ELECTRONIC ARTS INC

FORM 10-Q
(Quarterly Report)

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Sector	Technology
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to_____

Commission File No. 0-17948

ELECTRONIC ARTS INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2838567 (I.R.S. Employer Identification No.)
209 Redwood Shores Parkway Redwood City, California (Address of principal executive offices)	94065 (Zip Code)

(650) 628-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding at November 4, 1999
$0.01 par value per share	63,205,533

ELECTRONIC ARTS INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(unaudited)

ASSETS

	September 30, 1999	March 31, 1999
Current assets:		
Cash, cash equivalents and short-term investments	$ 224,344	$312,822
Marketable securities	6,097	4,884
Receivables, less allowances of $64,767 and $72,850, respectively	265,749	149,468
Inventories	23,878	22,376
Deferred income taxes	25,400	25,406
Other current assets	89,929	54,509
Total current assets	635,397	569,465
Property and equipment, net	215,679	181,266
Long-term investments	18,400	18,400
Investments in affiliates	20,649	25,864
Goodwill and other intangibles	86,065	90,682
Long-term deferred taxes	2,722	5,733
Other assets	24,698	10,463
	$1,003,610	$901,873

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 95,858	$ 63,881
Accrued liabilities	164,832	172,328
Total current liabilities	260,690	236,209
Minority interest in consolidated joint venture	3,179	2,733
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares	--	--
Common stock, $0.01 par value. Authorized 104,000,000 shares; Issued 63,006,697 and 61,291,849 shares; outstanding 63,006,697 and 61,169,286 shares, respectively	630	613
Paid-in capital	318,127	267,699
Treasury stock, at cost; 122,563 shares at March 31, 1999	--	(4,926)
Retained earnings	420,075	402,112
Accumulated other comprehensive income (loss)	909	(2,567)
Total stockholders' equity	739,741	662,931
	$1,003,610	$901,873

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
Net revenues	$338,887	$245,763	$525,007	$423,984
Cost of goods sold	176,052	134,299	261,569	221,888
Gross profit	162,835	111,464	263,438	202,096
Operating expenses:				
Marketing and sales	46,100	33,523	79,947	67,167
General and administrative	22,035	16,395	39,599	31,812
Research and development	68,387	48,349	115,840	84,591
Amortization of intangibles	2,616	906	5,204	906
Charge for acquired in-process technology	--	41,836	--	44,115
Total operating expenses	139,138	141,009	240,590	228,591
Operating income (loss)	23,697	(29,545)	22,848	(26,495)
Interest and other income, net	3,133	3,750	7,271	6,565
Income (loss) before provision for income taxes and minority interest	26,830	(25,795)	30,119	(19,930)
Provision (benefit) for income taxes	8,586	(563)	9,638	1,372
Income (loss) before minority interest	18,244	(25,232)	20,481	(21,302)
Minority interest in consolidated joint venture	(112)	(41)	(23)	(271)
Net income (loss)	$ 18,132	$(25,273)	$ 20,458	$(21,573)
Net income (loss) per share:				
Basic	$ 0.29	$ (0.42)	$ 0.33	$ (0.36)
Diluted	$ 0.28	$ (0.42)	$ 0.32	$ (0.36)
Number of shares used in computation:				
Basic	62,417	60,642	61,943	60,471
Diluted	65,607	60,642	64,910	60,471

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(unaudited)

	Six Months Ended September 30, 1999	1998
Operating activities:		
Net income (loss)	$ 20,458	$(21,573)
Adjustments to reconcile net income to net cash used in operating activities:		
Minority interest in consolidated joint venture	23	271
Equity in net (income) loss of affiliates	(336)	(88)
Gain on sale of affiliate	(842)	--
Depreciation and amortization	20,655	15,720
Loss on sale of fixed assets	198	335
Gain on sale of marketable securities	(1,286)	(1,454)
Provision for doubtful accounts	2,140	1,966
Charge for acquired in-process technology	--	44,115
Change in assets and liabilities, net of acquisitions:		
Receivables	(118,421)	(60,684)
Inventories	(1,502)	(2,455)
Other assets	(52,434)	(19,967)
Accounts payable	31,977	15,849
Accrued liabilities	(4,563)	(2,783)
Deferred income taxes	94	162
Net cash used in operating activities	(103,839)	(30,586)
Investing activities:		
Proceeds from sales of marketable securities	1,489	1,818
Proceeds from sale of affiliate	8,842	--
Capital expenditures	(47,283)	(67,871)
Investment in affiliates, net	(2,949)	(6,978)
Proceeds from maturity of securities	--	17,218
Change in short-term investments, net	(19,420)	105,150
Acquisition of Westwood Studios, Inc.	--	(122,688)
Acquisition of other subsidiaries, net of cash acquired	(582)	(11,805)
Net cash used in investing activities	(59,903)	(85,156)
Financing activities:		
Proceeds from sales of shares through employee stock plans and other plans	42,987	16,180
Tax benefit from exercise of stock options	9,889	2,848
Proceeds from minority interest investment in consolidated joint venture	--	2,109
Net cash provided by financing activities	52,876	21,137
Translation adjustment	3,918	2,752
Decrease in cash and cash equivalents	(106,948)	(91,853)
Beginning cash and cash equivalents	242,208	215,963
Ending cash and cash equivalents	135,260	124,110
Short-term investments	89,084	36,229
Ending cash and short-term investments	$224,344	$160,339

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)
(unaudited)

	Six Months Ended September 30, 1999	1998
Supplemental cash flow information:		
Cash paid during the year for income taxes	$ 4,944	$12,621
Non-cash investing activities:		
Change in unrealized appreciation of investments and marketable securities	$ (29)	$ (344)

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the results for the interim period. The results of operations for the current interim period are not necessarily indicative of results to be expected for the current year or any other period. Certain amounts have been reclassified to conform to the fiscal 2000 presentation.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Electronic Arts Inc. (the "Company") Annual Report on Form 10-K for the fiscal year ended March 31, 1999 as filed with the Securities and Exchange Commission ("Commission") on June 29, 1999.

Note 2. Prepaid Royalties

Prepaid royalties consist primarily of prepayments for manufacturing royalties, original equipment manufacturer (OEM) fees and license fees paid to celebrities and professional sports organizations for use of their trade name. Also included in prepaid royalties are prepayments made to independent software developers under development arrangements that have alternative future uses. Prepaid royalties are expensed at the contractual royalty rate as cost of goods sold based on actual net product sales. Management evaluates the future realization of prepaid royalties quarterly and charges to income any amounts that management deems unlikely to be realized through product sales. Royalty advances are classified as current and non-current assets based upon estimated net product sales for the following year. The current portion of prepaid royalties, included in other current assets, was $57,993,000 and $35,057,000 at September 30, 1999 and March 31, 1999, respectively. The long-term portion of prepaid royalties, included in other assets, was $14,829,000 and $7,602,000 at September 30, 1999 and March 31, 1999, respectively.

Note 3. Inventories

Inventories are stated at the lower of cost or market. Inventories at September 30, 1999 and March 31, 1999 consisted of (in thousands):

	September 30, 1999	March 31, 1999
Raw materials and work in process	$ 1,537	$ 2,983
Finished goods	22,341	19,393
	$23,878	$22,376

Note 4. Accrued Liabilities

Accrued liabilities at September 30, 1999 and March 31, 1999 consisted of (in thousands):

	September 30, 1999	March 31, 1999
Accrued expenses	$ 52,624	$ 46,595
Accrued royalties	42,958	36,429
Accrued compensation and benefits	40,804	46,541
Accrued income taxes	16,334	23,724
Warranty reserve	8,515	7,900
Deferred revenue	3,597	8,206
Deferred income taxes	--	2,933
	$164,832	$172,328

Note 5. Segment Information

In 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise". SFAS No. 131 establishes standards for the reporting by public business enterprises of information about product lines, geographic areas and major customers. The Company has four reportable segments: North America, Europe, Asia Pacific and Japan, which are organized, managed and analyzed geographically and operate in one industry segment: the creation, marketing and distribution of entertainment software. Information about the Company's operations in the North America and foreign areas for the three and six months ended September 30, 1999 and 1998 is presented below:

(in thousands)	North America	Europe	Asia Pacific (excluding Japan)	Japan	Eliminations	Total
Three months ended September 30, 1999						
Net revenues from unaffiliated customers	$225,608	$ 91,488	$12,021	$ 9,770	$ --	$ 338,887
Intersegment revenues	4,088	7,455	2,134	--	(13,677)	--
Total net revenues	$229,696	$ 98,943	$14,155	$ 9,770	$(13,677)	$ 338,887
Operating income	$ 21,087	$ 1,712	$ 1,352	$ 595	$ (1,049)	$ 23,697
Interest income	$ 3,420	$ 194	$ 36	$ --	$ --	$ 3,650
Depreciation and amortization	$ 6,884	$ 3,430	$ 105	$ 339	$ --	$ 10,758
Identifiable assets	$666,710	$298,936	$20,519	$17,445	$ --	$1,003,610
Capital expenditures	$ 12,973	$ 15,186	$ 298	$ 45	$ --	$ 28,502
Six months ended September 30, 1999						
Net revenues from unaffiliated customers	$327,658	$159,358	$22,890	$15,101	$ --	$ 525,007
Intersegment revenues	7,720	11,891	2,905	--	(22,516)	--
Total net revenues	$335,378	$171,249	$25,795	$15,101	$(22,516)	$ 525,007
Operating income (loss)	$ 27,624	$ (6,316)	$ 2,374	$ 215	$ (1,049)	$ 22,848
Interest income	$ 5,983	$ 556	$ 63	$ --	$ --	$ 6,602
Depreciation and amortization	$ 14,468	$ 5,447	$ 242	$ 498	$ --	$ 20,655
Capital expenditures	$ 20,462	$ 26,097	$ 592	$ 132	$ --	$ 47,283

Three months ended September 30, 1998						
Net revenues from unaffiliated customers	$ 187,081	$ 45,732	$ 8,061	$ 4,889	$ --	$ 245,763
Intersegment revenues	1,380	2,332	--	(1)	(3,711)	--
Total net revenues	$ 188,461	$ 48,064	$ 8,061	$ 4,888	$ (3,711)	$ 245,763
Operating income (loss)	$ (8,441)	$ (21,306)	$ 109	$ 93	$ --	$ (29,545)
Interest income	$ 2,581	$ 305	$ 20	$ --	$ --	$ 2,906
Depreciation and amortization	$ 4,747	$ 3,234	$ 114	$ 216	$ --	$ 8,311
Identifiable assets	$ 529,742	$ 219,981	$ 13,438	$ 16,160	$ --	$ 779,321
Capital expenditures	$ 14,949	$ 41,380	$ 120	$ 24	$ --	$ 56,473
Six months ended September 30, 1998						
Net revenues from unaffiliated customers	$ 256,195	$ 132,526	$ 16,424	$ 18,839	$ --	$ 423,984
Intersegment revenues	7,216	4,844	--	12	(12,072)	--
Total net revenues	$ 263,411	$ 137,370	$ 16,424	$ 18,851	$ (12,072)	$ 423,984
Operating income (loss)	$ (18,625)	$ (11,043)	$ 377	$ 2,796	$ --	$ (26,495)
Interest income	$ 5,974	$ 1,154	$ 88	$ --	$ --	$ 7,216
Depreciation and amortization	$ 10,818	$ 4,138	$ 165	$ 599	$ --	$ 15,720
Capital expenditures	$ 22,779	$ 43,928	$ 332	$ 832	$ --	$ 67,871

Information about the Company's net revenues by product line for the three and six months ended September 30, 1999 and 1998 is presented below (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	1999	1998	1999	1998
PlayStation	$111,437	$ 97,891	$180,688	$193,848
PC-CD	101,787	42,299	165,383	81,509
Affiliated label	72,679	56,665	106,111	71,479
N64	45,965	43,586	57,807	64,533
License, OEM, Online and Other	7,019	5,322	15,018	12,615
	$338,887	$245,763	$525,007	$423,984

Note 6. Comprehensive Income

In fiscal 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and the display of comprehensive income and its components (revenues, expenses, gains and losses) in financial statements. SFAS 130 requires classification of other comprehensive income in a financial statement and display of other comprehensive income separately from retained earnings and additional paid-in capital. Other comprehensive income includes primarily foreign currency translation adjustments and unrealized gains (losses) on investments.

The components of comprehensive income, net of tax, for the three and six months ended September 30, 1999 and 1998 were as follows (in thousands):

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998	Six Months Ended September 30, 1999	Six Months Ended September 30, 1998
Net income (loss)	$ 18,132	$(25,273)	$ 20,458	$(21,573)
Other comprehensive income (loss):				
Change in unrealized appreciation of investments, net of a tax provision (benefit) of $468, $(42), $402 and $366	995	(85)	855	744
Reclassification adjustment for gains realized in net income, net of a tax benefit of $(24), $(455), $(412) and $(480)	(52)	(923)	(874)	(974)
Foreign currency translation adjustments	3,394	3,965	3,495	2,652
Total other comprehensive income	4,337	2,957	3,476	2,422
Total comprehensive income (loss)	$ 22,469	$(22,316)	$ 23,934	$(19,151)

The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

Note 7. Earnings Per Share

The following summarizes the computations of Basic Earnings Per Share ("EPS") and Diluted EPS. Basic EPS is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock options, restricted stock awards, warrants and other convertible securities using the treasury stock method (in thousands except per share amounts):

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998	Six Months Ended September 30, 1999	Six Months Ended September 30, 1998
Net income (loss)	$ 18,132	$(25,273)	$ 20,458	$(21,573)
Shares used to compute net income per share:				
Weighted-average common shares	62,417	60,642	61,943	60,471
Dilutive stock options	3,190	--	2,967	--
Dilutive potential common shares	65,607	60,642	64,910	60,471
Net income (loss) per share:				
Basic	$ 0.29	$ (0.42)	$ 0.33	$ (0.36)
Diluted	$ 0.28	$ (0.42)	$ 0.32	$ (0.36)

Due to the net loss reported for the three and six months ended September 30, 1998, stock options have been excluded from the Diluted EPS calculation. Had net income been reported in these periods, dilutive potential common shares would have been 63,425,000 and 63,208,000 for the three and six months ended September 30, 1998. Excluded from the computation of weighted-average shares for diluted EPS were options to purchase 81,000 and 40,000 shares of common stock for the three and six months ended September 30, 1998, respectively, as the options' exercise price was greater than the average market price of the common shares.

Excluded from the above computation of weighted-average shares for diluted EPS were options to purchase 41,000, and 556,000 shares of common stock for the three and six months ended September 30, 1999, respectively, as the options' exercise price was greater than the average market price of the common shares. For the three and six months ended September 30, 1999, the weighted-average exercise price of the respective options was $66.87 and $59.66, respectively.

Note 8. New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is effective as of the beginning of the first quarter of the fiscal year beginning after June 15, 2000. The Company is determining the effect of SFAS 133 on its financial statements.

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

This Quarterly Report on Form 10-Q and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward looking statements regarding future events or our future financial performance that involve certain risks and uncertainties including those discussed in "Risk Factors" below at pages 21 to 23, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 1999 as filed with the Securities and Exchange Commission on June 29, 1999 and other documents filed with the Commission. Actual events or actual future results may differ materially from any forward looking statements due to such risks and uncertainties.

We derive revenues primarily from shipments of entertainment software, which includes EA Studio CD products for dedicated entertainment systems ("CD-video games"), EA Studio CD personal computer products ("PC-CD"), EA Studio cartridge products and Affiliated Label ("AL") products that are published by third parties and distributed or co-published by us. We also derive revenues from licensing of EA Studio products and AL products through hardware companies ("OEMs") and online subscription revenues.

Information about our net revenues for North America and foreign areas for the three and six months ended September 30, 1999 and 1998 is summarized below (in thousands):

	September 30, 1999	September 30, 1998	Increase/ (Decrease)	% change
Net Revenues for the Three Months Ended:				
North America	$ 225,608	$ 187,081	$ 38,527	20.6%
Europe	$ 91,488	$ 45,732	$ 45,756	100.1%
Asia Pacific	$ 12,021	$ 8,061	$ 3,960	49.1%
Japan	$ 9,770	$ 4,889	$ 4,881	99.8%
International	$ 113,279	$ 58,682	$ 54,597	93.0%
Consolidated Net Revenues	$ 338,887	$ 245,763	$ 93,124	37.9%
Net Revenues for the Six Months Ended:				
North America	$ 327,658	$ 256,195	$ 71,463	27.9%
Europe	$ 159,358	$ 132,526	$ 26,832	20.2%
Asia Pacific	$ 22,890	$ 16,424	$ 6,466	39.4%
Japan	$ 15,101	$ 18,839	$ (3,738)	(19.8%)
International	$ 197,349	$ 167,789	$ 29,560	17.6%
Consolidated Net Revenues	$ 525,007	$ 423,984	$ 101,023	23.8%

North America Net Revenues

The increase in North America net revenues for the three and six months ended September 30, 1999, compared to the same periods last year was primarily due to increased sales of PC-CD and AL products. For the three months ended September 30, 1999, PC-CD revenues increased 55% as compared to the same period last year due to strong sales of Command & Conquer Tiberian Sun. For the six months ended September 30, 1999, PC-CD sales increased 81% due to the shipment of key releases such as Command & Conquer Tiberian Sun and catalog sales of Sim City 3000 which was released in the fourth quarter of fiscal 1999. North America affiliated label product revenues increased 83% for the three months ended and 86% for the six months ended September 30, 1999, primarily due to the distribution of Final Fantasy VIII published by Square EA, a joint venture which began in the second quarter of last year.

International Net Revenues

The increase in international net revenues for the three months ended September 30, 1999, compared to the same period last year was primarily attributable to the success of Command & Conquer Tiberian Sun for the PC-CD in Europe and Asia Pacific. European PC-CD sales increased over 300% and Asia Pacific sales of PC-CD product increased over 200%. Japan net revenues increased as compared to the same period last year primarily due to catalog sales of Sim City 3000, Dungeon Keeper 2 and Tiger Woods 99 PGA Tour Golf on PC-CD and higher AL product sales. Additionally, all international territories had weak second quarter revenues last year due to few significant product releases in the quarter.

For the six months ended September 30, 1999, the increase in European PC-CD sales was partially offset by a decrease in PlayStation and N64 sales, mainly attributable to the shipment of World Cup 98 in the prior year. The increase in Asia Pacific was primarily due to higher PC-CD sales related to Command & Conquer Tiberian Sun, higher Playstation sales due to the shipment of two locally developed titles in the first quarter of the current fiscal year, offset by lower sales of AL product. The decrease in Japan was due to lower sales of PlayStation products due to the shipment of FIFA: Road to World Cup 98 in the prior year.

Information about our net revenues by product line for the three and six months ended September 30, 1999 and 1998 is presented below (in thousands):

	September 30, 1999	September 30, 1998	Increase	% change
Net Revenues for the Three Months Ended:				
EA Studio:				
PlayStation	$111,437	$ 97,891	$ 13,546	13.8%
PC-CD	$101,787	$ 42,299	$ 59,488	140.6%
N64	$ 45,965	$ 43,586	$ 2,379	5.5%
License, OEM, Online and Other	$ 7,019	$ 5,322	$ 1,697	31.9%
	$266,208	$189,098	$ 77,110	40.8%
Affiliated Label:	$ 72,679	$ 56,665	$ 16,014	28.3%
	$338,887	$245,763	$ 93,124	37.9%

	September 30, 1999	September 30, 1998	Increase/ (Decrease)	% change
Net Revenues for the Six Months Ended:				
EA Studio:				
PlayStation	$180,688	$193,848	$ (13,160)	(6.8%)
PC-CD	$165,383	$ 81,509	$ 83,874	102.9%
N64	$ 57,807	$ 64,533	$ (6,726)	(10.4%)
License, OEM, Online and Other	$ 15,018	$ 12,615	$ 2,403	19.0%
	$418,896	$352,505	$ 66,391	18.8%
Affiliated Label:	$106,111	$ 71,479	$ 34,632	48.5%
	$525,007	$423,984	$ 101,023	23.8%

PlayStation Product Net Revenues

We released seven PlayStation titles during both the second quarters of fiscal 2000 and fiscal 1999, including Madden NFL. PlayStation sales increased for the three months ended September 30, 1999 compared to the prior year primarily attributable to the greater installed base of PlayStation consoles, as well as the release of a new franchise title, WCW Mayhem. For the six months ended September 30, 1999 PlayStation revenues decreased due to the shipment of World Cup 98 in the prior year. We expect revenues from PlayStation products to grow in fiscal 2000, but as revenues for these products increase, we do not expect to maintain the same growth rates as those in the prior years.

Under the terms of a licensing agreement entered into with Sony Computer Entertainment of America in July 1994 (the "Sony Agreement"), as amended, we are authorized to develop and distribute CD-based software products compatible with the PlayStation. Pursuant to the Sony Agreement, we engage Sony to supply PlayStation CDs for distribution by us. Accordingly, we have limited ability to control our supply of PlayStation CD products or the timing of their delivery. See Risk Factors - "Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products", below.

Personal Computer CD Product Net Revenues

We released six PC-CD titles in the second quarter of the current fiscal year compared to nine for the same period last year. The increase in sales of PC-CD products for the three and six months ended September 30, 1999 was attributable to key releases during the quarter, principally the shipment of Command & Conquer Tiberian Sun. Additionally, the increase for the six months ended September 30, 1999 was also due to strong catalog sales of titles such as Sim City 3000. This increase was partially offset by the prior year shipment of World Cup 98. We expect revenues from PC-CD products to grow in fiscal 2000, but we do not expect to maintain the current growth rates.

N64 Product Net Revenues

We released four N64 titles in the second quarter of fiscal 2000 compared to two titles during the same period last year. The increase in N64 revenues for the three months ended September 30, 1999, compared to the same period last year was primarily due to releases during the quarter including WCW Mayhem. The decrease for the six months ended September 30, 1999 was due to the release of World Cup '98 in fiscal 1999. We do not expect significant growth in revenues for N64 products in fiscal 2000.

Under the terms of the N64 Agreement, we engage Nintendo to manufacture our N64 cartridges for distribution by us. Accordingly, we have little ability to control our supply of N64 cartridges or the timing of their delivery. A shortage of microchips or other factors outside our control could impair our ability to obtain an adequate supply of cartridges.

In connection with our purchases of N64 cartridges for distribution in North America, Nintendo requires us to provide irrevocable letters of credit prior to Nintendo's acceptance of purchase orders from us for purchases of these cartridges. For purchases of N64 cartridges for distribution in Japan and Europe, Nintendo requires us to make cash deposits. Furthermore, Nintendo maintains a policy of not accepting returns of N64 cartridges. Because of these and other factors, the carrying of an inventory of cartridges entails significant capital and risk. See Risk Factors - "Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products", below.

Affiliated Label Product Net Revenues

The increase in Affiliated Label net revenues for the three and six months ended September 30, 1999 compared to the same periods last year was primarily due to the distribution of Final Fantasy VIII in North America. European AL revenues also increased for the six months ended September 30, 1999 due to the acquisition of ABC Software in Switzerland in the second quarter of fiscal 1999. We expect revenues from AL products to continue to grow in fiscal 2000, but as revenues for these products increase, we do not expect to maintain these growth rates.

Cost of Goods Sold

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 176,052	$ 134,299	31.1%
as a percentage of net revenues	52.0%	54.6%	
Six Months Ended	$ 261,569	$ 221,888	17.9%
as a percentage of net revenues	49.8%	52.3%	

Cost of goods sold as a percentage of net revenues decreased for the three months ended September 30, 1999 compared to the same period last year primarily due to increased sales of higher margin PC-CD products as compared to the prior year. For the six months ended September 30, 1999, cost of goods sold as a percentage of revenues decreased due to an increase in sales of higher margin PC-CD products and higher sales of internally developed titles such as Command & Conquer Tiberian Sun, Sim City 3000, and Dungeon Keeper 2 offset by an increase in sales of lower margin AL products as compared to the prior year.

Marketing and Sales

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 46,100	$ 33,523	37.5%
as a percentage of net revenues	13.6%	13.6%	
Six Months Ended	$ 79,947	$ 67,167	19.0%
as a percentage of net revenues	15.2%	15.8%	

The increase in marketing and sales expenses for the three and six months ended September 30, 1999 was primarily attributable to increased television, print and Internet advertising to support new releases and increased cooperative advertising associated with higher revenues in Europe and North America. Marketing and sales expenses also increased due to additional headcount expenses related to the continued expansion of our worldwide distribution business.

General and Administrative

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 22,035	$ 16,395	34.4%
as a percentage of net revenues	6.5%	6.7%	
Six Months Ended	$ 39,599	$ 31,812	24.5%
as a percentage of net revenues	7.5%	7.5%	

General and administrative expenses increased for the three and six months ended September 30, 1999 primarily due to an increase in payroll and occupancy costs to support the increased growth in North America and Europe operations, including six months of expenses in 1999 for ABC, which was acquired in July 1998.

Research and Development

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 68,387	$ 48,349	41.4%
as a percentage of net revenues	20.2%	19.7%	
Six Months Ended	$ 115,840	$ 84,591	36.9%
as a percentage of net revenues	22.1%	20.0%	

Research and development expenses increased for the three and six months ended September 30, 1999 due to additional headcount related expenses attributable to increased in-house development capacity due to a higher number of SKUs to be released in fiscal 2000, an increase in online development, spending for next generation console products and the acquisition of Westwood in September 1998.

Charge for Acquired In-Process Technology

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ --	$ 41,836	(100%)
as a percentage of net revenues	N/A	17.0%	
Six Months Ended	$ --	$ 44,115	(100%)
as a percentage of net revenues	N/A	10.4%	

In connection with the acquisition of Westwood in September 1998, we allocated and expensed $41,836,000 of the purchase price to acquired in-process technology. Additionally, in connection with the acquisition of two software development companies, in the first quarter of fiscal 1999, we incurred a total charge of $2,279,000 for acquired in-process technology. These charges were made after we concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

Amortization of Intangibles

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 2,616	$ 906	188.7%
as a percentage of net revenues	0.8%	0.4%	
Six Months Ended	$ 5,204	$ 906	474.4%
as a percentage of net revenues	1.0%	0.2%	

The increase in amortization of intangibles for the three and six months ended September 30, 1999 resulted primarily from the acquisition of Westwood in September 1998.

Interest and Other Income, Net

(In thousands)	September 30 1999	September 30, 1998	% change
Three Months Ended	$ 3,133	$ 3,750	(16.5%)
as a percentage of net revenues	0.9%	1.5%	
Six Months Ended	$ 7,271	$ 6,565	10.8%
as a percentage of net revenues	1.4%	1.5%	

The decrease in interest and other income, net, for the three months ended September 30, 1999 was primarily due to lower gains on sale of marketable securities in the current year, partially offset by higher interest income attributable to investments in longer term securities, with maturities no greater than three years, resulting in higher interest rates. Interest and other income, net, increased for the six months ended September 30, 1999 due to a gain on sale of minority interest in an affiliate in the current year partially offset by lower interest income as compared to the same period last year. For both the three and six months ended September 30, 1999 interest and other income, net, increased due to EA's share in the net income of Square Electronic Arts, LLC as compared to the same periods last year.

Income Taxes

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 8,586	$ (563)	N/M
effective tax rate	32.0%	2.2%	
Six Months Ended	$ 9,638	$ 1,372	N/M
effective tax rate	32.0%	(6.9%)	

The Company's effective tax rate for the three and six months ended September 30, 1998 was negatively affected as there was no tax benefit recorded for a portion of the charges related to the acquired in-process technology. Excluding the effect of these charges, the effective tax rate for the three and six months ended September 30, 1998 would have been 33.0%. The Company's effective tax rate for the three and six months ended September 30, 1999 was lower than the comparable prior year period, excluding the effect of the charges in the prior year, primarily as a result of a projected higher portion of international income for fiscal 2000 subject to a lower foreign tax rate as compared to the prior year.

Net Income (Loss)

(In thousands)	September 30, 1999	September 30, 1998	% change
Three Months Ended	$ 18,132	$ (25,273)	171.7%
as a percentage of net revenues	5.4%	(10.3%)	
Six Months Ended	$ 20,458	$ (21,573)	194.8%
as a percentage of net revenues	3.9%	(5.1%)	

The increase in net income for the three and six months ended September 30, 1999 is primarily related to the charges for acquired in-process technology in the prior year. Excluding the one time charges in the prior year, net income would have been $10,706,000 for the three months and $15,933,000 for the six months ended September 30, 1998. The increase in net income, excluding the prior year one time charges, was due to higher revenues and gross profits as compared to the same periods last year partially offset by higher operating expenses.

Liquidity and Capital Resources

As of September 30, 1999, our working capital was $374,707,000 compared to $333,256,000 at March 31, 1999. Cash, cash equivalents and short-term investments decreased by approximately $88,478,000 during the six months ended September 30, 1999 as we used $103,839,000 of cash in operations and $47,283,000 in capital expenditures, offset by $42,987,000 provided through the sale of equity securities under our stock plans as well as proceeds from the sale of an affiliate and the sale of marketable securities.

Reserves for bad debts and sales returns decreased from $72,850,000 at March 31, 1999 to $64,767,000 at September 30, 1999. Reserves have been charged for returns of product and price protection credits issued for products sold in prior periods. Management believes these reserves are adequate based on historical experience and its current estimate of potential returns and allowances.

Our principal source of liquidity is $224,344,000 in cash, cash equivalents and short-term investments. Management believes the existing cash, cash equivalents, short-term investments, marketable securities and cash generated from operations will be sufficient to meet cash and investment requirements on both a short-term and long-term basis.

Year 2000 Readiness Disclosure

Background of Year 2000 Issues

Many currently installed computer systems and software products are unable to distinguish between twentieth century dates and twenty-first century dates because such systems may have been developed using two digits rather than four to determine the applicable year. For example, computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This error could result in system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer systems may need to be upgraded or replaced to comply with such "Year 2000" requirements.

State of Readiness

Our business is dependent on the operation of numerous systems that could potentially be impacted by Year 2000 related problems. Those systems include, among others: hardware and software systems used to deliver products to our customers; communications networks such as the Internet and private intranets, upon which we depend to receive orders from our customers; the internal systems of our customers and suppliers; products sold to customers; the hardware and software systems used internally in the management of our business; and non-information technology systems and services used in the management of our business, such as power, telephone systems and building systems.

As a third party providing software products, we are dependent on the hardware and software products used to deliver such products and services. If such products are inoperable due to Year 2000 issues, our business, financial condition and results of operations could be adversely affected. An inventory of our internal business systems, and software and hardware upgrades have been completed to ensure Year 2000 compliance.

Costs

To date we have not incurred significant costs directly related to Year 2000 issues, even in cases where non-compliant information technology systems were redeployed or replaced.

We believe that future expenditures to upgrade internal systems and applications will not have a material adverse effect on our business, financial condition and results of operations and are primarily included within our ongoing system development plan. In addition, while the potential costs of redeploying personnel and of any delays in implementing other projects are not known, the costs are anticipated to be immaterial.

Risks of the Year 2000 Issues

Our financial information systems include an integrated suite of business applications developed and supported by Oracle Corporation. These applications systems are in place and currently support daily operations in North America and in Europe. Based on representations made by Oracle Corporation and upon our limited tests, we believe these systems to be Year 2000 compliant.

We believe our software products are Year 2000 compliant; however, success of our Year 2000 compliance efforts may depend on the success of our customers dealing with their Year 2000 issues. Customer difficulties with Year 2000 issues might require us to devote additional resources to resolve underlying problems. Failures of our computer systems or third parties' computer systems could have a material adverse impact on our ability to conduct business. For example, a significant percentage of purchase orders received from our customers are computer generated and electronically transmitted. In addition, the Year 2000 could affect the ability of consumers to use our PC based products. If the computer systems on which the consumers use our products are not Year 2000 compliant, such noncompliance could affect the consumers' ability to use such products.

Contingency Plans

We continue to assess certain of our Year 2000 exposure areas in order to determine what additional steps beyond those identified by our internal review in the United States are advisable. We have developed a contingency plan for handling Year 2000 problems that are not detected and corrected prior to their occurrence. We believe that the systems, which represent the principal exposures, have been identified, and to the extent necessary, are in the process of being modified to become Year 2000 compliant. Additionally, we have conducted tests of our principal business systems to verify that those systems are Year 2000 compliant. Any failure to address any unforeseen Year 2000 issues could adversely affect our business, financial condition and results of operations.

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies (the "legacy currency") and the one common legal currency known as the "Euro". From January 1, 1999 through June 30, 2002 the countries will be able to use their legacy currencies or the Euro to transact business. By July 1, 2002, at the latest, the conversion to the Euro will be complete at which time the legacy currencies will no longer be legal tender. The fixed conversion rates between their existing currencies have eliminated exchange rate risk between the member countries.

The conversion to the Euro has reduced the number of forward contracts that we use to hedge the exchange rate risk. The forward contracts that were used to hedge the individual legacy currencies have been replaced by a single Euro hedge contract and the intercompany transactions among subsidiaries within the European Union are no longer subject to exchange rate risk.

We do not anticipate any material impact from the Euro conversion on our financial information systems which currently accommodate multiple currencies. Computer software changes necessary to comply with the Year 2000 issues are generally compliant to the Euro conversion issue. Due to numerous uncertainties, we cannot reasonably estimate the effect that the Euro conversion issue will have on our pricing or market strategies, and the impact, if any, it will have on our financial condition and results of operations.

Risk Factors

EA's business is subject to many risks and uncertainties which may affect our future financial performance. Some of those important risks and uncertainties which may cause our operating results to vary or which may materially and adversely affect our operating results are as follows:

- Product development schedules are frequently unreliable and make predicting quarterly results difficult. Product development schedules, particularly for new hardware platforms and high-end multimedia PCs are difficult to predict because they involve creative processes, use of new development tools for new platforms and the learning process, research and experimentation associated with development for new technologies. For example, SimCity 3000, the follow on product to SimCity 2000, was expected to ship in fiscal 1998, at the time of the merger with Maxis. Due to additional development delays, that product did not ship until the fourth quarter of fiscal year 1999. Also, Tiberian Sun, which was expected to ship in fiscal 1999 at the time of the acquisition of Westwood Studios, was not released until the second quarter of fiscal 2000 due to development delays. Additionally, development risks for CD-ROM products can cause particular difficulties in predicting quarterly results because brief manufacturing lead times allow finalizing products and projected release dates late in a quarter. Our revenues and earnings are dependent on our ability to meet our product release schedules, and our failure to meet those schedules could result in revenues and earnings which fall short of analysts' expectations for any individual quarter and the fiscal year.

- New video game platforms create additional technical and business model uncertainties. A large portion of our revenues are derived from the sale of products for play on proprietary video game platforms such as the PlayStation and the N64. The success of our products is significantly affected by acceptance of the new video game hardware systems and the life span of older hardware platforms and our ability to accurately predict which platforms will be most successful.

Sometimes we will spend development and marketing resources on products designed for new video game systems that have not yet achieved large installed bases or will continue product development for older hardware platforms that may have shorter life cycles than we expected. Conversely, if we do not develop for a platform that achieves significant market acceptance, or discontinue development for a platform that has a longer life cycle than expected, our revenue growth may be adversely affected.

For example, we have no products under development for the Sega Dreamcast console, which has already launched in the United States and in Japan. Accordingly, we will not have products available should this platform achieve wide market acceptance. Similarly, we intend to launch a variety of products for the new Sony PlayStation platform, the PlayStation II, expected to be released in the United States in the fall of 2000. Should that platform not achieve wide acceptance by consumers, we will have spent a disproportionate amount of our resources for this platform. Additionally, we have not negotiated publishing agreements with Sony, Sega or Nintendo for their next generation platforms, and we do not know whether the terms of those agreements will be favorable.

- The business models and technology for e-commerce and online gaming are unproven. While we do not currently derive significant revenues from online sales of our packaged products or from games played online, we believe that both will become a more significant factor in our business and in the interactive gaming business generally in the future.

E-commerce is becoming an increasingly popular method for conducting business with consumers. How that form of distribution will affect the more traditional retail distribution, at which we have historically excelled, and over what time period, is uncertain. Additionally, technology, staffing and support for sales direct to consumers differ from that required for sales to resellers.

Online gaming, and particularly multiplayer online gaming such as our Ultima Online product, has many risks not currently associated with most packaged good sales including, but not limited to, the following:

In "massively multiplayer" games such as Ultima Online, unanticipated player conduct significantly affects the performance of the game, and social issues raised by players' conduct frequently determine player satisfaction. Our ability to effectively proctor such games is uncertain.

The current business model is as yet experimental and maybe unsustainable; whether revenues will continue to be sufficient to maintain the significant support, service and product enhancement demands of online users is uncertain. We have little experience in pricing strategies for online games or in predicting usage patterns of our customers.

Additionally, the speed and reliability of the Internet and the performance of a user's Internet service provider are not controlled by us but impact both e-commerce and online game performance. Whether the Internet infrastructure will be adequate to meet increasing demand will affect our ability to grow our Internet dependent businesses.

- Our business, our products, and our distribution are subject to increasing regulation in key territories. Legislation is increasingly introduced which may affect the content of our products and their distribution. For example, privacy rules in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory while of course the Internet recognizes no geographical boundaries. Other countries such as Germany have adopted laws regulating content transmitted over the Internet that are stricter than current United States laws. In the United States, in response to recent events, the federal and several state governments are considering content restrictions on products such as those made by us as well as restrictions on distribution of such products. Any one or more of these factors could harm our business.

- Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products. Our agreements with hardware licensors, which are also our chief competitors, typically give significant control to the licensor over the approval and manufacturing of our products. This fact could, in certain circumstances, leave us unable to get our products approved, manufactured and shipped to customers. In most events, control of the approval and manufacturing process by the platform licensors increases both our manufacturing lead times and costs as compared to those we can achieve independently. For example, in prior years, we experienced delays in obtaining approvals for and manufacturing of PlayStation products which caused delays in shipping those products. The potential for additional delay or refusal to approve or manufacture our products continues with our platform licensors. Such occurrences would harm our business and adversely affect our financial performance.

- We face intense competition for talent from highly valued Internet companies. Competition for employees in the interactive software business continues to be intense. Recently, the most intense competition for recruiting and retaining key employees is from Internet companies. The high market valuations, large equity positions for key executives and other employees and fast stock price appreciation of these companies make their compensation packages attractive to those who are already working in more mature companies. This situation creates difficulty for us to compete for the attraction and retention of executive and key creative talent.

- Foreign Sales and Currency Fluctuations. For the six months ended September 30, 1999, international net revenues comprised 38% of total consolidated net revenues. For the fiscal year ended March 31, 1999, international net revenues comprised 42% of total consolidated net revenues. We expect foreign sales to continue to account for a significant and growing portion of our revenues. Such sales are subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies which may fluctuate. As a result of current economic conditions in Asia, we continue to monitor our foreign currency risk. Though we do not currently derive a significant portion of revenues and operating profits from sales in Asia and other developing countries, our foreign currency exposure may increase as operations in these countries grow. Any of these factors may significantly harm our business.

- Fluctuations in Stock Price. Due to analysts' expectations of continued growth and other factors, any shortfall in earnings could have an immediate and significant adverse effect on the trading price of our common stock in any given period. As a result of the factors discussed in this report and other factors that may arise in the future, the market price of our common stock historically has been, and may continue to be subject to significant fluctuations over a short period of time. These fluctuations may be due to factors specific to us, to changes in analysts' earnings estimates, or to factors affecting the computer, software, entertainment, media or electronics industries or the securities markets in general. For example, during the fiscal year ended March 31, 1999, the price per share of our common stock ranged from $33.88 to $56.00 and from $45.63 to $76.19 during the six months ended September 30, 1999.

Because of these and other factors affecting our operating results and financial condition, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to various market risks, including the changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from changes in market rates and prices. Foreign exchange contracts used to hedge foreign currency exposures and short-term investments are subject to market risk. We do not consider our cash and cash equivalents to be subject to interest rate risk due to their short maturities. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

We utilize foreign exchange contracts to hedge foreign currency exposures of underlying assets and liabilities, primarily certain intercompany receivables that are denominated in foreign currencies, thereby, limiting our risk. Gains and losses on foreign exchange contracts are reflected in the income statement. At September 30, 1999, we had foreign exchange contracts, all with maturities of less than six months to purchase and sell approximately $187,514,000 in foreign currencies, primarily British Pounds, European Currency Units ("Euro"), Canadian Dollars, Japanese Yen and other currencies.

Fair value represents the difference in value of the contracts at the spot rate and the forward rate, plus the unamortized premium or discount. The counterparties to these contracts are substantial and creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material. Notwithstanding our efforts to manage foreign exchange risks, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

The table below provides information about our foreign currency forward exchange contracts at September 30, 1999. The information is provided in U.S. dollar equivalents and presents the notional amount (forward amount), the weighted average contractual foreign currency exchange rates and fair value. All contracts mature within six months.

	Contract Amount	Weighted-Average Contract Rate	Fair Value
	(in thousands)		(in thousands)
Foreign currency to be sold under contract:			
British Pound	$97,378	1.61	$(2,129)
Euro	37,855	1.05	80
Canadian Dollar	20,424	1.47	50
Japanese Yen	8,332	112.51	(667)
South African Rand	4,714	9.82	45
Australian Dollar	1,554	0.62	(73)
Brazilian Real	881	1.93	(9)
Total	$171,138		$(2,703)

Foreign currency to be purchased under contract:			
British Pound	$ 16,376	1.64	$ 229
Total	$ 16,376		$ 229
Grand total	$187,514		$(2,474)

While the contract amounts provide one measurement of the volume of these transactions, they do not represent the amount of our exposure to credit risk. The amounts (arising from the possible inabilities of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed our obligations as these contracts can be settled on a net basis at our option. We control credit risk through credit approvals, limits and monitoring procedures.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments of high credit quality and relatively short average maturities. We also manage our interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. At September 30, 1999, our cash equivalents, short-term and long-term investments included debt securities of $159,699,000. Notwithstanding our efforts to manage interest rate risks, there can be no assurances that we will be adequately protected against the risks associated with interest rate fluctuations.

The table below presents the amounts and related weighted average interest rates of our investment portfolio at September 30, 1999:

	Average Interest Rate	Cost	Fair Value
	(Dollars in thousands)		
Cash equivalents			
Fixed rate	0.00%	$ --	$ --
Variable rate	4.27%	$52,215	$52,215
Short-term investments			
Fixed rate	4.02%	$82,756	$83,284
Variable rate	6.27%	$ 5,800	$ 5,803
Long-term investments			
Fixed rate	0.00%	$ --	$ --
Variable rate	6.12%	$18,400	$18,312

Maturity dates for short-term investments range from 0 to 3 years.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to pending claims. Management, after review and consultation with counsel, considers that any liability from the disposition of such lawsuits in the aggregate would not have a material adverse effect upon the consolidated financial position or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

none

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - the following exhibit is filed as part of this report:

10.44 Lease Agreement by and between Registrant and Spieker Properties, L.P., dated September 3, 1999.

(b) Reports on Form 8-K: None

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.

ELECTRONIC ARTS INC.
(Registrant)

/s/ E. STANTON MCKEE

E. STANTON MCKEE
Executive Vice President and
Chief Financial and Administrative Officer

DATED:
November 9, 1999

ELECTRONIC ARTS INC. AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT TITLE	PAGE
10.44	Lease Agreement by and between Registrant and Spieker Properties, L.P., dated September 3, 1999	29

OFFICE LEASE

THIS OFFICE LEASE ("Lease") is made between SPIEKER PROPERTIES, L.P., a California limited partnership ("Landlord"), and Electronic Arts Inc., a Delaware corporation ("Tenant"), as of September 3, 1999 (the "date of this Lease").

BASIC LEASE INFORMATION

PROJECT: A project located in Carlsbad, California and more commonly known as Pacific Ridge Corporate Centre.

BUILDING: A building located at 5790 Fleet Street, Carlsbad, CA

DESCRIPTION OF PREMISES: Suite 200 (the Premises is as outlined in red or as shown in cross-hatching on Exhibit "B")

RENTABLE AREA OF PREMISES: Approximately 10,000 square feet, subject to adjustment pursuant to Paragraph 22.4.

PERMITTED USE: Tenant shall use and occupy the Premises for general office purposes and for no other purpose without the prior written consent of Landlord.

SCHEDULED TERM COMMENCEMENT DATE: January 1, 2000

SCHEDULED INITIAL TERM: Five (5) years SCHEDULED EXPIRATION DATE December 31, 2004

BASE RENT:

(a) Initial Annual Base Rent $234,000.00

(b) Initial Monthly Installment of Base Rent: $19,500.00

(c) Subject to increase pursuant to Paragraph 3.1(b) as follows:
January 1, 2001 - December 31, 2001 $20,280.00 January 1, 2002 - December 31, 2002 $21,090.00 January 1, 2003 - December 31, 2003 $21,935.00 January 1, 2004 - December 31, 2004 $22,810.00

(d) The above items "(a)", "(b)" and "(c)" of Base Rent are subject to adjustment pursuant to Paragraph 22.4.

SECURITY DEPOSIT: $19,500.00

BASE YEAR FOR OPERATING EXPENSES: 2000

TENANT'S PROPORTIONATE SHARE OF BUILDING: 16.53% OF PROJECT: 8.27% "Tenant's Proportionate Share" is subject to adjustment pursuant to Paragraph 22.4.

PARKING DENSITY:	4 spaces per 1,000 rentable square feet of the Premises
OCCUPANCY DENSITY:	4 persons per 1,000 rentable square feet of the Premises

TENANT'S NAICS CODE:_____

TENANT CONTACT: Name: Tom Casey
Telephone Number: 760-431-9009
FAX: 760-431-9043

ADDRESSES FOR NOTICES:

To: Tenant
Upon Tenant's occupancy of Premises, address will be:
5790 Fleet Street, Suite 310
Carlsbad, CA 92008

To: Landlord
Spieker Properties, L.P.
5790 Fleet Street, Suite 100
Carlsbad, CA 92009
Attn: Project Manager

with a copy to:
Electronic Arts Inc.
207 Redwood Shores Parkway
Redwood City, CA 94065
Attn: Dave Carbone, Vice President

and a copy to: Electronic Arts Inc.
207 Redwood Shores Parkway
Redwood City, CA 94065
Attn: Legal Department

LANDLORD'S REMITTANCE ADDRESS: Spieker Properties, L.P., Dept. 11821, P. O. Box 60077, Los Angeles, CA 90060-0077

IN WITNESS WHEREOF, the parties hereto have executed this Lease, consisting of the foregoing Basic Lease Information, the following Standard Lease Provisions consisting of Paragraphs 1 through 22 (the "Standard Lease Provisions") and Exhibits A, B, C and D, all of which are incorporated herein by this reference (collectively, this "Lease"). In the event of any conflict between the provisions of the Basic Lease Information and the provisions of the Standard Lease Provisions, the Standard Lease Provisions shall control.

"Landlord"	"Tenant"
SPIEKER PROPERTIES, L.P., a California limited partnership,	ELECTRONIC ARTS INC., a Delaware corporation
By: Spieker Properties, Inc., a Maryland corporation, its general partner	
By: /s/ M. Ritschel --- Mitch J. Ritschel Vice President	By: /s/ Ruth A. Kennedy --- Its: Senior Vice President & General Counsel
Date: 9-21-99 ---	Date: 9/20/99 ---

STANDARD LEASE PROVISIONS

1. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, subject to all of the terms and conditions set forth herein, those certain premises (the "Premises") described in the Basic Lease Information and as outlined in red or as shown in the cross-hatched markings on the floor plan attached hereto as Exhibit "B". The Premises are located in that certain office building (the "Building") whose street address is as shown in the Basic Lease Information. The Building is located on that certain land which is also improved with landscaping, parking facilities and other improvements and appurtenances. Such land, together with all such improvements and appurtenances and the Building, are all or part of a project which may consist of more than one building and additional facilities, as described in the Basic Lease Information (collectively referred to herein as the "Project"). However, Landlord reserves the right to make such changes, additions and/or deletions to such land, the Building and the Project and/or the common areas and parking facilities thereof as it shall determine from time to time.

2. Term.

(a) Unless earlier terminated in accordance with the provisions hereof, the term of this Lease (the "Term") shall be as set forth in the Basic Lease Information; provided, however, in the event the Term Commencement Date (defined below) occurs on a date other than the first day of a calendar month, there shall be added to the Term the partial month ("Partial Lease Month") from the Term Commencement Date to (but not including) the first day of the calendar month following the Term Commencement Date.

(b) Subject to the provisions of this Paragraph 2, the Term shall commence on the date (the "Term Commencement Date") which is the earlier of (i) the date Landlord delivers the Premises to Tenant based upon the City of Carlsbad's approval for occupancy for Tenant's Permitted Use (ii) or the date Tenant takes possession or commences use of any portion of the Premises for any business purpose (including moving in). If this Lease contemplates the construction of tenant improvements in the Premises by Landlord, Landlord shall be deemed to have delivered the Premises to Tenant on the date reasonably determined by Landlord's space planner to be the date of substantial completion of the work to be performed by Landlord (as described in the Improvement Agreement, if any, attached hereto as Exhibit "C") (the "Improvement Agreement"). Notwithstanding the foregoing, in the event that Landlord is delayed in delivering the Premises by reason of any act or omission of Tenant, the Term Commencement Date shall be (unless Tenant takes possession or commences use of the Premises prior thereto) the date the Premises would have been delivered by Landlord had such Tenant caused delay(s) not occurred. This Lease shall be a binding contractual obligation effective upon execution hereof by Landlord and Tenant, notwithstanding the later commencement of the Term. Tenant acknowledges that Tenant has inspected and accepts the Premises in their present condition, "as is", except for tenant improvements (if any) to be constructed by Landlord in the Premises pursuant to the Improvement Agreement, if any.

(c) In the event the Term Commencement Date is delayed or otherwise does not occur on the Scheduled Term Commencement Date, within one hundred eighty (180) days of issuance of the building permit by the City of Carlsbad for the Tenant Improvements pursuant to Exhibit C, then Tenant, upon not less than thirty (30) days prior written notice to Landlord shall have the right to terminate this Lease, unless within such thirty (30) day period Landlord tenders possession of the Premises in the condition required by this Lease. Except as otherwise provided herein, this Lease shall not be void or voidable, the Term shall not be extended (except as provided in Paragraph 2(a), and Landlord shall not be liable to Tenant for any loss or damage resulting therefrom; provided that Tenant shall not be liable for any Rent (defined below) for any period prior to the Term Commencement Date except as may otherwise be provided in this Lease. Landlord may deliver to Tenant Landlord's standard form "Start-Up Letter" for Tenant's acknowledgment and confirmation of the Term Commencement Date. Tenant shall execute and deliver such Start-Up Letter to Landlord within five
(5) days after receipt thereof, but Tenant's failure or refusal to do so shall not negate Tenant's acceptance of the Premises or affect determination of the Term Commencement Date.

3. Rent and Operating Expenses.

3.1 Base Rent

(a) Subject to the provisions of this Paragraph 3.1, Tenant agrees to pay during the Term as Base Rent for the Premises the sums specified in the Basic Lease Information (as adjusted from time to time as provided in this Lease) ("Base Rent").

(b) Base Rent shall increase as set forth in the Basic Lease Information or as may otherwise be provided in this Lease.

(c) Except as expressly provided to the contrary herein, Base Rent shall be payable in equal consecutive monthly installments, in advance, without deduction or offset, commencing on the Term Commencement Date and continuing on the first day of each calendar month thereafter. However, the first full monthly installment of Base Rent shall be payable upon Tenant's execution of this Lease. If the Term Commencement Date is a day other than the first day of a calendar month, then the Rent for the Partial Lease Month (the "Partial Lease Month Rent") shall be prorated based on a month of 30 days. The Partial Lease Month Rent shall be payable by Tenant on the first day of the calendar month next succeeding the Term Commencement Date. Base Rent, all forms of additional rent payable hereunder by Tenant and all other amounts, fees, payments or charges payable hereunder by Tenant shall (i) each constitute rent payable hereunder (and shall sometimes collectively be referred to herein as "Rent"), (ii) be payable to Landlord in lawful money of the United States when due without any prior demand therefor, except as may be expressly provided to the contrary herein, and (iii) be payable to Landlord at Landlord's Remittance Address set forth in the Basic Lease Information or to such other person or to such other place as Landlord may from time to time designate in writing to Tenant.

3.2 Operating Expenses.

(a) Subject to the provisions of this Lease, Tenant shall pay to Landlord pursuant to this Paragraph 3.2 as additional rent an amount equal to Tenant's Proportionate Share (defined below) of the excess, if any, of Operating Expenses (defined below) allocable to each Expense Year (defined below) over Operating Expenses allocable to the Base Year (the "Base Year") specified in the Basic Lease Information ("Base Year Operating Expenses"). "Tenant's Proportionate Share" is, subject to the provisions of this Paragraph 3.2, the percentage number (representing the Premises' share of the Building and the Project) set forth in the Basic Lease Information. An "Expense Year" is any calendar year after the Base Year any portion of which falls within the Term.

(b) "Operating Expenses" means all costs, expenses and obligations incurred or payable by Landlord because of or in connection with the operation, ownership, repair, replacement, restoration, management or maintenance of the Project during or allocable to the Base Year or an Expense Year (as applicable) during the Term, all as determined by sound accounting principles reasonably selected by Landlord and consistently applied, including without limitation the following:

(i) All property taxes, assessments, charges or impositions and other similar governmental ad valorem or other charges levied on or attributable to the Project (including personal and real property contained therein) or its ownership, operation or transfer, and all taxes, charges, assessments or similar impositions imposed in lieu or substitution (partially or totally) of the same (collectively, "Taxes"). "Taxes" shall also include (A) all taxes, assessments, levies, charges or impositions on any interest of Landlord in the Project, the Premises or in this Lease, or on the occupancy or use of space in the Project or the Premises; or on the gross or net rentals or income from the Project; or (B) any possessory taxes charged or levied in lieu of real estate taxes. Tenant shall not be liable for any increases in real estate taxes as a result of a transfer of the Building during the initial five (5) year Lease Term only. Taxes shall specifically exclude all federal income taxes, federal excise profit taxes, franchise, capital stock and federal and state inheritance or estate taxes; and

(ii) The cost of all utilities, supplies, equipment, tools, materials, service contracts, janitorial services, waste and refuse disposal, landscaping, and insurance (with the nature and extent of such insurance to be carried by Landlord to be reasonably determined by Landlord based upon insurance carried on similar properties in the San Diego County); insurance deductibles; compensation and benefits of all persons who perform services connected with the operation, management, maintenance or repair of the Project; personal property taxes on and maintenance and repair of equipment and other personal property; costs and fees for administration and management of the Project, whether by Landlord or by an independent contractor, and other management office operational expenses; rental expenses for or a reasonable allowance for depreciation of, personal property used in the operation, management, maintenance or repair of the Project, license, permit and inspection fees; and all inspections, activities, alterations, improvements or other matters required by any governmental or quasi-governmental authority or by Regulations (defined below), for any reason, including, without limitation, capital improvements, whether capitalized or not; all capital additions, repairs, replacements and improvements made to the Project or any portion thereof by Landlord (A) of a personal property nature and related to the operation, repair, maintenance or replacement of systems, facilities, equipment or components of (or which service) the Project or portions thereof, (B) required or provided in connection with any existing or future applicable municipal, state, federal or other governmental statutes, rules, requirements, regulations, laws, standards, orders or ordinances including, without limitation, zoning ordinances and regulations, and covenants, easements and restrictions of record (collectively, "Regulations"), (C) which are designed to actually reduce the Operating Expenses of the Project (with such capital costs to be amortized according to Generally Accepted Accounting Principles (GAAP) over the entire useful life of the improvement(s)); common area repair, resurfacing, replacement, operation and maintenance; security systems or services, if any, deemed appropriate by Landlord (but without obligation to provide the same); and any other cost or expense incurred or payable by Landlord in connection with the operation, ownership, repair, replacement, restoration, management or maintenance of the Project.

(c) Variable items of Operating Expenses (e.g., expenses that are affected by variations in occupancy levels) for the Base Year and each Expense Year during which actual occupancy of the Project is less than ninety-five percent (95%) of the rentable area of the Project shall be appropriately adjusted, in accordance with sound accounting principles, to reflect ninety-five percent (95%) occupancy of the existing rentable area of the Project during such period.

(d) Prior to or shortly following the commencement of (and from time to time during) each calendar year of the Term following the Term Commencement Date, Landlord shall give to Tenant a written estimate of Tenant's Proportionate Share of the projected excess, if any, of the Operating Expenses for the Project for such year over the Base Year Operating Expenses. Commencing with the first day of the calendar month following the month in which such estimate was delivered to Tenant, Tenant shall pay such estimated amount (less amounts, if any, previously paid toward such excess for such year) to Landlord in equal monthly installments over the remainder of such calendar year, in advance on the first day of each month during such year (or remaining months, if less than all of the year remains). Subject to the provisions of this Lease, Landlord shall endeavor to furnish to Tenant within a reasonable period after the end of each Expense Year, a statement (a "Reconciliation Statement") indicating in reasonable detail the excess, if any, of Operating Expenses allocable to such Expense Year over Base Year Operating Expenses and the parties shall, within forty-five (45) days thereafter, make any payment or allowance necessary to adjust Tenant's estimated payments to Tenant's actual share of such excess as indicated by such annual Reconciliation Statement.

(e) Tenant shall pay ten (10) days before delinquency all taxes and assessments levied against any personal property or trade fixtures of Tenant in or about the Premises. If any such taxes or assessments are levied against Landlord or Landlord's property or if the assessed value of the Project is increased by the inclusion therein of a value placed upon such personal property or trade fixtures, Tenant shall, within ten (10) days of demand, reimburse Landlord for the taxes and assessments so levied against Landlord, or any such taxes, levies and assessments resulting from such increase in assessed value. Tenant's obligations under this Paragraph 3.2(e) shall not extend more than one (1) year following the termination of this Lease.

(f) Any delay or failure of Landlord in (i) delivering any estimate or statement described in this Paragraph 3.2, or (ii) computing or billing Tenant's Proportionate Share of excess Operating Expenses shall not (A) constitute a waiver of its right to subsequently deliver such estimate or statement or require any increase in Rent contemplated by this Paragraph 3.2, or (B) in any way waive or impair the continuing obligations of Tenant under this Paragraph 3.2. Provided that Tenant is not then in default under this Lease, subject to compliance with Landlord's standard procedures for the same, Tenant shall have the right, at Tenant's expense, and upon the condition that Tenant shall first pay to Landlord the amount in dispute, to have independent certified public accountants of national standing (who are not compensated on a contingency basis) of Tenant's selection (and subject to Landlord's reasonable approval) review Landlord's Operating Expense books and records relating to the Expense Year subject to a particular Reconciliation Statement during the sixty-day period following delivery to Tenant of the Reconciliation Statement for such Expense Year. Tenant waives the right to dispute or contest, and shall have no right to dispute or contest, any matter relating to the calculation of

Operating Expenses or other forms of Rent under this Paragraph 3.2 with respect to each Expense Year for which a Reconciliation Statement is given to Tenant if no claim or dispute with respect thereto is asserted by Tenant in writing to Landlord within sixty (60) days of delivery to Tenant of the original or most recent Reconciliation Statement with respect thereto.

4. Delinquent Payment; Handling Charges. In the event Tenant is more than five
(5) days late in paying any amount of Rent or any other payment due under this Lease, Tenant shall pay Landlord, within ten (10) days of Landlord's written demand therefor, a late charge equal

to five percent (5%) of the delinquent amount, or $150.00, whichever amount is greater. In addition, any amount due from Tenant to Landlord hereunder which is not paid within ten (10) days of the date due shall bear interest at an annual rate (the "Default Rate") equal to twelve percent (12%).

5. Security Deposit. Contemporaneously with the execution of this Lease, Tenant shall pay to Landlord the amount of Security Deposit (the "Security Deposit") specified in the Basic Lease Information, which shall be held by Landlord to secure Tenant's performance of its obligations under this Lease. The Security Deposit is not an advance payment of Rent or a measure or limit of Landlord's damages upon a default by Tenant or an Event of Default (defined below). If Tenant defaults with respect to any provision of this Lease, Landlord may, but shall not be required to, use, apply or retain all or any part of the Security Deposit (a) for the payment of any Rent or any other sum in default, (b) for the payment of any other amount which Landlord may spend or become obligated to spend by reason of such default by Tenant, and (c) to compensate Landlord for any other loss or damage which Landlord may suffer by reason of such default by Tenant. If any portion of the Security Deposit is so used or applied, Tenant shall, within ten (10) days after demand therefor by Landlord, deposit with Landlord cash in an amount sufficient to restore the Security Deposit to the amount required to be maintained by Tenant hereunder. Within a reasonable period following expiration or the sooner termination of this Lease, provided that Tenant has performed all of its obligations hereunder, Landlord shall return to Tenant the remaining portion of the Security Deposit. The Security Deposit may be commingled by Landlord with Landlord's other funds, and no interest shall be paid thereon. If Landlord transfers its interest in the Premises, then Landlord may assign the Security Deposit to the transferee and thereafter Landlord shall have no further liability or obligation for the return of the Security Deposit. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of any Regulations, now or hereinafter in force, which restricts the amount or types of claim that a landlord may make upon a security deposit or imposes upon a landlord (or its successors) any obligation with respect to the handling or return of security deposits.

6. Landlord's Obligations.

6.1 Services. Subject to the provisions of this Lease, Landlord shall furnish to Tenant during the Term (a) city or utility company water at those points of supply provided for general use of the tenants of the Building; (b) subject to mandatory and voluntary Regulations, heating and air conditioning during ordinary business hours (described below) for the Building at such temperatures and in such amounts as Landlord reasonably determines is appropriate for normal comfort for normal office use in the Premises (after hours HVAC is currently estimated to be $25.00 per hour, subject to change); (c) janitorial services to the Premises on weekdays, other than on legal holidays, for Building-standard installations; (d) nonexclusive passenger elevator service. If Tenant desires any of the services specified in this Paragraph 6.1 at any time other than during ordinary business hours of generally recognized business days designated by Landlord for the Building (building hours are Monday through Friday, 7:00 a.m. through 6:00 p.m and Saturday, 9:00 a.m. to 1:00 p.m., which in any event shall not include Saturdays, Sundays or legal holidays), then subject to such nondiscriminatory conditions and standards as Landlord shall apply to the same, upon the written request of Tenant, such services shall be supplied to Tenant in accordance with Landlord's customary procedures for the Building, including such advance request deadlines as Landlord shall require from time to time, and Tenant shall pay to Landlord Landlord's then customary charge for such services within ten (10) days after Landlord has delivered to Tenant an invoice therefor. Except, however, Landlord shall provide Tenant with up to twenty (20) hours per month of after hours HVAC usage at no charge to Tenant. Landlord reserves the right to change the supplier or provider of any such service from time to time. Tenant shall not have the right to obtain any such service for the Premises directly from a supplier or provider of such service except as provided in Paragraph 6.4 below or for its separately-metered electric service to the Premises, in which case tenant shall pay, upon demand, for these utilities furnished to the Premises.

6.2 Excess Utility Use. Landlord shall not be required to furnish electrical current for, and Tenant shall not install or use, without Landlord's prior written consent, any equipment whose operation is in excess of, or inconsistent with, the capacity of the Building (or existing feeders and risers to, or wiring in, the Premises).

6.3 Restoration of Services. Following receipt of Tenant's request to do so, Landlord shall restore any service specifically to be provided under Paragraph 6.1 that becomes unavailable and which is in Landlord's reasonable control to restore; provided, however, that in no case shall the unavailability of such services or any other service (or any diminution in the quality or quantity thereof) or any interference in Tenant's business operations within the Premises render Landlord liable to Tenant or any person using or occupying the Premises under or through Tenant (including, without limitation, any contractor, employee, agent, invitee or visitor of Tenant) (each, a "Tenant Party") for any damages of any nature whatsoever caused thereby, constitute a constructive eviction of Tenant, constitute a breach of any implied warranty by Landlord, or entitle Tenant to any abatement of Tenant's rental obligations hereunder.

6.4 Telecommunications Services. Tenant may contract separately with providers of telecommunications or cellular products, systems or services for the Premises. Even though such products, systems or services may be installed or provided by such providers in the Building, in consideration for Landlord's permitting such providers to provide such services to Tenant, Tenant agrees that Landlord and the Landlord Indemnitees (defined below) shall in no event be liable to Tenant or any Tenant Party for any damages of any nature whatsoever arising out of or relating to the products, systems or services provided by such providers (or any failure, interruption, defect in or loss of the same) or any acts or omissions of such providers in connection with the same or any interference in Tenant's business caused thereby. Tenant waives and releases all rights and remedies against Landlord and the Landlord Indemnitees that are inconsistent with the foregoing.

7. Improvements, Alterations, Repairs and Maintenance.

7.1 Improvements; Alterations. Any alterations, additions, deletions, modifications or utility installations in, of or to the improvements contained within the Premises, not including the Tenant Improvements as described in Exhibit "C" attached hereto (collectively, "Alterations") shall be installed at Tenant's expense and only in accordance with detailed plans and specifications, construction methods, and all appropriate

permits and licenses, all of which have been previously submitted to and approved in writing by Landlord, and by a professionally qualified and licensed contractor and subcontractors approved by Landlord. No Alterations in or to the Premises may be made without (a) Landlord's prior written consent and (b) compliance with such nondiscriminatory requirements and construction regulations concerning such Alterations as Landlord may impose from time to time. Landlord will not be deemed to unreasonably withhold its consent to any Alteration that violates

Regulations, may affect or be incompatible with the Building's structure or its HVAC, plumbing, telecommunications, elevator, life-safety, electrical, mechanical or other basic systems, or the appearance of the interior common areas or exterior of the Project, or which may interfere with the use or occupancy of any other portion of the Project. All Alterations made in or upon the Premises shall, (i) at Landlord's option, either be removed by Tenant prior to the end of the Term (and Tenant shall restore the portion of the Premises affected to its condition existing immediately prior to such Alteration), or shall remain on the Premises at the end of the Term; provided however, that Landlord shall notify Tenant in writing at the same time that it consents to such Alteration of its election of one of the above two options, which election shall be binding upon Landlord notwithstanding anything to the contrary stated herein, (ii) be constructed, maintained, insured and used by Tenant, at its risk and expense, in a first-class, good and workmanlike manner, and in accordance with all Regulations, and (iii) shall be subject to payment of Landlord's standard alterations supervision fee, except for non-structural and non-mechanical alterations costing up to Five Thousand Dollars ($5,000.00) cumulatively. If any Alteration made or initiated by Tenant or the removal thereof shall cause, trigger or result in any portion of the Project outside of the Premises, any portion of the Building's shell and core improvements (including restrooms, if any) within the Premises, or any Building system inside or outside of the Premises being required by any governmental authority to be altered, improved or removed, or may otherwise potentially affect such portions of the Project or any other tenants of the Project, Landlord shall have the option (but not the obligation) of performing the same at Tenant's expense, in which case Tenant shall pay to Landlord (within ten (10) days of Landlord's written demand) in advance Landlord's reasonable estimate of the cost of such work, and any actual costs of such work in excess of Landlord's estimate, plus an administrative charge of ten percent (10%) thereof. At least ten (10) days before beginning construction of any Alteration, Tenant shall give Landlord written notice of the expected commencement date of that construction to permit Landlord to post and record a notice of non-responsibility. Upon substantial completion of construction, if the law so provides, Tenant shall cause a timely notice of completion to be recorded in the office of the recorder of the county in which the Building is located.

7.2 Repairs and Maintenance. Tenant shall maintain at all times during the Term the Premises and all portions and components of the improvements and systems contained therein in a first-class, good, clean, safe, and operable condition, and shall not permit or allow to remain any waste or damage to any portion of the Premises, with the exception of reasonable wear and tear Tenant shall repair or replace, as needed, subject to Landlord's direction and supervision, any damage to the Building or the Project caused by Tenant or any Tenant Party, with the exception of reasonable wear and tear. If any such damage occurs outside of the Premises or relates to any Building system, then Landlord may elect to repair such damage itself at Tenant's expense. The cost of all repair or replacement work performed by Landlord under this Paragraph 7.2, plus an administrative charge of ten percent (10%) of such cost, shall be paid by Tenant to Landlord within ten (10) days of receipt of Landlord's invoice therefor. Tenant hereby waives all common law and statutory rights or provisions inconsistent herewith, whether now or hereinafter in effect (including, without limitation, Sections 1941, 1941.1, and 1941.2 of the California Civil Code, as amended from time to time). Landlord shall maintain the common areas of the Project in a commercially reasonable manner at all times during the Term with the cost thereof constituting an Operating Expense under Paragraph 3.2.

7.3 Mechanic's Liens. Tenant shall not cause, suffer or permit any mechanic's or materialman's lien, claim, or stop notice to be filed or asserted against the Premises, the Building or any funds of Landlord for any work performed, materials furnished, or obligation incurred by or at the request of Tenant or any Tenant Party. If any such lien, claim or notice is filed or asserted, then Tenant shall, within ten (10) days after Landlord has delivered notice of the same to Tenant, either (a) pay and satisfy in full the amount of (and eliminate of record) the lien, claim or notice or (b) diligently contest the same and deliver to Landlord a bond or other security therefor in substance and amount (and issued by an issuer) satisfactory to Landlord. Tenant's obligations under this Paragraph 7.3 shall not apply to any work to be performed, materials furnished, or obligation incurred with respect to the Tenant Improvements.

8. Use. Tenant shall continuously occupy and use the Premises only for general office use or uses incidental thereto, all of which shall be consistent with the standards of a first class office project (the "Permitted Use") and shall comply, at Tenant's expense, with all Regulations relating to the use, condition, alteration, improvement, access to, and occupancy of the Premises (including the Palomar over flight restrictions document #1998-0362387, as recorded on June 15, 1998 and resolution nos. 4234 and 4244, document #1998-0362388, as recorded on June 15, 1998), including without limitation, Regulations relating to Hazardous Materials (defined below). Should any Regulation now or hereafter be imposed on Tenant or Landlord by any governmental body relating to the use or occupancy of the Premises or the Project common areas by Tenant or any Tenant Party or concerning occupational, health or safety standards for employers, employees, or tenants, then Tenant agrees, at its sole cost and expense, to comply promptly with such Regulations if such Regulations relate to anything within the Premises or if compliance with such Regulations is within the control of Tenant and applies to an area outside of the Premises. Tenant shall conduct its business and shall cause each Tenant Party to act in such a manner as to (a) not release or permit the release of any Hazardous Material in, under, on or about the Project in violation of any Regulations, (b) use or store any Hazardous Materials (other than incidental amounts of cleaning and office supplies) in or about the Premises or (c) not create or permit any nuisance or unreasonable interference with or disturbance of other tenants of the Project or Landlord in its management of the Project or (d) not on a continuing basis, create any occupancy density in the Premises or parking density with respect to Tenant and any Tenant Party at the Project greater than those specified in the Basic Lease Information. "Hazardous Material" means any hazardous, explosive, radioactive or toxic substance, material or waste which is or becomes regulated by any local, state or federal governmental authority or agency, including, without limitation, any material or substance which is (i) defined or listed as a "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," "hazardous substance," "hazardous material," "pollutant" or "contaminant" under any Regulation, (ii) a flammable explosive,
(iii) a radioactive material, (iv) a polychlorinated biphenyl, (v) asbestos or asbestos containing material, or (vi) a carcinogen.

9. Assignment and Subletting.

9.1 Transfers; Consent. Tenant shall not have the right, without the prior written consent of Landlord which consent shall not be unreasonably denied, to, (a) assign, transfer, mortgage, hypothecate, or encumber this Lease or any estate or interest herein, whether directly, indirectly or by operation of law, (b) permit any other entity to become a Tenant hereunder by merger, consolidation, or other reorganization, with the exception of wholly-owned subsidiaries and affiliates of Tenant as set forth in Paragraph 9.3, (c) if Tenant is a corporation, partnership, limited

liability company, limited liability partnership, trust, association or other business entity (other than a corporation whose stock is publicly traded), permit, directly or indirectly, the transfer of any ownership interest in Tenant so as to result in (i) a change in the current control of Tenant, (ii) a transfer of twenty-five percent (25%) or more in the aggregate in any twelve (12) month period in the beneficial ownership of such entity or (iii) a transfer of all or substantially all of the assets of Tenant, (d) sublet any portion of the Premises, or (e) grant any license, concession, or other right of occupancy of or with respect to any portion of the Premises, or (f) permit the use of the Premises by any party other than Tenant or a Tenant Party (each of the events listed in this Paragraph 9.1 being referred to herein as a "Transfer"). If Tenant requests Landlord's consent to any Transfer, then at least twenty (20) business days prior to the effective date of the proposed Transfer, Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer and all consideration therefor (including a calculation of the Transfer Profits described below), copies of the proposed documentation, and the following information relating to the proposed transferee: name and address; information reasonably satisfactory

to Landlord concerning the proposed transferee's business and business history; its proposed use of the Premises; banking, financial, and other credit information; and general references sufficient to enable Landlord to determine the proposed transferee's creditworthiness and character. Landlord shall not unreasonably withhold its consent to any assignment or subletting of the Premises, provided that the parties agree that it shall be reasonable for Landlord to withhold any such consent if, without limitation, Landlord determines in good faith that (A) the proposed transferee is not of a reasonable financial standing or is not creditworthy, (B) the proposed transferee is a governmental agency, (C) the proposed transferee, or any affiliate thereof, is then an occupant in the Project or has engaged in discussions with Landlord concerning a lease of direct space in the Project, (D) the proposed Transfer would result in a breach of any obligation of Landlord or permit any other tenant in the Project to terminate or modify its lease, (E) there is then in effect an uncured Event of Default, (F) the Transfer would increase the occupancy density or parking density of the Project or any portion thereof, (G) the Transfer would result in an undesirable tenant mix for the Project, as determined in good faith by Landlord, (H) the proposed transferee does not enjoy a good reputation, as a business or as a tenant. Any Transfer made without Landlord's consent shall be void and, at Landlord's election, shall constitute an Event of Default by Tenant. Tenant shall also, within ten (10) days of written demand therefor, pay to Landlord $500 as a review fee for each Transfer request, and reimburse Landlord for its reasonable attorneys' fees and all other costs incurred in connection with considering any request for consent to a proposed Transfer. If Landlord consents to a proposed Transfer, then the proposed transferee shall deliver to Landlord Landlord's standard form transfer consent and agreement whereby the proposed transferee expressly assumes the Tenant's obligations hereunder. Landlord's consent to a Transfer shall not release Tenant from its obligations under this Lease (or any guarantor of this Lease of its obligations with respect thereto), but rather Tenant and its transferee shall be jointly and severally liable for all obligations under this Lease allocable to the space subject to such Transfer. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers. In the event of any claim by Tenant that Landlord has breached its obligations under this Paragraph 13, Tenant's remedies shall be limited to recovery of its out-of-pocket damages and injunctive relief.

9.2 Cancellation and Recapture. Notwithstanding Paragraph 9.1, Landlord may (but shall not be obligated to), within sixty (60) days after submission of Tenant's written request for Landlord's consent to an assignment or subletting, cancel this Lease as to the portion of the Premises proposed to be sublet or subject to an assignment of this Lease ("Transfer Space") as of the date such proposed Transfer is proposed to be effective and, thereafter, Landlord may lease such portion of the Premises to the prospective transferee (or to any other person or entity or not at all) without liability to Tenant. If Landlord shall not cancel this Lease within such sixty-day period and notwithstanding any Landlord consent to the proposed Transfer, Tenant shall pay to Landlord, immediately upon receipt thereof, fifty percent (50%) of the excess ("Transfer Profits") of all compensation and other consideration paid to or for the benefit of Tenant (or any affiliate thereof) for the Transfer in excess of Base Rent and additional rent payable by Tenant hereunder (with respect to the Transfer Space) during the remainder of the Term (after straight-line amortization of any reasonable brokerage commissions and tenant improvement costs paid by Tenant in connection with the Transfer over the term of the Transfer).

9.3 Permitted Transfers. An "Affiliate" means any entity that (i) controls, is controlled by, or is under common control with Tenant, (ii) results from the transfer of all or substantially all of Tenant's assets or stock, or
(iii) results from the merger or consolidation of Tenant with another entity. "Control" means the direct or indirect ownership of more than fifty percent (50%) of the voting securities of an entity or possession of the right to vote more than fifty percent (50%) of the voting interest in the ordinary direction of the entity's affairs. Notwithstanding anything to the contrary contained in this Lease, Landlord's consent is not required for and Landlord's recapture rights shall not apply to any assignment of this Lease or sublease of all or a portion of the Premises to an Affiliate so long as the following conditions are met: (a) at least ten (10) business days before any such assignment or sublease, Landlord receives written notice of such assignment or sublease (as well as any documents or information reasonably requested by Landlord regarding the proposed intended transfer and the transferee); (b) Tenant is not then in default under this Lease; (c) if the transfer is an assignment or any other transfer to an Affiliate other than a sublease, the intended assignee assumes in writing all of Tenant's obligations under this Lease relating to the Premises in form satisfactory to Landlord or, if the transfer is a sublease, the intended sublessee accepts the sublease in form satisfactory to Landlord; (d) the intended transferee has a tangible net worth, as evidenced by financial statements delivered to Landlord and certified by an independent certified public accountant in accordance with generally accepted accounting principles that are consistently applied, at least equal to one-half (1/2) the tangible net worth of Tenant as of the date of this Lease; (e) the Premises shall continue to be operated solely for the use specified in the Basic Lease Information; and (f) Tenant shall pay to Landlord Landlord's standard fee for approving assignments and subleases and all costs reasonably incurred by Landlord or any mortgagee or ground lessor for such assignment or subletting, including, without limitation, reasonable attorneys' fees. No transfer to an Affiliate in accordance with this subparagraph shall relieve Tenant named herein of any obligation under this Lease or alter the primary liability of Tenant named herein for the payment of Rent or for the performance of any other obligation to be performed by Tenant, including the obligations contained in Paragraph 5 with respect to any Affiliate.

Notwithstanding anything to the contrary in this Lease, the transfer of outstanding capital stock or other listed equity interests, or the purchase of outstanding capital stock or other listed equity interests, or the purchase of equity interests issued in an initial public offering of stock, by persons or parties other than "insiders" within the meaning of the Securities Exchange Act of 1934, as amended, through the "over-the-counter" market or any recognized national or international securities exchange shall not be included in determining whether control has been transferred.

10. Insurance, Waivers, Subrogation and Indemnity.

10.1 Insurance. Tenant shall maintain throughout the Term each of the insurance policies described on Exhibit "D" attached hereto and shall otherwise comply with each and all of the obligations and requirements provided on Exhibit "D."

10.2 Waiver of Subrogation. Landlord and Tenant each waives any claim, loss or cost it might have against the other for any injury to or death of any person or persons, or damage to or theft, destruction, loss, or loss of use of any property (a "Loss"), to the extent the same is insured against or is required to be insured against under the terms hereof under any "all risk" property damage insurance policy that covers the

Building, the Premises, Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, regardless of whether the negligence of the other party caused such Loss.

10.3 Indemnity by Tenant. Subject to Paragraph 10.2, Tenant shall indemnify, defend and hold Landlord, Spieker Properties, Inc., and each of their respective directors, shareholders, partners, lenders, members, managers, contractors, affiliates and employees (collectively, "Landlord Indemnitees") from and against all claims, demands, proceedings, losses, obligations, liabilities, causes of action, suits, judgments, damages, penalties, costs and expenses (including, without limitation, reasonable attorneys' fees and court costs) arising from or asserted in connection with the use or occupancy of the Premises by Tenant or any Tenant Party, including, without limitation, by reason of any release of any Hazardous Materials by Tenant or any Tenant Party in, under, on, or about the Project, or any negligence or misconduct of Tenant or of any Tenant Party in or about the Premises, including without limitation, Tenant's breach of any of its covenants under this Lease, except in each case to the extent arising primarily from the negligence or willful misconduct of Landlord or any Landlord Indemnitee. Except to the extent expressly provided in this Lease, Tenant hereby waives all claims against and releases Landlord and each Landlord Indemnitee for any injury to or death of persons, damage

to property or business loss in any manner related to (i) Tenant's use and occupancy of the Premises, (ii) acts of God, (iii) acts of third parties, or
(iv) any matter outside of the reasonable control of Landlord, except in each case to the extent arising from the negligence or willful misconduct of Landlord or any Landlord Indemnitee. This Paragraph 10.3 shall survive termination or expiration of this Lease.

10.4 Indemnity by Landlord. Landlord shall indemnify, defend by counsel reasonably acceptable to Tenant, protect and hold Tenant harmless from and against any and all claims, liabilities, losses, costs, damages, injuries or expenses, including reasonable attorneys' and consultants' fees and court costs, demands, causes of action, or judgments arising out of or relating to the negligence or willful misconduct of Landlord or Landlord's agents, employees or invitees. Notwithstanding the foregoing or anything to the contrary contained in this Lease, Landlord shall in no event be liable to Tenant and Tenant hereby waives all claims against Landlord for any injury or damage to any person or property in or about the Premises, Building or Project, including without limitation the common areas, whether caused by theft, fire, rain or water leakage of any character from the roof, walls, plumbing, sprinklers, pipes, basement or any other portion of the Premises, Building or Project, or caused by gas, fire, oil or electricity in, on or about the Premises, Building or Project, or from any other systems except in each case to the extent caused by the negligence or willful misconduct of Landlord, or by acts of God (including without limitation flood or earthquake), acts of a public enemy, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority or from any other cause whatsoever, or for any damage or inconvenience which may arise through repair, subject to and except as expressly otherwise provided in Paragraph 7.2 or 10.2 of this Lease except to the extent caused directly by the gross negligence or willful misconduct of Landlord. In addition, Landlord shall in no event be liable for (i) injury to Tenant's business or any loss of income or profit therefrom or from consequential damages, or (ii) sums up to the amount of insurance proceeds received by Tenant. The foregoing indemnity by Landlord shall not be applicable to include Tenant's breach of any of its covenants under this Lease claims to the extent primarily arising from the negligence or willful misconduct of Tenant or Tenant's Parties. The foregoing indemnity by Landlord shall survive the expiration or earlier termination of this Lease.

11. Subordination; Attornment.

11.1 Subordination. This Lease is subject and subordinate to all present and future ground or master leases of the Project and to the lien of all mortgages or deeds of trust (collectively, "Security Instruments") now or hereafter encumbering the Project, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of any such Security Instruments, unless the holders of any such mortgages or deeds of trust, or the lessors under such ground or master leases (such holders and lessors are sometimes collectively referred to herein as "Holders") require in writing that this Lease be superior thereto. Notwithstanding any provision of this Paragraph 11 to the contrary, any Holder of any Security Instrument may at any time subordinate the lien of its Security Instrument to this Lease without obtaining Tenant's consent by giving Tenant written notice of such subordination, in which event this Lease shall be deemed to be senior to the Security Instrument in question. Tenant shall, within twenty (20) days of request to do so by Landlord, execute, acknowledge and deliver to Landlord such further instruments or assurances as Landlord may deem necessary or appropriate to evidence or confirm the subordination or superiority of this Lease to any such Security Instrument; provided, however, that at the request of Tenant made within ten (10) days of any such Landlord request, such Holder shall execute and deliver to Tenant its standard nondisturbance agreement. Tenant hereby irrevocably authorizes Landlord to execute and deliver in the name of Tenant any such instrument or instruments if Tenant fails to do so within said a twenty (20) day period.

11.2 Attornment. Tenant covenants and agrees that in the event that any proceedings are brought for the foreclosure of any mortgage or deed of trust, or if any ground or master lease is terminated, it shall attorn, without any deductions or set-offs whatsoever, to the purchaser upon any such foreclosure sale, or to the lessor of such ground or master lease, as the case may be, if so requested to do so by such purchaser or lessor, and to recognize such purchaser or lessor as "Landlord" under this Lease; provided, however, that Tenant's obligation as set forth in this Paragraph 11.2 shall be condition upon the execution and delivery to Tenant by any such purchaser or lessor of a nondisturbance agreement commercially reasonable and acceptable to Tenant. If requested, Tenant shall enter into a new lease with that successor on the same terms and conditions as are contained in this Lease (for the unexpired portion of the Term then remaining).

12. Rules and Regulations. Tenant shall comply, and shall cause each Tenant Party to comply, with the Rules and Regulations of the Building which are attached hereto as Exhibit "A," and all such nondiscriminatory modifications, additions, deletions and amendments thereto as Landlord shall adopt in good faith from time to time.

13. Condemnation. If the entire Project or Premises are taken by right of eminent domain or conveyed by Landlord in lieu thereof (a "Taking"), this Lease shall terminate as of the date of the Taking. If any part of the Project becomes subject to a Taking and such Taking will prevent Tenant from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Taking for a period of more than ninety (90) days, then Tenant may terminate this Lease as of the date of such Taking by giving written notice to Landlord within thirty (30) days after the Taking, and all Rent paid or payable hereunder shall be apportioned between Landlord and Tenant as of the date of such Taking. If any material portion, but less than all, of the Project, Building or the Premises becomes subject to a Taking, or if Landlord is required to pay any of the proceeds received for a Taking to any Holder of any Security Instrument, then Landlord may terminate this Lease by delivering written notice thereof to Tenant within thirty (30) days after such Taking, and all Rent paid or payable hereunder shall be apportioned between Landlord and Tenant as of the date of such Taking. If Tenant does not so terminate this Lease, then Base Rent thereafter payable hereunder shall be abated for the duration of the Taking in proportion to that portion of the Premises rendered untenantable by such Taking. If any Taking occurs, then Landlord shall receive the entire award or other compensation for the land on which the Project is situated, the Project, and other improvements taken, and Tenant may separately pursue a claim (to the extent it will not reduce Landlord's award) against the condemnor for the value of Tenant's personal property which Tenant is entitled to remove under this Lease and moving and relocation costs. Landlord and Tenant agree that the provisions of this Paragraph 13 and the remaining provisions of this Lease shall exclusively govern the rights and obligations of the parties with respect to any Taking of any portion of the Premises, the Building, the Project or the land on which the Building is located, and Landlord and Tenant hereby waive and release each and all of their respective common law

and statutory rights inconsistent herewith, whether now or hereinafter in effect (including, without limitation, Section 1265.130 of the California Code of Civil Procedure, as amended from time to time).

14. Fire or Other Casualty.

14.1 Repair Estimate; Right to Terminate. If all or any portion of the Premises, the Building or the Project is damaged by fire or other casualty (a "Casualty"), Landlord shall, within ninety (90) days after Landlord's discovery of such damage, deliver to Tenant its good faith estimate (the "Damage Notice") of the time period following such notice needed to repair the damage caused by such Casualty. Landlord or Tenant may elect to terminate this Lease in any case where (a) any material portion of the Premises or any material portion of the Project are damaged and (b) either (i) Landlord estimates in good faith that the repair and restoration of such damage under Paragraph 14.2 ("Restoration") cannot reasonably be completed (without the payment of overtime) within two hundred (200) days of Landlord's actual discovery of such damage, (ii) the Holder of any Security Instrument requires the application of any insurance proceeds with respect to such Casualty to be applied to the outstanding balance

of the obligation secured by such Security Instrument, (iii) the cost of such Restoration is not fully covered by insurance proceeds available to Landlord and/or payments received by Landlord from tenants, or (iv) Tenant shall be entitled to an abatement of rent under this Paragraph 14 for any period of time in excess of thirty-three percent (33%) of the remainder of the Term. Such right of termination shall be exercisable by Landlord or Tenant by delivery of written notice to Tenant or Landlord, as the case may be, at any time following the Casualty until forty-five (45) days following the later of (A) delivery of the Damage Notice or (B) Landlord's discovery or determination of any of the events described in clauses (i) through (iv) of the preceding sentence, and shall be effective upon delivery of such notice of termination (or if Tenant has not vacated the Premises, upon the expiration of thirty (30) days thereafter).

14.2 Repair Obligation; Abatement of Rent. Subject to the provisions of Paragraph 14.1, Landlord shall, within thirty (30) days after the discovery by Landlord of any damage resulting from a Casualty, begin to repair the damage to the Building and the Premises resulting from such Casualty and shall proceed with reasonable diligence to restore the Building and Premises to substantially the same condition as existed immediately before such Casualty, except for modifications required by Regulations, and modifications to the Building or the Project reasonably deemed desirable by Landlord; provided, however, that Landlord shall not be required to repair or replace any of the Alterations, furniture, equipment, fixtures, and other improvements which may have been placed by, or at the request of, Tenant or other occupants in the Building or the Premises. Landlord shall have no liability for any inconvenience or annoyance to Tenant or injury to Tenant's business as a result of any Casualty, regardless of the cause therefor; provided, however, that Landlord shall not unreasonably interfere with Tenant's occupancy of the Premises. Base Rent, and additional rent payable under Paragraph 3.2, shall abate if and to the extent a Casualty damages the Premises or common areas in the Project or renders any material portion of the Premises unfit for Tenant's occupancy, and such portions are not occupied by Tenant, for the period of time commencing on the date Tenant vacates the portion of the Premises affected on account thereof and continuing until the date the Restoration with respect to the Premises (and/or required common areas) is substantially complete, as determined by Landlord's architect. Landlord and Tenant agree that the provisions of this Paragraph 14 and the remaining provisions of this Lease shall exclusively govern the rights and obligations of the parties with respect to any and all damage to, or destruction of, all or any portion of the Premises or the Project by Casualty, and Landlord and Tenant hereby waive and release each and all of their respective common law and statutory rights inconsistent herewith, whether now or hereinafter in effect (including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, as amended from time to time).

15. Parking. Tenant shall have the right to the nonexclusive use of such portion of the parking facilities of the Project as are designated by Landlord from time to time for such purpose for the parking of passenger-size motor vehicles used by Tenant and Tenant Parties only and are not transferable without Landlord's approval. The use of such parking facilities shall be subject to such rules and regulations as are adopted by Landlord from time to time for the use of such facilities.

16. Events of Default. Each of the following occurrences shall be an "Event of Default" and shall constitute a material default and breach of this Lease by Tenant: (a) any failure by Tenant to pay any installment of Base Rent, additional rent or to make any other payment required to be made by Tenant hereunder within ten (10) days of when due; (b) the abandonment or vacation of the Premises by Tenant, provided, however, that unless Tenant is using the Premises for a retail use, abandonment or vacation of the Premises shall not be an Event of Default so long as no other Event of Default has occurred hereunder and provided Tenant has given Landlord five (5) days' prior written notice of its intent to vacate the Premises; (c) any failure by Tenant to execute and deliver any estoppel certificate or other document or instrument described in Paragraphs 10 (insurance), 11 (subordination) or 21.2 (estoppel certificates) requested by Landlord, where such failure continues for ten (10) days after delivery of written notice of such failure by Landlord to Tenant; (d) any failure by Tenant to fully perform any other material obligation of Tenant under this Lease, where such failure continues for thirty (30) days (except where a shorter period of time is specified in this Lease, in which case such shorter time period shall apply) after delivery of written notice of such failure by Landlord to Tenant; (e) the voluntary or involuntary filing of a petition by or against Tenant or any general partner of Tenant (i) in any bankruptcy or other insolvency proceeding, (ii) seeking any relief under any state or federal debtor relief law, (iii) for the appointment of a liquidator or receiver for all or substantially all of Tenant's property or for Tenant's interest in this Lease, or (iv) for the reorganization or modification of Tenant's capital structure (provided, however, that if such a petition is filed against Tenant, then such filing shall not be an Event of Default unless Tenant fails to have the proceedings initiated by such petition dismissed within sixty (60) days after the filing thereof); (f) the default of any guarantor of Tenant's obligations hereunder under any guaranty of this Lease, the attempted repudiation or revocation of any such guaranty, or the participation by any such guarantor in any other event described in this Paragraph 16 (as if this Paragraph 16 referred to such guarantor in place of Tenant); or (g) any other event, act or omission which any other provision of this Lease identifies as an Event of Default. Any notice of any failure of Tenant required under this Paragraph 16 shall be in lieu of, and not in addition to, any notice required under Section 1161 et seq. of the California Code of Civil Procedure.

17. Remedies. Upon the occurrence of any Event of Default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate, and cumulative), the option to pursue any one (1) or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever:

(a) Terminate this Lease, and Landlord may recover from Tenant the following: (i) the worth at the time of any unpaid rent which has been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom (specifically including, without limitation, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant); and (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. The term "rent" as used in this Paragraph 17(a) shall be deemed to be and

to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Paragraphs 17(a)(i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the Default Rate, but in no case greater than the maximum amount of such interest permitted by law. As used in Paragraph 17(a)(iii) above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(b) Landlord shall have the remedy described in California Civil Code
Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any Event of Default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all Rent as it becomes due.

(c) Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Paragraphs 17(a) and 17(b) above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law or as otherwise required herein, to seek any declaratory, injunctive, or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

(d) Following the occurrence of three instances of payment of Rent more than ten (10) days late in any twelve (12) month period, the late charge set forth in Paragraph 4 shall apply from the date payment was due and Landlord may, without prejudice to any other rights or remedies available to it, upon written notice to Tenant, require that all remaining monthly installments of Rent payable under this Lease shall be payable by cashier's check or electronic funds transfer three (3) months in advance, and may require that Tenant increase the Security Deposit to an amount equal to three times the current month's Rent at the time of the most recent default. In addition, (i) upon the occurrence of an Event of Default by Tenant, if the Premises or any portion thereof are sublet, Landlord may, at its option and in addition and without prejudice to any other remedies herein provided or provided by law, collect directly from the sublessee(s) all rentals becoming due to the Tenant and apply such rentals against other sums due hereunder to Landlord; and (ii) without prejudice to any other right or remedy of Landlord, if Tenant shall be in default under this Lease, Landlord may cure the same at the expense of Tenant (A) immediately and without notice in the case (1) of emergency, (2) where such default unreasonably interferes with any other tenant in the Building, or (3) where such default will result in the violation of any Regulation or the cancellation of any insurance policy maintained by Landlord, and (B) in any other case if such default continues for ten (10) days following the receipt by Tenant of notice of such default from Landlord and all costs incurred by Landlord in curing such default(s), including, without limitation, attorneys' fees, shall be reimbursable by Tenant as Rent hereunder upon demand, together with interest thereon, from the date such costs were incurred by Landlord, at the Default Rate.

18. Surrender of Premises. No act by Landlord shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless it is in writing and signed by Landlord. At the expiration or earlier termination of this Lease, Tenant shall deliver to Landlord all keys (including any electronic access devices and the like) to the Premises, and Tenant shall deliver to Landlord the Premises in the same condition, in all material respects, as existed on the date Tenant originally took possession thereof, ordinary wear and tear excepted, provided that ordinary wear and tear shall not include repair and clean up items. By way of example, but without limitation, repair and clean up items shall include cleaning of all interior walls, carpets and floors, replacement of damaged or missing ceiling or floor tiles, window coverings or cover plates, removal of any Tenant-introduced markings, and repair of all holes and gaps, as well as the removal requirements below. In addition, prior to the expiration of the Term or any sooner termination thereof, (a) Tenant shall remove such Alterations as Landlord shall request and shall restore the portion of the Premises affected by such Alterations and such removal to its condition existing immediately prior to the making of such Alterations, (b) Tenant shall remove from the Premises all unattached trade fixtures, furniture, equipment and personal property located in the Premises, including, without limitation, phone equipment, wiring, cabling and all garbage, waste and debris, and (c) Tenant shall repair all damage to the Premises or the Project caused by any such removal including, without limitation, full restoration of all holes and gaps resulting from any such removal. All personal property and fixtures of Tenant not so removed shall, to the extent permitted under applicable Regulations, be deemed to have been abandoned by Tenant and may be appropriated, sold, stored, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without any obligation to account for such items.

19. Holding Over. If Tenant holds over after the expiration or earlier termination of the Term hereof, with or without the express or implied consent of Landlord, Tenant shall become and be only a tenant at sufferance at a daily rent equal to one-thirtieth of the greater of (a) the then prevailing monthly fair market rental rate as determined by Landlord in its sole and absolute discretion, or (b) one hundred fifty percent (150%) of the monthly installment of Base Rent (and estimated additional rent payable under Paragraph 3.2) payable by Tenant immediately prior to such expiration or termination, and otherwise upon the terms, covenants and conditions herein specified, so far as applicable, as reasonably determined by Landlord. Neither any provision hereof nor any acceptance by Landlord of any Rent after any such expiration or earlier termination (including, without limitation, through any "lockbox") shall be deemed a consent to any holdover hereunder or result in a renewal of this Lease or an extension of the Term, or any waiver of any of Landlord's rights or remedies with respect to such holdover. Notwithstanding any provision to the contrary contained herein, (i) Landlord expressly reserves the right to require Tenant to surrender possession of the Premises upon the expiration of the Term or upon the earlier termination hereof or at any time during any holdover, and the right to assert any remedy at law or in equity to evict Tenant and collect damages in connection with any such holdover, and (ii) Tenant shall indemnify, defend and hold Landlord harmless from and against any and all claims, demands, actions, proceedings, losses, damages, liabilities, obligations, penalties, costs and expenses, including, without limitation, all lost profits and other consequential damages, attorneys' fees, consultants' fees and court costs incurred or suffered by or asserted against Landlord by reason of Tenant's failure to surrender the Premises on the expiration or earlier termination of this Lease in accordance with the provisions of this Lease.

20. Substitution Space.

21. Miscellaneous.

21.1 Landlord Transfers and Liability. Landlord may, without restriction, sell, assign or transfer in any manner all or any portion of the Project, any interest therein or any of Landlord's rights under this Lease. If Landlord assigns its rights under this Lease, then Landlord shall automatically be released from any further obligations hereunder, provided that the assignee thereof assumes in writing all of Landlord's obligations hereunder accruing after such assignment. The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease or with respect to any obligation or liability related to the Premises or the Project shall be recoverable only from the interest of Landlord in the Project, and neither Landlord nor any affiliate thereof shall have any personal liability with respect thereto and in no case shall Landlord be liable to Tenant for

any lost profits, damage to business, or any form of special, indirect or consequential damage on account of any breach of this Lease, subject to the rights and provisions of Paragraph 2(C).

21.2 Estoppel Certificates; Financial Statements. At any time and from time to time during the Term, Tenant shall, without charge, execute, acknowledge and deliver to Landlord within twenty (20) days or as soon as readily available after Landlord's request therefor, an estoppel certificate in recordable form containing such factual certifications and other provisions as are found in the estoppel certificate forms requested by institutional lenders and purchasers. Tenant agrees in any case that (a) the foregoing certificate may be relied on by anyone holding or proposing to acquire any interest in the Project from or through Landlord or by any mortgagee or lessor or prospective mortgagee or lessor of the Project or of any interest therein and (b) the form of estoppel certificate shall be in the form of, at Landlord's election, the standard form of such present or prospective lender, lessor or purchaser (or any form substantially similar thereto), or any other form that Landlord shall reasonably select. At the request of Landlord from time to time, Tenant shall provide to Landlord within ten (10) days of Landlord's request therefor Tenant's and any guarantor's current financial statements.

21.3 Notices. Notices, requests, consents or other communications desired or required to be given by or on behalf of Landlord or Tenant under this Lease shall be effective only if given in writing and sent by (a) registered or certified United States mail, postage prepaid, (b) nationally recognized express mail courier that provides written evidence of delivery, fees prepaid, or (c) facsimile and United States mail, postage prepaid, and addressed as set forth in the Basic Lease Information, or at such other address in the State of California as may be specified from time to time, in writing, or, if to Tenant, at the Premises. Any such notice, request, consent, or other communication shall only be deemed given (i) if sent by registered or certified United States mail, on the day it is officially delivered to or refused by the intended recipient, (ii) if sent by nationally recognized express mail courier, on the date it is officially recorded by such courier, (iii) if delivered by facsimile, on the date the sender obtains written telephonic confirmation that the electronic transmission was received, or (iv) if delivered personally, upon delivery or, if refused by the intended recipient, upon attempted delivery.

21.4 Payment by Tenant; Non-Waiver. Landlord's acceptance of Rent (including, without limitation, through any "lockbox") following an Event of Default shall not waive Landlord's rights regarding such Event of Default. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such terms. Landlord's acceptance of any partial payment of Rent shall not waive Landlord's rights with regard to the remaining portion of the Rent that is due, regardless of any endorsement or other statement on any instrument delivered in payment of Rent or any writing delivered in connection therewith; accordingly, Landlord's acceptance of a partial payment of Rent shall not constitute an accord and satisfaction of the full amount of the Rent that is due, unless states to be so in writing by Landlord.

21.5 Certain Rights Reserved by Landlord. Landlord hereby reserves and shall have the following rights, upon no less than forty-eight (48) hours prior written notice (except in the case of emergencies) with respect to the Premises and the Project: (a) to decorate and to make inspections, repairs, alterations, additions, changes, or improvements, whether structural or otherwise, in and about the Project, the Building, the Premises or any part thereof; to enter upon the Premises and, during the continuance of any such work, to temporarily close doors, entryways, public space, and corridors in the Project or the Building; to interrupt or suspend temporarily Building services and facilities; to change the name of the Building or the Project; and to change the arrangement and location of entrances or passageways, doors, and doorways, corridors, elevators, stairs, restrooms, common areas, or other public parts of the Building or the Project;
(b) to take such measures as Landlord deems advisable in good faith for the security of the Building and its occupants; to temporarily deny access to the Building to any person; and to close the Building after ordinary business hours and on Sundays and Holidays, subject, however, to Tenant's right to enter when the Building is closed after ordinary business hours under such rules and regulations as Landlord may reasonably prescribe from time to time during the Term; and (c) to enter the Premises at reasonable hours (or at any time in an emergency) to perform repairs, to take any action authorized hereunder, or to show the Premises to prospective purchasers or lenders, or, during the last six
(6) months of the Term, prospective tenants.

21.6 Miscellaneous. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Lease shall not be affected thereby. This Lease may not be amended except by instrument in writing signed by Landlord and Tenant. No provision of this Lease shall be deemed to have been waived by Landlord or Tenant, as the case may be, unless such waiver is in writing signed by Landlord. The terms and conditions contained in this Lease shall inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided. This Lease constitutes the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes all oral statements and prior writings relating thereto. Tenant and the person or persons signing on behalf of Tenant represent and warrant that Tenant has full right and authority to enter into this Lease, and that all persons signing this Lease on its behalf are authorized to do so. If Tenant is comprised of more than one party, each such party shall be jointly and severally liable for Tenant's obligations under this Lease. All exhibits and attachments attached hereto are incorporated herein by this reference. This Lease shall be governed by and construed in accordance with the laws of the State of California. In any action which Landlord or Tenant brings to enforce its respective rights hereunder, the unsuccessful party shall pay all costs incurred by the prevailing party, including without limitation, reasonable attorneys' fees and court costs. Time is of the essence regarding this Lease and all of its provisions. Tenant shall not record this Lease or any memorandum hereof. TO THE MAXIMUM EXTENT PERMITTED BY LAW, LANDLORD AND TENANT EACH WAIVE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR WITH RESPECT TO THIS LEASE. Submission of this Lease to Tenant does not constitute an option or offer to lease and this Lease is not effective otherwise until execution and delivery by both Landlord and Tenant. This Lease may be executed in any number of counterparts, each of which shall be deemed an original. The covenants between Landlord and Tenant hereunder shall be construed as independent and not dependent. Time is of the essence as to the performance of each covenant hereunder in which time of performance is a factor.

22. Addenda/Additional Provisions.

22.1 Option to Renew. Tenant shall, provided this Lease is in full force and effect and Tenant is not in default under any of the terms and conditions of this Lease, have two (2) successive option(s) to renew this Lease for a term of two (2) years, for the Premises in "as is" condition and on the same terms and conditions set forth in this Lease, except as modified by the terms, covenants and conditions set forth below:

(a) If Tenant elects to exercise such option, then Tenant shall provide Landlord with written notice no earlier than the date which is fifteen (15) months prior to the expiration of the then current term of this Lease, but no later than 5:00 p.m. (Pacific Standard Time) on the date which is twelve (12) months prior to the expiration of the then current term of this Lease. If Tenant fails to provide such notice, Tenant shall have no further or additional right to extend or renew the Term of this Lease.

(b) The Base Rent for each option to renew this Lease shall be the Monthly Base Rent in effect at the expiration of the previous term increased annually by four percent (4%).

(c) Landlord shall have no obligation to provide or pay for any tenant improvements or brokerage commissions during any renewal term.

(d) Tenant's right to exercise any option(s) to renew under this Paragraph shall be conditioned upon Tenant occupying the entire Premises and the same not being occupied by any assignee, subtenant or licensee other than Tenant or its affiliate at the time of exercise of any option and commencement of the renewal term. Tenant's exercise of any option to renew shall constitute a representation by Tenant to Landlord that as of the date of exercise of the option and the commencement of the applicable renewal term, Tenant does not intend to seek to assign this Lease in whole or in part, or sublet all or any portion of the Premises.

(e) Any exercise by Tenant of any option to renew under this Paragraph shall be irrevocable. If requested by Landlord, Tenant agrees to execute a lease amendment or, at Landlord's option, a new lease agreement on Landlord's then standard lease form for the Building, reflecting the foregoing terms and conditions, prior to the commencement of the renewal term. The option(s) to renew granted under this Paragraph is/are not transferable; the parties hereto acknowledge and agree that they intend that each option to renew this Lease under this Paragraph shall be "personal" to the specific Tenant named in this Lease and that in no event will any assignee or sublessee, except Affiliates, have any rights to exercise such option(s) to renew.

22.2 Option to Terminate. Tenant shall have a one time right to terminate this Lease on the first day of the 37th month of the Term, provided all of the following conditions are met (which are for the sole benefit of Landlord):

(a) Tenant is not in default of this Lease and shall be current in all obligations of this Lease as of the effective date of the termination.

(b) Tenant gives Landlord no less than one hundred eighty (180) days prior written notice.

(c) Tenant delivers to Landlord Two Hundred Fifty Thousand Dollars ($250,000.00) with its written notice to terminate.

(d) All financial obligations of Tenant under this Lease, including but not limited to Base Rent, Operating Expenses, Additional Rent, alteration costs, fees, late charges and other charges payable under this Lease are paid through the effective date of termination or the date Tenant vacates the Premises as required hereunder, whichever is later.

(e) The Premises shall be vacated by Tenant in clean and sanitary condition and as otherwise required under Paragraph 18 of this Lease on or before the effective date of termination.

(f) Tenant shall still be obligated for reconciliation of Operating Expenses through the effective date of the termination or the date Tenant vacates the Premises as required hereunder, whichever is later.

(g) Landlord shall return to Tenant the sums currently held by Landlord as a Security Deposit or prepaid rent under this Lease upon payment to Landlord of all amounts owing to Landlord and satisfaction of other conditions to termination under this Paragraph 22.2.

From and after receipt by Landlord of Tenant's termination notice under clause b above, Landlord shall have full access to the Premises at all times to show the Premises to prospective tenants, provided Landlord gives reasonable notice.

22.3 Representation of the Parties. It is hereby acknowledged that both Landlord and Tenant are acting as principals and representing themselves with respect to this Lease. As such, no leasing commission will be due or payable by either party unless a party elects to have third party representation on its own accord, and therefore, would assume full responsibility for any resulting lease commissions.

22.4 Measurement of the Premises. Within thirty (30) days after the date on which Landlord's Base Building Work is substantially complete for Tenant Improvements construction, but in no event later than the Term Commencement Date, Landlord shall, at its sole cost, cause the Premises to be measured by a mutually acceptable and professionally qualified architect (other than Landlord's or Tenant's architect) licensed in the state of California. The rentable square feet of the Premises shall be based on a measurement according to the Building Owners and Managers Association. If the rentable square footage of the Premises is other than the stated rentable feet of the Premises in the Basic Lease Information, the Base Rent and Tenant's Proportionate Share shall correspondingly be adjusted, at the same rate per square foot as set forth in the Basic Lease Information. Similarly, the Tenant Improvement Allowance pursuant to Paragraph 4.2 of Exhibit C shall correspondingly be adjusted at the rate per square foot that is the Tenant Improvement Allowance divided by the useable square feet of the entire Premises. Any modification or adjustment to the rentable square feet of the Premises and any other terms of the Lease must be made and agreed to in writing by the parties within thirty (30) days after Landlord's receipt of architect's measurement. Failure on the part of the parties to agree within thirty (30) days or any dispute between Landlord and Tenant pertaining this Paragraph 22.4 shall be resolved by submitting to binding arbitration, conducted and determined in San Diego County according to the prevailing rules of the American Arbitration Association for arbitration of commercial disputes.

"Landlord"	"Tenant"
SPIEKER PROPERTIES, L.P., a California limited partnership,	ELECTRONIC ARTS INC., a Delaware corporation
By: Spieker Properties, Inc., a Maryland corporation, its general partner	
By: M. Ritschel --- Mitch J. Ritschel Vice President	By: Ruth A. Kennedy --- Its: Senior Vice President & General Counsel
Date: 9-21-99 ---	Date: 9/20/99 ---

EXHIBIT "A"

RULES AND REGULATIONS

1. Driveways, sidewalks, halls, passages, exits, entrances, elevators, escalators and stairways shall not be obstructed by tenants or used by tenants for any purpose other than for ingress to and egress from their respective premises. The driveways, sidewalks, halls, passages, exits, entrances, elevators and stairways are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building, the Project and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of such tenant's business unless such persons are engaged in illegal activities. No tenant, and no employees or invitees of any tenant, shall go upon the roof of any Building, except as authorized by Landlord. No tenant, and no employees or invitees of any tenant shall move any common area furniture without Landlord's consent.

2. No sign, placard, banner, picture, name, advertisement or notice, visible from the exterior of the Premises or the Building or the common areas of the Building shall be inscribed, painted, affixed, installed or otherwise displayed by Tenant either on its Premises or any part of the Building or Project without the prior written consent of Landlord in Landlord's sole and absolute discretion. Landlord shall have the right to remove any such sign, placard, banner, picture, name, advertisement, or notice without notice to and at the expense of Tenant, which were installed or displayed in violation of this rule. If Landlord shall have given such consent to Tenant at any time, whether before or after the execution of Tenant's Lease, such consent shall in no way operate as a waiver or release of any of the provisions hereof or of the Lease, and shall be deemed to relate only to the particular sign, placard, banner, picture, name, advertisement or notice so consented to by Landlord and shall not be construed as dispensing with the necessity of obtaining the specific written consent of Landlord with respect to any other such sign, placard, banner, picture, name, advertisement or notice.

All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person or vendor approved by Landlord and shall be removed by Tenant at the time of vacancy at Tenant's expense. All signage must conform with the City of Carlsbad and Carlsbad Ranch Specific Plan signage restrictions.

3. The directory of the Building or Project will be provided exclusively for the display of the name and location of tenants only for the use thereof and to exclude any other names therefrom.

4. No curtains, draperies, blinds, shutters, shades, screens or other coverings, awnings, hangings or decorations shall be attached to, hung or placed in, or used in connection with, any window or door on the Premises without the prior written consent of Landlord. In any event with the prior written consent of Landlord, all such items shall be installed inboard of Landlord's standard window covering and shall in no way be visible from the exterior of the Building. All electrical ceiling fixtures hung in offices or spaces along the perimeter of the Building must be fluorescent or of a quality, type, design, and bulb color approved by Landlord. No articles shall be placed or kept on the window sills so as to be visible from the exterior of the Building. No articles shall be placed against glass partitions or doors which Landlord considers unsightly from outside Tenant's Premises.

5. Landlord reserves the right to exclude from the Building and the Project, between the hours of 6 p.m. and 8 a.m. and at all hours on Saturdays, Sundays and legal holidays, all persons who are not tenants or their accompanied guests in the Building. Each tenant shall be responsible for all persons for whom it allows to enter the Building or the Project and shall be liable to Landlord for all acts of such persons.

Landlord and its agents shall not be liable for damages for any error concerning the admission to, or exclusion from, the Building or the Project of any person.

During the continuance of any invasion, mob, riot, public excitement or other circumstance rendering such action advisable in Landlord's opinion, Landlord reserves the right (but shall not be obligated) to prevent access to the Building and the Project during the continuance of that event by any means it considers appropriate for the safety of tenants and protection of the Building, property in the Building and the Project.

6. All cleaning and janitorial services for the Building and the Premises shall be provided exclusively through Landlord. Except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the same. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness of its Premises. Landlord shall in no way be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to Tenant's property by the janitor or any other employee or any other person.

7. Tenant shall see that all doors of its Premises are closed and securely locked and must observe strict care and caution that all water faucets or water apparatus, coffee pots or other heat-generating devices are entirely shut off before Tenant or its employees leave the Premises, and that all utilities shall likewise be carefully shut off, so as to prevent waste or damage. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or Project or by Landlord for noncompliance with this rule. On multiple-tenancy floors, all tenants shall keep the door or doors to the Building corridors closed at all times except for ingress and egress.

8. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord. As more specifically provided in Tenant's lease of the Premises, Tenant shall not waste electricity, water or air-conditioning and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning, and shall refrain from attempting to adjust any controls other

than room thermostats installed for Tenant's use.

9. Landlord will furnish Tenant free of charge with two keys to each door in the Premises. Landlord may make a reasonable charge for any additional keys, and Tenant shall not make or have made additional keys. Tenant shall not alter any lock or access device or install a new or additional lock or access device or bolt on any door of its Premises, without the prior written consent of Landlord. If Landlord shall give its consent, Tenant shall in each case furnish Landlord with a key for any such lock. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys for all doors which have been furnished to Tenant, and in the event of loss of any keys so furnished, shall pay Landlord therefor.

10. The restrooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown into them. The expense of any breakage, stoppage, or damage resulting from violation of this rule shall be borne by the tenant who, or whose employees or invitees, shall have caused the breakage, stoppage, or damage.

11. Tenant shall not use or keep in or on the Premises, the Building or the Project any kerosene, gasoline, or inflammable or combustible fluid or material.

12. Tenant shall not use, keep or permit to be used or kept in its Premises any foul or noxious gas or substance. Tenant shall not allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought or kept in or about the Premises, the Building, or the Project.

13. No cooking shall be done or permitted by any tenant on the Premises, except that use by the tenant of Underwriters' Laboratory (UL) approved equipment, refrigerators and microwave ovens may be used in the Premises for the preparation of coffee, tea, hot chocolate and similar beverages, storing and heating food for tenants and their employees shall be permitted. All uses must be in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations and the Lease.

14. Except with the prior written consent of Landlord, Tenant shall not sell, or permit the sale, at retail, of newspapers, magazines, periodicals, theater tickets or any other goods or merchandise in or on the Premises, nor shall Tenant carry on, or permit or allow any employee or other person to carry on, the business of stenography, typewriting or any similar business in or from the Premises for the service or accommodation of occupants of any other portion of the Building, nor shall the Premises be used for the storage of merchandise or for manufacturing of any kind, or the business of a public barber shop, beauty parlor, nor shall the Premises be used for any illegal, improper, immoral or objectionable purpose, or any business or activity other than that specifically provided for in such Tenant's Lease. Tenant shall not accept hairstyling, barbering, shoeshine, nail, massage or similar services in the Premises or common areas except as authorized by Landlord.

15. If Tenant requires telegraphic, telephonic, telecommunications, data processing, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions in their installation. The cost of purchasing, installation and maintenance of such services shall be borne solely by Tenant.

16. Landlord will direct electricians as to where and how telephone, telegraph and electrical wires are to be introduced or installed. No boring or cutting for wires will be allowed without the prior written consent of Landlord. The location of burglar alarms, telephones, call boxes and other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.

17. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or any other device on the exterior walls or the roof of the Building, without Landlord's consent. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building, the Project or elsewhere.

18. Tenant shall not mark, or drive nails, screws or drill into the partitions, woodwork or drywall or in any way deface the Premises or any part thereof without Landlord's consent except for purposes of hanging artwork. Tenant may install nails and screws in areas of the Premises that have been identified for those purposes to Landlord by Tenant at the time those walls or partitions were installed in the Premises. Tenant shall not lay linoleum, tile, carpet or any other floor covering so that the same shall be affixed to the floor of its Premises in any manner except as approved in writing by Landlord. The expense of repairing any damage resulting from a violation of this rule or the removal of any floor covering shall be borne by the tenant by whom, or by whose contractors, employees or invitees, the damage shall have been caused.

19. No furniture, freight, equipment, materials, supplies, packages, merchandise or other property will be received in the Building or carried up or down the elevators except between such hours and in such elevators as shall be designated by Landlord.

Tenant shall not place a load upon any floor of its Premises which exceeds the load per square foot which such floor was designed to carry or which is allowed by law. Landlord shall have the right to prescribe the weight, size and position of all safes, furniture or other heavy equipment brought into the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as determined by Landlord to be necessary to properly distribute the weight thereof. Landlord will not be responsible for loss of or damage to any such safe, equipment or property from any cause, and all damage done to the Building by moving or maintaining any such safe, equipment or other property shall be repaired at the expense of Tenant.

Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration. The persons employed to move such equipment in or out of the Building must be acceptable to Landlord.

20. Tenant shall not install, maintain or operate upon its Premises any vending machine without the written consent of Landlord, which shall not be unreasonably withheld.

21. There shall not be used in any space, or in the public areas of the Project either by Tenant or others, any hand trucks except those equipped with rubber tires and side guards or such other material handling equipment as Landlord may approve. Tenants using hand trucks shall be required to use the freight elevator, or such elevator as Landlord shall designate. No other vehicles of any kind shall be brought by Tenant into or kept in or about its Premises.

22. Each tenant shall store all its trash and garbage within the interior of the Premises. Tenant shall not place in the trash boxes or receptacles any personal trash or any material that may not or cannot be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the city, without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and elevators provided for such purposes and at such times as Landlord shall designate. If the Building has implemented a building-wide recycling program for tenants, Tenant shall use good faith efforts to participate in said program.

23. Canvassing, soliciting, distribution of handbills or any other written material and peddling in the Building and the Project are prohibited and each tenant shall cooperate to prevent the same. No tenant shall make room-to-room solicitation of business from other tenants in the Building or the Project, without the written consent of Landlord.

24. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building and the Project.

25. Landlord reserves the right to exclude or expel from the Project any person who, in Landlord's judgment, is under the influence of alcohol or drugs or who commits any act in violation of any of these Rules and Regulations.

26. Without the prior written consent of Landlord, Tenant shall not use the name of the Building or the Project or any photograph or other likeness of the Building or the Project in connection with, or in promoting or advertising, Tenant's business except that Tenant may include the Building's or Project's name in Tenant's address.

27. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

28. Tenant assumes responsibility for protecting its Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed.

29. The requirements of Tenant will be attended to only upon appropriate application at the office of the Building by an authorized individual. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no

employees of Landlord will admit any person (tenant or otherwise) to any office without specific instructions from Landlord.

30. Landlord reserves the right to designate the use of the parking spaces on the Project. Tenant or Tenant's guests shall park between designated parking lines only, and shall not occupy two parking spaces with one car. Parking spaces shall be for passenger vehicles only; no boats, trucks, trailers, recreational vehicles or other types of vehicles may be parked in the parking areas (except that trucks may be loaded and unloaded in designated loading areas). Vehicles in violation of the above shall be subject to tow-away, at vehicle owner's expense. Vehicles parked on the Project overnight without prior written consent of the Landlord shall be deemed abandoned and shall be subject to tow-away at vehicle owner's expense. No tenant of the Building shall park in visitor or reserved parking areas. Any tenant found parking in such designated visitor or reserved parking areas or unauthorized areas shall be subject to tow-away at vehicle owner's expense. The parking areas shall not be used to provide car wash, oil changes, detailing, automotive repair or other services unless otherwise approved or furnished by Landlord. Tenant will from time to time, upon the request of Landlord, supply Landlord with a list of license plate numbers of vehicles owned or operated by its employees or agents.

31. No smoking of any kind shall be permitted anywhere within the Building, including, without limitation, the Premises and those areas immediately adjacent to the entrances and exits to the Building, or any other area as Landlord elects. Smoking in the Project is only permitted in smoking areas identified by Landlord, which may be relocated from time to time.

32. If the Building furnishes common area conferences rooms for tenant usage, Landlord shall have the right to control each tenant's usage of the conference rooms, including limiting tenant usage so that the rooms are equally available to all tenants in the Building. Any common area amenities or facilities shall be provided from time to time at Landlord's discretion.

33. Tenant shall not swap or exchange building keys or cardkeys with other employees or tenants in the Building or the Project.

34. Tenant shall be responsible for the observance of all of the foregoing Rules and Regulations by Tenant's employees, agents, clients, customers, invitees and guests.

35. These Rules and Regulations are in addition to, and shall not be construed to in any way modify, alter or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Project.

36. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all tenants of the Building.

37. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and the Project and for the preservation of good order therein. Tenant agrees to abide by all such Rules and Regulations herein stated and any additional rules and regulations which are adopted.

38. Tenant acknowledges its potential participation in the ride share program, including flex work hours, as determined by the City of Carlsbad.

These Rules and Regulations are in addition to, and shall not be construed to in any way modify alter or amend, in whole or in part, the terms, covenants, agreements and conditions of any Lease of Premises in the Building.

EXHIBIT "B"

FLOOR PLAN

[GRAPHIC OMITTED]

SECOND FLOOR

EXHIBIT "C"

IMPROVEMENT AGREEMENT

This Lease Improvement Agreement ("Improvement Agreement") sets forth the terms and conditions relating to construction of the initial tenant improvements described in the Plans to be prepared and approved as provided below (the "Tenant Improvements") in the Premises. Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Lease (the "Lease") to which this Improvement Agreement is attached and forms a part.

1. Base Building Work. The "Base Building Work" described on Schedule 1 to this Exhibit C, has been performed by Landlord at Landlord's sole cost and expense. No amount of said cost and expense shall be deducted from the Tenant Improvement Allowance (defined in Paragraph 4.2 below).

2. Plans and Specifications.

2.1. Landlord shall retain the services of the space planner/architect designated by Landlord (the "Space Planner") to prepare a detailed space plan (the "Space Plan") mutually satisfactory to Landlord and Tenant for the construction of the Tenant Improvements in the Premises. Tenant shall approve or disapprove the Space Plan and any proposed revisions thereto in writing within three (3) business days after receipt thereof, which approval shall not be unreasonably withheld.

2.2. Based on the approved Space Plan, Landlord shall cause the Space Planner to prepare detailed plans, specifications and working drawings for the construction of the Tenant Improvements (the "Plans"). Landlord and Tenant shall diligently pursue the preparation of the Plans. Tenant shall approve or disapprove the Plans and any proposed revisions thereto, including the estimated cost of the Tenant Improvements, in writing within three (3) business days after receipt thereof. If Tenant fails to approve or disapprove the Space Plan or Plans or any revisions thereto within the time limits specified herein, Tenant shall be deemed to have approved the same. Landlord and Tenant shall use diligent efforts to cause the final Plans and the cost estimate to be prepared and approved no later than thirty (30) days after the execution of the Lease.

2.3. Notwithstanding Landlord's preparation, review and approval of the Space Plan and the Plans and any revisions thereto, Landlord shall have no responsibility or liability whatsoever for any errors or omissions contained in the Space Plan or Plans, or to verify dimensions or conditions, or for the quality, design or compliance with applicable Regulation of any improvements described therein or constructed in accordance therewith. Landlord hereby assigns to Tenant all warranties and guarantees by the Space Planner or the contractor who constructs the Tenant Improvements relating to the Tenant Improvements. In the event Tenant has claims against Landlord relating to, or arising out of the design or construction of, the Tenant Improvements, then Paragraph 10.4 of the Lease shall apply.

3. Specifications for Standard Tenant Improvements.

3.1. Specifications and quantities of standard building components which will comprise and be used in the construction of the Tenant Improvements ("Standards") are set forth in Schedule 2 to this Exhibit C. As used herein, "Standards" or "Building Standards" shall mean the standards for a particular item selected from time to time by Landlord for the Building, including those set forth on Schedule 2 of this Exhibit C, or such other standards of equal or better quality as may be mutually agreed between Landlord and Tenant in writing.

3.2. No deviations from the Standards are permitted, unless approved or denoted in the Plans.

4. Tenant Improvement Cost.

4.1. The cost of the Tenant Improvements shall, subject to Paragraph 4.2 below, be paid for by Tenant including, without limitation, the cost of: Standards; space plans and studies; architectural and engineering fees; permits, approvals and other governmental fees; labor, material, equipment and supplies; construction fees and other amounts payable to contractors or subcontractors; taxes; off-site improvements; remediation and preparation of the Premises for construction of the Tenant Improvements; taxes; filing and recording fees; premiums for insurance and bonds; financing costs; and all other costs expended or to be expended in the construction of the Tenant Improvements, including those costs incurred for construction of elements of the Tenant Improvements in the Premises, which construction was performed by Landlord prior to the execution of the Lease or for materials comprising the Tenant Improvements which were purchased by Landlord prior to the execution of the Lease; and an administration fee of five percent (5%) of the total cost of the Tenant Improvements.

4.2. Provided Tenant is not in default under the Lease, including this Improvement Agreement, Landlord shall contribute a one-time tenant improvement allowance not to exceed Thirty Dollars ($30.00) per useable square foot ($30.00 x approximately 8,702 usable square foot = $261,074.00) ("Tenant Improvement Allowance") to be credited by Landlord toward the cost of the initial Tenant Improvements. If the cost of the Tenant Improvements exceeds the Tenant Improvement Allowance, Tenant shall pay Landlord such excess cost within five (5) business days after Landlord's notice to Tenant of such excess cost. No credit shall be given to Tenant if the cost of the Tenant Improvements is less than the Tenant Improvement Allowance.

4.3. If the cost of the Tenant Improvements increases after the Tenant's approval of the Plans due to the requirements of any governmental agency or applicable Regulation or any other reason, Tenant shall pay Landlord the amount of such increase within five (5) business days after notice from Landlord of such increase.

4.4. If Tenant requests any change(s) in the Plans after approval of the estimate of the cost of the Tenant Improvements and any such requested changes are approved by Landlord in writing in Landlord's sole discretion, Landlord shall advise Tenant promptly of any cost increases and/or delays such approved change(s) will cause in the construction of the Tenant Improvements. Tenant shall approve or disapprove any or all such change(s) within three (3) business days after notice from Landlord of such cost increases and/or delays. To the extent Tenant disapproves any such cost increase and/or delay attributable thereto, Landlord shall have the right, in its sole discretion, to disapprove Tenant's request for any changes to the approved Plans. If the cost of the Tenant Improvements increases above the Tenant Improvement Allowance due to any changes in the Plan(s) requested by Tenant, Tenant shall pay Landlord the amount of such increase within ten (10) business days after notice from Landlord of such increase and Tenant's approval thereof in accordance with this Paragraph 4.4.

5. Construction of Tenant Improvements.

5.1. Upon Tenant's approval of the Plans including the estimate of the cost of the Tenant Improvements and Landlord's

receipt of payment of any such estimated cost exceeding the amount of the Tenant Improvement Allowance, Landlord shall cause its contractor to proceed to secure a building permit and commence construction of the Tenant Improvements provided that Tenant shall cooperate with Landlord in executing permit applications and performing other actions reasonably necessary to enable Landlord to obtain any required permits or certificates of occupancy; and provided further that the Building has in Landlord's discretion reached the stage of construction where it is appropriate to commence construction of the Tenant Improvements in the Premises.

5.2. Landlord shall not be liable for any direct or indirect damages suffered by Tenant as a result of delays in construction beyond Landlord's reasonable control, including, but not limited to, delays due to strikes or unavailability of materials or labor, or delays caused by Tenant (including delays by the Space Planner, the contractor or anyone else performing services on behalf of Landlord or Tenant).

5.3. If any work is to be performed on the Premises by Tenant or Tenant's contractor or agents:

(a) Such work shall proceed upon Landlord's written approval of Tenant's contractor, public liability and property damage insurance carried by Tenant's contractor, and detailed plans and specifications for such work, shall be at Tenant's sole cost and expense and shall further be subject to the provisions of Paragraphs 7 of the Lease.

(b) All work shall be done in conformity with a valid building permit when required, a copy of which shall be furnished to Landlord before such work is commenced, and in any case, all such work shall be performed in accordance with all applicable Regulations. Notwithstanding any failure by Landlord to object to any such work, Landlord shall have no responsibility for Tenant's failure to comply with all applicable Regulations.

(c) If required by Landlord or any lender of Landlord, all work by Tenant or Tenant's contractor or agents shall be done with union labor in accordance with all union labor agreements applicable to the trades being employed.

(d) All work by Tenant or Tenant's contractor or agents shall be scheduled through Landlord.

(e) Tenant or Tenant's contractor or agents shall arrange for necessary utility, hoisting and elevator service with Landlord's contractor and shall pay such reasonable charges for such services as may be charged by Tenant's or Landlord's contractor.

(f) Tenant's entry to the Premises for any purpose, including, without limitation, inspection or performance of Tenant construction by Tenant's agents, prior to the date Tenant's obligation to pay rent commences shall be subject to all the terms and conditions of the Lease except the payment of Rent. Tenant's entry shall mean entry by Tenant, its officers, contractors, licensees, agents, servants, employees, guests, invitees, or visitors.

(g) Tenant shall promptly reimburse Landlord upon demand for any reasonable expense actually incurred by the Landlord by reason of faulty work done by Tenant or its contractors or by reason of any delays caused by such work, or by reason of inadequate clean-up.

6. Completion and Rental Commencement Date.

6.1. Tenant's obligation to pay Rent under the Lease shall commence on the applicable date described in Paragraph 2 of the Lease. However:

(a) If Tenant delays in preparing or approving the Space Plans or the Plans, or fails to approve the estimate of the cost of the Tenant Improvements or any other matter requiring Tenant's approval, or to pay the excess cost of Tenant Improvements, in each case within the time limits specified herein; or

(b) If the construction period is extended because Tenant requests any changes in construction, or modifies the approved Plans or if the same do not comply with applicable Regulations; or

(c) If Landlord is otherwise delayed in the construction of the Tenant Improvements for any act or omission of or breach by Tenant or anyone performing services on behalf of Tenant or on account of any work performed on the Premises by Tenant or Tenant's contractors or agents, then the date described in Paragraph 2 of the Lease shall be deemed to be accelerated by the total number of days of Tenant delays described in (a) through (c) above (each, a "Tenant Delay"), calculated in accordance with the provisions of Paragraph 6.2 below.

6.2. If the Term of the Lease has not already commenced pursuant to the provisions of Paragraph 2 of the Lease and substantial completion of the Tenant Improvements has been delayed on account of any Tenant Delays, then upon actual substantial completion of the Tenant Improvements (as defined in Paragraph 2 of the Lease), Landlord shall notify Tenant in writing of the date substantial completion of the Tenant Improvements would have occurred but for such Tenant Delays, and such date shall thereafter be deemed to be the Term Commencement Date for all purposes under the Lease. Tenant shall pay to Landlord, within three (3) business days after receipt of such written notice (which notice shall include a summary of Tenant Delays), the per diem Base Rent times the number of days between the date the Term Commencement Date would have otherwise occurred but for the Tenant Delays (as determined by the Space Planner or Landlord's contractor), and the date of actual substantial completion of the Tenant Improvements.

6.3. Promptly after substantial completion of the Tenant Improvements, Landlord shall give notice to Tenant and Tenant shall conduct an

inspection of the Premises with a representative of Landlord and develop with such representative of Landlord a punchlist of items of the Tenant Improvements that are not complete or that require corrections. Upon receipt of such punchlist, Landlord shall proceed diligently to remedy such items at Landlord's cost and expense provided such items are part of the Tenant Improvements to be constructed by Landlord hereunder and are otherwise consistent with Landlord's obligations under this Improvement Agreement and provided Tenant has fully paid Landlord for the cost of the Tenant Improvements exceeding the Tenant Improvement Allowance (with any dispute between Landlord and Tenant pertaining thereto to be resolved by the Space Planner or Landlord's general contractor). Substantial completion shall not be delayed notwithstanding delivery of any such punchlist.

6.4. A default under this Improvement Agreement shall constitute a default under the Lease, and the parties shall be entitled to all rights and remedies under the Lease in the event of a default hereunder by the other party (notwithstanding that the Term thereof has not commenced).

SCHEDULE 1
TO EXHIBIT C

BASE BUILDING WORK

Spieker Properties to provide within the "warm shell" the following:

Building Core

1. Lobbies installed with Mirabella limestone and slate stone flooring, carpet, maple wood cased columns and doors. Drywall finished, taped, with painted surface and wallcovering.

2. Restrooms (all floors) finished with ceramic tile flooring, 4" x 4" ceramic tile on walls.

3. Stainless steel sinks with granite vanity, ceiling hung stainless steel restroom partitions. Hot and cold water.

4. Two painted and lit emergency exit stairwells.

5. Electrical, telephone, janitorial and mechanical rooms with doors.

6. Water source heat pump HVAC system with central tower provided for full building; distribution to Tenant Improvement and heat pump units are part of Tenant Improvement build-out costs. Johnson Controls direct digital control energy management system of HVAC and lighting.

7. Fire sprinklers installed and operational in core and stubbed in tenant spaces.

8. Fire extinguishers and exit signs in exit stairwells and corridors.

9. Two (2) passenger elevators (3,500 lb. capacity) installed and operational with carpeted floor, wood, glass and brushed stainless accents.

Building Shell

1. Curtain wall and exterior windows installed and sealed.

2. Dual panel window system at all south and west elevations.

3. Insulation for shell energy requirements under Title 24.

4. Column and exposed core walls clad with drywall, taped and sanded.

5. Concrete floors - live load of 80lbs/ft and 20 lbs/ft partition loads, dead loads of 50 lbs/ft.

6. Access to main phone and electrical service on first floor.

7. Entrance doors installed with electronic pass card system.

Above Standard Improvements (including, but not limited to the following):

1. Wall finishes, window coverings, ceilings, lighting, fire sprinklers, doors, frames, hardware for non-base building areas.

2. Additional exit doors.

3. Specialty computer rooms, labs, etc.

4. Additional electrical transformers.

5. Extra HVAC units for above standard offices uses.

6. Exhaust systems if needed.

7. Emergency generators.

8. Fire extinguishers beyond base shell.

9. Exit signs beyond base shell.

10. Telephone and data line distribution.

11. Signage.

Note: The above is a summary of the detailed plans and specifications prepared by Brian Paul & Associates, which in the event of a conflict, the Brian Paul documentation shall control.

SCHEDULE 2
TO EXHIBIT C

BUILDING STANDARDS

The following constitutes the Building Standard tenant improvements ("Standards"):

PARTITIONS

DEMISING PARTITION

New demising partition to be constructed with 3 5/8" x 25 gauge metal studs staggered at 24" O.C. typical. Partition to extend full height from floor to underside of structure above. Provide 5/8" gypsum wallboard on each side of studs. Wallboard shall be taped and finished with joint compound. The final finish shall be a smooth finish. The stud cavity shall be filled with R-11 insulation.

INTERIOR PARTITIONS

New interior partitions to be constructed with 2 1/2" x 25 gauge metal studs at 24" O.C. Provide 5/8" gypsum wallboard placed on each side of studs. The final finish shall be a smooth finish. Partition is to extend to the underside of the suspended ceiling. Provide kickers to structure above.

ONE HOUR PARTITION

New One Hour partition to be constructed with 3 5/8" x 25 gauge metal studs staggered at 24" O.C. typical. Partition to extend full height from floor to underside of structure above. Provide 5/8" type "X" gypsum wallboard on each side of studs. Wallboard shall be taped and finished with joint compound. The final finish shall be a smooth finish. The stud cavity shall be filled with R-11 insulation.

WOOD DOORS AND FRAMES

SUITE ENTRY DOORS

Suite entry doors are to be 20 minute rated, 1 3/4" x 3' x 8' solid core, stain grade maple.

INTERIOR DOORS

Doors to be 1-3/4" x 3' x 8'10" solid core, stain grade maple with edge banding. Finish with clear polyurethane.

DOOR FRAMES

Interior suite door frames shall be extruded aluminum alloy 6063-T5, standard as manufactured by "AAF-Advanced Architectural Frames," with snap on casing sections. Prepunch frame for factory installed 14 ga. Butt reinforcement, door strike, and closer hardware. Prefinished frame color to be: Commercial Clear.

Rated doors and frames shall have a 20 minute, 45 minute, or 90 minute label rating for smoke and fire resistance which meets the requirements established by the Underwriters laboratory. Include smoke seals at all rated doors. Frame shall be extruded aluminum alloy 6063-T5, standard as manufactured by "AAF-Advanced Architectural Frames". Prepunch frame for door strike, butts and closer hardware prefinish frame. Finish to be:
Commercial Clear.

FINISH HARDWARE

SUITE ENTRY

For 8' doors:

2 pair butt hinges, 4 1/2" x 4 1/2" Finish: stainless steel.

One office entry lock set Yale, #color: #626 satin chromium plated.

One closer per door, Norton #8301 slim style cover with adjustable delayed action closer, Finish: aluminum.

One wall bumper per door: Glynn-Johnson #50C, Finish: US-26D, chromium plated dull.

INTERIOR DOORS

1 1/2 pair butt hinges 4 1/2" x 4 1/2" stainless steel. One each latchset

One each passage set Yale, color: #626 satin chromium plated.

Or

One each office Yale, lockset, color: #626 satin chromium plated.

One wall bumper per door: Glynn-Johnson #50C, Finish: US-26D, chromium plated dull.

CEILINGS

ACOUSTICAL CEILINGS

Ceilings shall be 24" x 24" Armstrong "Ultima". Color: #1912, with suprafine 9/16s grid. Color: white.

GYPSUM BOARD CEILINGS

Gypsum board ceilings shall have 5/8" gypsum board on 25 gauge metal studs at 16" O.C. Wallboard shall be taped and finished with joint compound. The final finish shall be smooth.

LIGHTING FIXTURES

Light fixtures shall be 24" x 24" fluorescent lay-in fixtures with three 34-watt energy miser cool white deluxe lamps (CWX). Provide Lithonia with deep cell parabolic lens.

ELECTRICAL SWITCHES AND OUTLET COVERPLATES

Electrical coverplates shall be Decora Leviton #5325, Color: white.

Light switches shall be Decora Leviton #5601, Color: white.

One (1) telephone outlet with pull string only per office or workstation.

FINISHES

CARPET

Carpet shall be Designweave "Trieste #997 28 oz, glue down installation.

VINYL COMPOSITION TILE

Vinyl composition tile shall be Azrock "Cortina" 12" x 12".

BASE

Base with carpet or sheet vinyl shall be 4" Johnsonite rubber top set base.

PAINT

All walls shall receive (2) coats of Frazee "Lo-glo", Latex Lo sheen enamel.

WINDOW TREATMENT-ALL EXTERIOR WINDOWS

Bali Aluminum 1" Mini Blinds, Color: #329 Granite Pearl.

EXHIBIT "D"

TENANT'S INSURANCE

Tenant shall, at Tenant's sole cost and expense, procure and keep in effect from the date of this Lease and at all times until the end of the Term, the following insurance coverage:

1. Property Insurance. Insurance on all personal property and fixtures of Tenant and all improvements made by or for Tenant to the Premises on an "All Risk" or "Special Form" basis, for the full replacement value of such property. Such insurance shall be endorsed to name Landlord, any Holder of a Security Instrument and any other party specified by Landlord as a loss payee.

2. Liability Insurance. Commercial General Liability insurance written on an ISO CG 00 01 10 93 or equivalent form, on an occurrence basis, with a per occurrence limit of at least $2,000,000, and a minimum general aggregate limit of at least $3,000,000, covering bodily injury and property damage liability occurring in or about the Premises or arising out of the use and occupancy of the Premises or the Project by Tenant or any Tenant Party. Such insurance shall include contractual liability coverage insuring Tenant's indemnity obligations under this Lease, and shall be endorsed to name Landlord, any Holder of a Security Instrument and any other party specified by Landlord as an additional insured with regard to liability arising out of the ownership, maintenance or use of the Premises.

3. Worker's Compensation and Employer's Liability Insurance. (a) Worker's Compensation Insurance as required by any Regulation, and (b) Employer's Liability Insurance in amounts not less than $1,000,000 each accident for bodily injury by accident and for bodily injury by disease, and for each employee for bodily injury by disease.

4. Commercial Auto Liability Insurance. Commercial auto liability insurance with a combined limit of not less than One Million Dollars ($1,000,000) for bodily injury and property damage for each accident. Such insurance shall cover liability relating to any auto (including owned, hired and non-owned autos).

5. Alterations Requirements. In the event Tenant shall desire to perform any Alterations, Tenant shall deliver to Landlord, prior to commencing such Alterations (i) evidence satisfactory to Landlord that Tenant carries "Builder's Risk" insurance covering construction of such Alterations in an amount and form approved by Landlord, (ii) such other insurance as Landlord shall nondiscriminatorily require, and (iii) a lien and completion bond or other security in form and amount satisfactory to Landlord.

6. General Insurance Requirements. All coverages described in this Exhibit D shall be endorsed to (i) provide Landlord with thirty (30) days' notice of cancellation or change in terms; (ii) waive all rights of subrogation by the insurance carrier against Landlord; and (iii) be primary and non-contributing with Landlord's insurance. If at any time during the Term the amount or coverage of insurance which Tenant is required to carry under this Exhibit D is, in Landlord's reasonable judgment, materially less than the amount or type of insurance coverage typically carried by owners or tenants of properties located in the general area in which the Premises are located which are similar to and operated for similar purposes as the Premises or if Tenant's use of the Premises should change with or without Landlord's consent, Landlord shall have the right to require Tenant to increase the amount or change the types of insurance coverage required under this Exhibit D. All insurance policies required to be carried by Tenant under this Lease shall be written by companies rated AVII or better in "Best's Insurance Guide" and authorized to do business in the State of California. Deductible amounts under all insurance policies required to be carried by Tenant under this Lease shall not exceed $10,000 per occurrence. Tenant shall deliver to Landlord on or before the Term Commencement Date, and thereafter at least thirty (30) days before the expiration dates of the expired policies, certified copies of Tenant's insurance policies, or a certificate evidencing the same issued by the insurer thereunder, and, if Tenant shall fail to procure such insurance, or to deliver such policies or certificates, Landlord may, at Landlord's option and in addition to Landlord's other remedies in the event of a default by Tenant under the Lease, procure the same for the account of Tenant, and the cost thereof (with interest thereon at the Default Rate) shall be paid to Landlord as additional rent.

ARTICLE 5

CIK: 0000712515

NAME: Electronic Arts Inc.

MULTIPLIER: 1,000

CURRENCY: USD

PERIOD TYPE	6 MOS
FISCAL YEAR END	MAR 31 2000
PERIOD START	APR 01 1999
PERIOD END	SEP 30 1999
EXCHANGE RATE	1.000
CASH	224,344
SECURITIES	6,097
RECEIVABLES	330,516
ALLOWANCES	64,767
INVENTORY	23,878
CURRENT ASSETS	635,397
PP&E	320,820
DEPRECIATION	105,141
TOTAL ASSETS	1,003,610
CURRENT LIABILITIES	260,690
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	630
OTHER SE	739,111
TOTAL LIABILITY AND EQUITY	1,003,610
SALES	525,007
TOTAL REVENUES	525,007
CGS	261,569
TOTAL COSTS	261,569
OTHER EXPENSES	240,590
LOSS PROVISION	2,140
INTEREST EXPENSE	0
INCOME PRETAX	30,119
INCOME TAX	9,638
INCOME CONTINUING	20,481
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	20,458
EPS BASIC	0.33
EPS DILUTED	0.32

End of Filing

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