 million in the three months ended March 31, 2021 from pro forma revenue of $113.4 million in the three months ended March 31, 2020. Of this increase, $192.4 million was attributable to the performance of our B2C segment, as discussed above.

Cost of Revenue. Cost of revenue increased $114.8 million, or 167.6%, to $183.2 million in the three months ended March 31, 2021 from pro forma cost of revenue of $68.5 million in the three months ended March 31, 2020. Of this increase, $108.1 million was attributable to the performance of our B2C segment, as discussed above. The remaining increase was attributable to the performance of our B2B segment as SBTech experienced improved results in the first quarter of 2021, compared to the first quarter of 2020, which was negatively impacted in by COVID-19.

Sales and Marketing. Sales and marketing expense increased $171.4 million, or 299.3%, to $228.7 million in the three months ended March 31, 2021 from pro forma sales and marketing expense of $57.3 million in the three months ended March 31, 2020. Substantially all of the increase was attributable to the performance of our B2C segment, as discussed above. Our B2B segment sales and marketing costs remained relatively steady between periods, reflecting a modest headcount increase that was offset by a decrease in conferences and other marketing spending in the first quarter of 2021 as a result of COVID-19.

Product and Technology. Product and technology expense increased by $26.4 million, or 88.8%, to $56.2 million in the three months ended March 31, 2021 from pro forma product and technology expense of $29.7 million in the three months ended March 31, 2020. Of this increase, $17.9 million was attributable to the performance of our B2C segment, as discussed above. The remaining increase was attributable to the pro forma performance of the B2B segment, driven mainly by an increase in stock-based compensation awards and increased headcount.

General and Administrative. General and administrative expense increased $129.9 million, or 331.8%, to $169.0 million in the three months ended March 31, 2021 from pro forma general and administrative expense of $39.1 million in the three months ended March 31, 2020. Of this increase, $121.9 million was attributable to the performance of our B2C segment, as discussed above. B2B segment pro forma general and administrative expense primarily increased due to an increase in stock-based compensation awards and increased headcount.

Interest Income (Expense). Interest income was $1.0 million in the three months ended March 31, 2021 compared to pro forma interest expense of $2.8 million in the three months ended March 31, 2020.

Loss on Remeasurement of Warrant Liabilities. We recorded a loss on remeasurement of warrant liabilities of $27.0 million in the three months ended March 31, 2021 due to fair value changes in the warrant liability. We did not have similar instruments in the three months ended March 31, 2020 and therefore no loss on remeasurement was recorded in the prior period.

Net Loss. Net loss increased by $264.3 million to $346.3 million in the three months ended March 31, 2021 from pro forma net loss of $82.1 million in the three months ended March 31, 2020, for the reasons discussed above.

Liquidity and Capital Resources

We had $2.8 billion in cash and cash equivalents as of March 31, 2021 (excluding player cash, which we segregate from our operating cash balances on behalf of our paid users for all jurisdiction and products). We believe our cash on hand is sufficient to meet our current working capital and capital expenditure requirements for a period of at least twelve months from the date of this filing, irrespective of the continuing impact of COVID-19.

Debt

In March 2021, we issued zero-coupon convertible senior notes in an aggregate principal amount of $1,265.0 million. The Convertible Notes mature on March 15, 2028, subject to earlier conversion, redemption or repurchase. In connection with the pricing of the Convertible Notes and the exercise of the option to purchase additional Convertible Notes, we entered into privately negotiated capped call transactions ("Capped Call Transactions"). The Capped Call Transactions are expected generally to reduce potential dilution to our Class A common stock upon any conversion of the Convertible Notes. The net cost of $124.0 million incurred to enter into the Capped Call Transactions was recorded as a reduction to additional paid-in capital on the Company's consolidated balance sheet during the quarter ended March 31, 2021.

We also have a revolving credit facility with Pacific Western Bank with a current limit of $60.0 million. The facility is scheduled to mature on March 1, 2022. As of March 31, 2021, $4.2 million of the amount available under the facility was applied to the issuance of letters of credit in connection with our office leases. $55.8 million was available for borrowing under the revolving credit facility as of the date of this Report.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Three months ended March 31,	
(amounts in thousands)	2021	2020
Net cash used in operating activities	$ (77,751)	$ (50,762)
Net cash used in investing activities	(51,921)	(6,329)
Net cash provided by financing activities	1,128,768	77,657
Effect of foreign exchange rates on cash and cash equivalents	1,774	—
Net increase in cash and cash equivalents	1,000,870	20,566
Cash and cash equivalents at beginning of period	1,817,258	76,533
Cash and cash equivalents at end of period	$ 2,818,128	$ 97,099

Operating Activities. Our cash used in operating activities includes the impact of changes in cash reserved for users, user cash receivables and liabilities to users. Cash reserved for users is comprised of deposits by our users. We treat this cash as the property of our users and segregate it from our operating cash balances. When we receive a user deposit, we record it as cash reserved for users on our balance sheet. In certain cases, a payment processor may delay the remittance of deposits to us for risk management or other reasons, in which case we grant our users access to those funds and record the deposits as a receivable reserved for users. The sum of the changes in cash reserved for users, and changes in receivables reserved for users, are approximately equal to the change in liabilities owed to users for any given period. While on deposit with us, cash reserved for users earns interest, which is recorded as interest income on our statement of operations and is included in our operating cash flows. This interest income has not been material to date.

Net cash used in operating activities in the three months ended March 31, 2021 was $77.8 million, compared to $50.8 million in the three months ended March 31, 2020, mainly reflecting our $277.7 million higher net loss, for the reasons discussed above, net of non-cash cost items, and changes in operating working capital. Non-cash cost items increased $186.8 million period-over-period, driven primarily by an increase in stock-based compensation expense.

Investing Activities. Net cash used in investing activities during the three months ended March 31, 2021 increased by $45.6 million to $51.9 million from $6.3 million during the same period in 2020, mainly reflecting the cash portion of consideration paid to VSiN shareholders, net of cash acquired.

Financing Activities. Net cash provided by financing activities during the three months ended March 31, 2021 increased by $1,051.1 million to $1,128.8 million from $77.7 million during the same period in 2020. The increase was primarily driven the net proceeds provided by the issuance of zero-coupon convertible debt during the three months ended March 31, 2021.

Commitments and Contingencies

Refer to Note 12 of our unaudited condensed consolidated financial statements included elsewhere in this Report for a summary of our commitments as of March 31, 2021.

Critical Accounting Policies

Our financial statements have been prepared in accordance with GAAP. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ materially from these estimates.

During the three months ended March 31, 2021, there were no changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the SEC on February 26, 2021 and as amended on Form 10-K/A on May 3, 2021 (the “2020 Annual Report”). For a complete discussion of our critical accounting policies, refer to the 2020 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk during the three months ended March 31, 2021. Refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our 2020 Annual Report.

Item 4. Controls and Procedures.

Management’s Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, as specified above. Our management recognizes that any control system, no matter how well designed and operated, is based upon certain judgments and assumptions and cannot provide absolute assurance that its objectives will be met.

PART II. —OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in a number of legal proceedings (including those described below) concerning matters arising in connection with the conduct of our business activities. These proceedings are at varying stages, and many of these proceedings seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or an additional loss may have been incurred and to determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described on the following pages, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in various stages; (ii) damages have not been sought; (iii) damages are unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties involved. For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

In Re: Daily Fantasy Sports Litigation (Multi-District Litigation)

Between late 2015 and early 2016, certain individuals who allegedly registered and competed in daily sports fantasy contests on our and FanDuel’s websites, and their family members, filed numerous actions (primarily purported class actions) against us, FanDuel, and other related parties (the “DFS defendants”) in courts across the United States. In February 2016, these actions were consolidated in a multi-district litigation in the U.S. District Court for the District of Massachusetts. On September 2, 2016, the consolidated group of plaintiffs filed their First Amended Master Class Action Complaint, superseding their original class action complaint, which superseded their individual complaints.

The plaintiffs assert 27 claims arising under both state and federal law against the DFS defendants. The plaintiffs’ claims against us generally fall into four categories: (1) our online daily fantasy sports contests constitute illegal gambling; (2) we promulgated false or misleading advertisements that emphasized the ease of play and likelihood of winning; (3) we induced consumers to lose money through a deceptive bonus program; and (4) we allowed our employees to participate in competitors’ fantasy sports contests using non-public information, which gave such employees an unfair advantage over other contestants. The plaintiffs seek money damages, equitable relief, and disgorgement of gains against us.

On November 16, 2016, the DFS defendants filed a motion to compel arbitration against all named plaintiffs except one plaintiff asserting claims against the DFS defendants as a concerned citizen of the State of Florida (the “Concerned Citizen Claims”). On November 27, 2019, the Court granted the DFS defendants’ motion to compel arbitration with respect to all named plaintiffs other than a small set of plaintiffs who are family members of individuals who have DraftKings or FanDuel accounts and who assert claims under various state laws regarding gambling (the “Family Member Plaintiffs”). On March 9, 2020, the DFS defendants moved to dismiss the Family Member Plaintiffs’ claims and the Concerned Citizen Claims. On April 7, 2020, an opposition to the motion to dismiss the Concerned Citizen Claim was filed. On April 20, 2020, the Family Member Plaintiffs filed their opposition to the DFS defendants’ motion to dismiss, and on April 29, 2020, the Family Member Plaintiffs filed a motion for leave to amend the First Amended Master Class Action Complaint. On May 11, 2020, the DFS defendants filed their reply in support of their motion to dismiss the Family Member Plaintiffs’ claims and the Concerned Citizen Claim, and on May 13, 2020, the DFS defendants filed their opposition to the Family Member Plaintiffs’ motion for leave to amend the First Amended Master Class Action Complaint. On March 5, 2020, one named plaintiff with respect to whom the motion to compel was granted filed a renewed motion to remand his case to state court. On May 29, 2020, we filed an opposition to that motion. On March 3, 2021, DraftKings and the plaintiffs (other than the Family Member Plaintiffs) filed in Court a joint motion for preliminary approval of a proposed settlement, which is subject to final approval by the Court.

We intend to vigorously defend this case. If the plaintiffs were to obtain a judgment in their favor in this lawsuit, we may be subject to substantial damages and we may have to withdraw our DFS operations in certain states. We have established an accrual for this matter. We cannot predict with any degree of certainty the outcome of this suit.

We do not believe, based on currently available information, that the outcome of this proceeding will have a material adverse effect on DraftKings' financial condition, although the outcome could be material to DraftKings' operating results for any particular period, depending, in part, upon the operating results for such period.

1,000 Mass Arbitration Demands Filed by One Law Firm

On October 21, 2019, a law firm filed 1,000 "mass arbitrations" against us with the American Arbitration Association ("AAA") on behalf of purported DraftKings users that assert claims similar to those in the multi-district litigation described above. The 1,000 arbitration demands are virtually identical. The law firm that filed the arbitrations has expressed an intention to file a total of more than 20,000 such "mass arbitrations" against us. If these "mass arbitrations" were to proceed, they could result in significant costs to us, which could include a minimum range of $3,200 to $4,700 in fees per arbitration. Consequently, the legal costs incurred by us in connection with defending such arbitrations and any adverse judgments issued in any arbitration, could result in a significant cost to us.

We dispute the law firm's ability to file "mass arbitrations" against us, among other reasons, because they violate our terms of use that require claims be brought on an individual basis and not be consolidated or joined in any other arbitration or proceeding involving a claim of any other party.

After the law firm filed the 1,000 "mass arbitrations," the AAA informed us in writing that it would close their files on, and decline to administer, the 1,000 "mass arbitrations" unless we waived two provisions in our terms of use and that the parties would then be free to bring their claims in court. We elected not to waive the subject terms of use provisions.

On November 6, 2020, the same law firm filed a complaint against DraftKings in Massachusetts Superior Court (Suffolk County), entitled Aaron Abramson, et al. v. DraftKings. In Abramson, the same law firm is seeking, among other things, to compel arbitration against DraftKings on behalf of nine-hundred and ninety-nine (999) individuals. On January 4, 2021, DraftKings and plaintiffs filed a Joint Motion to Transfer Action to Business Litigation Section, which the court allowed and sent notice dated March 1, 2021, to the parties. On March 2, 2021, the same law firm filed with the court (1) Plaintiffs' Motion to Compel Individual Arbitration and Stay Litigation, DraftKings' opposition to this motion and Plaintiffs' reply; and (2) Counter-Defendants' Answer and Affirmative Defenses to Counter-Claimant DraftKings Inc.'s Counterclaim for Declaratory Relief. On March 19, 2021, DraftKings filed its Motion to Dismiss the Complaint for Lack of Subject Matter Jurisdiction and Failure to State a Claim, Plaintiffs' opposition and DraftKings' reply.

We intend to vigorously defend all claims. If the claimants successfully compel arbitration and then obtain arbitral awards in their favor, we could be subject to substantial damages and we could be restricted from offering DFS contests in certain states. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages arising from the potential arbitrations (if such arbitrations are compelled).

Attorney General of Texas

On January 19, 2016, the Texas Attorney General issued an opinion letter that "odds are favorable that a court would conclude that participation in paid daily fantasy sports leagues constitutes illegal gambling" under Texas law. In response to the opinion letter, we sued the Texas Attorney General on March 4, 2016 in Dallas County, Texas.

The lawsuit makes five claims: (1) a claim for a declaratory judgment that daily fantasy sports contests do not violate Texas law; (2) a claim of denial of due process under the Fifth and Fourteenth Amendments to the U.S. Constitution; (3) a claim of denial of due course of law under Article I of the Texas Constitution; (4) a claim of denial of equal protection under the Fourteenth Amendment to the U.S. Constitution; and (5) a claim of denial of equal rights under Article I of the Texas Constitution. We are also seeking reimbursement of our costs and attorneys' fees.

On May 2, 2016, the Texas Attorney General filed a motion to transfer venue to Travis County, Texas. On April 16, 2018, the parties filed a notice of agreed non-suit without prejudice, and we re-filed our lawsuit against the Texas Attorney General in Travis County. On April 17, 2018, the Dallas County court granted the parties' agreed non-suit without prejudice, thereby dismissing the Dallas County lawsuit without prejudice.

On May 24, 2018, the Texas Attorney General answered the complaint filed in Travis County, Texas.

FanDuel filed a petition in intervention on August 24, 2018, seeking essentially the same relief as DraftKings seeks. The Court entered an updated scheduling order setting the case for a non-jury trial on April 20, 2021. The parties subsequently filed an agreed motion to extend the scheduling order seeking, among other things, to change the non-jury trial date to March 8, 2022.

We intend to vigorously pursue our claims. In the event a court ultimately determines that daily fantasy sports contests violate Texas law, that determination could cause financial harm to us and loss of business in Texas. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Interactive Games LLC

On June 14, 2019, Interactive Games LLC ("IG") filed suit against us in the U.S. District Court for the District of Delaware. In the Complaint, IG alleges that our Daily Fantasy Sports product offering infringes two patents: U.S. Patent No. 8,956,231 (the "231 Patent"), which is entitled "Multi-process communication regarding gaming information" and U.S. Patent No. 8,974,302 (the "302 Patent"), which is entitled "Multi-process communication regarding gaming information." That same Complaint alleges that our Sportsbook product offering infringes two additional patents: U.S. Patent No. 8,616,967 (the "967 Patent"), which is entitled "System and method for convenience gaming" and U.S. Patent No. 9,430,901 (the "901 Patent"), which is entitled "System and method for wireless gaming with location determination." All four of these patents are collectively referred to as the "IG Patents."

In response to the Complaint, we filed a Motion to Dismiss the Complaint under 35 U.S.C. Section 101, asserting the IG Patents are directed to non-patentable subject matter. The Court has not yet ruled on that Motion.

On June 17, 2020, we filed petitions for IPRs with the PTAB challenging the validity of each of the IG Patents. The PTAB instituted review for the '901, '231, and '967 patents but denied institution for the '302 Patent. On February 5, 2021, we filed a request for rehearing regarding the decision on the '302 Patent, which was denied by the PTAB on March 2, 2021.

We intend to vigorously defend this case. In the event that a court ultimately determines that we are infringing the asserted patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to modify certain features that we currently offer. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims that arise in the ordinary course of business. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our financial condition, results of operations or liquidity, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

Item 1A. Risk Factors.

Factors that could cause our actual results to differ materially from those in this Quarterly Report are any of the risks described in our 2020 Annual Report. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

The following represent material changes to, and should be read in conjunction with, the risk factors disclosed in our 2020 Annual Report.

We have substantial debt outstanding and may incur additional debt.

As of March 31, 2021, our total long-term debt, including the debt of our subsidiaries, was approximately $1.2 billion. Our debt levels could have significant consequences, including:

- making it more difficult to satisfy our obligations;
- a dilutive effect on our outstanding equity capital or future earnings;

- increasing our vulnerability to general adverse economic conditions;
- requiring us to devote a substantial portion of our cash to make interest and principal payments on our debt, thereby reducing the amount of cash available for other purposes. As a result, we would have limited financial and operating flexibility in responding to changing economic and competitive conditions;
- limiting our ability to raise additional debt because it may be more difficult for us to obtain debt financing on attractive terms; and
- placing us at a disadvantage compared to our competitors that are less leveraged.

In addition, we may incur substantial additional debt in the future. The terms of the indenture relating to the Convertible Notes permit us to incur additional debt. If new debt is added to our current debt levels, the risks we now face could intensify.

The conditional conversion features of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion features of the Convertible Notes are triggered, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock, we would be required to make cash payments to satisfy all or a portion of our conversion obligation based on the conversion rate, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

The Capped Call Transactions may affect the value of the Convertible Notes and our Class A common stock.

In connection with the Convertible Notes offering, we entered into the Capped Call Transactions with certain counterparties (the "Hedge Counterparties"). The Capped Call Transactions are expected to reduce the potential dilution to the holders of our Class A common stock and/or offset potential cash payments we are required to make in excess of the principal amount upon conversion of the Convertible Notes. In connection with establishing its initial hedge of a Capped Call Transaction, the applicable Hedge Counterparty and/or its affiliates may have purchased shares of our Class A common stock and/or entered into various derivative transactions with respect to our Class A common stock concurrently with or shortly after the pricing of the Convertible Notes.

This activity may increase (or reduce the size of any decrease in) the market price of our Class A common stock or the Convertible Notes at that time. In addition, each Hedge Counterparty or an affiliate thereof may modify its hedge position by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of Convertible Notes). Any of these activities could cause or prevent an increase or decline in the market price of our Class A common stock or the Convertible Notes. In addition, if the Capped Call Transactions fail to become effective, each Hedge Counterparty may unwind its hedge position with respect to our Class A common stock, which could adversely affect trading in and the value of our Class A common stock and the value of the Convertible Notes.

We are subject to counterparty risk with respect to the Capped Call Transactions.

The Hedge Counterparties to the Capped Call Transactions are financial institutions, and we will be subject to the risk that the Hedge Counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the Capped Call transactions. Our exposure to the credit risk of the Hedge Counterparties under the Capped Call Transactions will not be secured by any collateral. In the past, economic conditions have resulted in the actual or perceived failure or financial difficulties of a number of financial institutions, including the bankruptcy of Lehman Brothers Holdings Inc. and various of its affiliates. If a Hedge Counterparty becomes subject to insolvency proceedings, we will be an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with them. Our exposure will depend on many factors. Generally, the increase in our exposure will be correlated to the increase in the market price and in the volatility of our Class A common stock. In addition, as a result of a default by any counterparty to the Capped Call Transactions, we may suffer more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or viability of any counterparty under the Capped Call Transactions.

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

Merger Consideration in Connection with the Acquisition of VSiN

In connection with the consummation of the transactions contemplated by that certain Agreement and Plan of Merger, dated as of March 17, 2021, as amended on March 24, 2021, by and among the Company, certain subsidiaries of the Company, Vegas Sports Information Network, Inc., a Nevada corporation ("VSiN") and certain shareholders of VSiN, on March 26, 2021, DraftKings issued 464,303 shares of Class A common stock to the holders of Class A and Class B common stock of VSiN (the "VSiN Consideration Shares"). The VSiN Consideration Shares were issued as part of the merger consideration for DraftKings' acquisition of all of the issued and outstanding shares of VSiN. The VSiN Consideration Shares were issued pursuant to and in accordance with the exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), under Section 4(a)(2) and/or Regulation D promulgated under the Securities Act.

Merger Consideration in Connection with the Acquisition of Blue Ribbon

In connection with the consummation of the transactions contemplated by the Share Purchase Agreement, dated as of March 11, 2021, by and among Gaming Tech Ltd., a subsidiary of DraftKings, Blue Ribbon Software Ltd., a company duly and validly organized under the laws of Israel ("Blue Ribbon"), certain shareholders of Blue Ribbon (the "Blue Ribbon Shareholders"), on April 1, 2021, DraftKings issued 55,710 shares of Class A common stock to the Shareholders (the "Blue Ribbon Consideration Shares"). The Blue Ribbon Consideration Shares were issued as part of the consideration for DraftKings' acquisition of all of the issued and outstanding common shares of Blue Ribbon. The Blue Ribbon Consideration Shares were issued pursuant to and in accordance with the exemption from registration under the Securities Act, under Section 4(a)(2) and/or Regulation D promulgated under the Securities Act.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit Index

Exhibit No.	Description
4.1	Indenture, dated as of March 18, 2021, between DraftKings Inc. and Computershare Trust Company, N.A., as trustee (including Form of 0% Convertible Senior Notes due 2028) (incorporated by reference to Exhibit 4.1 to DraftKings Inc.'s Current Report on Form 8-K (File No. 001-38908), filed with the SEC on March 18, 2021).
10.1	Form of Base Capped Call Transaction Confirmation (incorporated by reference to Exhibit 10.1 to DraftKings Inc.'s Current Report on Form 8-K (File No. 001-38908), filed with the SEC on March 18, 2021).
10.2	Form of Additional Capped Call Transaction Confirmation (incorporated by reference to Exhibit 10.2 to DraftKings Inc.'s Current Report on Form 8-K (File No. 001-38908), filed with the SEC on March 18, 2021).
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104.1	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit).

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

DRAFTKINGS INC.

Date: May 7, 2021

By: /s/ Jason K. Park
Name: Jason K. Park
Title: Chief Financial Officer
(Principal Financial Officer)

By: /s/ Erik Bradbury
Name: Erik Bradbury
Title: Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason D. Robins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DraftKings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2021

/s/ Jason D. Robins
Jason D. Robins
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason K. Park, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DraftKings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2021

/s/ Jason K. Park
Jason K. Park
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jason D. Robins, Chief Executive Officer and Chairman of the Board of DraftKings Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

/s/ Jason D. Robins
Jason D. Robins
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Exhibit 32.2

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jason K. Park, Chief Financial Officer of DraftKings Inc. (the “Company”), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

/s/ Jason K. Park
Jason K. Park
Chief Financial Officer
(Principal Financial Officer)