



**Electronic Arts  
Second Quarter Fiscal Year 2010  
Earnings Call  
Prepared Comments  
November 9, 2009**

**Mary Vegh:**

Welcome to our second quarter fiscal 2010 earnings call.

Today on the call we have

- John Riccitiello, our Chief Executive Officer
- Eric Brown, our Chief Financial Officer
- John Schappert, our Chief Operating Officer and
- Frank Gibeau, President of the EA Games Label

Before we begin, I'd like to remind you that you may find copies of our SEC filings, our earnings release and a replay of this webcast on our web site at [investor.ea.com](http://investor.ea.com). Shortly after the call we will post a copy of our prepared remarks on our website.

Throughout this call, we will present both GAAP and non-GAAP financial measures. Our earnings release provides a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from – a substitute for – or superior to – our GAAP results – and we encourage investors to consider all measures before making an investment decision. All comparisons made in the course of this call are against the same period for the prior year – unless otherwise stated.

Please see the supplemental information on our website for our trailing twelve month segment shares, additional GAAP to non-GAAP reconciliations, a summary of our FY10 financial guidance, and our title slate.

During the course of this call – we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you that actual events and results may differ materially. We refer you to our most recent Form 10-Q for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of November 9, 2009 and disclaim any duty to update them.

Now, I would like to turn the call over to John.

**John Riccitiello:**

Thank you, Mary.

Earlier today, EA announced strong Q2 FY10 results. Our non-GAAP revenue for the quarter was a record for Q2, and we delivered our largest quarter for digital direct revenues in EA's history. Our Q2 revenues exceeded street expectations. In a sector that has struggled for growth in recent quarters, our non-GAAP net revenue is up 13% fiscal year-to-date. So far this fiscal year, EA has out-performed on share in a down retail market.

EA is performing. We attribute this to strong execution and great product quality. Our aggregate packaged goods share is up four percentage points in the first half of the fiscal year in North America and Europe. In both Europe and North America, EA was the number one overall publisher in the quarter -- number one on the PS3, Xbox 360, and PC -- number two to Nintendo on the Wii. We have improved marketing, and we are seeing continued growth in digital revenue streams. We are aggressively managing costs.

Although we performed well in the first half of this year, we are cautious on the second half of the year. Industry packaged goods software sales are down approximately 12% year-to-date. We believe October was another down month. Retailers remain cautious and report that foot traffic remains slow. In a tough economy, the consumer is not showing up at retail as consistently as we would like. EA's P&L is highly dependent on Q3 and Q4. FX, while positive for our revenue reporting does not fall through to our operating margins. Taking these considerations into account, we have decided to add a bottom range to our guidance. While we have not given up on our \$1.00 EPS target, we believe it is prudent to guide to FY10 non-GAAP revenue between \$4.2 and \$4.4 billion and non-GAAP EPS to be between \$0.70 and \$1.00.

Looking more closely at the industry, we see a tale of two sub-sectors. The various digital sectors are performing very well. The packaged goods sector is under pressure. Retail data services do not tell the full story. For the global industry, including online and mobile, we expect growth in 2009 -- with gains on the digital side more than offsetting temporary weakness in the packaged goods sub-sector.

Calendar year-to-date, packaged goods software sales are down 12% in North America and we estimate minus 13% in Europe. While the recent hardware price reductions are driving higher console sales, the improvement is not enough to get the industry back to flat software sales for the calendar year. We now expect packaged goods software to be down mid-to-high single digits in North America and Europe combined. This is well below our initial expectations for the year.

We do not believe the calendar 09 packaged goods weakness is a permanent condition. Two factors give us confidence. We believe there is still room on the console price points. In the last cycle, the bulk of console sales occurred at \$149

or below. Secondly, the console add-ons coming in 2010 will bring new consumers to the market. These factors will drive growth and extend this cycle.

EA's definition of the game industry also includes digital businesses such as mobile, micro-transactions, subscription and advertising. As recently as five years ago, we estimated that digital was less than 10% of the global industry. Today, we estimate digital is 35% of the total.

Our sense is that the various digital businesses will grow at 20% or higher this year and for the next several years.

When we combine digital growth and the packaged goods business, we expect that the total sector will grow in 2009 and the years beyond. Given our longstanding view on the evolution of our industry, EA continues to transform itself from being nearly entirely packaged goods dependent to being a leading player on the digital direct side of the industry.

I'd now like to turn to two bold steps we are taking toward that transformation. The first is a targeted cost reduction which will allow greater investment in our hit titles and digital businesses. The second is our acquisition of social gaming leader, Playfish.

This year, we have had success putting more resources behind fewer packaged goods titles. We've decided to narrow our title slate further in preparation for FY11. We are implementing a thoughtful, targeted action that will reduce titles, close several facilities and decrease headcount by approximately 1,500 positions, of which 1,300 will be included in a restructuring plan.

Laying off employees and closing facilities is never pleasant – we have a lot of compassion for those impacted – but these cuts are essential for transforming our company. Our operating expenses will be reduced by at least \$100 million compared to our current run rate.

Second, our acquisition of Playfish, which is an exciting and fast growing company focused on the social games area. They have the number two position on Facebook and have built a reputation for making the best games among competitors in the space. Their management team is strong and will assume leadership for EA's global push into social games. We see it this way – Playfish will continue to be Playfish, but they will have the added benefit of EA's powerful IP and access to EA resources globally.

Two bold steps.

- The first -- a narrowing of focus and cost reduction to enable investment in hits and digital.
- The second-- a strategic M&A investment on the digital direct side.

EA is playing offense -- positioning ourselves for the future.

With that, I will turn it over to Eric.

**Eric Brown:**

Thank you, John.

For Q2, we delivered non-GAAP net revenue of \$1.147 billion and non-GAAP diluted earnings per share of \$0.06. We came in slightly better than we expected on the bottom line, with lower costs driving the upside. In a down quarter for the packaged-goods sector, EA's revenues were up year-over-year and ahead of street expectations.

Our non-GAAP net revenue was a record for Q2 – driven by FIFA 10, Madden NFL 10, The Beatles Rock Band and Need for Speed SHIFT - all selling north of 2 million copies in the quarter.

On a GAAP basis, net revenue was \$788 million and GAAP diluted loss per share was \$1.21.

EA's segment share has risen this fiscal year-to-date:

- Across all platforms, our packaged goods business has 21% share in North America and Europe combined – up four points year-over-year.
- Excluding distribution, we picked up four points of share year-over-year in North America.

In our digital businesses, we achieved an all time record quarter with \$138 million in non-GAAP net revenue – up 23% year-over-year, driven by Battlefield 1943.

- Subscription revenue was \$32 million.
- Wireless revenue was \$50 million – up 9% from a year ago primarily due to revenue generated on the iPhone.

I will now review Q2 in more detail. Please note that all of the following references to Q2 results are non-GAAP, unless otherwise stated.

**Non-GAAP net revenue was \$1.147 billion** – up 2% year-over-year, driven by the growth in digital revenue. At constant currency rates, net revenue increased 6%.

- Frontline non-GAAP net revenue was \$609 million – flat with the prior year.
- For the first half of the fiscal year, our revenue was up 13% year-over-year.

**Moving to the rest of the income statement.**

- Non-GAAP gross profit margin was 48.4% vs. 50.9% a year ago – down as expected due to less wholly owned IP revenue and more distribution revenue from The Beatles Rock Band.

**Operating expenses.**

- Non-GAAP operating expenses were \$536 million – down \$72 million or 12% year-over-year.

We ended the quarter with 8,828 employees vs. 9,671 a year ago. Twenty-one percent of our employees are now located in low cost locations.

Non-GAAP operating income was \$19 million vs. an operating loss of \$35 million a year ago.

**Below the operating income line.**

- Non-GAAP other income and expense was positive \$7 million – consistent with a year ago. Currency gains partially offset lower interest income year-over-year.
- On a GAAP basis, we recorded a tax benefit of \$27 million, primarily due to a reduction in our deferred tax valuation allowance related to the purchase of our headquarter facilities. We haven't recorded any other net benefits for U.S. deferred tax benefits due to the valuation allowance.
- On a non-GAAP basis, we reported taxes at 28%.

**GAAP diluted loss per share was \$1.21** vs. a diluted loss per share of \$0.97 a year ago. The increase in GAAP loss per share year-over-year was primarily the result of higher deferred revenue associated with the deferral of Xbox 360 revenues starting in FY10.

**Non-GAAP diluted earnings per share was \$0.06** vs. a diluted loss per share of \$0.06 a year ago.

In Q2, we generated \$6 million of operating cash flow versus an outflow of \$124 million a year ago. In the first half of FY10, our operating cash flow improved by \$93 million versus last year.

**Turning to the Balance Sheet.**

**Cash and short term investments** were approximately \$1.6 billion at quarter end – down approximately \$200 million from last quarter primarily due to the purchase of our corporate headquarters at the expiration of the synthetic lease.

**Marketable equity securities** were \$387 million – down \$53 million from last quarter primarily due to a decline in the value of our UbiSoft investment. At quarter-end, we had \$241 million of net unrealized gains.

**Gross accounts receivable** were \$840 million – up \$125 million from last year, or 17% due to the timing of our release schedule.

**Reserves against outstanding receivables** totaled \$194 million – up \$26 million from a year ago. Reserve levels were 10% of trailing six month non-GAAP revenue – up 1% from a year ago. As a percentage of trailing nine month non-GAAP revenue – reserves were 8% – up two points from last year.

**Inventory** was \$250 million – down \$78 million from a year ago.

**Ending deferred net revenue from packaged goods and digital content** was \$792 million – up \$368 million from a year ago due to the additional deferral for all console and PC on-line enabled games.

### **Now for our Outlook and Guidance**

First, I would like to provide more detail on the cost reduction program. These changes will make us more efficient in our core packaged goods business while allowing us to focus investment on our key titles and to expand our digital direct initiatives.

We expect this program will reduce our current annualized expense run rate by at least \$100 million. We are eliminating a total of approximately 900 positions in development; 500 in publishing and label support and 100 in corporate functions.

### **Now for guidance:**

#### **Revenue**

- On a GAAP basis, we expect revenue of \$3.6 to \$3.9 billion.
- On a non-GAAP basis, we expect revenue of \$4.2 to \$4.4 billion. We expect an increase to full year revenue of at least \$100 million due to changes in FX versus our original FY10 assumptions. This increase is more than offset by the sector softness in packaged goods, particularly the Wii and NDS platform. As noted earlier, we expect packaged goods to be down mid-to-high single digits for the calendar year.
- While we have added a bottom end to our revenue guidance, we expect that our digital revenue will be up year-over-year. We also expect that our distribution revenue mix will be up versus what we thought last quarter.

#### **Gross Margins**

- We expect GAAP gross profit margins of approximately 49.5% to 52% and non-GAAP gross profit margins of approximately 57% to 58%.

#### **Operating Expenses**

- We expect GAAP operating expenses to be approximately \$2.5 billion and non-GAAP operating expenses of approximately \$2.1 billion. Operating expenses are being reduced as a result of our cost containment but increasing as a result of the weaker USD.

#### **Below the Line**

- We expect GAAP diluted loss per share of \$1.20 to \$2.05.
- We expect non-GAAP EPS of \$0.70 to \$1.00.
- We expect that non-GAAP other income and expense will be approximately \$15 million.
- On taxes, we expect a GAAP tax benefit of approximately \$30 - 40 million for the year. On a non-GAAP basis, we expect to report taxes at 28%.

- For share count, please use 324 million shares to compute the GAAP loss per share and 326 million shares to compute non-GAAP EPS.

I would also like to emphasize a point we made when we first provided guidance for FY10. We made a purposeful decision to manage the quarters differently than in prior years and planned titles outside of Q3 in favor of Q2 and Q4. The result so far has been to deliver the highest second quarter revenue in EA's history, even in a down market. As we look forward to the second half of the year, we have strong emphasis on Q4 with plans to release several major titles including Mass Effect 2, Dante's Inferno, Battlefield Bad Company 2, and Army of 2 The 40<sup>th</sup> day. This will result in substantially more revenue in Q4 compared to prior years. Of our remaining fiscal year revenues we expect roughly 60% to fall in Q3 and 40% to fall in Q4.

**This guidance does not reflect the Playfish acquisition.**

The FY10 non-GAAP EPS impact of the Playfish acquisition is essentially neutral; there will be a dilutive GAAP EPS impact in FY10 of approximately \$0.15 to \$0.25 per share.

In FY11, Playfish will be non-GAAP EPS accretive to EA. The total transaction size consists of approximately \$275 million upfront cash plus:

- Approximately \$25 million in retention equity for the Playfish employees. And up to \$100 million earn-out over next 2 years based on the achievement of certain performance milestones.

Playfish will operate as a standalone unit and will lead EA's worldwide efforts in social gaming, combining EA IP with the high quality IP that Playfish has built and deployed to date.

This concludes our guidance and outlook commentary.

With that – I'll turn the call over to our Chief Operating Officer John Schappert.

## **John Schappert**

Thanks Eric.

As John said, EA is performing well.

Two years ago, EA put a stake in the ground and promised consumers that product quality would improve. Calendar year-to-date, we have shipped 17 titles rated 80 or higher, versus 13 a year ago at this time, and 5 two years ago. No other game company can match our track record for quality. Let me also note that none of our major titles have slipped their ship dates this fiscal year.

We also vowed to improve marketing execution – great quality, long marketing ramps and big campaigns create blockbusters. In Q2, we saw that strategy pay out:

- **FIFA 10** – We shipped this game the last week of the quarter in Europe, selling 4.5 million copies. The sell through at retail in Europe is 31% ahead of last year's FIFA 09 on a comparable period basis and we are outselling Pro Evolution Soccer 4 to 1. FIFA has the highest quality rating for a sports game on this generation of consoles and is EA's biggest European launch in history.
- **Madden NFL 10** – We sold 3.9 million copies in the quarter. After a disappointing August that had Madden down 19%, sell through in September grew 8% year-over-year, with more than 60% growth on the PS3 according to NPD. Madden sales are now up 5% year-over-year on the Xbox 360 and PS3 combined.
- **Need for Speed SHIFT** – We sold over 2.5 million copies on consoles in the quarter.
- And **Dragon Age Origins** -- last week we launched **Dragon Age Origins** with a great campaign backed by robust downloadable content. The early read on sell through is strong.

Next, we set a goal to improve our share on the Wii platform....

- Fiscal Year To Date, EA is the #1 independent publisher on the Wii with share of 21% in North America and we estimate 14% in Europe – up 8 and 10 points, respectively. Our non-GAAP Wii revenue is up 50% year-over-year. While we have hit our share goal for the Wii business, revenue is well below expectations due to underperformance of the Wii platform.

EA also set aggressive goals for growing our digital business.

- In Q2, our digital revenue was up 23% year-over-year, driven by innovative hit titles like Battlefield 1943 – a digitally distributed game for Xbox LIVE Arcade and PlayStation Network, as well as strong performances from EA Mobile, Pogo and ad sales.

- EA Mobile has 7 of the top 10 games on the iPhone and 8 of the top 10 games on Verizon. EA Mobile continues to be the #1 global publisher of mobile games.
- Pogo posted growth -- revenue, registrations and subscriptions were all up versus last year.
- Ad sales were up almost 10% in Q2 and almost 15% fiscal year-to-date – great performance from our ad sales team in a challenging advertising market.

The digital business is very complementary to our packaged goods business. Digital downloads allow us to sell additional content to players and keep our titles fresh at retail. In short, downloads extend the life and profitability of our disc based games. In addition, we're seeing success in mobile with many of the same properties that are working in packaged goods, which helps us leverage IP and marketing budgets.

Our final goal was to aggressively manage cost. We have been successful to date and have recently taken further measures to improve our operating leverage in the future.

We can't control the economy, but on the things we can control – on cost...on quality and marketing...on the Wii and digital -- on the goals we defined at the start of our fiscal year.....EA is performing well.

I would now like to touch on Playfish.

- Playfish is one of the leaders in the social gaming space with a terrific team and great games.
- They have 3 of the top games on Facebook with “Pet Society,” “Restaurant City,” and the recently-launched “Country Story.” They have 10 Facebook titles in total with over 60 million Monthly Active Users -- up over 96% from June.
- The team will join EA Interactive, our group that is focused on games for the web and mobile platforms.

We're excited to welcome Playfish to the EA family.

And, with that I will now turn the call over to EA Games Label President Frank Gibeau.

***Frank Gibeau:***

Thanks, John. Good afternoon. Today I'll provide a quick update on the progress we are making in the EA Games Label and an overview of our plans for the second half of the year.

Q3 and Q4 is where the EA Games Label will deliver its biggest games of the year. All of our titles are going to be high quality and are tracking on-time.

Now I would like to walk you through the key components of our plan.

**First, we are revitalizing our blockbusters.**

- Need for Speed is one of EA's most powerful and globally recognized franchises. But in recent years, we failed to put adequate resources behind this franchise and as a result, quality suffered. I'm happy to say we fixed that.
- This year's game – Need for Speed Shift – launched six weeks earlier and posted a quality rating 22 points higher. We have already shipped 2.5M units in the quarter. In September it was #1 in Europe and in the top ten in North America. Next year's Need For Speed has been under-development now for some time at our award-winning Criterion Studio.
- In the months ahead, you will hear more about our plans to revitalize core IP including the Medal of Honor franchise.

**Second, we are expanding into new genres.**

EA has never been a player in RPG's – but now Bioware is set to launch three of the most anticipated games in that genre.

- Dragon Age Origins -- our new fantasy RPG blockbuster – was just launched last week. The review scores are averaging 90 and initial sell through is strong. The game also has a very ambitious downloadable content plan for keeping players engaged long after release.
- Mass Effect II is the stunning sequel to one of the most critically acclaimed games of 2007, and is coming out in Q4. We expect this one to be rewarded with very high quality scores and benefit from built-in audience appeal.
- In addition to the two RPGs in this fiscal year, Bioware is collaborating with Lucas Arts on the development of an epic MMO in the Star Wars universe: Star Wars: The Old Republic.

We couldn't be happier with the vision and commitment to quality at our BioWare Studio – they are simply best in class.

**Third, we continue to deliver the hits through the EA Partners division.**

This group combines EA's global publishing reach with the best of the best independent studios. Two launches will be top of mind with consumers this holiday.

- With **Left4Dead2**, Valve has created what critics say is one of the hottest games of the year. Pre-orders are tracking 3X higher than last year for this extraordinarily innovative single-player and multi-player online experience releasing on November 17.
- Also, from our partners at MTV Games and Harmonix, comes **The Beatles Rock Band** – a music game with incredibly broad appeal. According to NPD, The Beatles Rock Band has outsold Guitar Hero 5 by 2x in revenue. We are extremely pleased with the results so far and are excited about the upcoming holiday for this mass appeal title.

**And finally, we are launching three strong titles based on original EA IP.**

- **Army of Two – The 40<sup>th</sup> Day** – from EA Montreal –is the sequel to the multi-million unit seller of 2008. It is set to release this January with a big jump in quality and innovative new ways to play co-op in a shooter.
- In February, we will release a brand new IP from our Visceral Studio – **Dante’s Inferno**. An epic story about a hero’s descent into Hell to save his beloved wife, this M-rated Action game is receiving great critical reception and is finishing very strong.
- Earlier this year, our DICE Studio released Battlefield 1943, a console downloadable game that became the best selling Xbox Live Arcade and PlayStation Network game ever. In March, DICE will release **Battlefield Bad Company 2** with all new destructible environments, expanded vehicle combat, and deep new online play with dedicated server support. We believe this will put Battlefield in head to head competition with Call of Duty for quality and online game play.

Revitalizing blockbusters. New genres with BioWare. New titles from EA Partners. And great original IP. All are tracking to be very high quality and just as importantly... on time. EA Games is performing well.

## **JOHN RICCIHELLO**

Thanks Frank.

In summary, EA had a strong quarter. Our title slate for the second half is on track, and we’re taking the right steps now to set ourselves up for the future.

We remain cautious in our outlook over the next few quarters. We’re making the tough, but right calls on costs, enabling us to invest in our hits and digital growth. We’re delivering products that reviewers and consumers alike recognize for their quality. I am proud of our teams. They are executing well.

With that – we would be happy to take your questions.

## **Non-GAAP Financial Measures**

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquired in-process technology
- Amortization of intangibles
- Certain abandoned acquisition-related costs
- Change in deferred net revenue (packaged goods and digital content)
- Goodwill impairment
- Loss on lease obligation and facilities acquisition
- Loss on licensed intellectual property commitment
- Losses (gains) on strategic investments
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods.

In addition to the reasons stated above, which are generally applicable to each of the items Electronic Arts excludes from its non-GAAP financial measures, the Company believes it is appropriate to exclude certain items for the following reasons:

*Amortization of Intangibles.* When analyzing the operating performance of an acquired entity, Electronic Arts' management focuses on the total return provided by the investment (*i.e.*, operating profit generated from the acquired entity as compared to the purchase price paid) without taking into consideration any allocations made for accounting purposes. Because the purchase price for an acquisition necessarily reflects the accounting value assigned to intangible assets (including acquired in-process technology and goodwill), when analyzing the operating performance of an acquisition in subsequent periods, the Company's management excludes the GAAP impact of acquired intangible assets to its financial results. Electronic Arts believes that such an approach is useful in understanding the long-term return provided by an acquisition and that investors benefit from a supplemental non-GAAP financial measure that excludes the accounting expense associated with acquired intangible assets.

In addition, in accordance with GAAP, Electronic Arts generally recognizes expenses for internally-developed intangible assets as they are incurred, notwithstanding the potential future benefit such assets may provide. Unlike internally-developed intangible assets, however, and also in accordance with GAAP, the Company generally capitalizes the cost of acquired intangible assets and recognizes that cost as an expense over the useful lives of the assets acquired (other than goodwill, which is not amortized, and acquired in-process technology, which is expensed immediately, as required under GAAP). As a result of their GAAP treatment, there is an inherent lack of comparability between the financial performance of internally-developed intangible assets and acquired intangible assets. Accordingly, Electronic Arts believes it is useful to provide, as a supplement to its GAAP operating results, a non-GAAP financial measure that excludes the amortization of acquired intangibles.

*Certain Abandoned Acquisition-Related Costs.* Electronic Arts incurred significant legal, banking and other consulting fees related to the Company's proposed acquisition and related cash tender offer for all of the outstanding shares of Take-Two Interactive Software, Inc. On August 18, 2008, the Company allowed the tender offer to expire without purchasing any shares of Take-Two and, on September 14, 2008, the Company announced that it had terminated discussions with Take-Two. The costs incurred in connection with the abandoned proposal and tender offer were outside the ordinary course of business and were excluded by the Company when assessing the performance of its management team. As such, the Company believes it is appropriate to exclude such expenses from its non-GAAP financial measures.

*Change in Deferred Net Revenue (Packaged Goods and Digital Content).* Electronic Arts is not able to objectively determine the fair value of the online service included in certain of its packaged goods and digital content. As a result, the Company recognizes the revenue from the sale of these games and content

over the estimated online service period. In other transactions, at the date we sell the software product we have an obligation to provide incremental unspecified digital content in the future without an additional fee. In these cases, we account for the sale of the software product as a multiple element arrangement and recognize the revenue on a straight-line basis over the estimated life of the game. Internally, Electronic Arts' management excludes the impact of the change in deferred net revenue related to packaged goods games and digital content in its non-GAAP financial measures when evaluating the Company's operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of its management team. The Company believes that excluding the impact of the change in deferred net revenue from its operating results is important to (1) facilitate comparisons to prior periods during which the Company was able to objectively determine the fair value of the online service and not delay the recognition of significant amounts of net revenue related to online-enabled packaged goods and (2) understanding our operations because all related costs are expensed as incurred instead of deferred and recognized ratably.

*Goodwill Impairment.* Adverse economic conditions, including the decline in the Company's market capitalization and expected financial performance, indicated that a potential impairment of goodwill existed during the three months ended December 31, 2008. As a result, the Company performed goodwill impairment tests for its reporting units in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" and determined that goodwill related to its mobile reporting unit was impaired. As the Company excludes the GAAP impact of acquired intangible assets (such as goodwill) from its financial results when analyzing the operating performance of an acquisition in subsequent periods, Electronic Arts believes it is appropriate to exclude goodwill impairment charges from its non-GAAP financial measures.

*Loss on Lease Obligation and Facilities Acquisition.* During the second quarter of fiscal 2010, Electronic Arts completed the acquisition of its headquarters facilities in Redwood City, California pursuant to the terms of the loan financing agreements underlying the build-to-suit leases for the facilities. These leases expired in July 2009, and had previously been accounted for as operating leases. The total amount paid under the terms of the leases was \$247 million, of which \$233 million related to the purchase price of the facilities and \$14 million was for the loss on our lease obligation. In addition, Electronic Arts recorded a tax benefit of approximately \$31 million, consisting of approximately \$6 million related to the loss on our lease obligation, and a \$25 million reduction in our valuation allowance due to the acquisition. As a result of this lease obligation and facility acquisition, on an after-tax basis, Electronic Arts incurred a positive net income effect of \$17 million. Electronic Arts' management excluded the effect of this transaction when evaluating the Company's operating performance and when assessing the performance of its management team during this period and will continue to do so, when it plans, forecasts and analyzes future periods.

*Loss on Licensed Intellectual Property Commitment.* During the fourth quarter of fiscal 2009, Electronic Arts amended an agreement with a content licensor. This

amendment resulted in the termination of our rights to use the licensor's intellectual property in certain products and we incurred a related estimated loss of \$38 million. This significant non-recurring loss is excluded from our Non-GAAP financial measures in order to provide comparability between periods. Further, the Company excluded this loss when evaluating its operating performance and the performance of its management team during this period and will continue to do so when it plans, forecasts and analyzes future periods.

*Losses (Gains) on Strategic Investments.* From time to time, the Company makes strategic investments. Electronic Arts' management excludes the impact of any losses and gains on such investments when evaluating the Company's operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of its management team. In addition, the Company believes that excluding the impact of such losses and gains on these investments from its operating results is important to facilitate comparisons to prior periods.

*Restructuring Charges.* Although Electronic Arts has engaged in various restructuring activities in the past, each has been a discrete, extraordinary event based on a unique set of business objectives. Each of these restructurings has been unlike its predecessors in terms of its operational implementation, business impact and scope. The Company does not engage in restructuring activities on a regular basis or in the ordinary course of business. As such, the Company believes it is appropriate to exclude restructuring charges from its non-GAAP financial measures.

*Stock-Based Compensation.* Electronic Arts adopted SFAS 123(R), "Share-Based Payment" beginning in its fiscal year 2007. When evaluating the performance of its individual business units, the Company does not consider stock-based compensation charges. Likewise, the Company's management teams exclude stock-based compensation expense from their short and long-term operating plans. In contrast, the Company's management teams are held accountable for cash-based compensation and such amounts are included in their operating plans. Further, when considering the impact of equity award grants, Electronic Arts places a greater emphasis on overall shareholder dilution rather than the accounting charges associated with such grants.

Video game platforms have historically had a life cycle of four to six years, which causes the video game software market to be cyclical. The Company's management analyzes its business and operating performance in the context of these business cycles, comparing Electronic Arts' performance at similar stages of different cycles. For comparability purposes, Electronic Arts believes it is useful to provide a non-GAAP financial measure that excludes stock-based compensation in order to better understand the long-term performance of its core business.

*Income Tax Adjustments.* The Company uses a fixed, long-term projected tax rate of 28 percent internally to evaluate its operating performance, to forecast, plan and analyze future periods, and to assess the performance of its

management team. Accordingly, the Company has applied the same 28 percent tax rate to its non-GAAP financial results.

In its earnings press release dated November 9, 2009, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP financial measures.

### **Safe Harbor Statement**

*Some statements set forth in this document, including the estimates relating to EA's cost reduction plan and fiscal year 2010 guidance information contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements. Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles during fiscal year 2010; the general health of the U.S. and global economy and the related impact on discretionary consumer spending; fluctuations in foreign exchange rates; consumer spending trends; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the consumer demand for, and the availability of an adequate supply of console hardware units (including the Xbox 360® video game and entertainment system, the PLAYSTATION®3 computer entertainment system and the Wii™); consumer demand for software for the PlayStation 2; the Company's ability to predict consumer preferences among competing hardware platforms; the financial impact of the Playfish acquisition and potential future acquisitions by EA; the Company's ability to realize the anticipated benefits of acquisitions; the seasonal and cyclical nature of the interactive game segment; the Company's ability to attract and retain key personnel; changes in the Company's effective tax rates; the performance of strategic investments; the impact of certain accounting requirements, such as the Company's ability to estimate and recognize goodwill impairment charges and make tax valuation allowances; adoption of new accounting regulations and standards; potential regulation of the Company's products in key territories; developments in the law regarding protection of the Company's products; the Company's ability to secure licenses to valuable entertainment properties on favorable terms; the stability of the Company's key customers, and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009. These forward-looking statements speak only as of November 9, 2009. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this document are estimates based on information currently available to Electronic Arts. While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended September 30, 2009.*