Electronic Arts
Fourth Quarter Fiscal Year 2010
Earnings Call
Prepared Comments
May 11, 2010

Peter Ausnit:

Thank you all for joining us this afternoon. Welcome to EA's fiscal 2010 fourth quarter earnings call.

Today on the call we have:

- John Riccitiello, our Chief Executive Officer
- Eric Brown, our Chief Financial Officer – and
- John Schappert, our Chief Operating Officer

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. 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, as a substitute for, or superior to our GAAP results. 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 in the prior year unless otherwise stated.

Please see the supplemental information on our website for trailing twelve month segment shares, additional GAAP to non-GAAP reconciliations, a summary of our 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 May 11, 2010 and disclaim any duty to update them.

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

John Riccitiello:

Thank you, Peter. Earlier today EA announced results for both Q4 and fiscal 2010.

We finished the fiscal year and the fourth quarter slightly ahead of the guidance we provided on February 8th. Our quarter came in slightly stronger than street consensus.

We are affirming our FY11 financial guidance.

Details on the quarter, our fiscal year financial performance, and our guidance are in our press release and will be covered in more depth by Eric Brown. Key points I would highlight include these – note that these are non-GAAP numbers:

- FY10 was EA's highest revenue year in history.
- We had a strong financial rebound in FY10 versus FY09, increasing EPS by $0.74.
- We made significant progress on each of our four strategic objectives: cost management; fewer but bigger games; improving game quality; and driving Digital revenue streams.

- **On cost** – we successfully implemented a restructuring program, significantly reducing our cost base.

- **Packaged goods –** Fewer but bigger games.
    - We were the #1 publisher overall in Europe and North America combined.
    - We were the #1 publisher on PC, Xbox 360, PS3 and PS2.
    - We achieved share growth in FY10 versus FY09 on 20% fewer titles.

- **Quality –** Our investment in quality was a key reason for our segment share success. EA leads the industry in quality with 20 titles in Fiscal 10 that received a Metacritic rating of 80 or above.

- **Digital –** FY10 revenue from our digital initiatives was up 33% over FY09.
    - We saw substantial growth in post-release downloadable content sales with big titles like *Dragon Age*, *Mass Effect 2* and *Battlefield: Bad Company 2*.
    - We continue to lead on mobile, iPhone, and now iPad.
    - In a tough market our advertising sales were up.
    - And the acquisition of Playfish makes us a strong leader in social network gaming.

We enter FY11 with strong momentum. The quality of our titles, both packaged goods and digital, is something we feel passionate about at EA. We couldn't be more pleased with the people who made these games.

This investment in quality is what allows us to extend our properties, connecting them to millions of consumers online.

With that, I'll turn the call over to Eric.

Eric Brown:

Thank you, John.

EA reported solid Q4 financial results today, with non-GAAP revenue coming in at the high end of the guidance range of $800 to $850 million that we provided on

February 8th. Non-GAAP EPS exceeded the high end of our guidance range of $0.02 to $0.06 per share.

Non-GAAP net revenue was $850 million, up 40% year-over-year. On a GAAP basis, net revenue was $979 million.

At constant currency rates, non-GAAP net revenue increased $210 million or 34% year-over-year. On a GAAP basis, net revenue increased $85 million or 10% year-over-year.

Non-GAAP gross profit margin was 65.2% compared to 49.6% a year ago. This is up from the prior year primarily due to product mix featuring more owned IP and less distribution product versus Q4 last year. On a GAAP basis, gross profit margin was 69.6% versus 59.4% a year ago.

Non-GAAP operating income was $34 million versus a non-GAAP operating loss of $165 million a year ago. On a GAAP basis, operating income was $83 million versus an operating loss of $62 million a year ago.

Non-GAAP diluted earnings per share were $0.07 versus diluted loss per share of ($0.37) a year ago. GAAP diluted earnings per share was $0.09 versus a diluted loss per share of ($0.13) a year ago.

Headcount – we ended the quarter with 7,842 employees versus 9,106 a year ago. 22% of our employees are now in low cost locations versus 18% a year ago.

Cash flow from operations this quarter totaled $253 million versus $215 million a year ago. Fiscal year-to-date operating cash flow improved by $140 million from last year to $152 million.

Q410 Highlights –

In our Packaged Goods business:

- EA was the #1 publisher in North America and Europe for the quarter, reflecting a four point share gain year-over-year. We were also #1 for the fiscal year with four titles in the top 20 in both North America and Europe.
- *Battlefield: Bad Company 2* – we sold through three million packaged and digital units in the quarter for Europe and North America combined. *Battlefield: Bad Company 2* launched with a Metacritic rating of 89. To date, we have now sold through over four million units of *Battlefield: Bad Company 2*.
- *Mass Effect 2* – sold through over 1.6 million packaged and digital units in the quarter for Europe and North America combined and launched with a Metacritic rating of 96 on the Xbox 360.

- *Dante's Inferno* – sold through almost one million units in the quarter for Europe and North America combined, more than any other new intellectual property during the quarter,
- and the sequel title, *Army of Two: The 40th Day* sold through over one million units worldwide in the quarter.

Highlights from our digital business:

- Downloadable content including *Madden Ultimate Team, FIFA 10 Ultimate Team, Battlefield 1943,* and *Dragon Age* performed well in the quarter.
- Mobile sales continue to grow year-over-year, and we had a strong launch of games on the iPad in April.
- We had 1.8 million total paying subscribers in the quarter – this includes Pogo, as well as Massively Multiplayer Online (MMO) subscribers.
- We finished the quarter with over 58 million registered users, up 18% from the prior quarter. *Battlefield: Bad Company 2, FIFA 10* and *Madden 10* were the top three titles driving user registrations in Q4.

Highlights from our catalog:

- *FIFA 10* continues to be a top-selling title, ranking #6 in Europe for Q4. To date, *FIFA 10* has sold in over 10 million units since launch.
- *Madden 10* finished the fiscal year strong, growing 9% year-over-year on the PS3 and Xbox 360 combined -- a marked improvement from the relatively slow start we had with Madden in Q2.

Digital business results include the following:

For the fiscal year, we had total digital revenue of $570 million – up 33% year-over-year – meeting our expectations. We reported record Mobile non-GAAP revenue of $212 million – up 12% year-over-year. We reported $358 million non-GAAP digital revenue from non-Mobile sources, up 49% year-over-year.

In the quarter, Mobile non-GAAP revenue was $55 million – up 15% year-over-year, driven by *Tetris, The Sims 3, Bejeweled,* and *Need For Speed*. Q4 non-GAAP revenue from non-Mobile sources was $101 million-up 66% year-over-year.

We have three different businesses in our digital portfolio - let me give you detail on each category.

- The first category is Console Full Games and downloadable content or DLC, which consists of digitally delivered fully playable games and associated content packs. In Q4 EA SPORTS launched *Madden Ultimate Team* and

FIFA 10 Ultimate Team. Both *Madden Ultimate Team* and *FIFA 10 Ultimate Team* exceeded our expectations. Our frontline titles in Q4 had extensive console DLC offerings.

- The second category is PC and Browser Full Games and associated DLC, which consists of digitally delivered fully playable PC games, associated content packs, and free-to-play PC games with paid micro-transaction content. During the quarter we launched several PC and browser games, including *Battlefield: Bad Company 2, Mass Effect 2, Command & Conquer 4* and *Lord of Ultima*. *Battlefield: Bad Company 2* exceeded our expectations as a PC download title in Q4. Playfish launched a browser game called *Hotel City* in March; which looks promising and has already reached 13 million Monthly Active Users (MAUs) and is a top 15 Facebook application.
- The third category is Mobile, Games Services, Subscriptions and Advertising. Mobile consists of games delivered on feature phones, smart phones and handhelds such as the iPhone and the iPad. We launched five games on the iPad at the tail end of Q4. Games Services, Subscriptions and Advertising include advertising in Playfish social games, Pogo subscriptions, MMOs and browser-based games with subscription models. Pogo subscription revenue for FY10 was up 3%.

A few comments on the industry –

- The total sector, inclusive of packaged goods and digital, was up 3% in CY09. The worldwide packaged goods sub-sector was down 9%, which was more than offset by digital being up by approximately 28%.
- In the quarter, for western markets overall, the total sector, including digital, was up. The Packaged Goods sub-sector was down 2%, which was more than offset by Digital. By region, North America was down 5% and Europe was up 1%. We saw growth trends in Spain, Italy and Germany while the UK and France were down.
- In FY10, the Packaged Goods sub-sector in both North America and Europe was down 11%, which contrasts sharply with EA's strong performance.
- In the quarter, despite console hardware shortages, year-over-year PS3 software sales increased 41% in western world markets, Xbox 360 software sales increased 1%, and Wii software sales decreased 9%.
- In the quarter Top 20 titles in North America increased dollar share to 43% versus 41% in the prior year.

For FY11, we are affirming our Q1 non-GAAP and GAAP guidance, our full-year non-GAAP guidance and we are updating our full year GAAP guidance.

- We expect the market, inclusive of Packaged Goods and Digital, to grow 8% year-to-year in calendar 2010, based on the assumption that total worldwide

Packaged Goods, consistent with recent industry reports, will be down 3%, offset by Digital growth of approximately 26%.

- We expect to end FY11 with total headcount of approximately 8,200 and are managing headcount consistent with the restructuring plan that called for a shift from high-cost to low-cost locations. Total low-cost-location headcount is increasing from approximately 22% to 26% at the end of FY11.
- Regarding exchange rates, we are assuming $1.36 USD to the Euro, $0.95 USD to the Canadian Dollar, and $1.55 USD to the British Pound. Currency markets are volatile and our R&D costs will increase if the Canadian dollar strengthens.

Packaged Goods –

- Our FY11 Plan currently includes a total of 36 titles for the fiscal year, excluding expansion packs.
- Our top 20 titles for FY11 are expected to generate approximately 80% of total non-distribution Packaged Goods revenue; this compares to 76% in FY10. There is an updated FY11 title plan in our earnings press release detailing our principal titles.
- Our total variable marketing and advertising in FY11 is an estimated $475 million, comparable to the total amount spent in FY10.
- On a non-GAAP basis, we expect FY11 revenue from EA published packaged goods titles to be between $2.75 billion to $3 billion, which reflects flat share at the middle of the range.

Distribution –

We expect approximately $150 million in non-GAAP distribution revenue for FY11.

Digital –

- EA is incurring significant development costs for a major new massively multiplayer online game. However, this game is not expected to ship in FY11.
- In FY11, we will continue to introduce new service and product features that benefit unique registered purchasers on PC and console games. Our most recent examples are the map packs that we released for *Battlefield: Bad Company 2*.
- We are planning a number of Digital Service launches in FY11. In March we announced *Need for Speed World* in beta, the MMO action racing game. This April we launched *Tiger Woods Online*, an authentic and feature-rich golf video game experience available through a web browser. In Q2 we will launch *FIFA Online*.

- We expect to grow our total Digital revenue by approximately 30%, from $570 million in FY10 to approximately $750 million in FY11. The year-over-year dollar growth of approximately $180 million is divided roughly as follows:
  - Approximately a quarter from Console Full Games and DLC.
  - Approximately a half from PC and Browser Full Games and DLC.
  - Approximately a quarter from Mobile, Games Services, Subscriptions and Advertising.

Now to our Guidance –

We are maintaining our Q1 FY11 GAAP and non-GAAP guidance.

Revenue –

- On a GAAP basis, we expect Q1 FY11 revenue of $710 million to $750 million.
- On a non-GAAP basis, we expect Q1 FY11 revenue of $460 million to $500 million. Q1 revenue is down year-over-year as we are comparing to a Q1 last year that included *The Sims 3* and *EA SPORTS Active* launches.
- The Q1 FY11 title slate includes: *FIFA World Cup: South Africa, Skate 3* and *Tiger Woods PGA Tour 11*. There are five frontline titles versus 10 in the prior year.

Below the Line –

- We expect GAAP EPS ranging from a loss per share of ($0.05) to a profit of $0.05 per share.
- We expect non-GAAP loss per share of ($0.35) to ($0.40).

For the full fiscal year, we expect the following:

Revenue –

- On a GAAP basis, we expect revenue of $3.35 to $3.60 billion, down from prior expectations of $3.45 to $3.70 billion, primarily due to release schedule changes which affect revenue deferrals.
- On a non-GAAP basis, we are affirming our total revenue guidance of $3.65 to $3.90 billion. Breaking this down into three components:
  - o We expect Digital revenue of approximately $750 million in FY11.
  - o We expect approximately $150 million in distribution revenue, roughly a $450 million decrease year-over-year.
  - o And we expect packaged goods revenue ranging from approximately $2.75 billion to $3.0 billion.

Revenue Phasing –

- We currently expect a total of 36 frontline titles shipping in FY11.

- By quarter, we expect to release the following number of titles in FY11:
  - Q1: six titles
  - Q2: seven titles
  - Q3: sixteen titles
  - Q4: seven titles

I'd like to remind everyone that last year's first fiscal quarter had unusually high revenue due to the launch schedule and the additional week of reported business. We expect fiscal 2011's quarterly revenue phasing to be more consistent with prior years, with non-GAAP revenue distributed as follows:

  - Q1: approximately 13%
  - Q2: approximately 21%
  - Q3: approximately 42%
  - Q4: approximately 24%

Please note that as announced on May 5th, and representing a change from our last earnings call, we have moved *Medal of Honor* to October 12, 2010 to optimize the launch window. This move has a negligible impact on full year FY11 non-GAAP net revenue, non-GAAP EPS, and cash flow.

Q2 non-GAAP EPS is impacted due to the high margin of the *Medal of Honor* title and other items. We estimate an approximate $0.25 EPS reduction versus current analyst Q2 expectations.

Gross Margins –

- We expect full year GAAP gross profit margins of approximately 56% and non-GAAP gross profit margins of approximately 60%.

Below the line –

- We expect GAAP diluted loss per share of ($0.85) to ($1.15).
- We continue to expect to generate non-GAAP EPS of $0.50 to $0.70.

This concludes our outlook and guidance.

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

John Schappert

Thanks Eric.

Q4 was a strong finish to the fiscal year thanks to the launch of some great franchises in the quarter.

EA is ranked #1 in the Western World with 19% segment share for FY10. We had five titles that sold more than four million copies this fiscal year: *Madden NFL*

10, The Sims 3, Battlefield: Bad Company 2 and *Need for Speed: Shift*. Our top-selling title was *FIFA 10*, which sold in more than 10 million copies since launch.

In terms of the current trading environment, the overall industry has remained positive thanks to Digital offsetting a slight decline in Packaged Goods.

On the Packaged Goods side, North America was down 5% in the March quarter while Europe was up 1%, both better than the December quarter and consistent with our guidance for the year. We expect Packaged Goods in April were sharply down, with a console mix shift change favoring EA. We expect the overall Packaged Goods sector to pick up in the summer, when major titles launch. We remain confident in our overall expectations for growth of the sector, with Packaged Goods declining 3% in the calendar year.

Turning to E3, this year you are going to see a strong portfolio of blockbuster titles from EA.

The EA SPORTS Label will showcase *Madden NFL 11, FIFA 11, NHL 11, NBA Live 11, Tiger Woods PGA Tour 11* and *EA SPORTS Active.* We will also unveil games that make use of the new motion controllers from Sony and Microsoft.

The EA Play Label will showcase a new *Harry Potter* game and some great titles from our partnership with Hasbro. *The Sims 3,* EA's mainstream gaming megabrand with over 125 million units sold, is coming to consoles and will be available this fall on the PS3, Xbox 360, Wii and Nintendo DS. We will also highlight *The Sims 3* expansion packs, including the recently announced *The Sims 3 Ambitions* expansion pack.

The EA Games Label will unveil a new *Need for Speed* title, *Dead Space 2* and the return of one of the most storied franchises in first-person shooter history, *Medal of Honor*. **EA Partners** will bring *Bulletstorm* from Epic Games, *Crysis 2* from Crytek, and, in partnership with LucasArts, we will highlight the much-anticipated *Star Wars: The Old Republic*. We will also show a marquis title in breathtaking 3D.

Next, I'd like to provide some highlights on our EA Interactive business unit, which includes EA Mobile, Pogo, and Playfish.

- First, on **EA Mobile,** we continue to be the #1 mobile games publisher in western markets. In March, we had seven of the top ten games on Verizon, and achieved more than half of the top 10 games on AT&T, Sprint, and T-Mobile. I want to highlight that EA is the #1 App Store game publisher, a formidable achievement that affirms our belief that mobile consumers gravitate towards high quality and brands they recognize from other platforms. Proving the point again, that consumers love IP they know, we launched five games on the iPad at the end of Q4 and had two of the top three grossing titles; *Scrabble* was the #1 grossing title and *Need For Speed* was #3.

- Second, **Pogo** continues to be one of the most engaging online gaming destinations, generating 5.4 billion minutes of play in March. It has one of the most diversified models in casual gaming, generating multiple revenue streams: subscriptions, advertising and micro-transactions. From February to March, Pogo grew U.S. Monthly Unique Visitors by 9% versus flat for the market and grew total online gaming minutes by 8% versus 2% for the market. Pogo's play-rate among daily and monthly active users is 30%, placing it on par with the best-performing social network games. At the end of Q4, we launched Pogo Facebook Beta. This application includes a total of 12 games, including *Poppit* and *Word Whomp*.

- And Third, **Playfish** is the #2 social gaming site in a rapidly growing market. In Q4, we had two of the top ten Facebook games, *Restaurant City* and *Pet Society*. In March, Playfish launched *Hotel City*, which is off to a promising start with 13 million Monthly Active Users and is also a top 15 Facebook game. At the end of April, Playfish had a total of 59 million Monthly Active Users, up 17% since January. Daily Active Users have increased 23% since January. We couldn't be happier with the integration process and look forward to Playfish launching their first EA branded title: *FIFA Superstars*, which is now in beta testing and is coming soon. We continue to believe that social network gamers will mass behind quality and brands they recognize, as they have done in the mobile segment.

Finally, I'd like to offer some detail on our progress in extending the consumer experience with online services and content.

Yesterday, EA SPORTS introduced Online Pass – a program to give game owners more features and content by using a one-time-use, game-specific access code printed on the back of the game manual.

When the first purchaser goes online to register the software, he or she can receive title-specific bonus content and access to services like clubs and leagues, as well as online game play. Benefits that registered users also get can include news feeds from EA SPORTS, ESPN and others. Other content may be available after launch and Online Pass will be available to secondary purchasers for a fee.

EA SPORTS titles including *Tiger Woods PGA Tour, NCAA Football, Madden NFL, NHL, Fight Night* and *MMA* (Mixed Martial Arts) will feature Online Passes.

This concept builds upon similar initiatives from recent releases. Last year, *The Sims 3* launched with an entire second city available to players who registered their game online.

In *Mass Effect 2*, consumers were provided access to the Cerberus Network which offers additional missions, equipment, even a new character – when the game is registered online.

Similar offerings were included with *Dragon Age* and *Battlefield: Bad Company 2*.

These offerings reward purchase, add value to the game and keep players engaged. We believe the “ship-it-and-forget-it” mentality is giving way to much deeper relationships between the consumer, the game, and the publisher.

With that, I’ll hand it back over to John…

John Riccitiello

Thanks John.

Before we take your questions, let me leave you with one last thought on a topic that means a great deal to us… the quality of our games.

We banked on success as a company on a simple idea. Fewer bigger hits in our core business will translate into success in Digital. What underpins this opportunity – of extending the consumer experience with new content and new revenue opportunities – is 100%-dependent on ensuring that the consumer’s first experience with each game delivers on extraordinary quality.

Gamers are the most discerning consumers in the world of entertainment. They will not tolerate a shoddy product.

Today, I believe that EA has turned a corner and that consumers now identify our games with high quality and innovation. I see it when I review games with our many talented teams and when I read the blogs where gamers communicate.

We are rebuilding EA’s reputation with consumers.

Now we want to show investors how that translates into new revenue streams and increasing profitability.

With that, John, Eric and I 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
- Acquisition-related contingent consideration
- 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:

Acquisition-related contingent consideration. GAAP requires that contingent consideration issued in a business combination to be fair valued and recorded as a liability at the date of the acquisition. Any changes in the fair value of the liability after the acquisition are required to be recognized as an adjustment to operating expense for the period. 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 including the final amounts paid for contingent consideration) without taking into consideration any allocations made for accounting purposes. Because the purchase price for an acquisition necessarily reflects the accounting value assigned to contingent consideration, when analyzing the operating performance of an acquisition in subsequent periods, the Company's management excludes the GAAP impact of any adjustments to the fair value of the contingent consideration 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.

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 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. As such, the Company believes it is appropriate to exclude restructuring charges from its non-GAAP financial measures.

Stock-Based Compensation. 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 May 11, 2010, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP financial measures.

Forward-Looking Statements

Some statements set forth in this document, including the estimates relating to EA's fiscal year 2011 guidance information under the heading "Business Outlook", and the fiscal year 2011 key title slate, 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; 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™); 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 determine deferred 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 December 31, 2009.*

These forward-looking statements speak only as of May 11, 2010. 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 release 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2010. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2010.