



2006 PROXY STATEMENT
AND ANNUAL REPORT

TO OUR STOCKHOLDERS:

Fiscal year 2006 signaled the beginning of profound change in our industry — change in the way consumers purchase and play EA games, the platforms they play on, and the approach we take to develop and publish our products. It was a year that challenged us to think differently about navigating technology transitions and to invest in new opportunities with potentially richer margins. It was a year that marked the introduction of new titles and new services that improve the game experience and generate incremental revenue. Most of all, it was a year that convinced us that the artistic and economic opportunities in our business are *much* greater than we could have imagined just five years ago.

Transition is never easy and the combination of new technology, new platforms and new markets makes this one particularly complex. Today, EA is investing ahead of revenue in what we believe will be another period of strong and sustained growth for the interactive entertainment industry. No other company is investing in as many strategic areas; no other company has as much opportunity. Our commitment of financial and creative resources is significant, but so is the potential for long-term growth.

Our net revenue for fiscal 2006 was \$2.951 billion, down six percent. Operating income was \$325 million or 11 percent of revenue. Operating cash flow was \$596 million and we ended the year with \$2.272 billion in cash and short term investments. Our return on invested capital was 21 percent and diluted earnings per share were \$0.75.

Better Games on More Powerful Consoles

We are navigating through the console transition that upgrades consumers from current generation platforms to more powerful and innovative systems like the Xbox 360™ console, the PlayStation®3 console and the Wii™ from Nintendo. Our most important strategic initiative is to maintain and grow our leadership position on these next generation consoles.

Although it is much too early to celebrate, the initial results are promising:

- **Xbox 360™** — In fiscal 2006, EA had three of the top ten games in both North America and Europe. Although hardware launch quantities were limited, revenue from our 360 titles more than offset the decline in sales of games for the original Xbox. In addition, the ratio of software to hardware hit an all-time high in North America for a console launch — exceeding 4:1. In the year ahead, EA plans to publish 15 to 20 games for this system.
- **PlayStation 3** — EA plans to release 8 to 12 titles in fiscal 2007 for the next generation console from Sony that is scheduled to launch in November. At a recent trade show we demonstrated a new motion capture technology that brings authentic athletic performance to our sports franchises like *Tiger Woods PGA TOUR®*.
- **Wii™** — The new system from Nintendo is also scheduled to debut this fall with an extremely innovative controller and an appealing retail price point. EA has several games in development for this console including *Madden NFL*, *Need for Speed™*, *Harry Potter™* and *The Sims™*.

New Platforms: Mobile and Handheld

Perhaps the biggest event of the past year was our acquisition of JAMDAT Mobile™. We now have relationships with over 90 wireless carriers in more than 40 countries with a dedicated team delivering some of the world's most popular mobile games. With this acquisition, EA Mobile has the leading segment share in North America and is well-positioned internationally.

It is difficult to overstate the potential of games played on wireless phones. Today there are roughly 1.5 billion handsets in the world, less than 40 percent of which are game-enabled. While not everyone may be able to afford a new hardware console, many own a cell phone which can be used to play games. EA Mobile has an aggressive plan to bring our most popular franchises to the mobile platform, grow the business in North America and expand our presence in Europe and Asia.

Our success in mobile gaming extends beyond phones. We achieved our goal of making EA number one on the PSP® (PlayStation®Portable) handheld system in both North America and Europe, and have brought some of our most popular franchises to the Nintendo DS™ system. In the years ahead we plan to extend our leadership in this rapidly growing segment.

Everything Online

The biggest change in our business today is the way mainstream consumers are using the Internet to purchase and play videogames. Whether the games are played on consoles, PCs or handhelds, a rapidly growing percentage are connected.

Consumers are showing an affinity for downloading content to both PCs and consoles, paying for premium content and accepting dynamic in-game advertising. In addition to bringing added value to the consumer, these elements deliver more revenue and profit to our business.

Digital Downloads — Retail stores where consumers buy packaged games will always be fundamental to our industry; however, the wide-spread acceptance of digital downloads foreshadows an exciting future for buying games online. With the launch of our Xbox 360 titles, EA offered seven free demos — *EA SPORTS™ Fight Night Round 3* was downloaded more than 400,000 times and became the most popular demo on Xbox Live™. For the PC we offered additional content for *Battlefield 2* and *The Sims 2* retailing at price points between \$9.99-\$29.99 and quickly sold more than 200,000 downloads. This year, most of our PC games will be offered for sale digitally in addition to being available at retail. While the initial numbers are small, these early experiments are encouraging. Exploiting this opportunity should help us generate incremental revenue and improve operating margins.

Micro-transactions — EA is also investing in the means to deliver premium items that consumers can use to enhance their games. We started with some of our PC offerings — *Ultima Online™* and *Club Pogo™* — and plan to expand this to our multi-million-selling console franchises. Players will be able to download new uniforms for their athletes, customized parts for their cars and strategy guides to improve their skills. Providing downloadable content at an easily affordable price will improve the game experience and create new revenue streams for many of our most popular games.

Dynamic In-Game Advertising — In recent years, EA games have included a small number of static ads — quick product messages that would not intrude on the player's entertainment experience. We intend to continue that discipline as the industry experiments with new technology that will allow advertisers to stream ads into online games. A roadside billboard in *Need For Speed* could display soft drinks on one day and a fast food restaurant the next. While this technology is at an early stage, dynamic in-game advertising is an exciting proposition.

Subscriptions — Quick and easy to play, EA's casual game site *Club Pogo* is building an impressive audience. More than 1.2 million players pay a fee to play games and participate in the Pogo™ community. Interestingly, more than half of those subscribers are women over the age of 35. In the year ahead we plan to launch Pogo in China and Europe.

New Markets — While EA is known primarily for its portfolio of great games, we are unrivaled in our ability to market, sell and distribute our titles to consumers all over the world. Creating new online games and cultivating new customers is an important part of our growth strategy. By the end of fiscal 2007, EA will have more than 300 people dedicated to production, marketing and sales in emerging markets like China, India and Eastern Europe.

In late May, an online version of FIFA Soccer was launched in Korea in partnership with a local publisher, Neowiz. *EA SPORTS™ FIFA Online* reached 100,000 peak concurrent users (PCUs) in the first month of open beta — setting a new record for PCUs during an introductory period in the world's largest online game market. While still early, we are extremely happy with the initial results of our online games business in Korea. We plan to commercialize this service in July 2006 with the introduction of micro-transactions.

PC Resurgence — Tied closely to the boom in online gaming is a recent creative and commercial renaissance for PC games. By an order of magnitude, we are the world's number one publisher of games for the PC. In fiscal 2006, we had four of the top ten titles in North America and we estimate five of the top ten in Europe. Flagship franchises like *The Sims*, *Battlefield* and *Command & Conquer*[™] have millions of loyal players and new versions are being prepared to extend that success. We're also developing new PC titles like *SPORE*[™] from *The Sims* mastermind Will Wright and *Crysis*[™] from the Crytek Studio in Germany. Just recently, we announced plans to acquire Mythic Entertainment, a critically-acclaimed developer of massively multiplayer online (MMO) games — this acquisition will enhance our position in the rapidly growing MMO category.

A Focus on Craftsmanship and Profitability

EA has four overarching priorities that are central to the way we make and sell games. We're training new and existing talent; we're adopting more efficient processes for making games; we're focused on quality; and we're seeking to improve profitability by reducing our reliance on licensed properties.

People — We have established robust programs for keeping our existing talent trained and for preparing new talent. EA is now working directly with more than 75 colleges and universities — providing funding and expertise — to develop curriculum that will train the next generation of video game developers.

Process — The backbone of our studio system is a library of shared tools and technologies. There is no single solution — no game engine that fits every franchise — but our commitment to sharing learning across our multiple development locations improves efficiency and allows us to manage a much larger portfolio of products than our competitors.

Quality — When you publish more than 30 titles per year, it's important to remember that our consumers are intelligent, they judge you on every title, and they have very long memories when a popular franchise disappoints them.

In some instances — such as when *The Godfather*[™] slipped out of the holiday quarter — we paid a heavy price to ensure that we delivered a great game. Although it hurt our financial results in the short term, it was the right decision for the long-term health of this important franchise. Shipping a high quality product pays dividends in many ways and over many years — consumer loyalty, critical acclaim and most importantly, enhanced morale among our employees who take an extraordinary amount of pride in their work.

Wholly Owned Properties — A major shift in our portfolio strategy is to decrease our reliance on licensed properties and increase the number of games that are based on ideas from people in our own studios.

Sports relationships such as our agreements with the NFL, NBA and FIFA, as well as movie titles like *Harry Potter* and *The Godfather* will always be a part of EA's portfolio. However the cost of licenses continues to escalate, which puts pressure on operating margins.

In an effort to improve both game quality and margins, we are striving to increase the percentage of our revenue contributed by wholly owned properties from roughly forty percent today to at least fifty percent in the next cycle.

To this goal, we've seen an explosion of creativity from our studios. Already in development is *SPORE* from Will Wright's team and an incredibly innovative project from our new Montreal studio, *Army of Two*[™]. In addition, we'll see new iterations on powerful EA franchises such as *The Sims*, *Need for Speed*, *Medal of Honor*[™], *Burnout*[™], *SSX*[™] and *Command & Conquer*.

These and other new games to be announced in the months ahead will make an important statement about EA's commitment to quality and innovation with a goal of improving our creative control and profit margins.

In Position to Capture the Opportunity

In the past year we learned a great deal that will help us grow and manage our business in the future. We learned that this transition is about much more than a console upgrade. We learned that consumer behavior — the way they purchase and play games — is changing rapidly. We learned to challenge traditional thinking while planning to exploit new revenue streams that will improve our margins.

Never in EA's 24-year history have we experienced a period of such dynamic change and opportunity. The months ahead will be defined by complex challenges and enormous opportunities for growing our business and creating entertainment for new platforms, new markets and new consumers.

The team at EA is focused on the future and confident in our ability to drive long term revenue growth and profitability.

Thank you for your ongoing confidence in our people, our products and our company.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Probst III".

Lawrence F. Probst III
Chairman and Chief Executive Officer

This Letter to Stockholders, as well as the discussion under the headings "Business" and "Management's Discussion and Analysis" included in our Annual Report on Form 10-K for the year ended March 31, 2006, contain forward-looking statements about circumstances that have not yet occurred and are subject to change. All statements, trend analysis and other information related to industry prospects, our products, and trends in our financial performance, as well as other statements including such words as "anticipate", "believe", "estimate", "expect", "intend" (and the negative of any of these terms), "future" and statements in the future tense are forward-looking statements. These forward-looking statements 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 our results to differ materially from our expectations include, but are not limited to, those listed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2006. We undertake no obligation to update these forward-looking statements.

ELECTRONIC ARTS INC.

**Notice of 2006 Annual Meeting
and Proxy Statement**

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June 30, 2006

DEAR FELLOW STOCKHOLDERS:

You are cordially invited to join us at our 2006 Annual Meeting of Stockholders on July 27, 2006 at 2:00 p.m. The meeting will be held at the headquarters campus of Electronic Arts in Building 250 (please note that the street address for Building 250 is 250 Shoreline Drive, Redwood City, California). At this meeting, we are asking the stockholders to:

- Elect nine directors;
- Approve a program to permit eligible employees to voluntarily exchange significantly “underwater” stock options for a lesser number of shares of restricted stock or restricted stock units to be granted under the 2000 Equity Incentive Plan;
- Approve amendments to the 2000 Equity Incentive Plan and the 2000 Employee Stock Purchase Plan; and
- Ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2007.

After the meeting, we will report on our performance in the last year and answer your questions.

Enclosed with this proxy statement are your proxy card and voting instructions and our 2006 annual report. **We encourage you to conserve natural resources, expedite the delivery of future communications, and help us reduce our printing and mailing costs, by signing up for electronic delivery of our stockholder communications.** For more information, see *Electronic Delivery of Our Stockholder Communications* in the attached proxy statement.

We know that it is not practical for most stockholders to attend the Annual Meeting in person. If you would like to listen to the Annual Meeting via webcast, please visit our website at investor.ea.com. Whether or not you are able to attend in person, your vote is important. In addition to using the enclosed proxy card to vote your shares, you may also vote your shares via the Internet or a toll-free telephone number. Instructions for using these services are provided on your proxy card.

I look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in cursive script that reads 'Lawrence F. Probst III'.

LAWRENCE F. PROBST III
Chairman and Chief Executive Officer

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE STRONGLY ENCOURAGE YOU TO DESIGNATE THE PROXIES SHOWN ON THE ENCLOSED CARD SO THAT YOUR SHARES WILL BE REPRESENTED AT THE ANNUAL MEETING.

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Notice of 2006 Annual Meeting of Stockholders

DATE: July 27, 2006

TIME: 2:00 p.m.

PLACE: ELECTRONIC ARTS HEADQUARTERS
Building 250*
209 Redwood Shores Parkway
Redwood City, CA 94065

* *Please note: Building 250 is located on the headquarters campus at 250 Shoreline Drive*

MATTERS TO BE VOTED UPON:

1. The election of nine directors to hold office for a one-year term;
2. An exchange program in which eligible employees will be offered the opportunity to surrender significantly “underwater” stock options in exchange for a lesser number of shares of restricted stock or restricted stock units to be granted under the 2000 Equity Incentive Plan, provided that Proposal 3 is also approved by the stockholders;
3. Amendments to the 2000 Equity Incentive Plan to (i) increase to 15 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan, and (ii) limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will be available for issuance under the Equity Plan;
4. An amendment to the 2000 Employee Stock Purchase Plan to increase by 1.5 million the number of shares of common stock reserved for issuance under the Purchase Plan;
5. Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2007; and
6. Any other matters that may properly come before the meeting.

OUR BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR EACH OF THE NOMINEES AND FOR EACH PROPOSAL.

Stockholders of record at the close of business on June 6, 2006 are entitled to notice of the meeting and to attend and vote at the meeting. A complete list of these stockholders will be available at Electronic Arts' headquarters prior to the meeting.

By Order of the Board of Directors,



STEPHEN G. BENÉ
*Senior Vice President, General Counsel
and Secretary*

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PROXY STATEMENT

Our Board of Directors is soliciting proxies for the 2006 Annual Meeting of Stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board has set June 6, 2006, as the record date for the meeting. Stockholders who owned common stock on that date are entitled to notice of the meeting, and to attend and vote at the meeting, with each share entitled to one vote. There were 306,158,333 shares of common stock outstanding on the record date.

Voting materials, which include the proxy statement, proxy card and our 2006 annual report, were first mailed to stockholders on or about June 30, 2006.

In this proxy statement:

- “EA”, “we” and “the Company” mean Electronic Arts Inc.
- “2000 Equity Plan” and “Equity Plan” mean EA’s 2000 Equity Incentive Plan.
- “2000 Purchase Plan” and “Purchase Plan” mean EA’s 2000 Employee Stock Purchase Plan.
- Holding shares in “street name” means your EA shares are held in an account at a bank, brokerage firm or other nominee.
- “Common Stock” means EA’s common stock, as described in EA’s current Amended and Restated Certificate of Incorporation.
- We use “overhang” to refer to the total number of shares subject to outstanding equity awards (such as stock options and restricted stock units) as a percentage of our total shares of Common Stock outstanding.
- “Fiscal 2007”, “fiscal 2006”, “fiscal 2005”, “fiscal 2004” and “fiscal 2003” refer to EA’s fiscal years ending or ended (as the case may be) on March 31, 2007, 2006, 2005, 2004 and 2003, respectively.
- We use “independent auditors” to refer to an independent registered public accounting firm.
- Unless otherwise noted, all share and per-share information has been adjusted to reflect the November 2003 two-for-one split of our common stock.

HOW TO VOTE YOUR SHARES

We are pleased to offer you three options for designating the proxies and indicating your voting preferences:

- (1) You may complete, sign, date and return by mail the enclosed proxy card;
- (2) You may follow the instructions found on the proxy card and vote by telephone; or
- (3) You may follow the instructions found on the proxy card and vote via the Internet.

If you choose to vote via telephone or the Internet, you will have a PIN number assigned to you on the proxy card that you will use to safeguard your vote.

ELECTRONIC DELIVERY OF OUR STOCKHOLDER COMMUNICATIONS

If you are a beneficial holder or your shares are held in “street name” (your shares are held by a bank, brokerage firm, or other nominee) and you received your annual meeting materials by mail, we encourage you to conserve natural resources, expedite the delivery of future communications, and help reduce our printing and mailing costs, by signing up to receive future stockholder communications via e-mail. With electronic delivery, you will be notified via e-mail as soon as EA’s next annual report and proxy statement are available on the Internet, and you can easily submit your stockholder votes online. Electronic delivery can also help reduce the number of bulky documents in your personal files and eliminate duplicate mailings. To sign up for electronic delivery, please visit www.icsdelivery.com/erts to enroll.

Your electronic delivery enrollment will be effective until you cancel it. If you have questions about electronic delivery, please contact our Investor Relations department at 650-628-7352.

COMMONLY ASKED QUESTIONS AND ANSWERS

Why am I receiving this proxy statement and proxy card?

This proxy statement describes proposals on which you, as a stockholder, are being asked to vote. It also gives you information on these proposals, as well as other information so that you can make an informed decision. You are invited to attend the Annual Meeting to vote on the proposals, but you do not need to attend in person in order to vote. You may, instead, follow the instructions below to vote by mail using the enclosed proxy card, or to vote by telephone or over the Internet. By doing so, you are giving a proxy appointing Lawrence F. Probst III (the Company's Chief Executive Officer) and Warren C. Jenson (the Company's Chief Financial and Administrative Officer) to vote your shares at the meeting as you have instructed. If a proposal comes up for vote at the meeting that is not on the proxy card, or if you do not indicate an instruction, Mr. Probst and Mr. Jenson will vote your shares according to their best judgment. Even if you currently plan to attend the meeting, it is a good idea to complete and return your proxy card, or vote by telephone or on the Internet, before the meeting date just in case your plans change.

Who can vote at the Annual Meeting?

Stockholders who owned common stock on June 6, 2006 may attend and vote at the Annual Meeting. Each share of common stock is entitled to one vote. There were 306,158,333 shares of common stock outstanding on June 6, 2006.

What am I voting on?

We are asking you to:

- Elect nine directors;
- Approve a program to permit eligible employees to voluntarily exchange significantly "underwater" stock options for a lesser number of shares of restricted stock or restricted stock units to be granted under the 2000 Equity Incentive Plan (the "Exchange Program");
- Approve amendments to the 2000 Equity Incentive Plan to (a) increase by 11 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan — from 4 million to 15 million shares, and (b) if the Exchange Program is approved by stockholders, to limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will be available for issuance under the Equity Plan to a total of 7 million plus the number of shares necessary for the issuance of the restricted stock rights to be granted in connection with the Exchange Program;
- Approve an amendment to the 2000 Employee Stock Purchase Plan to increase by 1.5 million the number of shares of common stock reserved for issuance under the Purchase Plan; and
- Ratify the appointment of KPMG LLP as our independent auditors for fiscal 2007.

How do I vote?

You may vote by mail.

Complete, date, sign and mail the enclosed proxy card in the postage pre-paid envelope provided. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

If you do not mark your voting instructions on the proxy card, your shares will be voted:

- **for the election of the nine nominees for director;**
- **for approval of the Exchange Program;**
- **for the proposed amendments to the 2000 Equity Incentive Plan;**
- **for the proposed amendment to the 2000 Employee Stock Purchase Plan; and**
- **for ratification of the appointment of KPMG LLP as our independent auditors for fiscal 2007.**

You may vote by telephone.

You may do this by following the “Vote by Telephone” instructions on your proxy card. If you vote by telephone, you do not have to mail in your proxy card.

You may vote on the Internet.

You may do this by following the “Vote by Internet” instructions on your proxy card. If you vote by Internet, you do not have to mail in your proxy card. The law of Delaware, where we are incorporated, allows a proxy to be sent electronically, so long as it includes or is accompanied by information that lets the inspector of elections determine it has been authorized by the stockholder.

You may vote in person at the meeting.

You may complete the ballot we will pass out to any stockholder who wants to vote at the meeting. However, if you hold your shares in street name, you must obtain a proxy from the institution that holds your shares in order to vote at the meeting.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete and return all proxy cards, or follow the instructions on each to vote by telephone or over the Internet, to ensure that all your shares are voted.

What if I change my mind after I give my proxy?

You may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

- Sending a signed statement to the Company that the proxy is revoked (you may send such a statement to the Company’s Secretary at our corporate headquarters address listed on the Notice of Meeting);
- Signing another proxy with a later date;
- Voting by telephone or on the Internet at a later date (your latest vote is counted); or
- Voting in person at the meeting.

Your proxy will not be revoked if you attend the meeting but do not vote.

Who will count the votes?

An employee of Wells Fargo Shareowner Services will tabulate the votes and act as the inspector of election.

How many shares must be present to hold the meeting?

To hold the meeting and conduct business, a majority of EA’s outstanding voting shares as of June 6, 2006 must be present or represented by proxies at the meeting. On this date a total of 306,158,333 shares of common stock were outstanding and entitled to vote. Shares representing a majority, or 153,079,167 of these votes must be present. This is called a quorum.

Shares are counted as present at the meeting if:

- They are voted in person at the meeting, or
- The stockholder has properly submitted a proxy card or voted via telephone or the Internet.

Will my shares be voted if I do not sign and return my proxy card?

If your shares are registered in your name, they will not be voted unless you submit your proxy card, vote by telephone or on the Internet or vote in person at the meeting.

How will my shares be voted if they are held in “street name”?

If your shares are held in “street name”, you should have received voting instructions with these materials from your broker or other nominee. We urge you to instruct your broker or other nominee how to vote your shares by following those instructions. If you do not give your broker or nominee instructions as to how to vote your shares, they may be voted only on matters for which the broker or nominee has discretionary authority under applicable rules. These “broker non-votes” will be counted for purposes of determining whether a quorum is present but will not be counted for any purpose with respect to Proposals 2, 3 and 4.

How are votes counted?

In the election of directors, you may vote either “for” each nominee or withhold your vote. You may vote “for”, “against” or “abstain” on each of the other proposals. Abstentions, although counted for purposes of determining whether a quorum is present, will not be counted for any other purpose with respect to Proposals 2, 3, 4 and 5.

If you sign and return your proxy without voting instructions, your shares will be counted as a “for” vote in favor of each nominee and in favor of each of the other proposals.

How many votes must the nominees have to be elected as Directors?

The nine nominees receiving the highest number of “for” votes will be elected as directors. This number is called a plurality.

What happens if one or more of the nominees is unable to stand for election?

The Board may reduce the number of directors or select a substitute nominee. In the latter case, if you have completed and returned your proxy card, Lawrence F. Probst III and Warren C. Jenson shall have the discretion to vote your shares for a substitute nominee. They cannot vote for more than nine nominees.

How many votes are required to pass the Exchange Program, the amendments to the 2000 Equity Plan and 2000 Purchase Plan, and to ratify the Company’s selection of independent auditors?

The Exchange Program, Equity Plan and Purchase Plan amendments and the ratification of independent auditors must receive a “for” vote of a majority of the voting shares present at the meeting in person or by proxy and voting on these proposals.

Where do I find the voting results of the meeting?

We will announce preliminary voting results at the meeting. We will also publish the final results in a quarterly report on Form 10-Q, which we will file with the Securities and Exchange Commission. Once filed, you can request a copy of the Form 10-Q by contacting our Investor Relations department at (650) 628-7352 or the SEC at (800) SEC-0330 for the location of its nearest public reference room. You can also get a copy on the Internet at <http://investor.ea.com> or through the SEC’s electronic data system called EDGAR at www.sec.gov.

Why are you proposing the Exchange Program?

We are proposing the Exchange Program to:

- offer a meaningful retention incentive for employees who currently hold stock options with exercise prices significantly higher than the current market prices of our Common Stock to remain with the Company;
- to reduce our “overhang” of outstanding equity awards; and
- to further align our outstanding equity compensation with our philosophy of using a mix of stock options and other equity-based incentives.

For more information regarding the Exchange Program, please see *Proposal 2. Approval of the Exchange Program* below.

Why are you amending the Equity Plan?

We are amending the Equity Plan to increase by 11 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units — from 4 million to 15 million shares. If the proposed increase is not approved, we will have an insufficient number of shares available to issue restricted stock rights in connection with, and therefore will be unable to implement, the Exchange Program.

We are also proposing to amend the Equity Plan to limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will be available for issuance under the Equity Plan to a total of 7 million plus the number of shares necessary for the issuance of the restricted stock rights to be granted in connection with the Exchange Program.

For more information regarding the proposed amendments to the Equity Plan, please see *Proposal 3. Amendments to the 2000 Equity Incentive Plan* below.

Why are you amending the Purchase Plan?

We are amending the Purchase Plan to increase the number of shares available for issuance by an additional 1.5 million shares. The Purchase Plan enables our employees to purchase our common stock through payroll deductions and provides continuing opportunities for our employees to become stockholders. It also provides an incentive for continued employment. Since the adoption of the Purchase Plan, we have experienced both significant growth in the number of employees, as well as an increase in the percentage of employees, who elect to participate in the Purchase Plan. We estimate that the proposed increase of shares available for issuance under the Purchase Plan will permit all current and potential future employees to fully participate in the Purchase Plan through at least the end of fiscal 2007, our current fiscal year.

For more information regarding the proposed amendment to the Purchase Plan, please see *Proposal 4. Amendment to the 2000 Employee Stock Purchase Plan* below.

Who will pay for this proxy solicitation?

We have retained Georgeson & Company Inc. to solicit proxies from stockholders at an estimated fee of \$7,500 plus expenses and we will pay these costs. This fee does not include costs of preparing, assembling, printing, mailing and distributing the proxy statements and annual reports, all of which we will pay. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition, some of our officers, directors, employees and other agents may also solicit proxies personally, by telephone and by electronic and regular mail, and we will pay these costs as well. EA will also reimburse brokerage houses and other custodians for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to the beneficial owners of common stock.

Whom can I call with any questions about my shares?

You may contact your broker. If you don't own your shares through a broker but are a shareholder of record, you may also call our transfer agent, Wells Fargo Shareowner Services, at 1-800-468-9716 or visit their web site at www.wellsfargo.com/shareownerservices.

PROPOSALS TO BE VOTED ON

PROPOSAL 1. ELECTION OF DIRECTORS

At the Annual Meeting, stockholders will elect nine directors to hold office for a one-year term until the next Annual Meeting (or until their respective successors are elected and qualified). All nominees have consented to serve a one-year term, if elected.

The Board has nominated the following directors to stand for re-election this year:

- M. Richard Asher
- Leonard S. Coleman
- Gary M. Kusin
- Gregory B. Maffei
- Timothy Mott
- Vivek Paul
- Lawrence F. Probst III
- Linda J. Sreere

In addition, the Board has nominated the following candidate to stand for election:

- Richard A. Simonson

Mr. Simonson was referred to our Nominating and Governance Committee as a potential candidate for director by an external, independent recruiting firm. If elected, Mr. Simonson will fill the seat being vacated by Robert W. Pittman, a current director who will not be standing for re-election at the Annual Meeting.

Required Vote and Board of Directors' Recommendation

The nine nominees receiving the highest number of "for" votes will be elected as directors. Shares represented by your proxy will be voted for the election of the nine nominees recommended by EA's management unless you mark your proxy to "withhold authority" to so vote.

The Board recommends a vote FOR each of the nominees.

Director Biographies

Each of the following directors and Mr. Simonson have been nominated for election or re-election at the 2006 Annual Meeting.

M. Richard Asher
Director since 1984

Mr. Asher, age 74, is presently an attorney, a consultant, and an affiliate professor with Florida Atlantic University. He was a senior executive officer and CEO in the music and record business with CBS, Warner Brothers and PolyGram Records for over 25 years. Mr. Asher is a director of several private companies and previously served as a director for a number of public companies.

Leonard S. Coleman

Director since 2001

Mr. Coleman, age 57, served as Senior Advisor to Major League Baseball from 1999 until 2005 and, from 2001 to 2002, was the Chairman of ARENACO, a subsidiary of Yankees/Nets. Mr. Coleman was President of The National League of Professional Baseball Clubs from 1994 to 1999, having previously served since 1992 as Executive Director, Market Development of Major League Baseball. Mr. Coleman serves on the Board of Directors of the following public companies: Cendant Corporation; Omnicom Group Inc.; H.J. Heinz Company; Churchill Downs Inc.; and Aramark Corporation.

Gary M. Kusin

Director since 1995

Mr. Kusin, age 55, has been a Special Advisor to the Texas Pacific Group since June 2006. He served as the President and Chief Executive Officer of Fedex Kinko's Office and Print Services, an operating division of Fedex, Inc. from August 2001 until February 2006. Fedex Kinko's is a leading provider of document solutions and business services. From September 1998 to July 2001, he was the Chief Executive Officer of HQ Global Workplaces, Inc., a global leader in office outsourcing. In April 2002, HQ Global filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code and subsequently emerged from bankruptcy in October 2003. Prior to September 1998, Mr. Kusin was co-founder and Chairman of Kusin Gurwitsch Cosmetics, LLC and co-founder and President of Babbages, Inc.

Gregory B. Maffei

Director since 2003

Mr. Maffei, age 46, has served as President and Chief Executive Officer of Liberty Media Corporation, which owns electronic retailing, media, communications and entertainment businesses and investments, since February 2006. He joined Liberty Media in November 2005 as CEO-Elect. From June 2005 until November 2005, Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation. From 2000 until June 2005, Mr. Maffei served as Chief Executive Officer of 360networks Corporation, a broadband telecom service provider, and also became Chairman of the Board of 360networks in 2002. Previously, Mr. Maffei was with Microsoft Corporation from 1993 to 2000, in several positions, including Senior Vice President, Finance and Administration and Chief Financial Officer. Mr. Maffei also served as Chairman of Expedia, Inc. from 1999 to 2002. Mr. Maffei serves on the Board of Directors of Liberty Media.

Timothy Mott

Director since 1990

Mr. Mott, age 57, has been Chairman of All Covered, a nationwide information technology outsourcing company focused on small and mid-size businesses, since June 2000 and was Chief Executive Officer from November 2001 to February 2004. At various times prior to 1999, Mr. Mott co-founded and was Chairman of Audible Inc., co-founded and was Chief Executive Officer and Chairman of Macromedia Inc., co-founded and was Senior Vice President of Electronic Arts, and was a member of the research staff at Xerox PARC. Other than in his role as a director of EA, Mr. Mott has had no operating involvement with EA since he ceased serving as an executive officer in 1990.

Vivek Paul

Director since 2005

Mr. Paul, age 47, has been a partner with the Texas Pacific Group since October 2005. From July 1999 to September 2005, Mr. Paul served as Vice Chairman of the Board of Directors of Wipro, Ltd., a provider of integrated business, technology and process solutions, and Chief Executive Officer of Wipro Technologies, Wipro's global information technology, product engineering, and business process services segments. From January 1996 to July 1999, Mr. Paul was General Manager of Global CT Business at General Electric, Medical Systems Division. From March 1993 to December 1995, he served as President and Chief Executive Officer of Wipro GE Medical Systems Limited. Mr. Paul holds a Bachelor of Engineering from the Birla Institute of Technology and Science, and an M.B.A. from the University of Massachusetts, Amherst.

Lawrence F. Probst III

Director since 1991

Mr. Probst, age 56, has been employed by EA since 1984. He has served as Chairman of the Board since July 1994, and Chief Executive Officer since May 1991. Previously Mr. Probst served as President from 1991 until 1998 and Senior Vice President of EA Distribution from 1987 to 1991. Mr. Probst holds a B.S. degree from the University of Delaware.

Richard A. Simonson

Candidate for Director

Mr. Simonson, age 47, has served as Executive Vice President and Chief Financial Officer of Nokia Corporation, a manufacturer of mobile devices and a leader in mobile network equipment, solutions and services since 2004. From 2001 until 2003, Mr. Simonson served as Vice President & Head of Customer Finance of Nokia. In 2001, Mr. Simonson was Managing Director of the Telecom & Media Investment Banking Group of Barclays Capital. Prior to joining Barclays Capital, Mr. Simonson spent 16 years at Bank of America Securities where he held various positions, including Managing Director & Head of Global Project Finance, Global Corporate & Investment Bank, San Francisco and Chicago. Mr. Simonson holds a B.S. degree from the Colorado School of Mines and an M.B.A. from Wharton School of Business at the University of Pennsylvania.

Linda J. Srere

Director since 2001

Ms. Srere, age 50, is currently a marketing and advertising consultant. Previously, Ms. Srere was President of Young & Rubicam Advertising. Since 1994, Ms. Srere held many positions with Young & Rubicam Inc. (“Y&R”), including Vice Chairman and Chief Client Officer, Executive Vice President and Director of Business Development, Group Managing Director, and in 1997, was named Chief Executive Officer of Y&R’s New York office, becoming the first female CEO in the company’s 75-year history. Ms. Srere also serves on the Board of Directors of aQuantive, Inc., a digital marketing services and technology company, and Universal Technical Institute, Inc., a technical education provider.

BOARD, BOARD MEETINGS, AND COMMITTEES

Our Board of Directors consists of nine directors. The Board has determined that Mr. Simonson and all of our current directors, other than Mr. Probst, are “independent” as that term is used in the NASDAQ Marketplace Rules.

The Board meets on a fixed schedule four times each year and also occasionally holds special meetings and acts by written consent. At each regularly scheduled meeting, the independent members of the Board meet in executive session separately without management present. A Lead Director, elected by the independent directors and serving a two-year term, is responsible for chairing executive sessions of the Board and other meetings of the Board in the absence of the Chairman of the Board, serving as a liaison between the Chairman of the Board and the other independent directors, and overseeing the Board’s stockholder communication policies and procedures (including, under appropriate circumstances, meeting with stockholders). Our Lead Director may also call meetings of the independent directors. The term of our current Lead Director, Linda Srere, is set to expire at the 2006 Annual Meeting of Stockholders. The independent directors of the Board have elected Gary Kusin to replace Ms. Srere as Lead Director for a two-year term beginning with our 2006 Annual Meeting of Stockholders.

The Board currently has three committees, each of which operates under a charter approved by the Board: the Audit Committee; the Compensation Committee; and the Nominating and Governance Committee. The Board of Directors amended and restated the Audit Committee’s charter in May 2006, amended the Compensation Committee’s charter in July 2005, and adopted the Nominating and Governance Committee’s charter in May 2003. A copy of the Audit Committee Charter may be found in Appendix C to this proxy statement. In addition, copies of the charters of each Committee may be found in the Investor Relations portion of our website at <http://investor.ea.com>. In accordance with the charters for each, and with current regulatory requirements, all members of these Committees are independent

directors. During fiscal 2006, each director participated in at least 75% of all Board meetings and Committee meetings held during the period for which he or she was a member.

As of June 1, 2006, the Committee members were as follows:

Audit	Gregory B. Maffei (Chair), Gary M. Kusin and M. Richard Asher
Compensation	M. Richard Asher (Chair), Robert W. Pittman, and Linda J. Srere
Nominating and Governance	Linda J. Srere (Chair), Timothy Mott and Leonard S. Coleman

The Board is expected to review and, where appropriate, change Committee assignments at its regularly-scheduled meeting in July 2006.

Audit Committee

The Audit Committee assists the Board in its oversight of the Company’s financial reporting and other matters, and is directly responsible for the appointment, compensation and oversight of our independent auditors. The Audit Committee is comprised of three directors, each of whom in the opinion of the Board of Directors meets the independence requirements and the financial literacy standards of the NASDAQ Marketplace Rules, as well as the independence requirements of the SEC. In the opinion of the Board of Directors, Mr. Maffei meets the criteria for an “audit committee financial expert” as set forth in applicable SEC rules. The Audit Committee met ten times in fiscal 2006. For further information about the Audit Committee, please see the *Report of the Audit Committee* below.

Compensation Committee

The Compensation Committee is responsible for setting the overall compensation strategy for the Company, for determining the compensation of the CEO and other executive officers and for overseeing the Company’s equity incentive plans and other benefit plans. In addition, the Compensation Committee is responsible for reviewing and recommending to the Board compensation for non-employee directors. The Compensation Committee is comprised of three directors, each of whom in the opinion of the Board of Directors meets the independence requirements of the NASDAQ Marketplace Rules and qualifies as an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code, as amended. The Compensation Committee met six times in fiscal 2006 and also acted frequently by written consent. For further information about the Compensation Committee, please see the *Report of the Compensation Committee* below.

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for recommending to the Board nominees for election to the Board of Directors, for appointing directors to Board Committees, and for reviewing developments in corporate governance, reviewing and ensuring the quality of the Company’s succession plans, recommending formal governance standards to the Board, and establishing the Board’s criteria for selecting nominees for director and for reviewing from time to time the appropriate skills, characteristics and experience required of the Board as a whole, as well as its individual members. The Nominating and Governance Committee is comprised of three directors, each of whom in the opinion of the Board of Directors meets the independence requirements of the NASDAQ Marketplace Rules. The Nominating and Governance Committee met four times in fiscal 2006.

In evaluating nominees for director to recommend to the Board, the Nominating and Governance Committee will take into account many factors within the context of the characteristics and needs of the Board as a whole. While the specific needs of the Board may change from time to time, all nominees for director are considered on the basis of the following minimum qualifications:

- the highest level of personal and professional ethics and integrity, including a commitment to EA’s ACTION values (as set forth in EA’s Global Code of Conduct);

- practical wisdom and mature judgment;
- broad training and significant leadership experience in business, entertainment, technology, finance, corporate governance, public interest or other disciplines relevant to the long-term success of EA;
- the ability to gain an in-depth understanding of EA's business; and
- a willingness to represent the best interests of all EA stockholders and objectively appraise management's performance.

In determining whether to recommend a director for re-election, the Nominating and Governance Committee will also consider the director's tenure on the Board, past attendance at meetings, participation in and contributions to the activities of the Board, the Director's continued independence (including any actual, potential or perceived conflicts of interest), as well as the director's age and changes in his or her principal occupation or professional status.

The Nominating and Governance Committee believes that the continuing service of qualified incumbent directors promotes stability and continuity on the Board of Directors, contributing to the Board's ability to work effectively as a collective body, while providing EA with the benefits of familiarity and insight into EA's affairs that its directors have developed over the course of their service. Accordingly, consistent with past EA practice, the Nominating and Governance Committee will first consider recommending incumbent directors who wish to continue to serve on the Board for re-election at EA's annual meeting of stockholders.

In situations where the Nominating and Governance Committee determines not to recommend an incumbent director for re-election, an incumbent director declines to stand for re-election, or a vacancy arises on the Board for any reason (including the resignation, retirement, removal, death or disability of an incumbent director or a decision of the directors to expand the size of the Board), the Committee will commence a search for new director nominees. The Nominating and Governance Committee may, in its discretion, use a variety of means to identify and evaluate potential nominees for director. The Nominating and Governance Committee has used, and may continue to use, qualified search firms and may also work with members of EA's Human Resources department to identify potential nominees meeting the Board's general membership criteria discussed above. The Nominating and Governance Committee may also consider potential nominees identified by other sources, including current directors, senior management and stockholders. In determining whether to recommend a candidate to the Board of Directors, the Nominating and Governance Committee will consider the current composition and capabilities of current directors, as well as any additional qualities or capabilities considered necessary or desirable in light of the existing or anticipated needs of the Board.

The Nominating and Governance Committee will evaluate candidates proposed by stockholders under criteria similar to the evaluation of other candidates, except that it may also consider as one of the factors in its evaluation, the amount of EA voting stock held by the stockholder and the length of time the stockholder has held such stock. Stockholders wishing to submit candidates for consideration by the Nominating and Governance Committee may do so by writing to EA's Corporate Secretary at 209 Redwood Shores Parkway, Redwood City, CA 94065, Attn: Director Nominations. To be considered by the Nominating and Governance Committee in connection with EA's annual meeting of stockholders, recommendations must be submitted in writing to EA not less than 120 calendar days prior to the anniversary of the date on which EA's proxy statement was released to stockholders in connection with the previous year's annual meeting (on or about March 2, 2007 for our 2007 Annual Meeting of Stockholders). Recommendations should include: (1) the stockholder's name, address and telephone number; (2) the amount and nature of record and/or beneficial ownership of EA securities held by the stockholder; (3) the name, age, business address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the proposed candidate; (4) a description of the qualifications and background of the proposed candidate that addresses the minimum qualifications and other criteria for Board membership approved by the Board from time to time and set forth in EA's Corporate Governance Guidelines; (5) the amount and nature of

record and/or beneficial ownership of EA securities held by the proposed candidate, if any; (6) a description of all arrangements or understandings between the stockholder and the proposed candidate relating to the proposed candidate's candidacy; (7) a statement as to whether the proposed candidate would be considered an independent director under applicable NASDAQ Marketplace Rules; (8) the consent of the proposed candidate (a) to be named in the proxy statement relating to EA's annual meeting of stockholders, and (b) to serve as a director if elected at such annual meeting; and (9) any other information regarding the proposed candidate that may be required to be included in a proxy statement by applicable SEC rules. The Nominating and Governance Committee may request any additional information reasonably necessary to assist it in assessing a proposed candidate.

Corporate Governance Guidelines

Our Board of Directors has adopted, upon the recommendation of the Nominating and Governance Committee, a formal set of Corporate Governance Guidelines. A complete copy of the Corporate Governance Guidelines are available in the Investor Relations portion of our website at <http://investor.ea.com>. Our Corporate Governance Guidelines contain policies relating to:

- Board membership and independence criteria;
- Director resignations;
- Executive sessions of independent directors led by a Lead Director;
- Authority to hire outside advisors;
- Director orientation and education;
- Board and Committee self-evaluations;
- Attendance at annual meetings of stockholders;
- Stock ownership guidelines for our directors and executive officers;
- Stockholder communications with the Board; and
- Access to management, CEO evaluation and management succession planning.

Global Code of Conduct

Our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers) is available in the Investor Relations section of our website at <http://investor.ea.com>. We will post amendments to our Global Code of Conduct in the Investor Relations section of our website. Copies of our charters and Global Code of Conduct are available without charge by contacting our Investor Relations department at (650) 628-7352.

Director Attendance at Annual Meetings

Our directors are expected to make every effort to attend our annual meeting of stockholders. Eight of our nine current directors attended our 2005 Annual Meeting of Stockholders.

Stockholder Communications with the Board of Directors

EA stockholders may communicate with the Board as a whole, with a committee of the Board, or with an individual director by sending a letter to EA's Corporate Secretary at Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065, or by sending an email to StockholderCommunications@ea.com. All stockholder communications received will be handled in accordance with procedures approved by the independent directors serving on the Board. For further information regarding the submission of stockholder communications, please visit the Investor Relations portion of our website at <http://investor.ea.com>.

DIRECTOR COMPENSATION AND STOCK OWNERSHIP GUIDELINES

Mr. Probst, the Company's Chief Executive Officer, is not paid additional compensation for his services as a director. During fiscal 2006, our non-employee directors received the following compensation:

Cash Compensation

- \$35,000 annual retainer for service on the Board of Directors;
- \$7,500 annual retainer for service on the Compensation or Nominating and Governance Committees;
- \$2,500 additional annual retainer for service as Chair of the Compensation or Nominating and Governance Committees;
- \$10,000 annual retainer for service on the Audit Committee; and
- \$5,000 additional annual retainer for service as Chair of the Audit Committee.

In addition, individual directors were eligible to earn up to \$1,000 per day, with the approval of the Board of Directors, for special assignments, which may include providing advisory services to management in such areas as sales, marketing, public relations and finance (provided, however, no independent director is eligible for a special assignment if the assignment or payment for the assignment would prevent the director from being considered independent under applicable NASDAQ Marketplace or SEC rules). No directors earned any compensation for special assignments during fiscal 2006.

Stock Compensation

Upon their initial appointment or election to the Board, new directors receive an option grant to purchase 25,000 shares issued under the 2000 Equity Incentive Plan. Each continuing director receives an annual option grant to purchase 10,000 shares upon his or her re-election to the Board. In fiscal 2006, annual option grants to purchase 10,000 shares of common stock were made under the Equity Plan to each of the non-employee directors who was re-elected at the 2005 Annual Meeting of Stockholders, other than Mr. Paul. Because Mr. Paul had been appointed to the Board on June 15, 2005, the number of shares subject to his annual grant option was pro-rated to 833 shares. All annual grant options were granted on July 28, 2005, the date of the directors' re-election to the Board, at an exercise price of \$58.45 per share.

Under the Equity Plan, non-employee directors may elect to receive all or part of their cash compensation in the form of common stock. As an incentive for our non-employee directors to increase their stock ownership in EA, non-employee directors making such an election receive shares of common stock valued at 110% of the cash compensation they would have otherwise received.

The material terms regarding the exercise price of options, vesting, changes in capital structure, assumption of options and acceleration of vesting and prohibitions on "repricing" under the Equity Plan are contained in Appendix A to this proxy statement.

Stock Ownership Guidelines

Each non-employee director is required, within three years of becoming a director, to own shares of EA common stock having a value of at least 3 years' annual retainer for service on the Board. As of June 1, 2006, each of our directors had either fulfilled their ownership requirements or had not yet reached three years of service.

PROPOSAL 2. APPROVAL OF THE EXCHANGE PROGRAM

On June 19, 2006, our Board of Directors authorized, subject to stockholder approval, a voluntary program (the “Exchange Program”) that, if implemented, will permit our eligible employees to exchange certain outstanding stock options that are significantly “underwater” for a lesser number of shares of restricted stock or restricted stock units to be granted under our 2000 Equity Incentive Plan, provided that the proposed amendments to the Equity Plan are approved by the stockholders (see *Proposal 3. Amendments to the 2000 Equity Incentive Plan*). The Exchange Program will be open to all employees of the Company and any of our subsidiaries designated for participation by the Compensation Committee of the Board of Directors. However, members of the Board of Directors and our Named Executive Officers will not be eligible to participate. Options eligible for the Exchange Program (“Eligible Options”) will be those having exercise prices that are at least 115% of the average closing price of our Common Stock as reported on the NASDAQ National Market for the five business days preceding the date on which we commence the program. As a prerequisite to the implementation of the Exchange Program, stockholders must not only approve this proposal, but also approve the proposed amendment to the Equity Plan described in Proposal 3 below.

Eligible employees who elect to participate in the Exchange Program may surrender one or more outstanding grants of Eligible Options and receive in exchange awards for a lesser number of shares of Common Stock. These awards may consist either of shares of restricted stock or restricted stock units, subject to determination within the discretion of the Compensation Committee. In making this determination, the Compensation Committee will take into account factors including tax and other laws applicable to an exchange of options for such awards in each of the tax jurisdictions of our participating employees. Restricted stock is an award of shares of Common Stock that remain subject to forfeiture upon termination of employment until they have vested following a specified period of employment. Restricted stock units are rights to receive shares of Common Stock on specified future dates when those rights have vested following a required period of employment. In this proposal, we refer to both shares of restricted stock and restricted stock units as “restricted stock rights.” The weighted average ratio of shares subject to Eligible Options cancelled to restricted stock rights issued will be approximately 3.3-to-1 and is expected to range from 3-to-1 to 4-to-1, subject to adjustment as further described below. These exchange ratios have been selected to result in the issuance of restricted stock rights that have a value, as of the closing date of the Exchange Program (“Exchange Date”), that is equal to or less than the value, determined using the Black-Scholes option valuation model, of the options to be cancelled in exchange for the restricted stock rights. The restricted stock rights will be subject to vesting schedules ranging from a minimum of two years to a maximum of four years measured from August 1, 2006, depending on the extent to which the Eligible Options exchanged were vested (or, in the case of Eligible Options that cliff vest in their entirety after a minimum of three years, if at least 50% or more of the time required to vest has elapsed) prior to their cancellation.

Reasons for the Exchange Program

The Company has granted stock options periodically to a substantial portion of its employees and those of its subsidiaries. The Company has also assumed stock options in connection with certain acquisitions, including stock options granted by JAMDAT Mobile Inc., which was acquired by the Company in February 2006. Each stock option award specifies the exercise price that the employee must pay to purchase shares of Common Stock when the option is exercised. The exercise price per share is set at the closing market price of a share of our Common Stock on the date the option is granted. Employees receive value from their options only by exercising their rights under the options to purchase shares of Common Stock and subsequently selling the purchased shares at a price that exceeds their purchase price.

Restore Retention Incentives. Like many companies, our stock price has experienced significant volatility during the last several years. As a result, many of our employees hold options with exercise prices significantly higher than the current market price of our Common Stock. On June 19, 2006, options to purchase 18,463,724 shares held by our employees (other than our Named Executive Officers and non-employee directors), representing approximately 60% of outstanding options, had exercise prices greater

than \$41.21, the closing price of our Common Stock on that date, as reported on the NASDAQ National Market. These underwater options had a weighted average exercise price of \$55.89 and a weighted average expected term of 6 years. On June 19, 2006, approximately 92% of our employees held at least some options that were underwater, and for approximately 63% of our employees all of their options were underwater. The exercise prices of options that were underwater on June 19, 2006, ranged from \$41.49 to \$65.93 per share. These underwater options may not be sufficiently effective as performance and retention incentives. We believe that to enhance long-term stockholder value we need to maintain competitive employee compensation and incentive programs that will assist us to motivate and retain our employees. By offering restricted stock rights, which are designed to deliver value without regard to an exercise price, we believe the Exchange Program will offer a meaningful retention incentive for eligible employees to remain with the Company.

Reduce Outstanding Overhang. Since many of the Eligible Options have been out of the money for an extended period of time, employees have had little or no incentive to exercise them. As a result, the value of our overhang (i.e., the total number of shares subject to outstanding equity awards as a percentage of our total shares of Common Stock outstanding) has decreased as a potential retention incentive for our employees. The Exchange Program will also serve to reduce our overhang, particularly that portion consisting of stock options having the highest exercise prices with the least employee retention value. Under the program, participating employees will receive significantly fewer restricted stock rights than the number of shares subject to the options they surrender. Because participating employees will exchange a greater number of options for a lesser number of restricted stock rights, there will be an immediate reduction in our overhang. For example, assuming that the average closing market price of our Common Stock for the five business days preceding the commencement of the Exchange Program is \$41.21, options for a total of 15,989,086 shares having exercise prices greater than \$47.39 (115% of \$41.21) would be eligible for participation. If all of these Eligible Options are surrendered for cancellation, we would issue restricted stock rights for 4,829,496 shares, based on the exchange ratios described in the table set forth under “Exchange Ratios” below, resulting in a net reduction in overhang from the Exchange Program of 11,159,590 shares or approximately 3.6% of the number of shares of our Common Stock issued and outstanding as of June 19, 2006. In this example, assuming all Eligible Options were surrendered for cancellation in the Exchange Program and not taking into account additional stock option grant and exercise activity prior to completion of the Exchange Program, immediately following the conclusion of the Exchange Program, we would have (i) options outstanding to purchase 23,664,173 shares, with a weighted average exercise price of \$26.88 and a weighted average remaining contractual term of 5.21 years, and (ii) 5,453,430 restricted stock rights outstanding (as compared to 623,934 restricted stock rights outstanding on June 19, 2006).

The actual reduction in our overhang that could result from the Exchange Program could differ materially from the example in the preceding paragraph and is dependent on a number of factors, including the exercise price at which outstanding options become eligible to participate in the Exchange Program and the actual level of employee participation in the program. The reduction in overhang would also be partially offset by the grant of additional awards under our Equity Plan, including the retention awards described in “Additional Retention Awards” below. As of June 19, 2006, there were 17,258,478 shares available for future issuance under the Equity Plan. In addition, consistent with the terms of the Equity Plan, we intend to (i) use shares subject to the options cancelled for the issuance of the restricted stock rights granted under the Exchange Program, and (ii) return up to a total of 7 million shares subject to the options cancelled in the Exchange Program to the Equity Plan to be available for issuance pursuant to future awards. While returning these shares to the Equity Plan will not have any immediate impact on our outstanding overhang, their use for future equity awards would increase our outstanding overhang.

Align Equity Incentives with Current Compensation Philosophy. In designing the terms of the Exchange Program and recommending its approval by the Board of Directors, the Compensation Committee took into account its philosophy of shifting from the exclusive use of stock options to using a mix of stock options and other equity-based incentives, such as restricted stock units, to provide long-term equity incentives to our employees (see “Compensation Committee Report on Executive Compensation —

Executive Compensation — Stock-Based Compensation”). By granting replacement awards consisting of restricted stock rights rather than new, at-the-money stock options, the Compensation Committee seeks to strengthen the Company’s equity-based retention incentives, while further aligning our existing equity compensation programs with our compensation philosophy.

Additional Retention Awards

The Compensation Committee believes that the Exchange Program alone will not necessarily provide a sufficiently strong retention incentive for certain key employees. Therefore, in addition to proposing adoption of the Exchange Program, the Compensation Committee has adopted a program of granting a mix of new stock option and restricted stock unit awards (the “Retention Awards”), consistent with our current equity compensation programs, to a targeted group of key employees, which may include our Named Executive Officers. The Retention Awards do not require stockholder approval and are therefore not part of Proposal 2. When implemented, the Compensation Committee anticipates granting a mix of stock options to purchase approximately 2.2 million shares and 600,000 restricted stock units to a select group of key employees. Retention awards granted to key employees at more senior positions will consist of a combination of stock options and restricted stock units, while others will receive Retention Awards solely in the form of restricted stock units. These Retention Awards will partially offset the reduction in overhang achieved by the Exchange Program. In the example used to illustrate the overhang discussion above, the net reduction in overhang achieved by the combination of the Exchange Program and the Retention Awards would be 8,359,590 shares, representing approximately 2.7% of the number of shares of our Common Stock issued and outstanding as of June 19, 2006. The Compensation Committee believes that this combination of the Exchange Program and the grant of new Retention Awards is necessary to achieve the Company’s primary objective of improving its ability to retain and motivate current employees, while still achieving a favorable impact on overhang.

Implementing the Exchange Program

We have not commenced the Exchange Program, and we will not do so unless our stockholders approve both this proposal and the amendments to the Equity Plan described in Proposal 3 contained in this proxy statement and the Compensation Committee determines that the Exchange Program complies with applicable regulatory requirements (as described in more detail below). The Exchange Program will commence at a time determined by the Compensation Committee. However, even if the Exchange Program and the Equity Plan amendments are approved by our stockholders, the Compensation Committee will retain the authority, in its discretion, to terminate, amend or postpone the Exchange Program at any time prior to expiration of the election period under the Exchange Program (provided, however, in no event will the Exchange Program permit the issuance of restricted stock rights having a value greater than the value of the stock options surrendered, as estimated using the Black-Scholes option valuation model).

Upon the commencement of the Exchange Program, eligible employees holding Eligible Options will receive written materials in the form of an “Offer to Exchange” explaining the precise terms and timing of the Exchange Program. Employees will be given at least 20 business days to elect to surrender their Eligible Options in exchange for restricted stock rights. At or before the commencement of the Exchange Program, we will file the Offer to Exchange with the Securities and Exchange Commission (the “SEC”) as part of a tender offer statement on Schedule TO. Eligible employees, as well as stockholders and members of the public, will be able to obtain the Offer to Exchange and other documents filed by the Company with the SEC free of charge from the SEC’s website at www.sec.gov.

Description of the Exchange Program

Eligible Options. As of June 19, 2006, options to purchase 39,653,259 shares of our Common Stock were outstanding under all of our equity compensation plans, including options assumed by the Company in connection with acquisitions. Of these, options to purchase 15,989,086 shares of Common Stock, having exercise prices ranging from \$47.42 to \$65.93, are held by eligible employees and would be eligible for

exchange under the Exchange Program if the five-business-day average closing price of our Common Stock immediately preceding the commencement of the Exchange Program were equal to \$41.21. The Compensation Committee will retain the discretion to adjust the threshold exercise price of options eligible to participate in the Exchange Program (using the five-business-day average closing price of our Common Stock immediately preceding the commencement of the Exchange Program) if there is a significant change in the market price of our Common Stock preceding the commencement of the Exchange Program in comparison to the average market price used in determining the exchange ratios described under “Exchange Ratios” below.

Eligible Employees. The Exchange Program will be open to all of our employees and employees of any of our subsidiaries designated for participation by the Compensation Committee who hold Eligible Options. However, members of our Board of Directors and our Named Executive Officers will not be eligible to participate. In addition, we may exclude employees in certain non-U.S. jurisdictions from the Exchange Program if local tax or other laws would make their participation infeasible or impractical. To be eligible, an employee must be employed by us or one of our participating subsidiaries both at the time the Exchange Program commences and on the date the surrendered options are cancelled and restricted stock rights are granted to replace them. Any employee holding Eligible Options who elects to participate but whose employment terminates for any reason prior to the grant of the restricted stock rights, including voluntary resignation, retirement, involuntary termination, layoff, death or disability, will not be eligible to participate in the Exchange Program and will instead retain his or her Eligible Options subject to their existing terms. As of June 19, 2006, Eligible Options were held by approximately 5,600 eligible employees.

Exchange Ratios. Our objective in determining the exchange ratios applicable under the Exchange Program is to provide for the grant of replacement restricted stock rights that will have a value no greater than the value of the stock options surrendered. We estimated the fair value of the Eligible Options using the Black-Scholes option valuation model. The Black-Scholes model is a common method used for estimating the fair value of a stock option, and we have been using this model for required footnote disclosures in our financial statements through our fiscal 2006. For purposes of estimating the fair value of an Eligible Option under the Black-Scholes model, the following factors were used:

- (a) the option’s exercise price;
- (b) an assumed value of \$41.21 per share of our Common Stock, which was the closing price reported on the NASDAQ National Market on June 19, 2006;
- (c) an expected volatility of our Common Stock price (the weighted average volatility of all Eligible Options was 54%);
- (d) the expected term of the stock option (the weighted average expected term of all Eligible Options is 6 years);
- (e) a risk-free interest rate (the weighted average risk-free interest rate of all Eligible Options was 5%); and
- (f) no expected dividends.

We then discounted the resulting estimated fair value of the Eligible Options and grouped them into three exercise price ranges that also represent a range of associated Black-Scholes values. Finally, we determined an exchange ratio for each grouping of Eligible Options based on the relationship of the discounted Black-Scholes value estimate for the most valuable option within the group to an assumed fair market value of one share of our Common Stock to be made subject to a restricted stock right issued in the Exchange Program. For this purpose, we assumed a fair market value per share equal to the closing price per share of our Common Stock reported on the NASDAQ National Market on June 19, 2006. The following table provides for each of the three option exercise price ranges the number of shares subject to Eligible Options an employee must surrender in order to receive one restricted stock right in the Exchange Program, assuming an average closing market price of \$41.21 per share for the five business days preceding the commencement of the Exchange Program:

Table of Example Exchange Ratios

<u>Exercise Price Range</u>	<u>Total Shares Subject to Eligible Options</u>	<u>Exchange Ratio: Stock Option Shares per Restricted Stock Right*</u>	<u>Total Restricted Stock Rights Granted (assuming 100% participation)</u>
\$47.39 to \$53.99	8,211,321	3.0 to 1	2,738,609
\$54.00 to \$60.99	4,055,795	3.5 to 1	1,160,150
\$61.00 and greater	3,721,970	4.0 to 1	930,737

* Actual exchange ratios will be subject to change at the discretion of the Compensation Committee if there is a change in the market price of our Common Stock preceding the commencement of the Exchange Program from the market price used in determining the exchange ratios set forth in this table or a change to any of the other factors used in the Black-Scholes calculation used to determine the exchange ratios; provided, however, in no event will the Exchange Program permit the issuance of restricted stock rights having a value greater than the value of the stock options surrendered, as estimated using the Black-Scholes option valuation model.

The total number of restricted stock rights a participating employee will receive with respect to a surrendered Eligible Option will be determined by dividing the number of shares subject to the surrendered option by the applicable exchange ratio and rounding up to the nearest whole share.

The valuation of the Eligible Options and estimate of the number of restricted stock rights that may be issued in the Exchange Program were made, and the exchange ratios were calculated, on the basis of the closing price per share of our Common Stock as reported on the NASDAQ National Market on June 19, 2006. The Compensation Committee will retain the discretion to adjust the threshold exercise price of options eligible to participate in the Exchange Program and the applicable exchange ratios if there is a change in the market price of our Common Stock preceding the commencement of the Exchange Program in comparison to the market price used in determining the exchange ratios set forth in the table above or a change to any of the other factors used in the Black-Scholes calculation used to determine the exchange ratios. However, in no event will the Exchange Program permit the issuance of restricted stock rights having a value greater than the value of the stock options surrendered, as estimated using the Black-Scholes option valuation model as of the Exchange Date.

Election to Participate. Participation in the Exchange Program will be entirely voluntary. Eligible employees will have an election period of at least 20 business days from the commencement of the Exchange Program in which to determine whether they wish to participate.

Vesting of Restricted Stock Rights. Restricted stock rights issued in the Exchange Program will be completely unvested at the time they are granted and will become vested on the basis of the participant's continued employment with the Company or any of its subsidiaries. The restricted stock rights will have a minimum vesting period of two years measured from August 1, 2006, regardless of the extent to which the corresponding Eligible Options were vested upon surrender (even if the corresponding Eligible Options were already fully vested upon surrender). Eligible Options that are 50% or more vested (or, in the case of Eligible Options that cliff vest in their entirety after a minimum of three years, if at least 50% or more of the time required to vest has elapsed) on the date on which they are cancelled in the Exchange Program will be replaced by restricted stock rights vesting over a period of two years measured from August 1,

2006. Eligible Options that are less than 50% vested on the date on which they are cancelled in the Exchange Program will be replaced by restricted stock rights vesting over a period of three years measured from August 1, 2006. However, Eligible Options granted in 2006 will be replaced by restricted stock rights vesting over a period of four years measured from August 1, 2006. Restricted stock rights vesting over periods of two or four years will vest in substantially equal annual installments over the applicable period, while restricted stock rights vesting over a period of three years will vest at the rate of 25% in each of the first two years and 50% in the third year. A participant in the Exchange Program will generally forfeit any restricted stock rights received that remain unvested at the time his or her employment with us terminates for any reason.

Other Material Terms and Conditions of Restricted Stock Rights. Restricted stock rights issued in the Exchange Program will be granted pursuant to the Equity Plan and will be subject to its terms. Each share of restricted stock issued to a participant in the Exchange Program is a share of our Common Stock that remains subject to forfeiture upon the participant's termination of employment until it has vested following a specified period of employment. Each restricted stock unit issued to a participant in the Exchange Program represents a right to receive one share of our Common Stock on a fixed settlement date, which is the date on which the restricted stock unit vests based on continued employment. A participant is not required to pay any monetary consideration to receive shares of our Common Stock upon receipt of a restricted stock award or settlement of restricted stock units. However, subject to the limitations described below, employees participating in the Exchange Program will recognize taxable income in connection with their restricted stock rights awards no later than the vesting of the award, although the applicable tax laws may vary from country to country. For our U.S. employees and many of our non-U.S. employees, this income is subject to income and employment tax withholding. The Company intends to satisfy its tax withholding obligations by deducting from the shares of Common Stock that would otherwise be released to employees upon the vesting of restricted stock or issued in settlement of restricted stock units a number of whole shares having a fair market value that does not exceed by more than the value of a fractional share the applicable minimum statutory withholding requirements. All other terms and conditions of the restricted stock rights issued in the Exchange Program will be substantially the same as those that apply generally to such awards granted under the Equity Plan, as described in Appendix A to this proxy statement.

Potential Modification to Exchange Program Terms to Comply with Governmental Requirements. The terms of the Exchange Program will be described in an Offer to Exchange that will be filed with the SEC. Although we do not anticipate that the SEC would require us to materially modify the program's terms, it is possible that we will need to alter the terms of the Exchange Program to comply with comments from the SEC. Changes in the terms of the Exchange Program may also be required for tax purposes for participants in the United States as the tax treatment of the Exchange Program is not entirely certain. In addition, we intend to make the Exchange Program available to our employees who are located outside of the United States, where permitted by local law and where we determine it is feasible and practical to do so. It is possible that we may need to make modifications to the terms offered to employees in countries outside the U.S. to comply with local requirements, or for tax or accounting reasons. The Compensation Committee of the Board of Directors will retain the discretion to make any such necessary or desirable changes to the terms of the Exchange Program.

Summary of United States Federal Income Tax Consequences

The following is a summary of the anticipated material United States federal income tax consequences of participating in the Exchange Program and of holding restricted stock rights. A more detailed summary of the applicable tax considerations to participants will be provided in the Offer to Exchange. The tax consequences of the Exchange Program are not entirely certain, however, and the Internal Revenue Service is not precluded from adopting a contrary position and the law and regulations themselves are subject to change. All holders of Eligible Options are urged to consult their own tax advisors regarding the tax treatment of participating in the Exchange Program under all applicable laws prior to participating in the Exchange Program. We believe the exchange of Eligible Options for restricted stock rights pursuant to

the Exchange Program should be treated as a non-taxable exchange and the Company, our stockholders and employees should recognize no income for United States federal income tax purposes upon the surrender of Eligible Options and the grant of restricted stock rights (other than in the case of participants who receive restricted stock and make certain elections). For a summary of the current United States federal income tax consequences of restricted stock and restricted stock units we currently issue under the Equity Plan, see the discussion of the treatment of such awards contained in Appendix A to this proxy statement. The tax consequences of the receipt of restricted stock and stock units under the Equity Plan for participating non-United States employees may differ significantly from the United States federal income tax consequences described above and in Appendix A.

Accounting Treatment

Effective with our fiscal year commencing on April 2, 2006, we have adopted the provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS No. 123R"), on accounting for share-based payments. Under SFAS No. 123R, to the extent the fair value of each award of restricted stock rights granted to employees exceeds the fair value of the stock options surrendered, such excess is considered additional compensation. This excess, in addition to any remaining unrecognized expense for the stock options surrendered in exchange for the restricted stock rights, will be recognized by the Company as an expense for compensation. This expense will be recognized ratably over the vesting period of the restricted stock rights in accordance with the requirements of SFAS No. 123R. In the event that any of the restricted stock rights are forfeited prior to their vesting due to termination of employment, the expense for the forfeited restricted stock rights will be reversed and will not be recognized. Because we do not anticipate issuing any restricted stock rights having a fair value in excess of the fair value of the stock options surrendered, we do not expect to recognize any incremental compensation cost as a result of the Exchange Program.

New Plan Benefits

Because the decision of eligible employees to participate in the Exchange Program is completely voluntary, we are not able to predict who or how many employees will elect to participate, how many options of any class described in the table above under "Exchange Ratios" will be surrendered for exchange or the number of restricted stock rights that may be issued. As noted above, members of our Board of Directors and our Named Executive Officers are not eligible to participate in the Exchange Program.

Effect on Stockholders

We are not able to predict the impact the Exchange Program will have on our stockholders because we are unable to predict how many or which employees will exchange their Eligible Options. The Exchange Program was designed to avoid any additional compensation charge and to reduce the overhang from outstanding stock options. As of June 19, 2006, assuming a five-business-day average closing price of our Common Stock of \$41.21 immediately prior to the commencement of the Exchange Program, the maximum number of shares subject to Eligible Options which could be exchanged is 15,989,086 and the maximum number of shares of Common Stock underlying the restricted stock rights which could be issued using the exchange ratios set forth above is 4,829,496. As explained above, the net reduction in shares subject to outstanding equity awards resulting from the Exchange Program could be significantly lower depending on factors such as the level of participation by our employees in the Exchange Program. The reduction in overhang will also be partially offset by the grant of additional Retention Awards. In addition, we intend to return up to 7 million shares subject to options cancelled in the Exchange Program to the Equity Plan where they will be available for the grant of future awards.

Required Vote and Board of Directors Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting on this proposal.

Our Board of Directors believes that the proposed Exchange Program is favorable to the interests of our stockholders and, at the same time, will strengthen incentives for employees currently holding underwater stock options to remain with the Company and to contribute to our growth and success.

The Board recommends a vote FOR approval of the Exchange Program.

PROPOSAL 3. AMENDMENTS TO THE 2000 EQUITY INCENTIVE PLAN

The 2000 Equity Incentive Plan, which initially was approved by the stockholders on March 22, 2000, continues EA's program of providing equity incentives to eligible employees, officers and directors. We offer these incentives in order to assist in recruiting, retaining and motivating qualified employees, officers and directors. Since the Equity Plan's adoption, 67,400,000 shares of common stock have been reserved for issuance. The following summary of the proposed amendments to the Equity Plan is subject to the specific provisions contained in the full text of the Equity Plan, as proposed to be amended, which we have filed with the Securities and Exchange Commission along with this proxy statement. For more information regarding the Equity Plan, we urge you to read the full text of the Equity Plan, as proposed to be amended, or the summary of its material terms, as proposed to be amended, included as Appendix A of this proxy statement.

We continue to believe that alignment of the interests of our stockholders and our employees, officers and directors is best advanced through the issuance of equity incentives as a portion of their total compensation. In this way, we reinforce the link between our stockholders and our employees', officers' and directors' focus on personal responsibility, creativity and stockholder returns. We also believe that delivering a portion of their total compensation in the form of long-term equity compensation helps encourage a long-term view in an industry that is subject to lengthy business cycles. Equity incentives such as stock options and restricted stock units also play an important role in our recruitment and retention strategies, as the competition for creative and technical talent and leadership in our industry is intense.

Having said this, we also recognize our responsibility to keep the dilutive impact of the equity incentives we offer within a reasonable range. For example, we decreased the size of option grants we made to our executive officers in fiscal 2004 and, following the two-for-one split of our common stock in November 2003, we did not increase our broad-based stock option award guidelines to reflect the split. During fiscal 2006, a year in which our employee base grew by approximately 1,050 people, we carefully managed stock option and restricted stock unit issuances, granting stock options to purchase a total of 7,576,630 shares (excluding 1,877,964 shares underlying options we assumed in connection with our acquisition of JAMDAT Mobile Inc.) and restricted stock units to acquire a total of 654,230 shares (excluding 10,096 shares underlying restricted stock units we assumed in connection with our acquisition of JAMDAT Mobile Inc.), together representing approximately 2.7% of our total shares outstanding. During fiscal 2005, fiscal 2004 and fiscal 2003, we granted stock options at an average annual rate of approximately 3.6% of total shares outstanding. Going forward, we intend to continue to responsibly manage issuances of equity incentive awards under the Equity Plan.

The Equity Plan also contains several features designed to protect stockholders' interests. For example, the exercise price of outstanding options issued under the Plan may not be reduced without stockholder approval, and the Plan does not allow any options to be granted at less than 100% of fair market value. The Equity Plan also does not contain an "evergreen" provision whereby the number of authorized shares is automatically increased on a regular basis. In addition, the Equity Plan prohibits us from loaning, or guaranteeing the loan of, funds to participants under the Equity Plan.

We are proposing an amendment to the 2000 Equity Incentive Plan to increase by 11 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan — from 4 million to 15 million shares.

In May 2005, we began granting restricted stock units to certain of our U.S.-based employees, and in March 2006, we began offering restricted stock units to our employees throughout the world. As described in Proposal 2, with stockholder approval of that proposal and this Proposal 3, we expect to implement an Exchange Program under which eligible employees will be offered the opportunity to surrender significantly "underwater" stock options in exchange for a lesser number of shares of restricted stock or restricted stock units to be granted under the Equity Plan. While reducing the number of shares subject to outstanding stock options and equity awards in general, we anticipate that the Exchange Program will require the issuance of an estimated 4.8 million shares (based on a set of assumptions discussed in Proposal 2 above)

under the restricted stock and restricted stock unit awards to be granted in exchange for surrendered stock options. In addition, we expect restricted stock and/or restricted stock units to remain an important form of equity incentive compensation that we offer our employees worldwide, including, for example, as a component of the Retention Awards program described in Proposal 2 above under which we intend to grant restricted stock units to a select group of key employees. We therefore believe it is important that the Equity Plan be amended to allow us to issue an adequate amount of restricted stock and restricted stock units to attract, retain and motivate eligible employees and to provide the shares necessary for awards to be granted in exchange for stock options surrendered in the Exchange Program.

We are also proposing to amend the Equity Plan to limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will again become available for issuance under the Equity Plan to 7 million plus the number of shares necessary for the issuance of the restricted stock rights to be granted in connection with the Exchange Program.

Under the existing terms of the Equity Plan, shares subject to awards that terminate without shares being issued automatically become available for issuance under other awards granted pursuant to the Equity Plan. In order to limit the number of shares that will be available for future issuance as a result of the Exchange Program, however, we do not intend to return every share subject to an award cancelled in the Exchange Program back to the Equity Plan. Instead, we only intend to (i) use shares subject to the options cancelled for the issuance of the restricted stock rights granted under the Exchange Program, and (ii) return up to a total of an additional seven million shares subject to the options cancelled in the Exchange Program to the Equity Plan to be available for issuance pursuant to future awards. While returning these shares back to the Equity Plan will not have any immediate impact on our overhang, their use for future equity awards would increase our overhang.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting on this proposal.

The Board recommends a vote FOR the amendments to the 2000 Equity Incentive Plan.

PROPOSAL 4. AMENDMENT TO THE 2000 EMPLOYEE STOCK PURCHASE PLAN

The 2000 Employee Stock Purchase Plan, which initially was approved by the stockholders on July 27, 2000, provides our employees with a convenient means of purchasing equity in the Company through payroll deductions. It also provides an incentive for continued employment. Since its adoption, 5,300,000 shares of common stock have been reserved for issuance under the Purchase Plan.

Since the adoption of the Purchase Plan, we have experienced significant growth in the number of employees, as well as an increase in the percentage of employees, who elect to participate in the Purchase Plan. In addition, in February 2003, we terminated our International Employee Stock Purchase Plan, and have since allowed our international employees to participate in the Purchase Plan. The following table presents information since the beginning of fiscal 2003 relating to the aggregate number of shares purchased under the Purchase Plan and the International Purchase Plan, as well as the number of employees who have participated in such plans:

	<u>Shares Purchased Pursuant to 2000 Purchase Plan</u>	<u>Shares Purchased Pursuant to International Purchase Plan⁽¹⁾</u>	<u>Total Shares Purchased</u>	<u>No. of Employees Participating as of the Last Purchase Date in Fiscal Year</u>
Fiscal 2003	440,528	257,368	697,896	2,418
Fiscal 2004	866,541	—	866,541	2,933
Fiscal 2005	623,693	—	623,693	3,615
Fiscal 2006	624,629	—	624,629	4,281
Fiscal 2007	(2)	—	(2)	4,500 ⁽³⁾

⁽¹⁾ The International Employee Stock Purchase Plan was terminated in February 2003.

⁽²⁾ Fiscal 2007 purchases under the 2000 Purchase Plan will be made in August 2006 and February 2007.

⁽³⁾ Represents estimated number of participants in the 2000 Purchase Plan as of May 31, 2006. Participants have the right to withdraw from the 2000 Purchase Plan at any time prior to a purchase date. The number of participants may increase or decrease prior to February 2007, the last purchase date in fiscal 2007.

The proposed amendment would increase the number of shares authorized under the Purchase Plan by 1,500,000 to a total of 6,800,000, an amount that we expect will permit all current and potential future employees to fully participate in the Purchase Plan at least through fiscal 2007.

For more information about the Purchase Plan, we urge you to read the summary of its material terms included as Appendix B to this proxy statement.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting on this proposal.

The Board recommends a vote FOR the amendment to the 2000 Employee Stock Purchase Plan.

PROPOSAL 5. RATIFICATION OF THE APPOINTMENT OF KPMG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP has audited the financial statements of EA and its consolidated subsidiaries since fiscal 1987. The Board, through the Audit Committee, has appointed KPMG LLP as EA’s independent registered public accounting firm (“independent auditors”) for fiscal 2007. The Audit Committee and the Board believe that KPMG LLP’s long-term knowledge of EA and its subsidiaries is valuable to the Company. Representatives of KPMG LLP have direct access to members of the Audit Committee and the Board. Representatives of KPMG LLP will attend the meeting in order to respond to appropriate questions from stockholders, and may make a statement if they desire to do so.

Ratification of the appointment of KPMG LLP as our independent auditors is not required by our bylaws or otherwise. The Board of Directors has determined to submit this proposal to the stockholders as a matter of good corporate practice. If the stockholders do not ratify the appointment, the Audit Committee will review their future selection of auditors. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and the stockholders.

Fees of Independent Auditors

The aggregate fees billed for the last two fiscal years for each of the following categories of services are set forth below:

<u>Description of Fees</u>	<u>Year Ended March 31, 2006</u>	<u>Year Ended March 31, 2005</u>
Audit ⁽¹⁾		
– Worldwide audit fee	\$4,428,000	\$3,600,000
– Accounting concurrence and regulatory matters	67,000	169,000
Total audit fees	4,495,000	3,769,000
Audit-Related Fees ⁽²⁾		
– Benefit plan audit	27,000	18,000
Total audit-related fees	27,000	18,000
Tax ⁽³⁾		
– Compliance	618,000	690,000
– Planning	55,000	13,000
Total tax fees	673,000	703,000
All Other Fees ⁽⁴⁾		
Total all other fees	—	—
Total All Fees	\$5,195,000	\$4,490,000

⁽¹⁾ Audit Fees: This category includes the annual audit of the Company’s financial statements and management’s assessment of internal control over financial reporting, (including required quarterly reviews of financial statements included in the Company’s quarterly reports on Form 10-Q) and services normally provided by the independent auditors in connection with regulatory filings. This category also includes consultation on matters that arose during, or as a result of the audit or review of financial statements, statutory audits required for our non-US subsidiaries, and services associated with our periodic reports and other documents filed with the SEC and foreign filings, as well as Sarbanes-Oxley Section 404 (“Section 404”) compliance consultation. The increase in audit fees for fiscal 2006 was primarily due to costs incurred in connection with the annual audit of the Company’s financial statements, the audit of internal control over financial reporting, as required by Section 404 and international regulatory audits.

⁽²⁾ Audit-Related Fees: This category consists primarily of fees related to the annual audit of our 401(k) benefit plan.

⁽³⁾ Tax Services: This category includes compliance services rendered for US and foreign tax compliance and returns, and transfer pricing consultation, as well as planning and advice which consists primarily of technical tax consulting.

⁽⁴⁾ Other: In fiscal years 2005 and 2006, no products or services were provided under this category.

Services Provided by the Independent Auditors

The Audit Committee is required to pre-approve the engagement of, and has engaged, KPMG LLP to perform audit and other services for the Company and its subsidiaries. The Company's procedures for the pre-approval by the Audit Committee of all services provided by KPMG LLP comply with SEC regulations regarding pre-approval of services. Services subject to these SEC requirements include audit services, audit-related services, tax services and other services. The audit engagement is specifically approved and the auditors are retained by the Audit Committee. In some cases, pre-approval for a particular category or group of services is provided by the Audit Committee for up to a year, subject to a specific budget and to regular management reporting. In other cases, the Chairman of the Audit Committee has the delegated authority from the Audit Committee to pre-approve additional services up to a specified dollar limit, and such pre-approvals are then communicated to the full Audit Committee.

The Audit Committee considered and determined that fees for services other than audit and audit-related services are compatible with maintaining KPMG LLP's independence.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting for or against the proposal.

The Board recommends a vote FOR the ratification of KPMG LLP as our independent auditors for fiscal 2007.

OTHER BUSINESS

The Board knows of no other business for consideration at the Annual Meeting. If other matters are properly presented at the Annual Meeting, or at any adjournment or postponement of the Annual Meeting, Lawrence F. Probst III (the Company's Chief Executive Officer) and Warren C. Jenson (the Company's Chief Financial and Administrative Officer) will vote, or otherwise act, in accordance with their judgment on such matters.

PRINCIPAL STOCKHOLDERS

Common Stock

The following table shows, as of June 1, 2006, the number of shares of our common stock owned by our directors, executive officers named in the Summary Compensation Table below, our current directors and executive officers as a group, and beneficial owners known to us holding more than 5% of our common stock. As of June 1, 2006, there were 306,143,008 shares of our common stock outstanding. Except as otherwise indicated, the address for each of our directors and executive officers is c/o Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065.

<u>Stockholder Name</u>	<u>Shares Owned⁽¹⁾</u>	<u>Right to Acquire⁽²⁾</u>	<u>Percent of Outstanding Shares⁽³⁾</u>
Legg Mason Capital Management, Inc. ⁽⁴⁾	32,626,609	—	10.7
Janus Capital Management LLC ⁽⁵⁾	18,744,209	—	6.1
Wellington Management Company, LLP ⁽⁶⁾	17,682,489	—	5.8
Lawrence F. Probst III ⁽⁷⁾	730,973	3,718,300	1.5
M. Richard Asher	167,858	183,200	*
Timothy Mott ⁽⁸⁾	118,624	88,160	*
Nancy Smith	14,932	221,361	*
V. Paul Lee ⁽⁹⁾	13,256	1,341,000	*
Warren C. Jenson	13,558	904,600	*
Gregory B. Maffei	10,000	59,973	*
Robert W. Pittman	7,002	50,500	*
Gerhard Florin	6,808	235,872	*
Gary M. Kusin	4,574	60,640	*
Leonard S. Coleman, Jr.	4,095	99,872	*
Linda J. Srere	3,459	99,872	*
Vivek Paul	687	7,333	*
<i>Former executive officers:</i>			
Don A. Mattrick ⁽¹⁰⁾	9,500	0	*
Bruce McMillan ⁽¹⁰⁾	173,303	0	*
All executive officers and directors as a group (20 persons) ⁽¹¹⁾	1,102,672	7,461,970	2.8

* Less than 1%

(1) Unless otherwise indicated in the footnotes, includes shares for which the named person has sole voting and investment power, or has shared voting and investment power with his or her spouse. Excludes shares that may be acquired through stock option exercises.

(2) Represents shares of common stock that may be acquired through stock option exercises within 60 days of June 1, 2006. None of EA's directors or current executive officers hold restricted stock units that vest within 60 days of June 1, 2006.

(3) Calculated based on the total number of shares owned plus the number of shares that may be acquired through stock option exercises and the vesting of restricted stock units within 60 days of June 1, 2006.

(4) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2006. The address for Legg Mason, Inc. is 100 Light Street, Baltimore, MD 21202.

(5) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2006. The address for Janus Capital Management LLC is 100 Fillmore Street, Suite 300, Denver, CO 80206.

(6) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2006. The address for Wellington Management Company, LLP is 75 State Street, Boston, MA 02109.

(7) Includes 87,886 shares of common stock held by Mr. Probst's grantor's retained annuity trust, 10,805 shares held by Mr. Probst's spouse, and 481,441 shares held by the Probst Family LP, of which Mr. Probst is a partner.

(8) Includes 36,656 shares of common stock held in trust for the benefit of Mr. Mott's son for which Mr. Mott is the trustee.

(9) Includes 15 shares of common stock held by VPL Investments, of which Mr. Lee is the sole shareholder, and 12,803 shares held by Briel Investments, of which Mr. Lee is the sole shareholder.

(10) Mr. Mattrick and Mr. McMillan ceased serving as executive officers of EA on September 2, 2005.

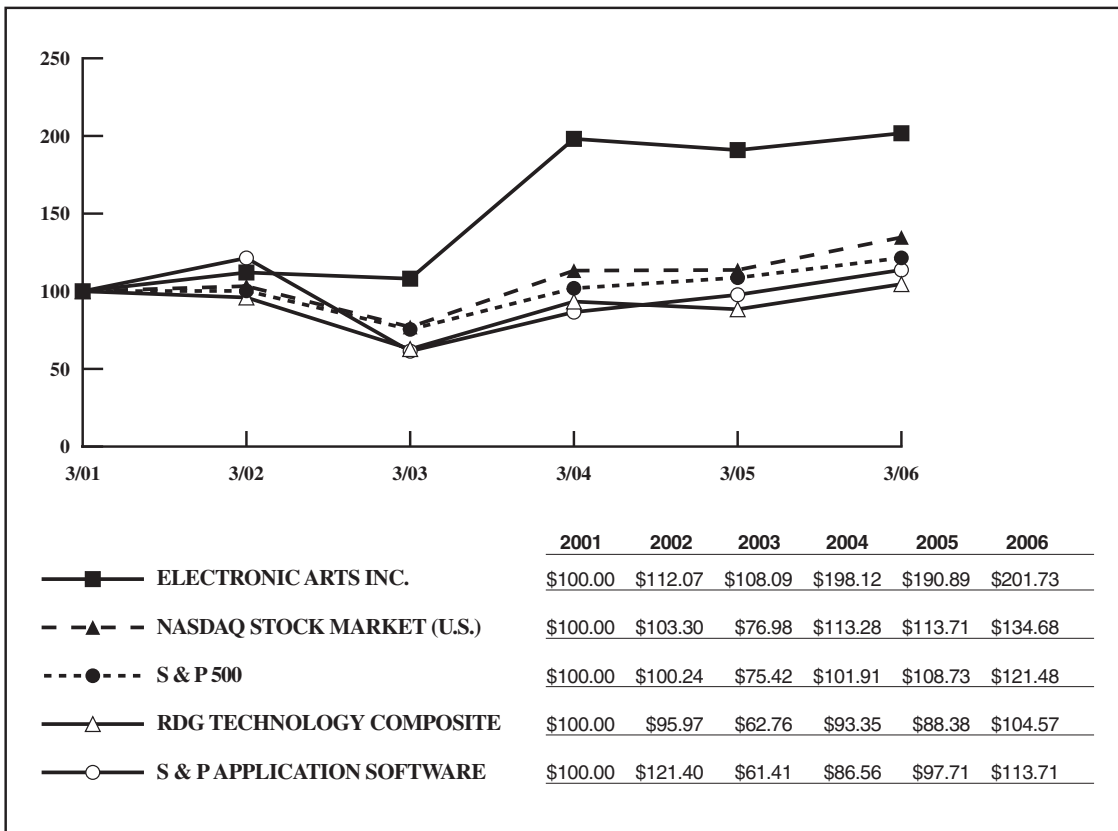
(11) Includes all executive officers and directors of EA as of June 1, 2006.

STOCK PRICE PERFORMANCE GRAPH

The following information shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

The following graph shows a five-year comparison of cumulative total returns during the period from March 31, 2001 through March 31, 2006, for our common stock, the NASDAQ Market Composite Index, the S&P 500 Index (to which EA was added in July 2002), the RDG Technology Index and the S&P Application Software Index (to which EA was added in July 2002), each of which assumes an initial value of \$100. Each measurement point is as of the end of each fiscal year ended March 31. The performance of our stock depicted in the following graph is not necessarily indicative of the future performance of our stock.

STOCK PRICE PERFORMANCE GRAPH



SUMMARY COMPENSATION TABLE

COMPENSATION OF EXECUTIVE OFFICERS

The table below shows compensation information for our Chief Executive Officer, the next four most highly compensated executive officers, and two former executive officers, earned during our fiscal year ended March 31, 2006. We refer to all of these officers as the “Named Executive Officers”.

Name and Principal Position	Fiscal Year Ended March 31,	Annual Compensation			Other Annual Compensation (\$)	Long Term Awards		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)			Restricted Stock Awards (\$) ⁽¹⁾	Securities Underlying Options (#) ⁽²⁾	
Lawrence F. Probst III . . .	2006	743,926	0	—	—	225,000	3,870 ⁽³⁾	
Chairman and Chief	2005	680,012	0	—	—	300,000	3,795 ⁽³⁾	
Executive Officer	2004	663,759	781,000	—	—	200,000	9,720 ⁽³⁾	
Warren C. Jenson	2006	575,073	0	21,717 ⁽⁴⁾	390,225 ⁽⁵⁾	52,500	143,753 ⁽⁶⁾	
Executive Vice President,	2005	528,198	0	1,565,713 ⁽⁷⁾	—	100,000	2,122,991 ⁽⁸⁾	
Chief Financial and	2004	513,087	450,000	71,667 ⁽⁹⁾	—	120,000	299,047 ⁽¹⁰⁾	
Administrative Officer								
V. Paul Lee	2006	548,090	0	—	390,225 ⁽⁵⁾	202,500	0	
President, Worldwide	2005	421,736	0	—	—	150,000	0	
Studios	2004	374,440	278,000	—	—	140,000	0	
Gerhard Florin	2006	506,318	0	25,702 ⁽¹¹⁾	260,150 ⁽⁵⁾	110,000	44,390 ⁽¹²⁾	
Executive Vice President,	2005	399,860	106,457	26,208 ⁽¹¹⁾	—	125,000	48,966 ⁽¹²⁾	
General Manager,	2004	355,510	252,844	22,333 ⁽¹¹⁾	—	120,000	43,649 ⁽¹²⁾	
International Publishing								
Nancy L. Smith	2006	496,800	0	—	260,150 ⁽⁵⁾	35,000	3,870 ⁽³⁾	
Executive Vice President,	2005	453,594	0	—	—	100,000	3,795 ⁽³⁾	
General Manager,	2004	441,393	343,000	42,891 ⁽¹³⁾	—	100,000	9,720 ⁽³⁾	
The Sims Franchise								
<i>Former executive officers:</i>								
Don A. Mattrick ⁽¹⁴⁾	2006	704,146	0	—	—	0	—	
	2005	674,080	0	—	—	200,000	—	
	2004	585,607	565,000	—	—	160,000	—	
Bruce McMillan ⁽¹⁴⁾	2006	690,594	0	—	—	0	—	
	2005	540,924	0	—	—	150,000	—	
	2004	472,709	371,000	—	—	140,000	—	

⁽¹⁾ Represents awards of restricted stock units. Upon vesting, each restricted stock unit automatically converts into one share of EA common stock, and does not have an exercise price or expiration date. On March 1, 2006, Mr. Jenson and Mr. Lee were each granted an award for 7,500 restricted stock units, and Dr. Florin and Ms. Smith were each granted an award for 5,000 restricted stock units. Each of these awards will vest as to 25% of the restricted stock units on March 1, 2007, an additional 25% on March 1, 2008, and the remaining 50% on March 1, 2009. Based on the closing price of EA’s common stock of \$54.72 on March 31, 2006, the last day of EA’s fiscal year, the value of the restricted stock units granted to each of Mr. Jenson and Mr. Lee was \$410,400, and the value of the restricted stock units granted to each of Dr. Florin and Ms. Smith was \$273,600. The restricted stock units are not entitled to receive dividends, if any, paid by EA on its common stock.

⁽²⁾ Represents options to purchase shares of EA common stock.

⁽³⁾ Represents \$720 of term life insurance premiums paid for the benefit of each of Mr. Probst and Ms. Smith and EA-matching 401(k) contributions of \$3,150 paid to each in fiscal 2006; \$720 term life insurance premiums paid for the benefit of each of Mr. Probst and Ms. Smith and EA-matching 401(k) contributions of \$3,075 each in fiscal 2005; and \$720 term life insurance premiums paid for

the benefit of each of Mr. Probst and Ms. Smith and EA-matching 401(k) contributions of \$9,000 each in fiscal 2004.

- (4) Represents a tax “gross-up” paid to Mr. Jenson in connection with taxable relocation-related expenses.
- (5) Represents the value of unvested restricted stock units granted on March 1, 2006 calculated by multiplying the closing price of EA common stock on the date of grant, which was \$52.03, by the number of restricted stock units granted to the Named Executive Officer.
- (6) Represents \$93,354 in imputed interest income on the remaining portion of Mr. Jenson’s interest-free loan (for more information regarding the loan to Mr. Jenson, see “Certain Transactions” below), \$46,529 in relocation expenses, \$720 of term life insurance premium paid for the benefit of Mr. Jenson, and EA-matching 401(k) contribution of \$3,150.
- (7) Represents \$1,565,552 of a tax “gross-up” paid to Mr. Jenson in connection with the forgiveness of an interest-free loan made by EA to Mr. Jenson in June 2002 (for more information regarding the loan to Mr. Jenson, see “Certain Transactions” below), and \$161 of tax “gross-up” paid to Mr. Jenson in connection with taxable relocation-related expenses.
- (8) Represents \$2,000,000 in partial forgiveness of Mr. Jenson’s interest-free loan, \$119,196 in imputed interest income on the remaining portion of the interest-free loan (for more information regarding the loan to Mr. Jenson, see “Certain Transactions” below), \$720 of term life insurance premium paid for the benefit of Mr. Jenson, and EA-matching 401(k) contribution of \$3,075.
- (9) Represents tax “gross-up” paid to Mr. Jenson in connection with taxable relocation-related expenses.
- (10) Includes \$148,800 imputed interest income on Mr. Jenson’s interest-free loan (for more information regarding the loan to Mr. Jenson, see “Certain Transactions” below), \$36,000 temporary housing, \$104,527 relocation expenses, \$720 paid term life insurance premium, and EA-matching 401(k) contribution of \$9,000.
- (11) Represents automobile and fuel allowance received by Dr. Florin and for which all senior employees and members of management resident in the UK are generally eligible.
- (12) Represents EA contribution to UK pension plan of \$42,633 and life insurance premiums of \$1,757 for fiscal 2006; EA contribution to UK pension plan of \$45,871 and life insurance premiums of \$3,095 for fiscal 2005; and EA contribution to UK pension plan of \$42,399 and life insurance premiums of \$1,250 for fiscal 2004.
- (13) Represents taxes and related tax “gross up” paid by EA on behalf of Ms. Smith.
- (14) Mr. Mattrick and Mr. McMillan ceased serving as executive officers of EA on September 2, 2005. Had they been serving as executive officers as of the end of EA’s fiscal year, each would have been one of the top four most highly compensated executive officers (other than the CEO). Under applicable SEC rules, EA is required to include their compensation information in this proxy statement.

STOCK OPTION GRANTS

The following table shows stock options granted to the Named Executive Officers during the last fiscal year. In accordance with the rules of the Securities and Exchange Commission, the table sets forth the hypothetical gains that would exist for the options at the end of their respective 10-year terms. This hypothetical gain is based on assumed annualized rates of compound stock price appreciation of 5% and 10% from the dates the options were granted to the end of their respective ten-year option terms. Actual gains, if any, on option exercises are dependent on the future performance of EA's common stock. The hypothetical gains shown in this table are not intended to forecast possible future appreciation, if any, of EA's common stock.

Options Granted in Fiscal 2006

	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in FY2006 ⁽¹⁾	Exercise Price Per Share ⁽²⁾	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Lawrence F. Probst III	225,000 ⁽³⁾	2.41	\$52.03	03/01/16	\$7,362,312	\$18,657,545
Warren C. Jenson	52,500 ⁽³⁾	0.56	\$52.03	03/01/16	\$1,717,873	\$ 4,353,427
V. Paul Lee	52,500 ⁽³⁾	0.56	\$52.03	03/01/16	\$1,717,873	\$ 4,353,427
	150,000 ⁽⁴⁾	1.61	\$57.42	09/02/15	\$5,416,669	\$13,726,904
Gerhard Florin	35,000 ⁽³⁾	0.37	\$52.03	03/01/16	\$1,145,249	\$ 2,902,285
	75,000 ⁽⁴⁾	0.80	\$57.42	09/02/15	\$2,708,335	\$ 6,863,452
Nancy L. Smith	35,000 ⁽³⁾	0.37	\$52.03	03/01/16	\$1,145,249	\$ 2,902,285
<i>Former executive officers:</i>						
Don A. Mattrick	—	—	—	—	—	—
Bruce McMillan	—	—	—	—	—	—

⁽¹⁾ EA granted and/or assumed options to purchase 9,337,605 shares of common stock to employees (excluding non-employee directors) in fiscal 2006.

⁽²⁾ The exercise price of each stock option is equal to the closing price of EA common stock on the date of grant.

⁽³⁾ These options were granted on March 1, 2006, will first vest and become exercisable as to 24% of the underlying shares 12 months from date of grant, and will then vest in 2% increments on the first calendar day of each month thereafter for 38 months.

⁽⁴⁾ These options were granted on September 2, 2005, and will vest and become exercisable as to 100% of the underlying shares on September 2, 2009.

All option grants listed above were made pursuant to EA's 2000 Equity Incentive Plan. The material terms of the options, including their exercise price, vesting terms, change of control provisions, and prohibitions on "repricing" are summarized in Appendix A to this proxy statement.

OPTIONS EXERCISED

The following table shows stock option exercises and the number and value of unexercised stock options held by the Named Executive Officers during fiscal 2006.

Fiscal 2006 Aggregated Option Exercises and March 31, 2006 Option Values

	Number of Shares Acquired on Exercise	Value Realized ⁽¹⁾	Number of Securities Underlying Unexercised Options at March 31, 2006		Value of Unexercised In-the-Money Options at March 31, 2006 ⁽²⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Lawrence F. Probst III ..	0	\$ 0	3,662,300	643,000	\$125,314,147	\$ 2,577,970
Warren C. Jenson	155,000	\$ 3,617,725	247,000	860,500	\$ 4,610,695	\$16,203,405
V. Paul Lee	0	\$ 0	1,309,800	427,500	\$ 38,252,242	\$ 1,222,545
Gerhard Florin	5,525	\$ 167,961	221,472	302,001	\$ 4,053,959	\$ 708,710
Nancy Smith	160,000	\$ 5,294,787	198,161	188,600	\$ 3,348,093	\$ 893,270
<i>Former executive officers:</i>						
Don A. Mattrick	808,105	\$22,511,769	18,000	0	\$ 0	\$ 0
Bruce McMillan	288,800	\$ 9,982,609	636,959	0	\$ 13,872,741	\$ 0

⁽¹⁾ The value realized is calculated by (a) subtracting the option exercise price from the market value on the date of exercise to get the realized value per share, and (b) multiplying the realized value per share by the number of shares underlying options exercised.

⁽²⁾ The value of unexercised in-the-money options is calculated by (a) subtracting the option exercise price from \$54.72 (the fair market value of EA's common stock at the close of business on the last trading day of fiscal 2006, March 31, 2006) to get the value per share subject to option, and (b) multiplying the value per share subject to option by the number of shares underlying exercisable and unexercisable options.

EQUITY COMPENSATION PLAN INFORMATION

Common Stock

We have five equity incentive plans (excluding plans assumed by EA in acquisitions, as described in footnote 1 below) under which our common stock is or has been authorized for issuance to employees or directors: the 1991 Stock Option Plan; Directors' Stock Option Plan; 1998 Directors' Stock Option Plan; 2000 Equity Incentive Plan; and the 2000 Employee Stock Purchase Plan. Each of these plans has been approved by our stockholders.

In the past, we have granted options to certain individuals (not employees or directors) under our Celebrity and Artist Stock Option Plan. This plan was not approved by the stockholders, has since expired, and no further grants will be issued under it.

The following table gives aggregate information regarding grants under all of our equity incentive plans as of the end of fiscal 2006, including the 2000 Equity Incentive and 2000 Employee Stock Purchase Plans, which are proposed to be amended at the 2006 Annual Meeting as described in “Proposals To Be Voted On” and Appendices A and B.

<u>Plan Category⁽¹⁾</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)</u>
Equity compensation plans approved by security holders ⁽²⁾ . .	39,243,560	\$40.02	19,772,654
Equity compensation plans not approved by security holders ⁽³⁾ . .	<u>174,030</u>	\$10.23	<u>0</u>
Total	39,417,590		19,772,654

⁽¹⁾ The table does not include information for equity incentive plans we assumed in connection with our acquisitions of Maxis in 1997, Criterion Software in 2004 and JAMDAT Mobile Inc. in February 2006. As of March 31, 2006, a total of: (a) 387,728 shares of common stock were issuable upon exercise of outstanding options issued under the 1995 Maxis stock option plan, with a weighted average exercise price of \$26.47; (b) a total of 9,558 shares were issuable upon exercise of outstanding options issued under the Criterion stock option plan, with a weighted average exercise price of \$1.61; (c) a total of 57,015 shares were issuable upon exercise of outstanding options issued under the JAMDAT Amended and Restated 2000 Stock Incentive Plan, with a weighted average exercise price of \$2.88; and (d) a total of 1,654,640 shares were issuable upon exercise of outstanding options with a weighted average exercise price of \$47.66, and 9,453 unvested restricted stock units were outstanding under the JAMDAT 2004 Equity Incentive Plan. No shares remain available for issuance under the Maxis, Criterion or JAMDAT plans.

⁽²⁾ As of March 31, 2006, a total of: (a) 5,333,870 shares of common stock were issuable upon exercise of outstanding options under the 1991 Stock Option Plan, with a weighted average exercise price of \$15.16; (b) a total of 49,400 shares of common stock were issuable upon exercise of outstanding options under the Directors’ Stock Option Plan, with a weighted average exercise price of \$8.13; (c) 534,410 shares of common stock were issuable upon exercise of outstanding options under the 1998 Directors’ Stock Option Plan, with a weighted average exercise price of \$31.00; and (d) 32,680,470 shares of common stock were issuable upon exercise of outstanding options with a weighted average exercise price of \$44.28, and 645,410 unvested restricted stock units were outstanding under the 2000 Equity Incentive Plan. The 1991 and Directors’ Stock Option Plans have expired and no further grants may be made under them. As of March 31, 2006, 24,379 shares remained available for issuance under the 1998 Directors’ Plan, however, we do not expect to make any future grants under this plan. As of March 31, 2006, 17,425,228 shares remained available for issuance under the 2000 Equity Incentive Plan, and 2,323,047 shares remained available for purchase by our employees under the 2000 Employee Stock Purchase Plan.

⁽³⁾ The Celebrity and Artist Stock Option Plan (“Artist Plan”) was adopted by our Board of Directors in July 1994 and expired in July 2004. The Artist Plan was established as a plan to attract, retain and provide equity incentives to selected artists and celebrities associated with EA and certain employees of companies providing services to EA and in which we hold a minority equity interest. The terms regarding the exercise price of options, vesting, changes in capital structure, assumption of options and acceleration of vesting, and prohibitions on “repricing” under the Artist Plan are substantially similar to the terms of the 2000 Equity Incentive Plan, contained in Appendix A. As of March 31, 2006, a total of 174,030 shares of common stock were issuable upon exercise of outstanding options under the Artist Plan, with a weighted average exercise price of \$10.23. No further grants will be made under the Artist Plan.

See also Note 12 to the Financial Statements included in EA’s Annual Report on Form 10-K for the period ended March 31, 2006 for additional information about these plans.

EMPLOYMENT AND CHANGE OF CONTROL AGREEMENTS

EA currently has no employment contracts with any Named Executive Officer, other than Dr. Florin, or severance arrangements with respect to their resignation or termination of employment, except that outstanding awards under the 2000 Equity Incentive Plan, including those held by executive officers, may immediately vest in connection with certain changes in control or ownership of the Company, unless the successor company assumes or replaces those awards.

In February 2001, prior to becoming an executive officer of EA, Dr. Florin entered into an agreement with us setting forth the terms and conditions of his employment (“Florin Employment Agreement”). The Florin Employment Agreement contains standard terms and conditions generally applicable at that time to all full-time employees in the UK. In addition, the Florin Employment Agreement provided for:

(i) Dr. Florin’s salary at the time (which has been superseded by subsequent salary increases not reflected in the agreement); (ii) use of a company car and a fuel allowance (in accordance with company policy, this benefit is generally available to all senior employees and members of management resident in the UK); (iii) a notice of termination of employment period of six months plus one week for each year of employment with EA, up to a maximum of twelve additional weeks; and (iv) a six-month non-solicitation period following the termination of Dr. Florin’s employment during which he is prohibited from enticing away from us any member of our senior management or our sales and development staff.

On September 2, 2005, Dr. Florin was promoted to Executive Vice President and General Manager, International Publishing and accepted a letter setting forth the new terms and conditions of his employment in connection with this promotion (“Florin Promotion Letter”). Pursuant to the terms of the Florin Promotion Letter, Dr. Florin’s annual gross salary was increased to 314,650 British pounds. His discretionary bonus target was increased to 60% of his annual gross salary. In addition, Dr. Florin received a stock option grant to purchase 75,000 shares of EA common stock, which option will vest in its entirety on the fourth anniversary of the date of grant and has an exercise price equal to the closing market price of EA common stock on the NASDAQ market on the date of grant.

In addition, on September 6, 2005, Dr. Florin accepted an international relocation offer letter (“Florin Relocation Letter”) setting forth the terms and conditions of his relocation to Geneva, Switzerland, where EA is establishing a headquarters office for its international publishing business. The headquarters commenced limited operations in early 2006 and is expected to become fully operational later in the year. At the time Dr. Florin relocates to Geneva, EA intends to enter into an employment agreement with him that will supersede the Florin Employment Agreement. Pursuant to the terms of the Florin Relocation Letter, Dr. Florin’s salary will be increased to 718,817 Swiss francs (“CHF”) upon his relocation to Geneva, while his discretionary bonus target will remain at 60% of his annual gross salary. In addition, Dr. Florin will be eligible to receive an annual housing allowance for a period of up to 5 years of: (i) CHF 300,000 during year one; (ii) CHF 192,177 during years two and three; (iii) CHF 102,177 in year four; and (iv) CHF 42,177 in year five. EA will bear the cost of any Swiss social security and income taxes incurred by Dr. Florin arising from the annual housing allowance. The foregoing amounts reflect the deduction of an annual housing contribution of 15% of Dr. Florin’s gross annual salary at the beginning of year one, or CHF 107,823, that Dr. Florin is required to make to EA beginning in year two and continuing each year during which he receives an annual housing allowance. In the event that Dr. Florin elects to purchase a primary residence in Switzerland at the beginning of year one, he will receive 70% of the net housing allowances he would have received during years one through five. In the event Dr. Florin elects to purchase a home by the end of year one, he will receive 70% of the net housing allowances he would have received during years two through five. EA will bear the cost of any Swiss social security and income taxes incurred by Dr. Florin arising from funds provided to him for the purpose of purchasing a primary residence in Switzerland. Dr. Florin will also be eligible to receive other transfer-related assistance, as well as an annual car allowance of CHF 25,000 and other benefits generally available to EA employees relocating to Switzerland. In the event Dr. Florin voluntarily terminates his employment with EA in Switzerland for any reason during the first 12 months following his relocation, Dr. Florin will be required to either repay or have deducted from his final salary payment amounts previously paid by EA for transferring Dr. Florin and his belongings to Switzerland. In the event that EA terminates Dr. Florin’s employment for any reason,

except for gross misconduct, at any time up to 24 months following his transfer to Switzerland, EA will pay the costs of relocating him and his family back to the United Kingdom.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The following is the Report of the Compensation Committee describing the compensation policies applicable to EA's executive officers (including all Section 16 executive officers as well as all other employees at the level of vice president or above). This information shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

Responsibilities and Composition of the Compensation Committee

The Compensation Committee's charter, which was most recently amended in July 2005, reflects the Committee's responsibilities and provides that all members must be "independent", as defined in applicable regulations and listing standards. M. Richard Asher and Robert W. Pittman served on the Committee throughout fiscal 2006; William J. Byron served on the Committee until his retirement in July 2005, at which time he was replaced on the Committee by Linda J. Srere. None of these members is a current or past employee of EA or any of its subsidiaries, nor are any of them eligible to participate in any of the executive compensation programs of the Company except through automatic formulaic and other grants pursuant to either the 2000 Equity Incentive Plan or Directors' Plan. In addition, each meets (and, in the case of Mr. Byron during his tenure on the Committee, met) the definition of "Outside Director" for the purposes of administering the compensation programs to meet the tax deductibility criteria under Section 162(m) of the Internal Revenue Code, and the definition of "independent director" under applicable NASDAQ Marketplace Rules.

The Compensation Committee reviews and approves the compensation philosophy and programs for EA's executives. In fiscal 2006, the Compensation Committee reviewed and approved the salaries, bonuses and equity compensation of each of EA's executive officers, other than the Chief Executive Officer whose salary, bonus and equity compensation were reviewed by the Compensation Committee and approved by the independent members of the Board of Directors after discussing the Compensation Committee's recommendation. The Compensation Committee also administers the Company's equity compensation plans and the bonus plan for executive officers and all significant or non-standard equity grants for other employees. During fiscal 2006, the Compensation Committee engaged in extensive reviews of long-term incentive compensation strategies in light of stock option expensing, responsible dilution management, and a desire to continue to effectively attract, motivate and retain key talent. During the course of these reviews, the Compensation Committee evaluated the merits of several alternatives for delivering long-term incentives.

The Compensation Committee meets at scheduled times throughout the year and also takes action by written consent, often after informal telephone discussions amongst the members of the Committee. The Compensation Committee met six times in fiscal 2006. The Company's Human Resources and Legal departments support the Committee in its work. In addition, the Compensation Committee has the authority to engage the services of outside advisors. During fiscal 2006, the Compensation Committee engaged an independent compensation consulting firm as an advisor and resource to assist the Committee in its review of the compensation for executive officers and other elements of the Company's total compensation strategy.

Compensation Philosophy and Challenges

EA's compensation philosophy to attract, motivate and retain the best executive talent relies on two basic principles. First, a significant portion of each executive's compensation should be in the form of equity to align the executive's interests with those of EA's stockholders. Second, a significant portion of each

executive's cash compensation should be performance-based and "at risk" — varying from year to year depending on EA's financial and operational performance and on the individual meeting financial and other performance measures. Consistent with this philosophy, and in light of the Company's financial performance during fiscal 2006, several of EA's most senior executive officers, including the Chief Executive Officer, all Executive Vice Presidents, and the CEO's other executive direct reports, did not receive an incentive bonus for the second consecutive year. The Compensation Committee and the Company remain committed to this "pay-for-performance" philosophy which ensures that executive compensation will reflect the Company's and the executive's performance.

As the employment market has improved over the last fiscal year, EA has experienced competitive recruiting efforts aimed at its executives. EA's leading position within the entertainment industry makes it a prime target for recruiting of executives and key creative talent.

The Company also continues to recruit for key talent and executives. Competition in attracting and retaining talent comes primarily from three broad industry segments: entertainment, high technology and consumer packaged goods. EA has continued to build its senior management team and has been successful in attracting talent from the entertainment software industry and other market segments to add management depth and experience to the organization. The Company continues to look at creative new methods using its compensation programs to successfully recruit new talent into the organization while maintaining parity with compensation of current key executives. Just as important as recruiting new talent and executives into the organization, is the internal development and retention of key talent and executives. As EA grows, it will, like all organizations, have normal turnover within its executive ranks.

Data Considered and Process Used

In fiscal 2006, at the direction of the Compensation Committee, EA's Human Resources department gathered executive compensation data from nationally recognized surveys and provided a comprehensive analysis of this data to the Compensation Committee and its independent compensation consulting firm. The factors used to determine the participants in the survey included industry type, annual revenues, industry growth rate and geography. Companies included in this data were from high technology (primarily software developers), entertainment and selected packaged goods companies as reference points. The companies in the compensation survey overlap considerably with the companies contained in the RDG Technology Composite index. Additional companies included in the survey group were judged to be relevant because they compete for executive talent with EA.

EA's executive level positions, including the CEO, were matched to comparable survey positions and competitive market compensation levels to determine base salary ranges, target incentives and target total cash compensation. EA's Human Resources department participated in comprehensive surveys such as the Buck Global Long-Term Incentive Practices Survey and the Radford High Tech Executive Compensation Survey to assist in determining appropriate equity compensation levels. This competitive market data was reviewed by the Human Resources department with the CEO for each benchmark executive-level position, and with the Compensation Committee for the CEO and other key executives. The Compensation Committee also considers each executive's responsibility level and EA's fiscal year performance compared to objectives and potential performance targets for the subsequent year.

Executive Compensation

The Compensation Committee awards executive compensation in three components: base salary, cash incentive bonus and equity incentives. The Compensation Committee reviews and, if appropriate, adjusts executive base salary and equity compensation each February, and reviews executive bonus recommendations and approves bonus payments each May.

Base Salary. In reviewing executive base salaries, the Compensation Committee considered each executive's performance over the last year as reported by the CEO and the Head of Human Resources, each executive's responsibility level, and the third quartile (50th to 75th percentile) of base salaries reported in the competitive market compensation surveys noted above. In fiscal 2006, those eligible

executives, including the Named Executive Officers (other than Mr. Mattrick and Mr. McMillan who were no longer serving as executive officers, and the CEO), received an annual merit increase to their base salary during the Committee's February 2006 compensation review. Although the CEO did not receive a merit increase to his base salary in fiscal 2006, he did receive a market-based salary adjustment. Merit-based salary increases for EA's executives were, at 3.5% in aggregate, approximately the same on a percentage basis as merit-based salary increases received by the overall non-executive employee population.

Incentive Bonus. In fiscal 2006, the Company's annual incentive bonus plan remained the same as it was in fiscal 2005. The Compensation Committee assigned a target bonus to each executive (expressed as a percentage of that executive's base salary) designed to deliver total target cash compensation (base salary plus target bonus) in the third quartile (50th to 75th percentile) of the competitive market compensation surveys noted above. The Compensation Committee also determined which portions of each executive's target bonus are dependent on EA's financial performance and individual achievements, and approved the overall mechanics and structure of the bonus plan. As a result of EA's financial performance in fiscal 2006, and in keeping with the Company's strong pay-for-performance philosophy, the Compensation Committee approved the recommendation of EA's CEO and members of his executive staff that the CEO, all Executive Vice Presidents and the CEO's other executive direct reports should not be awarded incentive bonuses. Other executives and employees received bonuses that were substantially below their target levels.

Stock-Based Compensation. The Company and the Compensation Committee continue to believe in the use of stock-based compensation as a core component of the rewards strategy to achieve the Company's goals of attracting the best talent to EA, retaining its high-performing teams and providing an incentive for its executives to perform at their highest levels. The Company and the Compensation Committee also continue to believe that stock options reward executives in a manner consistent with the value that is created for the Company's stockholders when the Company achieves its goals, and that performance is reflected in the growth of the Company's share price. The Company and the Compensation Committee have engaged in extensive reviews of long-term incentive compensation strategies in light of newly-applicable stock-based compensation expensing requirements, responsible dilution management, and a desire to continue to effectively attract, motivate and retain key talent. After extensive reviews of various equity incentive alternatives, the Company and the Compensation Committee determined that a mix of equity-based compensation, including both stock options and restricted stock unit awards ("RSU awards"), would be an appropriate and effective means of providing equity compensation which is aligned with competitive trends, consistent with the Company's ownership philosophy, helpful in the retention of executives, and a responsible use of the Company's equity in light of the expense recognition requirements of SFAS 123R.

Historically, the Compensation Committee has granted stock options, but not RSU awards, to executive officers when they first join EA, in connection with a significant change in responsibilities, annually to provide incentives for continued performance and retention of employment and, occasionally, to achieve internal equity between different positions within EA. The target value granted to each executive is based upon a combination of comparable external market benchmarks and internal parity among similarly situated executives. In addition, to determine competitive grant levels, the Committee reviews the ongoing stock option grant value at the market 75th percentile for each benchmark position. Individual grants are structured to achieve a future value in unvested awards equal to a multiple of each executive's annual base salary assuming both growth and stock appreciation. All stock options granted to the Named Executive Officers in fiscal 2006 were made at fair market value on the date of grant and vest as described in "Options Granted in Fiscal 2006" above. All RSU awards granted in fiscal 2006 to the Named Executive Officers vest as described in the footnotes to the Summary Compensation Table above.

In fiscal 2006, the Compensation Committee granted a mix of stock options and RSU awards to certain executive officers (other than the CEO) designed to deliver 70% of the target value in stock options and 30% of the value in RSU awards. This mix of stock options and RSU awards reflects the Compensation Committee's belief that stock options should remain the primary vehicle for encouraging equity ownership by executive officers and aligning their interests with EA's stockholders', while RSU awards allow the

Company keep abreast of competitive trends in equity compensation and aid in the retention of key employees. The Compensation Committee determined that, unlike other executives, the CEO's equity compensation should be structured to achieve maximum alignment with the interests of EA's stockholders. As a result, the Compensation Committee granted a stock option to the CEO in fiscal 2006 but did not grant him an RSU award.

Excluding stock options and RSU awards assumed by EA in connection with its acquisition of JAMDAT Mobile Inc., stock options and RSU awards granted to all executives represented 13.8% of total stock-based compensation awarded during fiscal 2006 and 0.37% of total shares outstanding as of the end of fiscal 2006. Overall, excluding stock options and RSU awards assumed by EA in connection with its acquisition of JAMDAT, total stock option and RSU award grants made by EA to all employees during fiscal 2006 represented approximately 2.67% of total shares outstanding as of the end of fiscal 2006.

Executive Ownership Requirements. In fiscal 2004, the Board of Directors implemented EA stock ownership requirements for all Section 16 executive officers. These ownership requirements are established as multiples of the executive's base pay, ranging from one to six times the executive's annual salary depending on the executive's level within the organization. In some cases, the ownership requirements are phased in on the basis of the executive's tenure. The Compensation Committee believes these ownership guidelines further align the interests of EA's stockholders and executives. As of March 31, 2006, each of EA's executives had either met their then-applicable stock ownership requirements or had not yet reached the date on which they are required to meet their ownership requirements.

Exchange Program and Additional Retention Awards

In June 2006, the Compensation Committee considered the ongoing impact of the recent trading prices of EA's Common Stock on the Company's ability to retain employees. The Compensation Committee recognized that many of the Company's employees hold options with exercise prices significantly higher than the current market price of EA's Common Stock. The Compensation Committee concluded that to enhance long-term stockholder value, the Company needed to maintain competitive employee compensation and incentive programs that will assist in motivating and retaining employees. The Compensation Committee believes that a meaningful equity stake in the success of the Company is a critical component of these programs. In considering the terms of the Exchange Program described under Proposal 2 above, the Compensation Committee consulted with its independent compensation consulting firm, outside legal counsel, outside financial consultants (through management), and senior management of the Company. The Compensation Committee considered the likely positive impact of the Exchange Program on employee motivation and retention, and reviewed the terms and accounting consequences of the Exchange Program, as described under Proposal 2 above. The Compensation Committee concluded that the Exchange Program will provide the Company with an opportunity to enhance incentives for eligible employees to remain with the Company, while reducing the Company's outstanding overhang. The Compensation Committee also believes that the Exchange Program, pursuant to which employees will be afforded the opportunity to exchange outstanding stock options for restricted stock or restricted stock units, will further align the Company's current equity compensation with the Company's and Compensation Committee's philosophy of shifting from the exclusive use of stock options to using a mix of stock options and other equity-based incentives, such as RSU awards, to provide long-term equity incentives to employees.

The Compensation Committee also concluded that while the Exchange Program would afford significant retention benefits, these benefits would not necessarily be sufficient to provide adequate retention for certain key employees due to the significant competition for talented employees in EA's industry. Accordingly, and again in consultation with various outside advisors and senior management, the Compensation Committee also approved a program of additional retention awards consisting of a combination of stock options and RSU awards to acquire up to 2.8 million total shares to be granted in August 2006, as further described in Proposal 2 above. The Compensation Committee believes that the combination of the Exchange Program and these new retention awards is necessary to achieve the primary

objective of improving the Company's ability to retain and motivate employees, while still having a favorable impact on overhang.

Fiscal 2006 CEO Compensation

Compensation for the CEO is determined through a process similar to that discussed above for other executives in general. In fiscal 2006, EA's Human Resources department gathered CEO compensation data from several nationally recognized surveys and conducted a proxy analysis comparing Mr. Probst's compensation to that of other CEOs. The analysis, which was reviewed by the Compensation Committee's independent compensation consulting firm, demonstrated that Mr. Probst's total cash compensation (consisting of base salary plus bonus target) was below the 50th percentile of the market while his 2005 equity grant value was within the highest quartile of the market. In February 2006, this analysis was provided to the Compensation Committee for consideration.

The Compensation Committee then conferred with the full Board (other than Mr. Probst) in a closed session to further review and discuss the results of the market analysis, to review Mr. Probst's performance evaluation, and to recommend compensation adjustments. The Compensation Committee recommended, and the independent members of the Board approved, a market-based salary increase for Mr. Probst of 3.5%, establishing a new base salary of \$734,850 per annum. As a result of EA's financial performance in fiscal 2006, Mr. Probst did not receive a cash performance incentive bonus for fiscal 2006.

Also in February 2006, the Compensation Committee approved a new stock option grant to Mr. Probst for 225,000 shares of common stock based upon the retention and incentive factors discussed above and taking into account market comparisons, prior option grant history, the level of vested versus unvested shares and the number of shares Mr. Probst already owned at the time of the grant. The shares will first vest and become exercisable as to 24% of the shares 12 months after the date of grant, and will then vest as to an additional 2% of the shares on the first calendar day of each month thereafter for 38 months. This grant reflects the Compensation Committee's continuing policy to subject a substantial portion of Mr. Probst's overall compensation each year to the market performance of the Company's common stock, to maintain his option holdings at a level consistent with that for other chief executive officers of the survey companies, and to maximize the retention value of those option holdings.

Other

Company-provided air travel for EA's executives is for business purposes only. EA's use of non-commercial aircraft is limited to appropriate business travel.

In June 2002, EA hired Warren Jenson as Chief Financial and Administrative Officer. As part of its efforts to recruit Mr. Jenson, EA agreed to loan him \$4 million, to be forgiven over four years based on his continuing employment. The loan does not bear interest. The loan was made prior to enactment of the Sarbanes-Oxley Act of 2002 and the prohibition on loans to executive officers. However, the Compensation Committee did review this proposed arrangement in light of the then-current environment and sensitivity to transactions with management and determined the environment for recruiting highly regarded and talented chief financial officers was, and has been, intensely competitive, and the Compensation Committee believed that a competitive compensation offer tied to continuing service was in EA's best interests and significantly more beneficial to the Company than unrestricted cash payments. In June 2004, pursuant to the terms of the loan agreement, EA forgave \$2 million of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. The remaining outstanding loan balance of \$2 million was forgiven on June 24, 2006. No additional funds were provided to Mr. Jenson to offset the tax implications of the forgiveness of the remaining \$2 million.

Tax Law Limits on Executive Compensation

Section 162(m) of the Internal Revenue Code limits deductions for executive compensation in excess of \$1 million except for certain compensation which qualifies for a performance-based exception. Certain types of compensation in excess of \$1 million are deductible by the Company if performance criteria are

specified in detail and are contingent on stockholder approval of the compensation arrangement. The Company and the Compensation Committee have endeavored to structure executive compensation plans to achieve maximum deductibility under Section 162(m) with minimal sacrifices of flexibility and impact on corporate objectives.

The Compensation Committee has structured the current use of stock option arrangements in a manner intended to achieve tax deductibility of such amounts. Although the Compensation Committee has the ability to grant restricted stock units subject to performance factors in order to achieve maximum deductibility under Section 162(m), it elected not to do so in fiscal 2006. With respect to non-equity compensation arrangements, the Compensation Committee has reviewed the terms of those arrangements most likely to be subject to the deduction limitation of Section 162(m). Cash compensation paid to EA's Named Executive Officers did not exceed the Section 162(m) thresholds in fiscal 2006.

While the Compensation Committee will continue to consider deductibility under Section 162(m) with respect to future compensation arrangements with executives, deductibility will not be the only factor used in ascertaining appropriate levels or modes of compensation. Since corporate objectives may not always be consistent with the requirements for full deductibility, it is possible that the Committee may, if consistent with EA's "pay-for-performance" philosophy described above, enter into compensation arrangements in the future under which payments are not fully deductible under Section 162(m).

COMPENSATION COMMITTEE

M. Richard Asher (Chairman)

Robert Pittman

Linda J. Srere

The following Report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors operates under a written charter, which is reviewed on an annual basis and was most recently amended in May 2006. The Audit Committee is comprised of three non-employee directors, each of whom in the opinion of the Board of Directors meets the current independence requirements and financial literacy standards of the NASDAQ Marketplace Rules, as well as the independence requirements of the Securities and Exchange Commission ("SEC"). During fiscal 2006, the Audit Committee consisted of M. Richard Asher, Gary M. Kusin and Gregory B. Maffei. In the opinion of the Board of Directors, Mr. Maffei meets the criteria for a "financial expert" as set forth in applicable SEC rules as well as the above-mentioned independence requirements.

EA's management is primarily responsible for the preparation, presentation and integrity of the Company's financial statements. EA's independent registered public accounting firm, KPMG LLP ("independent auditors"), is responsible for performing an independent audit of the Company's (i) financial statements and expressing an opinion as to the conformity of the financial statements with generally accepted accounting principles, and (ii) internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon.

The function of the Audit Committee is to assist the Board of Directors in its oversight responsibilities relating to the integrity of EA's accounting policies, internal controls and financial reporting. The Audit Committee reviews EA's quarterly and annual financial statements prior to public earnings releases and submission to the SEC; reviews and evaluates the performance of EA's internal audit function; reviews and

evaluates the performance of EA's independent auditors; consults with the independent auditors and EA's internal audit function regarding internal controls and the integrity of the Company's financial statements; assesses the independence of the independent auditors; and is responsible for the selection of the independent auditors.

In this context, the Audit Committee has met and held discussions with members of management, EA's internal audit function and the independent auditors. Management has represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. Management has also represented to the Audit Committee that the Company's internal control over financial reporting was effective as of the end of the Company's most recently-completed fiscal year, and the Audit Committee has reviewed and discussed the Company's internal control over financial reporting with management and the independent auditors. The Audit Committee also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended, including the quality and acceptability of the Company's financial reporting process and internal controls. The Audit Committee has also discussed with the Company's independent auditors the overall scope and plans for their annual audit and reviewed the results of that audit with management and the independent auditors.

In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from the Company and its management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee has also considered whether the provision of any non-audit services (as described above under "Proposal 5. Ratification of the Appointment of KPMG LLP, Independent Auditors — Fees of Independent Auditors") and the employment of former KPMG LLP employees by the Company is compatible with maintaining the independence of KPMG LLP.

The members of the Audit Committee are not engaged in the practice of auditing or accounting. In performing its functions, the Audit Committee necessarily relies on the work and assurances of the Company's management and independent auditors.

In reliance on the reviews and discussions referred to in this report and in light of its role and responsibilities, the Audit Committee recommended to the Board of Directors that the audited financial statements of the Company for the three years ended March 31, 2006 be included for filing with the SEC in the Company's Annual Report on Form 10-K for the year ended March 31, 2006. The Audit Committee has also approved the selection of KPMG LLP as the Company's independent auditors for fiscal 2007.

AUDIT COMMITTEE

M. Richard Asher

Gary M. Kusin

Gregory B. Maffei (Chairman)

OTHER INFORMATION

CERTAIN TRANSACTIONS

Indebtedness of Management

On June 24, 2002, we hired Warren Jenson as our Chief Financial and Administrative Officer and agreed to loan him \$4 million, to be forgiven over four years based on his continuing employment. The loan does not bear interest. On June 24, 2004, pursuant to the terms of the loan agreement, we forgave \$2 million of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. The remaining outstanding loan balance of \$2 million was forgiven on June 24, 2006. No additional funds were provided to offset the tax implications of the forgiveness of the remaining \$2 million.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

M. Richard Asher and Robert W. Pittman served on the Compensation Committee throughout fiscal 2006; William J. Byron served on the Compensation Committee until his retirement in July 2005, at which time he was replaced on the Compensation Committee by Linda J. Srere. None of these individuals is an employee or current or former officer of EA. No EA officer serves or has served since the beginning of fiscal 2006 as a member of the board of directors or the compensation committee of a company at which a member of EA's Compensation Committee is an employee or officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires EA's directors and executive officers, and persons who own more than ten percent of a registered class of EA's equity securities, to file reports of ownership and changes in ownership of common stock and other equity securities of EA. We have adopted procedures to assist EA's directors and officers in complying with these requirements, which include assisting officers and directors in preparing forms for filing.

To EA's knowledge, based solely upon review of such reports furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended March 31, 2006, all Section 16(a) filing requirements applicable to our officers, directors and greater-than-ten-percent stockholders were complied with on a timely basis.

STOCKHOLDER PROPOSALS FOR 2007 ANNUAL MEETING

If you would like us to consider a proposal to be included in our 2007 proxy statement and proxy card, you must deliver it to the Company's Corporate Secretary at our principal executive office no later than March 2, 2007.

Stockholders who otherwise wish to present a proposal at the 2007 Annual Meeting of Stockholders must deliver written notice of the proposal to our Corporate Secretary c/o Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065, no earlier than March 24, 2007 and no later than April 23, 2007 (provided, however, that if the 2007 Annual Meeting is held earlier than June 27, 2007 or later than August 26, 2007, proposals must be received no earlier than the close of business on the later of the 90th day prior to the 2007 Annual Meeting or the 10th day following the day on which public announcement of the 2007 Annual Meeting is first made). The submission must include certain information concerning the stockholder and the proposal, as specified in the Company's amended and restated bylaws. We have filed our amended and restated bylaws as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, which you may access through the SEC's electronic data system called EDGAR at www.sec.gov. You may also request a copy of our amended and restated bylaws by contacting our Corporate Secretary at the address above.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as “householding”, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are EA stockholders will be “householding” our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to our Corporate Secretary at our principal executive office, or contact our Corporate Secretary at (650) 628-1500. Stockholders who currently receive multiple copies of the proxy statement and annual report at their address and would like to request “householding” of their communications should contact their broker.

OTHER BUSINESS

The Board does not know of any other matter that will be presented for consideration at the meeting except as specified in the notice of the meeting. If any other matter does properly come before the Annual Meeting, it is intended that the proxies will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

By Order of the Board of Directors,



STEPHEN G. BENÉ
*Senior Vice President, General Counsel
and Secretary*

REQUESTS TO THE COMPANY

The Company will provide without charge, to each person to whom a proxy statement is delivered, upon request of such person and by first class mail within one business day of receipt of such request, a copy of the 2000 Equity Incentive Plan and 2000 Employee Stock Purchase Plan. Any such request should be directed as follows: Stock Administration Department, Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065 — telephone number (650) 628-1500.

Appendix A

GENERAL DESCRIPTION OF THE 2000 EQUITY INCENTIVE PLAN

History

The Company's 2000 Equity Incentive Plan (the "Equity Plan") was adopted by our Board of Directors on January 27, 2000 and approved by our stockholders on March 22, 2000. The Equity Plan has been amended several times since it was initially adopted. The following general description of the Equity Plan includes all prior amendments as well as amendments proposed to be adopted by the Company's stockholders at the 2006 Annual Meeting.

Shares Subject to the Equity Plan

The stock subject to issuance under the Equity Plan consists of shares of the Company's authorized but unissued common stock. The Equity Plan, as amended to date, authorizes the issuance of up to 67,400,000 shares of common stock pursuant to awards of stock options, stock appreciation rights, restricted stock and restricted stock units. In addition, shares are again available for grant and issuance under the Equity Plan that (a) were subject to an option granted under the Equity Plan that terminated, to the extent then unexercised, (b) were subject to a restricted stock or restricted stock unit award under the Equity Plan that is subsequently forfeited or repurchased by us at the original issue price, if any, or (c) are subject to an award of restricted stock or restricted stock units under the Equity Plan that otherwise terminates without shares being issued. The following types of shares are not be available for future grant or issuance as awards under the Equity Plan: (x) shares that are not issued or delivered as a result of the net settlement of a stock option or stock appreciation right; (y) shares that are used to pay the exercise price or withholding taxes related to an award granted under the Equity Plan; and (z) shares that are repurchased by us with the proceeds of a stock option exercise. Provided that the stockholders approve Proposal 2 ("Approval of The Exchange Program") set forth in the proxy statement prepared in connection with our 2006 Annual Meeting of Stockholders, we will amend the Equity Plan to limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will again become available for issuance under the Equity Plan to 7 million plus the number of shares necessary for the issuance of the restricted stock rights to be granted in connection with the Exchange Program.

The number of shares issuable under the Equity Plan, and under outstanding options and other awards, is subject to proportional adjustment to reflect stock splits, stock dividends and other similar events.

Limitation on Number of Shares Subject to Restricted Stock Awards and Restricted Stock Unit Awards.

The number of shares of common stock that may be issued pursuant to awards of restricted stock and restricted stock units may not exceed 4,000,000 in the aggregate. As proposed to be amended, the number of shares that would be issuable pursuant to awards of restricted stock and restricted stock units would be increased to 15,000,000 in the aggregate.

Eligibility

The Equity Plan provides for the issuance of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units. The Equity Plan provides that employees (including officers and directors who are also employees) of EA or any parent or subsidiary of EA may receive incentive stock options under the Equity Plan. Nonqualified stock options, stock appreciation rights, restricted stock, and restricted stock units may be granted to employees and directors of EA or any parent or subsidiary of EA. As of May 31, 2006, approximately 7,100 persons were in the class of persons eligible to participate in the Equity Plan. No person is eligible to receive more than 1,400,000 shares of common stock (of which no more than 400,000 shares may be covered by awards of restricted stock) in any calendar year, other than new employees who will be eligible to receive up to 2,800,000 shares of common stock (of which no more than 800,000 shares may be covered by awards of restricted stock) in the calendar year in which they commence employment. No awards of restricted stock or stock appreciation

rights have been made to date under the Equity Plan. A participant may hold more than one award granted under the Equity Plan.

Administration

The Equity Plan is administered by our Compensation Committee. All of the members of the Compensation Committee are “non-employee” and “independent directors” under applicable federal securities laws and the NASDAQ National Market listing requirements and “outside directors” as defined under applicable federal tax laws. The Compensation Committee has the authority to construe and interpret the Equity Plan, grant awards and make all other determinations necessary or advisable for the administration of the Equity Plan. The members of the Compensation Committee receive no compensation for administering the Equity Plan other than their compensation for being Board and Committee members. The Company bears all expenses in connection with administration of the Equity Plan and has agreed to indemnify members of the Compensation Committee in connection with their administration of the Equity Plan. The Compensation Committee may delegate to one or more officers of the Company the authority to grant Awards under the Equity Plan to participants who are not executives of the Company.

Stock Options

Stock options granted under the Equity Plan may be either incentive stock options or nonqualified stock options. The exercise period of stock options is determined by the Compensation Committee but, in no event, may stock options be exercisable more than ten years from the date they are granted. The Equity Plan provides the Compensation Committee with the ability, at its discretion, to grant performance-based options subject to the achievement of one or more of the performance factors described under the heading “Performance Factors” below.

Exercise Price; No Repricings

The Compensation Committee determines the exercise price of each option granted under the Equity Plan. The option exercise price for each incentive and nonqualified stock option share must be no less than 100% of the “fair market value” (as defined in the Equity Plan) of a share of common stock at the time the stock option is granted. In the case of an incentive stock option granted to a stockholder that owns more than 10% of the total combined voting power of all classes of stock of EA or any parent or subsidiary of EA (a “Ten Percent Stockholder”), the exercise price for each such incentive stock option must be no less than 110% of the fair market value of a share of common stock at the time the incentive stock option is granted. Pursuant to an amendment to the Equity Plan approved by the Board of Directors in February 2002, the exercise price of outstanding options issued under the Equity Plan may not be reduced without stockholder approval.

The exercise price of options and purchase price of shares granted under the Equity Plan may be paid as approved by the Compensation Committee at the time of grant: (a) in cash (by check); (b) by cancellation of indebtedness of the Company to the award holder; (c) by surrender of shares that either: (1) have been owned by the award holder for more than six (6) months and have been paid for within the meaning of SEC Rule 144; or (2) were obtained by the award holder in the public market; (d) by waiver of compensation due or accrued for services rendered; (e) with respect only to purchases upon exercise of an option, and provided that a public market for the Company’s stock exists: (1) subject to applicable laws, by a “same-day sale” commitment from the optionee and a National Association of Securities Dealers, Inc. (“NASD”) broker; or (2) by a “margin” commitment from the optionee and an NASD broker; (f) by withholding from the shares to be issued upon exercise of an award that number of shares having a fair market value equal to the minimum amount required to satisfy the exercise price or purchase price; (g) by any combination of the foregoing; or (h) such other consideration and method of payment for issuance of shares to the extent permitted by applicable laws.

Outside Directors

Our non-employee directors are entitled to receive automatic annual grants of options to purchase shares of our common stock under the Equity Plan. Each non-employee director who first becomes a member of the Board of Directors is granted an option to purchase 25,000 shares of common stock. Upon re-election to our Board of Directors following each annual meeting of our stockholders, each non-employee director is automatically granted an additional option to purchase 10,000 shares of common stock. If a non-employee director has not served on our Board of Directors for a full year at the time of the annual meeting of our stockholders, such director will receive a pro-rated annual grant.

Options issued to outside directors upon their initial election to the Board are exercisable as to 2% of the shares on the date of grant and as to an additional 2% of the shares on the first day of each calendar month after the date of grant so long as the outside director continues as a member of the Board. The vesting schedule for annual grants made to directors upon their re-election to the Board is subject to the discretion of the Compensation Committee.

In the event of our dissolution or liquidation or a “change in control” transaction, options granted to our non-employee directors under the Equity Plan will become 100% vested and exercisable in full.

In addition, our non-employee directors may elect to receive all or a portion of their cash compensation in shares of common stock. Directors making this election are entitled to receive shares having a value equal to 110% of the amount of the cash compensation foregone.

Stock Appreciation Rights

The Compensation Committee may grant stock appreciation rights (a “SAR” or “SARs”) as stand-alone awards or in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the Compensation Committee may determine. A SAR is an award which provides the holder with the right to receive the appreciation in value of a set number of shares of company stock over a set period of time. A SAR is similar to an option in that the holder benefits from any increases in stock price above the exercise price set forth in the award agreement. However, unlike an option, the holder is not required to pay an exercise price to exercise a SAR, but simply receives the net amount of the increase in stock price in the form of cash or stock. The exercise price for a SAR must be no less than 100% of the “fair market value” (as defined in the Equity Plan) of a share of common stock at the time the SAR is granted. In addition, the Compensation Committee may, at its discretion, subject SARs to the achievement of one or more of the performance factors described under the heading “Performance Factors” below.

Restricted Stock Awards

The Compensation Committee may grant restricted stock awards either in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the Compensation Committee may determine. A restricted stock award is an offer by Electronic Arts to award shares of common stock that are subject to restrictions established by the Compensation Committee. These restrictions may be based upon completion by the award holder of a specified number of years of service or by the attainment of one or more of the performance factors described under the heading “Performance Factors” below. The purchase price, if any, for each such award is determined by the Compensation Committee at the time of grant. In the case of an award to a Ten Percent Stockholder, the purchase price must be 100% of fair market value. The purchase price, if any, may be paid for in any of the forms of consideration listed in items under “Exercise Price” above, as are approved by the Compensation Committee at the time of grant.

Restricted Stock Units

The Compensation Committee may grant restricted stock unit awards either in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the

Compensation Committee may determine. A restricted stock unit award is similar to a restricted stock award (and may be awarded subject to any or all of the performance goals established by the Committee described under the heading “Performance Factors” below) except the stock is not delivered to the participant unless and until all restrictions have terminated.

Performance Factors

The Compensation Committee may grant, in its sole discretion, performance-based stock options, stock appreciation rights, restricted stock and restricted stock unit awards with vesting and/or exercisability conditioned on one or more of the following permissible performance factors, to be measured over a specified performance period that may be as short as a quarter or as long as five years (unless tied to a specific and objective milestone or event), to the extent applicable on an absolute basis or relative to a pre-established target: (a) net revenue; (b) earnings before interest, income taxes, depreciation and amortization; (c) operating income; (d) operating margin; (e) net income; (f) earnings per share; (g) total stockholder return; (h) the Company’s stock price; (i) growth in stockholder value relative to a pre-determined index; (j) return on equity; (k) return on invested capital; (l) operating cash flow; (m) free cash flow; (n) economic value added; and (o) individual confidential business objectives. In addition, the Committee may, in its sole discretion and in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, provide for one or more equitable adjustments (based on objective standards) to the performance factors to preserve the Committee’s original intent regarding the performance factors at the time of the initial award grant.

Mergers, Consolidations, Change of Control

Except for automatic grants to non-employee directors, in the event of a merger, consolidation, dissolution or liquidation of EA, the sale of substantially all of its assets or any other similar corporate transaction, the successor corporation may assume, replace or substitute equivalent awards in exchange for those granted under the Equity Plan or provide substantially similar consideration, shares or other property as was provided to our stockholders (after taking into account the provisions of the awards). In the event that the successor corporation does not assume, replace or substitute awards, such awards will accelerate and all options will become exercisable in full prior to the consummation of the transaction at the time and upon the conditions as the Compensation Committee determines. Any awards not exercised prior to the consummation of the transaction will terminate.

Transferability

Incentive stock options granted under the Equity Plan are not transferable other than by means of a distribution upon the optionee’s death. Nonqualified stock options, stock appreciation rights, restricted stock, and restricted stock unit awards are subject to similar restrictions on transfer unless otherwise determined by the Compensation Committee and except that nonqualified stock options may be transferred to family members and trusts or foundations controlled by, or primarily benefiting, family members of the optionee.

Term of the Equity Plan

Unless terminated earlier as provided in the Equity Plan, the Equity Plan expires in 2010, ten (10) years from the date it was adopted by the Board of Directors.

United States Federal Income Tax Information

THE FOLLOWING IS A GENERAL SUMMARY AS OF THE DATE OF THIS PROXY STATEMENT OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO THE COMPANY AND PARTICIPANTS UNDER THE EQUITY PLAN. THE FEDERAL TAX LAWS MAY CHANGE AND THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES FOR ANY PARTICIPANT WILL DEPEND UPON HIS OR HER INDIVIDUAL CIRCUMSTANCES. IN

ADDITION, THE INTERNAL REVENUE SERVICE COULD, AT ANY TIME, TAKE A POSITION CONTRARY TO THE INFORMATION DESCRIBED IN THE FOLLOWING SUMMARY. ANY TAX EFFECTS THAT ACCRUE TO FOREIGN PARTICIPANTS AS A RESULT OF PARTICIPATING IN THE EQUITY PLAN ARE GOVERNED BY THE TAX LAWS OF THE COUNTRIES IN WHICH SUCH PARTICIPANT RESIDES OR IS OTHERWISE SUBJECT. EACH PARTICIPANT WILL BE ENCOURAGED TO SEEK THE ADVICE OF A QUALIFIED TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PARTICIPATION IN THE EQUITY PLAN.

Incentive Stock Options

A participant will recognize no income upon grant of an incentive stock option and incur no tax on its exercise, unless the participant is subject to the alternative minimum tax (“AMT”). If the participant holds shares acquired upon exercise of an incentive stock option (the “ISO Shares”) for more than one year after the date the option was exercised and for more than two years after the date the option was granted, the participant generally will realize capital gain or loss (rather than ordinary income) upon disposition of the ISO Shares. This gain or loss will be equal to the difference between the amount realized upon such disposition and the amount paid for the ISO Shares. The rate of taxation that applies to capital gain depends upon the amount of time the ISO Shares are held by the participant.

If the participant disposes of ISO Shares prior to the expiration of either required holding period (a “disqualifying disposition”), the gain realized upon such disposition, up to the difference between the fair market value of the ISO Shares on the date of exercise (or, if less, the amount realized on a sale of such shares) and the option exercise price, will be treated as ordinary income. Any additional gain will be capital gain, taxed at a rate that depends upon the amount of time the ISO Shares were held by the participant.

Alternative Minimum Tax

The difference between the option exercise price and the fair market value of the ISO Shares on the date of exercise of a vested ISO is an adjustment to income for purposes of the AMT. If a participant exercises an ISO before it has fully vested, the participant may incur an AMT liability as the ISO Shares vest and the Company’s right to repurchase the ISO Shares at the original issue price lapses, unless the participant makes a timely election under Section 83(b) of the U.S. Internal Revenue Code (an “83(b) election”). The AMT (imposed to the extent it exceeds the taxpayer’s regular income tax) is 26% of an individual taxpayer’s alternative minimum taxable income (28% in the case of alternative minimum taxable income in excess of \$175,000 in the case of married individuals filing a joint return). Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items (including the difference between the fair market value of the ISO Shares on the date of exercise and the exercise price) and reducing this amount by the applicable exemption amount. Under the Tax Increase Prevention and Reconciliation Act of 2005, the exemption amount for 2006 is \$62,550 in case of a joint return, subject to reduction under certain circumstances. If a disqualifying disposition of the ISO Shares occurs in the same calendar year as exercise of the ISO, there is no AMT adjustment with respect to those ISO Shares. Also, upon a sale of ISO Shares that is not a disqualifying disposition, alternative minimum taxable income is reduced in the year of sale by the excess of the fair market value of the ISO Shares at exercise over the amount paid for the ISO Shares.

Nonqualified Stock Options

A participant will not recognize any taxable income at the time a nonqualified stock option (“NQSO”) is granted or vests provided the exercise price is no less than the fair market value of the underlying shares on the grant date. However, upon exercise of a vested NQSO, the participant must include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the participant’s exercise price. The included amount must be treated as ordinary income by the participant and may be subject to withholding by the Company or its subsidiary (either by payment in

cash or withholding out of the participant's salary). If a participant exercises an NQSO before it has fully vested, the participant may incur a regular income liability as the shares vest and the Company's right to repurchase the shares at the original issue price lapses, unless the participant makes a timely 83(b) election. Upon resale of the shares by the participant, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss, taxable at a rate that depends upon the length of time the shares were held by the participant.

Restricted Stock Awards

A participant who receives a restricted stock award will include the amount of the award in income as compensation at the time that any forfeiture restrictions on the shares of stock lapse, unless the participant makes a timely 83(b) election. If the participant does not timely make an 83(b) election, the participant will include in income the fair market value of the shares of stock on the date that the restrictions lapse as to those shares, less any purchase price paid for such shares. The included amount may be treated as ordinary income by the participant and will be subject to withholding by the Company or its subsidiary (either by payment in cash or withholding out of the participant's award).

If the participant makes a timely 83(b) election, the participant who receives a restricted stock award will include in income as ordinary income, the fair market value of the shares of stock on the date of receipt of the award (determined without regard to lapse restrictions), less any purchase price paid for such shares. The income may be subject to withholding by the Company or its subsidiary (either by payment in cash or withholding out of the participant's award). If the award is subsequently forfeited, the participant will not receive any deduction for the amount treated as ordinary income.

Restricted Stock Units

A participant will recognize income with respect to restricted stock units at the time that the restrictions lapse, provided the shares are issued on the date the restrictions lapse. The participant will include in income the fair market value of the shares of stock on the date that the restrictions lapse as to those shares, less any purchase price paid for such shares. The included amount may be treated as ordinary income by the participant and will be subject to withholding by the Company or its subsidiary (either by payment in cash or withholding out of the participant's award).

Stock Appreciation Rights

Assuming that a stock-settled stock appreciation right ("SAR") is granted at an exercise price that is not less than the fair market value of the underlying shares on the grant date, a participant will not recognize any taxable income at the time a stock-settled SAR is granted. However, upon exercise of a vested SAR, the participant must include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the participant's exercise price. The included amount must be treated as ordinary income by the participant and may be subject to withholding by the Company or its subsidiary (either by payment in cash, shares or withholding out of the participant's salary). Upon resale of the shares issued to the participant at the time of exercise, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss, taxable at a rate that depends upon the length of time the shares were held by the participant.

Internal Revenue Code Section 409A

At the present time, the Company intends to grant equity awards to participants which are either outside the scope of Section 409A of the U.S. Internal Revenue Code or are exempted from the application of Section 409A. If the equity award is subject to Section 409A and the requirements of Section 409A are not met, participants may suffer adverse tax consequences with respect to the equity award. Such consequences may include taxation at the time of the vesting of the award and interest and penalties on any deferred income.

Tax Treatment of the Company

The Company generally will be entitled to a deduction in connection with the exercise of a NQSO or a SAR by a participant, or the receipt by the participant of restricted stock or restricted stock unit award, to the extent that the participant recognizes ordinary income and the Company properly reports such income to the Internal Revenue Service (the “IRS”). The Company will be entitled to a deduction in connection with the disposition of ISO Shares only to the extent that the participant recognizes ordinary income on a disqualifying disposition of the ISO Shares, provided that the Company properly reports such income to the IRS.

ERISA

The Equity Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 and is not qualified under Section 401(a) of the Code.

Outstanding Options Under the Equity Plan

As of March 31, 2006, 16,648,892 shares had been issued pursuant to exercises of stock options under the Equity Plan by award recipients, 6,824 persons held NQSOs under the Equity Plan to purchase an aggregate of 32,680,850 shares of common stock, with a weighted average exercise price of \$44.28 per share, 2,284 persons held restricted stock units to acquire 645,910 shares, and there were 17,424,348 shares of common stock available for future awards under the Equity Plan. An aggregate of 67,400,000 shares of the Company’s authorized common stock have been reserved for issuance under the Equity Plan.

Proposed Amendments to the Equity Plan

At the 2006 Annual Meeting, stockholders will be asked to approve amendments to the Equity Plan as follows:

- Increase by 11 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan — from 4 million to 15 million; and
- Provided that the stockholders approve Proposal 2 (“Approval of The Exchange Program”) set forth in the proxy statement prepared in connection with our 2006 Annual Meeting of Stockholders, we will amend the Equity Plan to limit the number of shares subject to options surrendered and cancelled in the Exchange Program that will be available for issuance under the Equity Plan to 7 million plus the number of shares necessary for the issuance of the restricted stock rights to be granted in connection with the Exchange Program.

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Appendix B

GENERAL DESCRIPTION OF THE 2000 EMPLOYEE STOCK PURCHASE PLAN

2000 Employee Stock Purchase Plan, as Amended

History. The 2000 Purchase Plan was adopted by the Board on May 25, 2000, approved by the Stockholders on July 27, 2000, and has been subsequently amended. The following discussion describes the material terms of the Purchase Plan, as amended to date.

Purpose. The purpose of the Purchase Plan is to provide employees of the Company with a convenient means of acquiring common stock of the Company through payroll deductions, to enhance the employees' sense of participation in the affairs of the Company and subsidiaries, and to provide an incentive for continued employment.

Administration. The Purchase Plan is administered on behalf of the Board by the Compensation Committee of the Board. The interpretation by the Compensation Committee of any provision of the Purchase Plan is final and binding on all participating employees.

Eligibility. All employees of the Company (including directors who are employees), or any parent or subsidiary, are eligible to participate in the Purchase Plan except the following: (i) employees who are not employed by the Company on the 15th day of the month before the beginning of an Offering Period (as defined below); (ii) employees who are customarily employed for less than 20 hours per week; (iii) employees who are customarily employed for less than 5 months in a calendar year; and (iv) employees who, pursuant to Section 424(d) of the Code, own or hold options to purchase or who, as a result of participation in the Purchase Plan, would own stock or hold options to purchase stock representing 5% or more of the total combined voting power or value of all classes of stock of the Company or any parent or subsidiary. As of May 31, 2006, the Company estimates that approximately 7,100 persons were eligible to participate in the Purchase Plan.

Participation. Each offering of the Company's common stock under the Purchase Plan is for a period of one year (the "Offering Period"). Offering Periods commence on the first business day of March and September of each year. The first day of each Offering Period is the "Offering Date" for such Offering Period. An employee cannot participate simultaneously in more than one Offering Period. Each Offering Period consists of two six-month purchase periods (each a "Purchase Period") commencing on the first business day of March and September. The last day of each Purchase Period is a "Purchase Date."

Employees may participate in the Purchase Plan during each pay period through payroll deductions. An employee sets the rate of such payroll deductions, which may not be less than 2% nor more than 10% of the employee's base salary, wages, commissions, overtime, shift premiums and bonuses plus draws against commissions, unreduced by the amount by which the employee's salary is reduced pursuant to Sections 125 or 401(k) of the Code. Eligible employees may elect to participate in any Offering Period by enrolling as provided under the terms of the Purchase Plan. Once enrolled, a participating employee will automatically participate in each succeeding Offering Period unless such employee withdraws from the Offering Period. After the rate of payroll deductions for an Offering Period has been set by an employee, that rate continues to be effective for the remainder of the Offering Period (and for all subsequent Offering Periods in which the employee is automatically enrolled) unless otherwise changed by the employee. The employee may increase or lower the rate of payroll deductions for any subsequent Offering Period but may only lower the rate of payroll deductions during the current Purchase Period. Not more than one change may be made effective during any one Purchase Period.

In any given Purchase Period, no employee may purchase more than (a) twice the number of shares that could have been purchased with the payroll deductions if the purchase price were determined by using 85% of the fair market value of a share of the Company's common stock on the Offering Date or (b) the maximum number of shares set by the Board. In addition, no employee may purchase shares at a rate that, when aggregated with all other rights to purchase stock under all other employee stock purchase

plans of the Company, or any parent or subsidiary of the Company, exceeds \$25,000 in fair market value (determined on the Offering Date) for each year.

Purchase Price. The purchase price of shares that may be acquired in any Purchase Period under the Purchase Plan is 85% of the lesser of (a) the fair market value of the shares on the Offering Date of the Offering Period in which the participant is enrolled or (b) the fair market value of the shares on the Purchase Date. The fair market value of the common stock on a given date is the closing price of the common stock on the immediately preceding business day as quoted on the NASDAQ National Market. On May 31, 2006, the closing price of the Company's common stock was \$42.07.

Purchase of Stock. The number of whole shares an employee may purchase in any Purchase Period is determined by dividing the total amount of payroll deductions withheld from the employee during the Purchase Period pursuant to the Purchase Plan by the price per share determined as described above, subject to the limitations described above. The purchase takes place automatically on the last day of the Purchase Period.

Withdrawal. An employee may withdraw from any Offering Period at any time at least 15 days prior to the end of an Offering Period. No further payroll deductions for the purchase of shares will be made for the succeeding Offering Period unless the employee enrolls in the new Offering Period in the same manner as for initial participation in the Purchase Plan.

Termination of Employment. Termination of an employee's employment for any reason, including retirement or death, immediately cancels the employee's participation in the Purchase Plan. In such event, the payroll deductions credited to the employee's account will be returned to such employee or, in case of death, to the employee's legal representative.

Adjustment Upon Changes in Capitalization. The number of shares subject to any purchase, and the number of shares issuable under the Purchase Plan, is subject to adjustment in the event of a recapitalization of the Company's common stock. In the event of a proposed dissolution or liquidation of the Company, the Offering Period will terminate and the Board may, in its sole discretion, give participants the right to purchase shares that would not otherwise be purchasable until the last day of the applicable Purchase Period.

Tax Treatment of U.S.-based Participants. Participating employees in the U.S. will not recognize income for federal income tax purposes either upon enrollment in the Purchase Plan or upon the purchase of shares. All tax consequences are deferred until a participating U.S. employee sells the shares, disposes of the shares by gift, or dies.

If shares are held for more than one year after the date of purchase and more than two years from the beginning of the applicable Offering Period, or if the employee dies while owning the shares, the employee realizes ordinary income on a sale (or a disposition by way of gift or upon death) to the extent of the lesser of: (i) 15% of the fair market value of the shares at the beginning of the Offering Period; or (ii) the actual gain (the amount by which the market value of the shares on the date of sale, gift or death, exceeds the purchase price). All additional gain upon the sale of shares is treated as long-term capital gain. If the shares are sold and the sale price is less than the purchase price, there is no ordinary income, and the employee has a long-term capital loss for the difference between the sale price and the purchase price.

If the shares are sold or are otherwise disposed of, including by way of gift (but not death, bequest or inheritance), within either the one-year or the two-year holding periods described above (in any case a "disqualifying disposition"), the employee will realize ordinary income at the time of sale or other disposition taxable to the extent that the fair market value of the shares at the date of purchase was greater than the purchase price. This excess will constitute ordinary income in the year of the sale or other disposition even if no gain is realized on the sale or if a gratuitous transfer is made. The difference, if any, between the proceeds of sale and the fair market value of the shares at the date of purchase is a capital gain or loss. Capital gains may be offset by capital losses, and up to \$3,000 of capital losses in excess of capital gains may be offset annually against ordinary income. Ordinary income recognized by an employee

upon a disqualifying disposition constitutes taxable compensation that will be reported on a W-2 form. The Company takes the position that any ordinary income recognized upon a sale or other disposition is not subject to withholding.

Tax Treatment of non-U.S.-based Participants. For participants residing outside the U.S., the Company will assess its requirements regarding tax, social insurance and other applicable taxes in connection with participation in the Purchase Plan. These requirements may change from time to time as laws or interpretations change.

Tax Treatment of the Company. The Company is entitled to a deduction in connection with the disposition of shares acquired under the Purchase Plan only to the extent that the employee recognized ordinary income on a disqualifying disposition of the shares. The Company treats any transfer of record ownership of shares, including transfer to a broker or nominee or into “street name,” as a disposition, unless it is notified to the contrary. In order to enable the Company to learn of disqualifying dispositions and ascertain the amount of the deductions to which it is entitled, employees are required to notify the Company in writing of the date and terms of any disposition of shares purchased under the Purchase Plan.

Proposed amendment of the 2000 Employee Stock Purchase Plan. At the Annual Meeting, stockholders will be asked to approve an amendment to the Purchase Plan to increase by 1,500,000 the number of shares of the Company’s common stock reserved for issuance under the Purchase Plan. None of these proposed shares have been granted or issued on the basis of such proposed approval.

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Appendix C

ELECTRONIC ARTS INC. BOARD OF DIRECTORS

AUDIT COMMITTEE CHARTER

As Amended May 24, 2006

1. PURPOSE

The Audit Committee of the Board of Directors (the “*Committee*”) is charged with providing assistance to the Board of Directors (the “*Board*”) in fulfilling its responsibility to Electronic Arts Inc. (“*EA*”) and its stockholders in overseeing (a) management and its auditors in respect of corporate accounting, financial reporting practices, and the quality and integrity of the financial reports of EA, including EA’s compliance with legal and regulatory requirements, (b) the independent auditor’s qualifications and independence, (c) the performance of EA’s internal audit function and independent auditor, and (d) the preparation of the report required by the rules of the Securities and Exchange Commission (“*SEC*”) to be included in EA’s annual proxy statement.

It is not the role of the Committee to plan or conduct audits, to guarantee the accuracy or quality of EA’s financial statements or to determine that the financial statements are in accordance with generally accepted accounting principles and applicable laws and regulations. These are the responsibilities of management, the independent auditor and internal auditors. It is the responsibility of the Committee to maintain regular and open communication among the directors, the independent auditor, the internal auditors, and the financial management of EA.

2. COMPOSITION OF THE COMMITTEE

The Committee will consist of not less than three independent directors. To be considered “independent,” the member, and the compensation received by such member, must satisfy the requirements of all applicable laws and regulations relative to audit committee independence, including without limitation those of the NASDAQ Marketplace Rules and the SEC, as determined by the Board. The members of the Committee shall possess such degree of financial or accounting expertise as may be required by law or by the regulations of the SEC or the NASDAQ Marketplace Rules, as the Board of Directors interprets such qualification in its business judgment. In addition, at least one member of the Committee shall possess the requisite financial sophistication to qualify as a “financial expert” under applicable SEC regulations. Each appointed Committee member will be subject to annual reconfirmation and may be removed by the Board at any time.

3. RESPONSIBILITIES AND DUTIES

In carrying out its purpose, the Committee will have the following responsibilities and duties:

Appointment of the Independent Auditor. To the extent required by applicable law or regulation: (i) the Committee will be directly responsible for the appointment, retention, compensation and oversight of EA’s registered public accounting firm (the “*independent auditor*”), including the resolution of any disagreements between management and the independent auditor regarding financial reporting, (ii) the independent auditor shall report directly to the Committee, (iii) the Committee shall approve in advance all auditing services (including comfort letters and statutory audits) performed by the independent auditor, (iv) the Committee shall approve in advance all permitted non-audit services performed by the independent auditor and (v) all non-audit services to be performed by the independent auditor shall be disclosed. The Committee may delegate to one or more members of the Committee the authority to grant pre-approvals required by this subsection, and the decisions of the member to whom this authority is delegated shall be presented to the Committee at the next scheduled meeting of the Committee.

Annual Statement from the Independent Auditor. The Committee is responsible for obtaining from the independent auditor at least annually, a formal written statement delineating all relationships between the auditor and EA, consistent with Independence Standards Board Standard 1 (as such may be modified or superseded from time to time). The Committee shall be responsible for actively engaging in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and for taking, or recommending that the Board of Directors take, such appropriate action as may be necessary to satisfy itself as to the qualifications, performance and independence of the independent auditor. To the extent required by law or regulation, the annual statement also shall describe: (a) the firm's internal quality control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by an inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and (c) any steps taken to deal with any such issues.

Risk Assessment and Accounting Controls. The Committee will review with the independent auditor, EA's internal auditors, and appropriate financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of EA, and guidelines and policies to govern the process by which risk assessment and risk management is undertaken, and will elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.

The Annual Audit. The Committee will meet with the independent auditor and financial management of EA to review the scope of the proposed audit plan for the current year and the audit procedures to be utilized, and approve the budget for such audit. At the conclusion of the annual audit, the Committee will also review such audit, including any comments or recommendations of the independent auditor.

Review of Issues. The Committee will regularly review with the independent auditor any audit problems or difficulties the auditor encountered in the course of the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management, and management's response. In that regard, no officer or director of EA, or any other person acting under the direction thereof, shall violate any law or regulation that prohibits fraudulently influencing, coercing, manipulating, or misleading any independent auditor engaged in the performance of an audit of the financial statements of EA for the purpose of rendering such financial statements materially misleading.

Hiring Policies. The Committee will set clear hiring policies for employees or former employees of the independent auditor consistent with statutory and regulatory requirements.

Related Party Transactions. The Committee will review and approve any "related party transactions", as such term is defined by SEC rules and regulations and NASDAQ Marketplace Rules.

Complaint Procedures. The Committee will establish and maintain procedures for the (i) receipt, retention, treatment, process and disposition of complaints received by EA regarding accounting, internal accounting controls or audit matters, and (ii) the confidential, anonymous submission by employees of EA of concerns regarding accounting or auditing matters.

Internal Audit Function. The Committee will oversee the internal audit function of EA, including the independence and authority of its reporting obligations, its annual budget, the proposed audit plans for the coming year, and the coordination of such plans with the independent auditor. The head of the Company's internal audit function will report directly to the Committee. The Committee will receive, as necessary, notification of material adverse findings from internal audits and a progress report on the proposed internal audit plan, as appropriate, with explanations for changes from the original plan.

Earnings Releases. The Committee will discuss earnings press releases and financial information and earnings guidance provided to analysts and rating agencies, though this may be done generally (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and the

Committee need not discuss in advance each earnings release or each instance in which EA may provide earnings guidance.

Review of Financial Statements. The Committee will discuss with management and the independent auditor the annual audited financial statements and the quarterly unaudited financial statements, including a discussion of all matters relevant thereto that are required to be discussed under any applicable law or regulation or that the Committee otherwise considers it desirable to discuss.

Review of Additional Matters. The Committee will also review from time to time such additional matters as may be required by law or regulation, or that it deems advisable to review, including without limitation EA's critical accounting policies, the status of any significant income tax matters, the Company's investment and foreign exchange policies and practices, and certifications by management of EA's filings with the Securities and Exchange Commission.

Separate Meetings. Periodically, the Committee shall meet separately with management, with the internal auditors, and with the independent auditor.

Investigations. The Committee will investigate any matter brought to its attention within the scope of its duties to the extent and in such manner as it considers appropriate (including confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters). The Committee will discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding EA's financial statements or accounting policies. EA will follow all provisions of law or regulation that prohibit discipline of or discrimination against employees who report what they reasonably believe to be violations of any law, rule or regulation applicable to EA.

Ethics Policy Compliance. The Committee will review compliance with EA's Code of Conduct annually. To the extent required by applicable laws or regulations: (a) the Code of Conduct will continue to be applicable to senior financial officers of EA, including its Chief Financial Officer, and its controller or principal accounting officer, and to persons performing similar functions; and (b) EA's Code of Conduct shall continue to include such standards as are reasonably designed to deter wrongdoing and to promote: (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (2) full, fair, accurate, timely, and understandable disclosure in the reports EA files with or furnishes to the SEC and in other public communications made by EA; (3) compliance with applicable governmental laws, rules and regulations; (4) the prompt internal reporting of violations of the Code of Conduct to an appropriate person or persons identified in the Code of Conduct; and (5) accountability for adherence to the Code of Conduct.

Legal Compliance. The Committee will review compliance with EA's legal compliance policies annually. The Committee will discuss with EA's General Counsel legal matters that may have a material impact on EA's financial statements or compliance policies.

Outside Advisors. The Committee may obtain advice and assistance from outside legal, accounting or other advisors as it deems appropriate. It may retain these advisors without seeking approval of the Board of Directors. EA will provide appropriate funding, as determined by the Audit Committee, for payment of the compensation of the independent auditor and of any advisors engaged by the Committee, and for ordinary administrative expenses necessary or appropriate in carrying out its duties.

Access to Management. The Committee shall have full access to EA's executives and personnel as necessary to carry out its responsibilities.

Review of Charter. The Committee will review the Committee Charter from time to time and at least annually and recommend any changes to the Board.

Reporting to the Board. The Committee will report to the Board on the major items covered at each Committee meeting. The Committee will review with the full Board of Directors any issues that arise with respect to the quality or integrity of EA's financial statements, EA's compliance with legal or regulatory

requirements, the performance and independence of EA's independent auditor, or the performance of the internal audit function.

Notwithstanding the foregoing, any action of the Committee may be subject to Board review and may be revised, modified or rescinded by the Board.

4. COMMITTEE MEETINGS

The Committee will meet as often as necessary to carry out its responsibilities and in any event at least quarterly. Meetings may be called by any Committee member and/or by the management of EA. A majority of the total number of members of the Committee will constitute a quorum at all Committee meetings and a quorum will be empowered to act on behalf of the Committee. Minutes of each meeting will be duly filed in EA's records.

ELECTRONIC ARTS INC.

2006 Annual Report on Form 10-K

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended March 31, 2006

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)

Registrant's telephone number, including area code:

(650) 628-1500

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's common stock, \$0.01 par value, held by non-affiliates of the registrant as of September 30, 2005, the last business day of the second fiscal quarter, was \$11,606,848,957.

As of June 5, 2006 there were 306,156,891 shares of the registrant's common stock, \$0.01 par value, outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its 2006 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

ELECTRONIC ARTS INC.
2006 FORM 10-K ANNUAL REPORT

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PART I

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Report are forward looking. We use words such as “anticipate”, “believe”, “expect”, “intend”, “estimate” (and the negative of any of these terms), “future” and similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk and reflect management’s current expectations, and involve subjects that are inherently uncertain and difficult to predict. Our actual results could differ materially. We will not necessarily update information if any forward-looking statement later turns out to be inaccurate. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed under the heading “Risk Factors”, beginning on page 18.

Item 1: *Business*

Overview

Electronic Arts develops, markets, publishes and distributes interactive software games (we sometimes refer to them as “titles”) that are playable by consumers on the following devices:

- In-home video game players (such as the Sony PlayStation® 2, Microsoft Xbox® and Xbox 360™ and Nintendo GameCube™) — we call these players “consoles”,
- Personal computers (PCs),
- Mobile platforms including handheld video game players (such as the PlayStation® Portable (“PSP™”), Nintendo DS™ and Game Boy® Advance) and cellular handsets, and
- Online, over the Internet and other proprietary online networks.

We refer to consoles, PCs, mobile platforms and online collectively as “platforms”.

We were initially incorporated in California in 1982. In September 1991, we reincorporated under the laws of Delaware. Our principal executive offices are located near San Francisco, California at 209 Redwood Shores Parkway, Redwood City, California 94065 and our telephone number is (650) 628-1500.

We publish interactive software games for multiple platforms. Our products that are designed to play on consoles and certain mobile platforms are published under license from the manufacturers of these platforms (for example, Sony for the PlayStation 2 and PSP, Microsoft for the Xbox and Xbox 360, and Nintendo for the Nintendo GameCube, Game Boy Advance and Nintendo DS). We invest in the creation of software tools to more efficiently develop games for multiple platforms. We also make investments in facilities and equipment that allow us to create and edit video and audio recordings that are used in our games. Since our inception, we have published games for over 47 different platforms.

Our product development methods and organization are modeled on those used in other sectors of the entertainment industry. Employees whom we call “executive producers” are responsible for overseeing the development of one or more products. The interactive software games that we develop and publish are broken down into two major categories: (1) products developed by our EA studios for play on consoles, PCs, mobile platforms and online, and (2) co-publishing and distribution products.

EA Studios Products

We develop games internally at our development and production studios located near San Francisco, Los Angeles, Orlando, Chicago, Vancouver, Montreal, London, Sweden, Tokyo and Shanghai. We also engage third parties to develop games on our behalf at their own development and production studios.

On February 15, 2006, we acquired JAMDAT Mobile Inc. (“JAMDAT”) based in Los Angeles, California. JAMDAT is a global publisher of wireless games and other wireless entertainment applications

for cellular handsets. Subsequent to this acquisition, we merged our existing mobile business with JAMDAT to establish our EA Mobile business which is responsible for the creation, marketing and distribution of interactive entertainment software playable on cellular handsets.

Brands

We market our products under four brand names:

- EA SPORTS™ — We publish realistic sports simulation games under our EA SPORTS brand. Some of our products published under the EA SPORTS brand include *Madden NFL 06* (professional football), *FIFA 06* (professional soccer) and *NBA Live 06* (professional basketball),
- EA™ — We publish a variety of games under our EA brand. Some of our products published under the EA brand include *Need for Speed™ Most Wanted*, *The Sims™ 2*, *Harry Potter and the Goblet of Fire™* and *Burnout™ Revenge*,
- EA SPORTS BIG™ — We publish arcade-style extreme sports and modified traditional sports games under our EA SPORTS BIG brand. Some of our products published under the EA SPORTS BIG brand include *SSX™ On Tour* (skiing and snowboarding) and *FIFA Street 2* (soccer), and
- Pogo™ — Online casual games and downloadable casual games are marketed under the Pogo brand and are marketed under three sub-brands: (1) Pogo (our free online games service), (2) Club Pogo™ (our premium subscription-based online games service) and (3) Pogo-To-Go™ (downloadable games).

Franchises

We develop product families, which we call “franchises” around many of our products. For example, every year we release new versions of most of our EA SPORTS titles. Likewise, we have been successful in developing, marketing, publishing and distributing sequels to several of our EA and EA SPORTS BIG products. We also release products called “expansion packs” for PC titles that provide additional content (characters, storylines, settings, missions) for games that we have previously published. For example, *The Sims™ 2 Open for Business* expands the characters, settings and gameplay of the original *The Sims 2* game. We consider titles that iterate, sequel or spawn expansion packs to be franchise titles.

Co-publishing and Distribution Products

Through our EA Partners business unit, we team with other game development companies to assist them to develop their own interactive software games, which we then publish, market and distribute. We refer to these types of arrangements as “co-publishing”. An example of a co-publishing product is *TimeSplitters Future Perfect™*, which was developed by Free Radical Design, a game development company located near London.

We also distribute interactive software games that are developed and published by other companies. An example of one of our recent distribution products is *Half-Life® 2*, developed and published by Valve, which we distribute worldwide.

Method of Delivery

Packaged Goods

The console, PC and handheld games that we publish are made available to consumers on a disk (usually CD, DVD or Universal Media Disc (“UMD”) format) that is packaged and typically sold in retail stores and through online stores (including our own online store). We refer to these as “packaged goods” products. In North America and Europe, our largest markets, these packaged goods products are sold primarily to retailers that may be mass market retailers (such as Wal-Mart), electronics specialty stores (such as Best Buy) or game software specialty stores (such as GameStop).

Cellular Handsets

Following our acquisition of JAMDAT in February 2006, we merged our existing cellular handset software game development and publishing business with JAMDAT to establish our EA Mobile business. Through EA Mobile, we publish games for our customers to download onto their cellular handsets. Our customers typically purchase and download our games through a wireless carrier's branded e-commerce service accessed directly from their cellular handsets, which must be enabled by technologies such as BREW or Java. These wireless carrier services include, among others, Verizon Wireless' *Get It Now*, Sprint PCS *Vision*, Cingular *MEdia* and Vodafone *live!*. Our customers are charged a one-time or monthly subscription fee on their cellular handset invoice for the game. The wireless carriers generally retain a percentage of the fee and pay the rest to us. The wireless distribution of our games eliminates traditional publishing complexities, including physical production, packaging, shipping, inventory management and return processing.

Online

There are three ways in which we publish games that are playable online by consumers:

- Online-only casual games that we make available on the World Wide Web — such as card games, puzzle games and word games — marketed under our Pogo brand. These are made available to consumers on our web site, www.pogo.com, and on certain online services provided by America Online, Inc.
- Another type of online-only games is called “massively multiplayer online games” (sometimes called “persistent state world games”). Players experience these games as interactive virtual worlds where thousands of other players can interact with one another. We currently have two massively multiplayer online game products, *Ultima Online*[™] and *The Sims Online*[™]. These games are sold to consumers in the form of a CD, DVD or download containing the software necessary to play the game.
- We include online capability features in certain of our PC, PlayStation 2, Xbox, Xbox 360 and PSP products, which enable consumers to participate in online communities and play against one another via the Internet.

In addition, online downloads are available for (1) certain PC games either from our EA.com site or third party sites such as Gametap, and (2) Microsoft's Xbox Live service. We are also developing digital content, which we intend to sell online via microtransactions, for next-generation console-based games.

Licensed Products

We also maintain a smaller business where we license to manufacturers of products in related industries (for example, makers of personal computers or computer accessories) rights to include certain of our products with the manufacturer's product or offer our products to consumers who have purchased the manufacturer's product. We call these combined products “OEM bundles”.

Intellectual Property

Like other entertainment companies, our business is based on the creation, acquisition, exploitation and protection of intellectual property. Some of this intellectual property is in the form of software code, patented technology, and other technology and trade secrets that we use to develop our games and to make them run properly on the platforms. Other intellectual property is in the form of audio-visual elements that consumers can see, hear and interact with when they are playing our games — we call this form of intellectual property “content”.

Each of our products embodies a number of separate forms of intellectual property protection: the software and the content of our products are copyrighted; our products may use patented inventions or trade secrets; our product brands and names may be trademarks of ours or others; our products may contain voices and

likenesses of actors, athletes and/or commentators (protected by personal publicity rights) and often contain musical compositions and performances that are also copyrighted. Our products also may contain content licensed from others, such as trademarks, fictional characters, storylines and software code.

We acquire the rights to include these kinds of intellectual property in our products through our own development, acquisitions, and license agreements such as those with sports leagues and player associations, movie studios and performing talent, music labels, music publishers and musicians. These licenses are typically limited to use of the licensed rights in products for specific time periods. In addition, our products that play on consoles such as the Sony PlayStation 2 and some mobile platforms include technology that is owned by the console manufacturer (for example, Sony) and licensed non-exclusively to us for use. While we may have renewal rights for some licenses, our business and the justification for the development of many of our products is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights at reasonable rates.

Our products are susceptible to unauthorized copying. We typically distribute our PC products using copy protection technology that we license from other companies. In addition, console manufacturers, such as Sony, typically incorporate security devices in their consoles in an effort to prevent the use of unlicensed products. Our primary protection against unauthorized use, duplication and distribution of our products is enforcement of our copyright and trademark interests. We typically own the copyright to the software code as well as the brand or title name trademark under which our products are marketed. We register our copyrights in the United States and other countries.

Market Segment

Historically, there have been multiple consoles and mobile video game players available to consumers that play interactive software games like ours, and there has been vigorous competition between manufacturers. While Sony's PlayStation® and PlayStation 2 consoles have significantly outsold their competitors in the past, Microsoft and Nintendo are large and viable competitors, and PCs continue to be a strong interactive game platform. Similarly, while Nintendo's Game Boy, Game Boy Color and Game Boy Advance have been the historic leaders in the mobile video game player market, Sony's PlayStation Portable is a recent successful competitor in this segment. We develop and publish products for multiple platforms, and this diversification continues to be a cornerstone of our product strategy.

We currently develop or publish products for 12 different hardware platforms. In fiscal 2006, we released games designed to play on the PlayStation 2, Xbox, Xbox 360, Nintendo GameCube, PC, Game Boy Advance, Sony PSP, Nintendo DS, online and cellular handsets. In fiscal 2007, we plan to release games designed for play on these platforms as well as games designed for play on the PlayStation 3 and Nintendo Wii™.

Video Game Consoles

The latest generation of video game consoles was initiated by the launch of Microsoft's Xbox 360 in fiscal 2006 and will continue with the launches of the upcoming Sony and Nintendo consoles. The following table details select information on some of the console platforms for which we have published titles:

<u>Manufacturer</u>	<u>Video Game Console/Platform Name</u>	<u>Year Introduced in North America</u>	<u>Medium/Product Base</u>
Sega	Genesis	1989	Cartridge
Nintendo	Super NES™	1991	Cartridge
Matsushita	3DO™ Interactive Multiplayer™	1993	Compact Disk
Sega	Saturn	1995	Compact Disk
Sony	PlayStation	1995	Compact Disk
Nintendo	Nintendo 64	1996	Cartridge
Sony	PlayStation 2	2000	Digital Versatile Disk
Nintendo	Nintendo GameCube	2001	Proprietary Optical Format
Microsoft	Xbox	2001	Digital Versatile Disk
Microsoft	Xbox 360	2005	Digital Versatile Disk

PlayStation 2. Sony released the PlayStation 2 console in Japan in March 2000, in North America in October 2000, and in Europe in November 2000. The PlayStation 2 console is a DVD-based system that, with a network adaptor, is Internet ready, as well as backward compatible with games published for its predecessor, the PlayStation. We have published and are currently developing numerous products for the Sony PlayStation 2.

Nintendo GameCube. Nintendo launched the Nintendo GameCube console in Japan in September 2001, in North America in November 2001, and in Europe in May 2002. The Nintendo GameCube plays games that are manufactured on a proprietary optical disk. We have published and are currently developing several products for the Nintendo GameCube.

Xbox. Microsoft launched the Xbox console in North America in November 2001, in Japan in February 2002, and in Europe in March 2002. The Microsoft Xbox is DVD-based system that is Internet ready. In May 2004, we began to support the Xbox Live service with features including Quickmatch, Optimatch, gamertags, Xbox Live friends list, voice communication and EA messenger service. We have published and are currently developing numerous products for the Microsoft Xbox.

Xbox 360. Microsoft launched the Xbox 360 console in North America in November 2005, and in Europe and Japan in December 2005. The Xbox 360 is a DVD-based system that is Internet and high definition ready. We have published several titles and are currently developing numerous products for the Xbox 360, all of which also support the Xbox Live service. In addition, we are developing digital content for sale via microtransactions on the Xbox Live service.

Next-Generation Consoles

Our industry is cyclical and is in the transition stage to the next cycle. Microsoft launched the Xbox 360 at the end of calendar year 2005. In the coming months, we expect Sony and Nintendo to introduce new video game consoles as well. These next-generation consoles have and are expected to introduce new complexities. Both the Xbox 360 and the PlayStation 3 have a complex multi-processor architecture and High-Definition video outputs. The Nintendo Wii will introduce a unique controller.

Mobile Platforms

The following table details select information on some of the handheld video game players for which we have published titles:

<u>Manufacturer</u>	<u>Mobile Game Machine/ Platform Name</u>	<u>Year Introduced in North America</u>
Nintendo.....	Game Boy	1989
Nintendo.....	Game Boy Color	1998
Nintendo.....	Game Boy Advance	2001
Nokia	N-Gage	2003
Nintendo.....	Nintendo DS	2004
Sony	PSP	2005

Nintendo DS. Nintendo launched the Nintendo DS in North America in November 2004, in Japan in December 2004, and in Europe in March 2005. We have published several products and are currently developing several more products for the Nintendo DS.

Sony PSP. Sony launched the PSP in Japan in December 2004, in North America in March 2005, and in Europe in September 2005. The Sony PSP is a UMD-based system. We have published, are currently developing, and expect to develop numerous products for the Sony PSP.

Cellular handsets. Following our acquisition of JAMDAT in February 2006, we merged our existing cellular handset software game development and publishing business with JAMDAT to establish our EA Mobile business. Through EA Mobile, we are a leading global publisher of interactive entertainment software playable on cellular handsets, which include games, ringtones, images and other content. In North America, we are the leading publisher of interactive entertainment software playable on cellular handsets.

Many of our games are designed to take advantage of multimedia enhancements in the latest generation of cellular handsets, including high-resolution color displays, increased processing power, improved audio capabilities and increased memory capabilities. We publish games in multiple categories designed to appeal to a broad range of wireless subscribers. Our portfolio is primarily based on intellectual properties that we create and own, and well-established brands and content that we license from third parties.

Online Games

There are three types of EA-published games that are played online by consumers: (1) online casual games marketed under the Pogo brand available to consumers on our web site, www.pogo.com, and on certain online services provided by America Online, Inc., (2) massively multiplayer online games sold to consumers in the form of a CD, DVD or download containing the software necessary to play the game, and (3) online-enabled packaged goods in which certain of our PC, PlayStation 2, PSP and Xbox products, allow consumers to participate in online communities and play against one another via the Internet.

We believe that online gaming is integral to our existing and future products. However, the continued growth of the online sector in our industry will depend on the following key factors:

- Growing interest in multiplayer games,
- Willingness by consumers to pay for online game content,
- Rapid innovation of new online entertainment experiences,
- Mass market adoption of broadband technologies,
- Convergence of online capabilities in next-generation consoles, and
- Ability to create online products that are applicable in diverse global markets.

Competition

We compete in the entertainment industry. At the most fundamental level, our products compete with other forms of entertainment, such as motion pictures, television and music, for the leisure time and discretionary spending of consumers. We believe that the software games segment is best viewed as a segment of the overall entertainment market. We believe that large software companies and media companies are increasing their focus on the software games segment of the entertainment market and, as a result, may compete directly with us. Several large software companies and media companies (e.g., Microsoft and Sony) have been publishing products that compete with ours for a long time, and other diversified media/entertainment companies (e.g., Time Warner, Viacom, Fox and Disney) are expanding their software game publishing efforts.

The software games business is highly competitive. It is characterized by the continuous introduction of new titles and the development of new technologies. Our competitors vary in size and cost structure from very small companies with limited resources to very large, diversified corporations with greater financial and marketing resources than ours. Our business is driven by hit titles, which require ever-increasing budgets for development and marketing. As a result, the availability of significant financial resources has become a major competitive factor in developing and marketing software games. Competition is also based on product quality and features, timing of product releases, brand-name recognition, quality of in-game content, access to distribution channels, effectiveness of marketing and price.

Games for Consoles, PCs and Handheld Video Game Players

We currently compete with Sony, Microsoft and Nintendo, each of which develop and publish software for their respective console platforms. We also compete with numerous companies which are, like us, licensed by the console manufacturers to develop and publish software games that operate on their consoles. These competitors include Activision, Atari, Capcom, Koei, Konami, LucasArts, Midway, Namco, Sega, Take-Two Interactive, THQ, Ubisoft and Vivendi Universal Games, among others. As discussed above, diversified media companies such as Time Warner, Viacom, Fox and Disney are also expanding their software game publishing efforts.

In addition to competing for product sales, we face heavy competition from other software game companies to obtain license agreements granting us the right to use intellectual property included in our products. Some of these content licenses are controlled by the diversified media companies, which, in some cases, have decided to publish their own games based on popular movie properties that they control, rather than licensing the content to a software game company such as us.

The market for our products is also characterized by significant price competition and we regularly face pricing pressures from our competitors. These pressures have, from time to time, required us to reduce our prices on certain products. Our experience has been that software game prices tend to decline once a generation of consoles has been in the market for a significant period of time due to the increasing number of software titles competing for acceptance by consumers and the anticipation of the next-generation of consoles. We have experienced this kind of price erosion during the past twelve months, as the software game segment has been going through a transition from the current generation of consoles (PlayStation 2, Xbox and Nintendo GameCube) to the next generation of consoles (Xbox 360, PlayStation 3 and Nintendo Wii).

Applications for Cellular Handsets

The wireless entertainment applications market segment, for which we develop and publish games, ringtones and wallpapers for cellular handsets, is highly competitive and characterized by frequent product introductions, evolving wireless platforms and new technologies. As demand for applications continues to increase, we expect new competitors to enter the market and existing competitors to allocate more resources to develop and market applications. As a result, we expect competition in the wireless entertainment market segment to intensify.

The current and potential competition in the wireless entertainment applications market segment includes major media companies, traditional video game publishing companies, wireless carriers, wireless software providers and other companies that specialize in wireless entertainment applications. We also compete with wireless content aggregators, who pool applications from multiple developers (and sometimes publishers) and offer them to carriers or through other sales channels.

Currently, we consider our primary competitors in the wireless entertainment applications market segment to be Disney, Gameloft, Infospace, Mforma, Namco, Sony Pictures, Sorrent, THQ Wireless, VeriSign and Yahoo!.

Online Games

The online games market segment is also highly competitive and characterized by frequent product introductions, new business models and new platforms. As the proportion of households with broadband connections increases, we expect new competitors to enter the market and existing competitors to allocate more resources to develop online games. As a result, we expect competition in the online games market segment to intensify.

Our current and potential competitors in the online game market segment include major media companies, traditional video game publishing companies, and companies that specialize in online games. Our competitors in the casual games market segment include Yahoo! Popcap, Real and MSN. In the massively multiplayer online game market segment our competitors include Vivendi Games, NC Soft, Sony and Atari.

Significant Relationships

Hardware Platform Companies

Sony. Under the terms of license agreements we entered into with Sony Computer Entertainment of America, Sony Computer Entertainment of Europe and Sony Computer Entertainment Inc. (Japan), we are authorized to develop and distribute DVD-based software products and online content compatible with the PlayStation 2. Pursuant to these agreements, we engage Sony to supply PlayStation 2 DVDs for our products. Many of our PlayStation 2 products are capable of being played online by customers who have an online adaptor, which is manufactured and sold by Sony. In addition, through another set of agreements with Sony, we are authorized to develop and distribute games compatible with the Sony PSP.

In fiscal 2006, approximately 38 percent of our net revenue was derived from sales of EA Studio games designed for play on the PlayStation 2, compared to 43 percent in fiscal 2005. We released 28 titles worldwide in fiscal 2006 for the PlayStation 2, compared to 27 titles in fiscal 2005. Our top five PlayStation 2 releases for fiscal 2006 were *Need for Speed Most Wanted*, *Madden NFL 06*, *FIFA 06*, *NCAA® Football 06* and *NBA LIVE 06*.

In fiscal 2006, approximately 9 percent of our net revenue was derived from sales of EA Studio games designed for play on the Sony PSP, compared to 1 percent in fiscal 2005. We released 16 titles worldwide in fiscal 2006 for the Sony PSP, compared to three titles in fiscal 2005. Our top five Sony PSP releases for fiscal 2006 were *Need for Speed Most Wanted*, *Burnout Revenge*, *Madden NFL 06*, *Need for Speed™ Underground 2* and *FIFA 06*.

We are currently in discussions with Sony Computer Entertainment of America, Sony Computer Entertainment of Europe and Sony Computer Entertainment Inc. (Japan) to secure a license to develop and distribute Blu-Ray based software products compatible with the forthcoming PlayStation 3 console.

Microsoft. Under the terms of license agreements we have entered into with Microsoft, we are authorized to develop and distribute DVD-based software products and online content compatible with the Xbox and Xbox 360.

In fiscal 2006, approximately 13 percent of our net revenue was derived from sales of EA Studio games designed for play on the Xbox, compared to 16 percent in fiscal 2005. We released 28 titles worldwide in

fiscal 2006 for the Xbox, compared to 26 titles in fiscal 2005. Our top five Xbox releases for fiscal 2006 were *Madden NFL 06*, *Need for Speed Most Wanted*, *NCAA Football 06*, *Burnout Revenge* and *FIFA 06*.

In fiscal 2006, approximately 5 percent of our net revenue was derived from sales of EA Studio games designed for play on the Xbox 360. We released seven titles worldwide in fiscal 2006 for the Xbox 360. Our top five Xbox 360 releases for fiscal 2006 were *Need for Speed Most Wanted*, *Madden NFL 06*, *EA SPORTS™ Fight Night Round 3*, *FIFA 06* and *NBA LIVE 06*.

Nintendo. Under the terms of license agreements we entered into with Nintendo of America and Nintendo Company Ltd. (Japan), we are authorized to develop and distribute proprietary optical format disk products compatible with the Nintendo GameCube, the Nintendo DS and Game Boy Advance. Pursuant to these agreements, we engage Nintendo to supply Nintendo GameCube proprietary optical format disk products for our products.

In fiscal 2006, approximately 5 percent of our net revenue was derived from sales of EA Studio games designed for play on the Nintendo GameCube, compared to 7 percent in fiscal 2005. We released 14 titles worldwide in fiscal 2006 for the Nintendo GameCube, compared to 20 titles in fiscal 2005. Our top five Nintendo GameCube releases for the year were *Need for Speed Most Wanted*, *Harry Potter and the Goblet of Fire*, *Madden NFL 06*, *FIFA 06* and *The Sims 2*.

We are currently in discussions with Nintendo of America and Nintendo Company Ltd. (Japan) to secure a license to develop and distribute DVD-based software products compatible with the forthcoming Nintendo Wii console.

Wireless Carrier Channel

We have agreements to distribute our wireless applications through more than 90 carriers in over 40 countries. Our customers download our applications to their cellular handsets and their wireless carrier invoices them a one-time fee or monthly subscription fee. Our carrier distribution agreements establish the fees to be retained by the carrier for distributing our applications. Our carrier agreements are not exclusive and generally have a limited term of one or two years, with evergreen, or automatic renewal, provisions upon expiration of the initial term. The agreements generally do not obligate the carriers to market or distribute any of our applications. In addition, the carriers can often terminate these agreements early and, in some instances, without cause.

Content Licensors

Many of our products are based on or incorporate content and trademarks owned by others. For example, our EA SPORTS and EA SPORTS BIG products include rights licensed from the major sports leagues and players associations. Similarly, many of our hit EA franchises, such as *The Godfather*, *Harry Potter* and *Lord of the Rings*, are based on key film and literary licenses. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR and ISC (stock car racing); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Pebble Beach (professional golf); National Hockey League and NHLPA (professional hockey); Warner Bros. (*Harry Potter*, *Batman* and *Superman*); New Line Productions and Saul Zaentz Company (*The Lord of the Rings*); Marvel Enterprises (fighting); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); Simco (Def Jam); Viacom Consumer Products (*The Godfather*); Valve Corporation (*Half-Life* and *Counter-Strike*); ESPN (content in EA SPORTS games); Twentieth Century Fox Licensing and Merchandising (*The Simpsons*); Lamborghini, McLaren and Porsche (car licenses for *Need for Speed*); and mobile game rights with PopCap Games and The Tetris Company. In the future, we will likely enter into other relationships with other significant content providers.

Products and Product Development

In fiscal 2006, we generated approximately 73 percent of our net revenue from EA Studio-produced products, released during the year as compared to approximately 71 percent in fiscal 2005. During fiscal 2006, we released 31 EA Studio titles, excluding titles developed for cellular handsets, compared to 35 EA Studio titles in fiscal 2005. We released 131 stock keeping units, or SKUs (a version of a title designed for play on a particular platform) in fiscal 2006, compared to 109 SKUs in fiscal 2005. In fiscal 2006, we had 27 titles that sold over one million units (aggregated across all platforms). In fiscal 2005, we had 31 titles and in fiscal 2004 we had 27 titles that sold over one million units (aggregated across all platforms). In fiscal 2006, we had one title, *Need for Speed Most Wanted*, published on eight different platforms, which represented approximately 10 percent of our total net revenue. In fiscal 2005, we had one title, *Need for Speed Underground 2*, published on five different platforms, which represented approximately 11 percent of our total net revenue. No title represented more than 10 percent of our total net revenue in fiscal 2004.

The products produced by EA's studios are designed and created by our employee designers and artists and by non-employee software developers (we call them "independent artists" or "third-party developers"). We typically advance development funds to the independent artists and third-party developers during development of our games. These payments are considered advances against subsequent royalties based on the sales of the products. These terms are typically set forth in written agreements entered into with the independent artists and third-party developers.

During fiscal 2006, the retail selling prices of our newly released products in North America ranged from \$29.99 to \$59.99. Other titles, including re-releases of older titles marketed as "Classics", had retail selling prices that ranged from \$9.99 to \$29.99. These ranges may not be indicative of our future retail selling prices in North America, which are based on prevailing market conditions. The retail selling prices of our titles outside of North America vary widely depending on factors such as local market conditions.

Our goal is to maintain our position as a leading publisher of games sold for play on video game consoles, PCs and mobile platforms. We will continue to invest in tools and technologies designed to facilitate development of our products for current and next-generation consoles, mobile platforms and online. We have incurred and expect to incur higher costs during this transition to next-generation consoles. During this transition, we intend to continue to develop titles for current-generation video game consoles while we also continue to make significant investments in the development of products that operate on next-generation consoles such as the Xbox 360, PlayStation 3 and Nintendo Wii. These investments are recorded in research and development in our Consolidated Statement of Operations. We had research and development expenditures of \$758 million in fiscal 2006, \$633 million in fiscal 2005 and \$511 million in fiscal 2004.

Online Games

We publish three types of games that are played online by consumers: online casual games, massively multiplayer online games, and online-enabled packaged goods games.

Online Casual Games. Our online casual games are marketed under three brands: Pogo (our free online games service), Club Pogo (our subscription-based online games service) and Pogo-To-Go (downloadable games).

- *Pogo* — Pogo provides approximately 80 free online games geared towards family entertainment. The offerings include sports, arcade, card, board, casino, word, trivia and puzzle games. This games service incorporates prizes, tournaments, community-building activities and the popularity of free, familiar games to appeal to a broad consumer market.
- *Club Pogo* — In fiscal 2004, we launched Club Pogo, a subscription-based service offering exclusive games and premium features. We offer approximately 30 additional games for Club Pogo subscribers. To join Club Pogo, players must register and subscribe online. Players have the option of selecting a monthly or annual subscription fee plan. When a player joins Club Pogo, they have access to all of the games and content they had on the free Pogo service, plus premium features

and benefits, such as additional member-exclusive games, ad-free gameplay, and an enhanced prize system. Club Pogo players also have the option of purchasing digital content such as premium badge albums. Club Pogo also provides a deeper community experience through upgraded player profiles, weekly game challenges and member badges. We had over 1.2 million paying subscribers as of March 31, 2006, up from 800,000 paying subscribers as of March 31, 2005.

- *Pogo-To-Go* — Pogo-to-Go is our downloadable games offering. A one-time fee allows users to download a Pogo game to play offline. We currently offer approximately 240 downloadable games under the Pogo-To-Go service, including third party games. The Pogo-To-Go games include extra features like exclusive game modes, bonus levels, high scores and enhanced graphics and sounds. We also offer packaged goods versions of some of these games that consumers can purchase at retail outlets.

Massively Multiplayer Online Games. Massively multiplayer online games are played exclusively online and are experienced as interactive virtual worlds where thousands of other players can interact with one another. Massively multiplayer online games are sold to consumers in the form of a CD, DVD or download containing the software necessary to play the game. After installing the software on their PCs, players are able to log-on to servers in order to interact with other players.

To date, we have launched five massively multiplayer online games with mixed results. While we have achieved success with *Ultima Online*, our other massively multiplayer online games have not met expectations. We continue to explore opportunities to build success in this segment of online games.

Online-Enabled Packaged Goods. We include online capability features in certain of our PC, PlayStation 2, Xbox, Xbox 360 and PSP products, which enable consumers to participate in online communities and play against one another via the Internet. In fiscal 2006, 16 Xbox, 14 PlayStation 2, eight PC, seven Xbox 360 and four PSP titles had online gameplay capability. We expect to include online gameplay capability in almost all of our titles going forward.

Marketing and Distribution

We market the products produced by our studios under the EA SPORTS, EA SPORTS BIG, EA and Pogo brands. Products marketed under the EA SPORTS brand typically simulate professional and collegiate sports and include franchises such as Madden NFL, FIFA Soccer and NBA Live. Products marketed under the EA SPORTS BIG brand typically feature extreme sports or modified traditional sports in arcade-style games and include such titles as *FIFA Street 2* and *NBA Street V3*. We market non-sports games under the EA brand including franchises such as Need for Speed, The Sims and The Lord of the Rings, as well as *The Godfather™ The Game*.

Our EA Partners business unit operates under a variety of deal types and structures with the intent of generating, leveraging and/or owning intellectual properties conceived by other developers, publishers or licensors worldwide. Through EA Partners we provide direct development expertise to our partners via an internal production staff, while also making available our publishing resources to provide sales, marketing and distribution services on a global basis. EA Partners also provides distribution and manufacturing services to other publishers. These titles are typically delivered to us from other publishers in gold master form or as completed products.

The interactive software game business is “hit” driven, requiring significant expenditures for marketing and advertising of our products. There can be no assurance that we will continue to produce “hit” titles, or that advertising for any product will increase sales sufficiently to recoup those advertising expenses.

We generated approximately 94 percent of our North American net revenue from direct sales to retailers. The remaining 6 percent of our North American sales were made through a limited number of specialized and regional distributors and rack jobbers in markets where we believe direct sales would not be economical. Outside of North America, we derive revenue primarily from direct sales to retailers. In a few of our smaller markets, we sell our products through distributors with whom we have written agreements or informal arrangements, depending on the business customs of the territories. We had direct sales to one

customer, Wal-Mart Stores, Inc., which represented approximately 13 percent of total net revenue in both fiscal 2006 and 2004 and approximately 14 percent of total net revenue in fiscal 2005.

In North America, we have stock-balancing programs for our PC products, which allow for the exchange of PC products by resellers under certain circumstances. We may also decide to provide price protection for our PC products under certain circumstances in North America. In most of our major geographical markets, we accept product returns on our PC products and we may decide to accept product returns or provide price protection under certain circumstances for our console products after we analyze inventory remaining in the channel, the rate of inventory sell-through in the channel, and our remaining inventory on hand. It is our policy to exchange products or give credits, rather than give cash refunds. We actively monitor the volume of our sales to our channel partners and their inventories, as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods.

The distribution channels through which our games are sold have been characterized by change, including consolidations and financial difficulties of certain distributors and retailers. The bankruptcy or other business difficulties of a distributor or retailer could render our accounts receivable from such entity uncollectible, which could have an adverse effect on our operating results and financial condition. In addition, an increasing number of companies are competing for access to our distribution channels. Our arrangements with our distributors and retailers may be terminated by either party at any time without cause. Distributors and retailers often carry products that compete with ours. Retailers of our products typically have a limited amount of shelf space and promotional resources that they are willing to devote to the software games category, and there is intense competition for these resources. There can be no assurance that distributors and retailers will continue to purchase our products or provide our products with adequate levels of shelf space and promotional support.

Inventory and Working Capital

We manage inventories by communicating with our customers prior to the release of our products, and then using our industry experience to forecast demand on a product-by-product and territory-by-territory basis. Historically, we have experienced high turnover of our products, and the lead times on re-orders of our products are generally short, approximately two to three weeks. Further, as discussed in “Marketing and Distribution” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, we have practices in place with our customers (such as stock balancing and price protection) that reduce product returns.

International Operations

We conduct business and have wholly-owned subsidiaries throughout the world, including offices in Australia, Austria, Barbados, Belgium, Bermuda, Brazil, Canada, China, the Czech Republic, Denmark, England, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, and Thailand. International net revenue decreased by 7 percent to \$1.367 billion, or 46 percent of total net revenue in fiscal 2006, compared to \$1.464 billion, or 47 percent of total net revenue in fiscal 2005. Our decrease in international net revenue was primarily driven by lower sales in Europe and the negative impact of foreign exchange rates.

We believe that in order to increase our online sales in Asia, we will need to devote significant resources to hire local development talent and expand our infrastructure, most notably, the expansion and creation of studio facilities to develop content locally. In addition, we are establishing online game marketing, publishing and distribution functions in China. As part of this strategy, we may seek to partner with established local companies through acquisitions, joint ventures or other similar arrangements.

The amounts of net revenue and long-lived assets attributable to each of our geographic regions for each of the last three fiscal years are set forth in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Manufacturing and Suppliers

The suppliers we use to manufacture our packaged goods games can be characterized in three types:

- Manufacturing entities that press our game disks,
- Entities that print our game instruction booklets, and
- Entities that package the disks and printed game instruction booklets into the jewel cases and boxes for shipping to customers.

Our online games and cellular handset applications are delivered digitally, and therefore, are not manufactured.

In many instances, we are able to acquire materials on a volume-discount basis. We have multiple potential sources of supply for most materials, except for the disk component of our PlayStation 2, PSP and Nintendo GameCube disk products, as well as Nintendo DS cartridges, as discussed in “Significant Relationships”. We also have alternate sources for the manufacture and assembly of most of our products. To date, we have not experienced any material difficulties or delays in production of our software and related documentation and packaging. However, a shortage of components, manufacturing delays by Sony, Nintendo or other vendors, or other factors beyond our control could impair our ability to manufacture, or have manufactured, our products.

Backlog

We typically ship orders immediately upon receipt. To the extent that any backlog may or may not exist at the end of a reporting period, it would be both coincidental and an unreliable indicator of future results of any period.

Seasonality

Our business is highly seasonal. We typically experience our highest revenue and profit in the holiday season quarter ending in December and a seasonal low in revenue and profit in the quarter ending in June. Our results however can vary based on title release dates, consumer demand for our products and shipment schedules, among other factors.

Employees

As of March 31, 2006, we employed approximately 7,200 people, of whom over 4,000 were outside the United States. We believe that our ability to attract and retain qualified employees is a critical factor in the successful development of our products and that our future success will depend, in large measure, on our ability to continue to attract and retain qualified employees. To date, we have been successful in recruiting and retaining sufficient numbers of qualified personnel to conduct our business successfully. We believe that our relationships with our employees are strong. Less than three percent of our employees, all of whom work for our Swedish development subsidiary, are represented by a union, guild or other collective bargaining organization.

Executive Officers

The following table sets forth information regarding our executive officers, who are appointed by and serve at the discretion of the Board of Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lawrence F. Probst III	56	Chairman and Chief Executive Officer
V. Paul Lee	41	President, Worldwide Studios
Gerhard Florin	47	Executive Vice President, General Manager, International Publishing
David P. Gardner	40	Executive Vice President, Chief Operating Officer, Worldwide Studios
Frank D. Gibeau	37	Executive Vice President, General Manager, North America Publishing
Warren C. Jenson	49	Executive Vice President, Chief Financial and Administrative Officer
Joel Linzner	54	Executive Vice President, Business and Legal Affairs
Nancy L. Smith	53	Executive Vice President, General Manager, The Sims Franchise
Kenneth A. Barker	39	Senior Vice President, Chief Accounting Officer
Stephen G. Bené	42	Senior Vice President, General Counsel and Corporate Secretary
Mitch Lasky	44	Senior Vice President, EA Mobile
Gabrielle Toledano	39	Senior Vice President, Human Resources

Mr. Probst has been a director of Electronic Arts since January 1991 and currently serves as Chairman and Chief Executive Officer. He was elected as Chairman in July 1994. Mr. Probst has previously served as President of Electronic Arts; as Senior Vice President of EA Distribution, Electronic Arts' distribution division, from January 1987 to January 1991; and from September 1984, when he joined Electronic Arts, until December 1986, served as Vice President of Sales. Mr. Probst holds a B.S. degree from the University of Delaware.

Mr. Lee was named President, Worldwide Studios, in September 2005. He served as Executive Vice President and Chief Operating Officer, Worldwide Studios from August 2002 to September 2005. From 1998 to August 2002, he was Senior Vice President and Chief Operating Officer, Worldwide Studios. Prior to this, he served as General Manager of EA Canada, Chief Operating Officer of EA Canada, Chief Financial Officer of EA Sports and Vice President, Finance and Administration of EA Canada. Mr. Lee was a principal of Distinctive Software Inc. until it was acquired by Electronic Arts in 1991. Mr. Lee holds a Bachelor of Commerce degree from the University of British Columbia and is a Chartered Financial Analyst.

Dr. Florin has served as Executive Vice President, General Manager, International Publishing since September 2005. Previously he was Senior Vice President and Managing Director, European Publishing since April 2003. Prior to this, he served as Vice President, Managing Director for European countries since 2001. From the time he joined Electronic Arts in 1996 to 2001, he was the Managing Director for German speaking countries. Prior to joining Electronic Arts, Dr. Florin held various positions at BMG, the global music division of Bertelsmann AG, and worked as a consultant with McKinsey. Dr. Florin holds Masters and Ph.D. degrees in Economics from the University of Augsburg, Germany.

Mr. Gardner has served as Executive Vice President, Chief Operating Officer, Worldwide Studios since September 2005. Previously he served as Senior Vice President, International Publishing since April 2004. During fiscal 2004, Mr. Gardner took a leave of absence from EA. He previously held the position of Senior Vice President and Managing Director, European Publishing from May 1999 to April 2003. Prior to

this, he held several positions in EA Europe, which he helped establish in 1987, including Director of European Sales and Marketing and Managing Director of EA Europe. Mr. Gardner has also held various positions at Electronic Arts in the sales, marketing and customer support departments since joining the company in 1983.

Mr. Gibeau has served as Executive Vice President, General Manager, North America Publishing since September 2005. Previously he was Senior Vice President of North American Marketing, a position he held since 2002. Mr. Gibeau has held various publishing positions since joining the company in 1991. Mr. Gibeau holds a B.S. degree from the University of Southern California and an M.B.A. from Santa Clara University.

Mr. Jenson joined Electronic Arts in June 2002 as Executive Vice President, Chief Financial and Administrative Officer. Before joining Electronic Arts, he was the Senior Vice President and Chief Financial Officer for Amazon.com from 1999 to 2002. From 1998 to 1999, he was the Chief Financial Officer and Executive Vice President for Delta Air Lines. Prior to that, he worked in several positions as part of the General Electric Company. Most notably, he served as Chief Financial Officer and Senior Vice President for the National Broadcasting Company, a subsidiary of General Electric. Mr. Jenson earned his Masters of Accountancy-Business Taxation, and B.S. in Accounting from Brigham Young University.

Mr. Linzner has served as Executive Vice President, Business and Legal Affairs since March 2005. From April 2004 to March 2005, he served as Senior Vice President, Business and Legal Affairs. From October 2002 to April 2004, Mr. Linzner held the position of Senior Vice President of Worldwide Business Affairs and from July 1999 to October 2002, he held the position of Vice President of Worldwide Business Affairs. Prior to joining Electronic Arts in July 1999, Mr. Linzner served as outside litigation counsel to Electronic Arts and several other companies in the video game industry. Mr. Linzner earned his J.D. from Boalt Hall at the University of California, Berkeley, after graduating from Brandeis University. He is a member of the Bar of the State of California and is admitted to practice in the United States Supreme Court, the Ninth Circuit Court of Appeals and several United States District Courts.

Ms. Smith was named Executive Vice President, General Manager, The Sims Franchise in September 2005. Prior to this position, she served as Executive Vice President and General Manager, North American Publishing since March 1998. From October 1996 to March 1998, Ms. Smith served as Executive Vice President, North American Sales. She previously held the position of Senior Vice President of North American Sales and Distribution from July 1993 to October 1996 and as Vice President of Sales from 1988 to 1993. Ms. Smith has also served as Western Regional Sales Manager and National Sales Manager since she joined Electronic Arts in 1984. Ms. Smith holds a B.S. degree in management and organizational behavior from the University of San Francisco.

Mr. Barker has served as Senior Vice President, Chief Accounting Officer since April 2006. From June 2003 to April 2006, Mr. Barker held the position of Vice President, Chief Accounting Officer. Prior to joining Electronic Arts, Mr. Barker was employed at Sun Microsystems, Inc., as Vice President and Corporate Controller from October 2002 to June 2003 and Assistant Corporate Controller from April 2000 to September 2002. Prior to that, he was an audit partner at Deloitte. Mr. Barker graduated from the University of Notre Dame with a B.A. degree in Accounting.

Mr. Bené has served as Senior Vice President, General Counsel and Corporate Secretary since October 2004. From April 2004 to October 2004, Mr. Bené held the position of Vice President, Acting General Counsel and Corporate Secretary, and from June 2003 to April 2004, he held the position of Vice President and Associate General Counsel. Prior to June 2003, Mr. Bené had served as internal legal counsel since joining the Company in March 1995. Mr. Bené earned his J.D. from Stanford Law School, and received his B.S. in Mechanical Engineering from Rice University. Mr. Bené is a member of the Bar of the State of California.

Mr. Lasky joined Electronic Arts in February 2006 as Senior Vice President of EA Mobile. From November 2000 until February 2006, Mr. Lasky served as Chief Executive Officer of JAMDAT Mobile Inc., and from February 2001 until February 2006, served as Chairman of the Board of JAMDAT. From

March 1995 to June 2000, Mr. Lasky held various positions at Activision, Inc., including Executive Vice President of Worldwide Studios. Mr. Lasky graduated from Harvard College with a B.A. in History and Literature, and earned a J.D. from the University of Virginia School of Law.

Ms. Toledano joined Electronic Arts in February 2006 as Senior Vice President, Human Resources. Prior to joining Electronic Arts, Ms. Toledano served as Siebel Systems, Inc.'s Senior Vice President of Human Resources from July 2002 to February 2006. From September 2000 to June 2002, she served as Senior Director of Human Resources for Microsoft Corporation, and from September 1998 until September 2000, she served as Director of Human Resources and Recruiting for Microsoft. Ms. Toledano earned both her undergraduate degree in Humanities and her graduate degree in Education from Stanford University.

Investor Information

We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge on the Investor Relations section of our web site, <http://investor.ea.com>, as soon as reasonably practicable after we electronically file the reports with, or furnish them to, the SEC.

The charters of our Audit, Compensation, and Nominating and Governance committees of our Board of Directors, as well as our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers), are available in the Investor Relations section of our web site at <http://investor.ea.com>. We will post amendments to our Global Code of Conduct in the Investor Relations section of our web site. Copies of our charters and Global Code of Conduct are available without charge by contacting our Investor Relations department at (650) 628-1500.

Shareholders of record may hold their shares of our common stock in book-entry form. This eliminates costs related to safekeeping or replacing paper stock certificates. In addition, shareholders of record may request electronic movement of book-entry shares between their account with our stock transfer agent and their broker. Stock certificates may be converted to book-entry shares at any time. Questions regarding this service may be directed to our stock transfer agent, Wells Fargo Bank, N.A., at 1-800-468-9716.

Item 1A: Risk Factors

Our business is subject to many risks and uncertainties, which may affect our future financial performance. If any of the events or circumstances described below occurs, our business and financial performance could be harmed, our actual results could differ materially from our expectations and the market value of our stock could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may harm our business and financial performance.

Our business is highly dependent on the success, timely release and availability of new video game platforms, on the continued availability of existing video game platforms, as well as our ability to develop commercially successful products for these platforms.

We derive most of our revenue from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PlayStation 2 and Microsoft's Xbox. The success of our business is driven in large part by the availability of an adequate supply of current-generation video game platforms, the timely release, adequate supply, and success of new video game hardware systems, our ability to accurately predict which platforms will be most successful in the marketplace, and our ability to develop commercially successful products for these platforms. We must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which we are developing products may be delayed, may not succeed or may have a shorter life cycle than anticipated. If the platforms for which we are developing products are not released when anticipated, are not available in adequate amounts to meet consumer demand, or do not attain wide

market acceptance, our revenue will suffer, we may be unable to fully recover the resources we have committed, and our financial performance will be harmed.

Our industry is cyclical and is in the midst of a transition period heading into the next cycle. During the transition, we expect our costs to continue to increase, we may experience a decline in sales as consumers anticipate and adopt next-generation products and our operating results may suffer and become more difficult to predict.

Video game platforms have historically had a life cycle of four to six years, which causes the video game software market to be cyclical as well. Sony's PlayStation 2 was introduced in 2000 and Microsoft's Xbox and the Nintendo GameCube were introduced in 2001. Microsoft released the Xbox 360 in November 2005, and we expect Sony and Nintendo to introduce new video game players into the market as well (so-called "next-generation platforms") in the coming months. As a result, we believe that the interactive entertainment industry is in the midst of a transition stage leading into the next cycle. During this transition, we intend to continue developing and marketing new titles for current-generation video game platforms while we also make significant investments developing products for the next-generation platforms. We have incurred and expect to continue to incur increased costs during the transition to next-generation platforms, which are not likely to be offset in the near future. Moreover, we expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games.

We also expect that, as the current generation of platforms reaches the end of its cycle and next-generation platforms are introduced into the market, sales of video games for current-generation platforms will continue to decline as consumers replace their current-generation platforms with next-generation platforms, or defer game software purchases until they are able to purchase a next-generation platform. This decline in current-generation product sales may not be offset by increased sales of products for the new platforms. For example, following the launch of Sony's PlayStation 2 platform, we experienced a significant decline in revenue from sales of products for Sony's older PlayStation game console, which was not immediately offset by revenue generated from sales of products for the PlayStation 2. More recently, we have seen a sharp decrease in sales of titles for the Xbox following the launch of the Xbox 360. In addition, during the transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

We expect the average price of current-generation titles to continue to decline.

As a result of the transition to next-generation platforms, a more value-oriented consumer base, a greater number of current-generation titles being published, and significant pricing pressure from our competitors, we have experienced a decrease in the average price of our titles for current-generation platforms. As the interactive entertainment industry continues to transition to next-generation platforms, we expect few, if any, current-generation titles will be able to command premium price points, and we expect that even these titles will be subject to price reductions at an earlier point in their sales cycle than we have seen in prior years. We expect the average price of current-generation titles to continue to decline, which will have a negative effect on our margins and operating results.

Our platform licensors set the royalty rates and other fees that we must pay to publish games for their platforms, and therefore have significant influence on our costs. If one or more of the platform licensors adopt a different fee structure for future game consoles or we are unable to obtain such licenses, our profitability will be materially impacted.

In November 2005, Microsoft released the Xbox 360 and, over the course of the next twelve months, we expect Sony and Nintendo to introduce new video game players into the market in various parts of the world. In order to publish products for a new video game player, we must take a license from the platform licensor, which gives the platform licensor the opportunity to set the fee structure that we must pay in order to publish games for that platform.

Similarly, certain platform licensors have retained the flexibility to change their fee structures for online gameplay and features for their consoles. The control that platform licensors have over the fee structures

for their future platforms and online access makes it difficult for us to predict our costs and profitability in the medium to long term. It is also possible that platform licensors may choose not to renew our licenses. Because publishing products for video game consoles is the largest portion of our business, any increase in fee structures or failure to secure a license relationship would significantly harm our ability to generate revenues and/or profits.

If we do not consistently meet our product development schedules, our operating results will be adversely affected.

Our business is highly seasonal, with the highest levels of consumer demand and a significant percentage of our revenue occurring in the December quarter. In addition, we seek to release many of our products in conjunction with specific events, such as the release of a related movie or the beginning of a sports season or major sporting event. If we miss these key selling periods for any reason, including product delays or delayed introduction of a new platform for which we have developed products, our sales will suffer disproportionately. Likewise, if a key event to which our product release schedule is tied were to be delayed or cancelled, our sales would also suffer disproportionately. Our ability to meet product development schedules is affected by a number of factors, including the creative processes involved, the coordination of large and sometimes geographically dispersed development teams required by the increasing complexity of our products, and the need to fine-tune our products prior to their release. We have experienced development delays for our products in the past, which caused us to push back release dates. In the future, any failure to meet anticipated production or release schedules would likely result in a delay of revenue or possibly a significant shortfall in our revenue, harm our profitability, and cause our operating results to be materially different than anticipated.

Our business is subject to risks generally associated with the entertainment industry, any of which could significantly harm our operating results.

Our business is subject to risks that are generally associated with the entertainment industry, many of which are beyond our control. These risks could negatively impact our operating results and include: the popularity, price and timing of our games and the platforms on which they are played; economic conditions that adversely affect discretionary consumer spending; changes in consumer demographics; the availability and popularity of other forms of entertainment; and critical reviews and public tastes and preferences, which may change rapidly and cannot necessarily be predicted.

Technology changes rapidly in our business and if we fail to anticipate or successfully implement new technologies or the manner in which people play our games, the quality, timeliness and competitiveness of our products and services will suffer.

Rapid technology changes in our industry require us to anticipate, sometimes years in advance, which technologies we must implement and take advantage of in order to make our products and services competitive in the market. Therefore, we usually start our product development with a range of technical development goals that we hope to be able to achieve. We may not be able to achieve these goals, or our competition may be able to achieve them more quickly and effectively than we can. In either case, our products and services may be technologically inferior to our competitors', less appealing to consumers, or both. If we cannot achieve our technology goals within the original development schedule of our products and services, then we may delay their release until these technology goals can be achieved, which may delay or reduce revenue and increase our development expenses. Alternatively, we may increase the resources employed in research and development in an attempt to accelerate our development of new technologies, either to preserve our product or service launch schedule or to keep up with our competition, which would increase our development expenses.

Our business is intensely competitive and "hit" driven. If we do not continue to deliver "hit" products and services or if consumers prefer our competitors' products or services over our own, our operating results could suffer.

Competition in our industry is intense and we expect new competitors to continue to emerge in the United States and abroad. While many new products and services are regularly introduced, only a relatively small

number of “hit” titles accounts for a significant portion of total revenue in our industry. Hit products or services offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products and services to fall below expectations. If our competitors develop more successful products or services, offer competitive products or services at lower price points or based on payment models perceived as offering a better value proposition (such as pay-for-play or subscription-based models), or if we do not continue to develop consistently high-quality and well-received products and services, our revenue, margins, and profitability will decline.

If we are unable to maintain or acquire licenses to intellectual property, we will publish fewer hit titles and our revenue, profitability and cash flows will decline. Competition for these licenses may make them more expensive and increase our costs.

Many of our products are based on or incorporate intellectual property owned by others. For example, our EA SPORTS products include rights licensed from major sports leagues and players’ associations. Similarly, many of our other hit franchises, such as The Godfather, Harry Potter and Lord of the Rings, are based on key film and literary licenses. Competition for these licenses is intense. If we are unable to maintain these licenses or obtain additional licenses with significant commercial value, our revenues and profitability will decline significantly. Competition for these licenses may also drive up the advances, guarantees and royalties that we must pay to the licensor, which could significantly increase our costs.

If patent claims continue to be asserted against us, we may be unable to sustain our current business models or profits, or we may be precluded from pursuing new business opportunities in the future.

Many patents have been issued that may apply to widely-used game technologies, or to potential new modes of delivering, playing or monetizing game software products. For example, infringement claims under many issued patents are now being asserted against interactive software or online game sites. Several such claims have been asserted against us. We incur substantial expenses in evaluating and defending against such claims, regardless of the merits of the claims. In the event that there is a determination that we have infringed a third-party patent, we could incur significant monetary liability and be prevented from using the rights in the future, which could negatively impact our operating results. We may also discover that future opportunities to provide new and innovative modes of game play and game delivery to consumers may be precluded by existing patents that we are unable to license on reasonable terms.

Other intellectual property claims may increase our product costs or require us to cease selling affected products.

Many of our products include extremely realistic graphical images, and we expect that as technology continues to advance, images will become even more realistic. Some of the images and other content are based on real-world examples that may inadvertently infringe upon the intellectual property rights of others. Although we believe that we make reasonable efforts to ensure that our products do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, we receive communications from third parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming and expensive to defend. Such claims or litigations could require us to stop selling the affected products, redesign those products to avoid infringement, or obtain a license, all of which would be costly and harm our business.

From time to time we may become involved in other litigation which could adversely affect us.

We are currently, and from time to time in the future may become, subject to other claims and litigation, which could be expensive, lengthy, and disruptive to normal business operations. In addition, the outcome of any claims or litigation may be difficult to predict and could have a material adverse effect on our business, operating results, or financial condition. For further information regarding certain claims and litigation in which we are currently involved, see “Part I — Item 3. Legal Proceedings” below.

Our business, our products and our distribution are subject to increasing regulation of content, consumer privacy, distribution and online hosting and delivery in the key territories in which we conduct business. If we do not successfully respond to these regulations, our business may suffer.

Legislation is continually being introduced that may affect both the content of our products and their distribution. For example, data protection laws in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory although the Internet recognizes no geographical boundaries. Other countries, such as Germany, have adopted laws regulating content both in packaged games and those transmitted over the Internet that are stricter than current United States laws. In the United States, the federal and several state governments are continually considering content restrictions on products such as ours, as well as restrictions on distribution of such products. For example, recent legislation has been adopted in several states, and could be proposed at the federal level, that prohibits the sale of certain games (e.g., violent games or those with “M (Mature)” or “AO (Adults Only)” ratings) to minors. Any one or more of these factors could harm our business by limiting the products we are able to offer to our customers, by limiting the size of the potential market for our products, and by requiring additional differentiation between products for different territories to address varying regulations. This additional product differentiation could be costly.

If one or more of our titles were found to contain hidden, objectionable content, our business could suffer.

Throughout the history of our industry, many video games have been designed to include certain hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. However, in several cases, the hidden content or feature was included in the game by an employee who was not authorized to do so or by an outside developer without the knowledge of the publisher. From time to time, some hidden content and features have contained profanity, graphic violence and sexually explicit or otherwise objectionable material. In a few cases, the Entertainment Software Ratings Board (“ESRB”) has reacted to discoveries of hidden content and features by reviewing the rating that was originally assigned to the product, requiring the publisher to change the game packaging and/or fining the publisher. Retailers have on occasion reacted to the discovery of such hidden content by removing these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, consumers have reacted to the revelation of hidden content by refusing to purchase such games, demanding refunds for games they’ve already purchased, and refraining from buying other games published by the company whose game contained the objectionable material.

We have implemented preventative measures designed to reduce the possibility of hidden, objectionable content from appearing in the video games we publish. Nonetheless, these preventative measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If a video game we published were found to contain hidden, objectionable content, the ESRB could demand that we recall a game and change its packaging to reflect a revised rating, retailers could refuse to sell it and demand we accept the return of any unsold copies or returns from customers, and consumers could refuse to buy it or demand that we refund their money. This could have a material negative impact on our operating results and financial condition. In addition, our reputation could be harmed, which could impact sales of other video games we sell. If any of these consequences were to occur, our business and financial performance could be significantly harmed.

If we ship defective products, our operating results could suffer.

Products such as ours are extremely complex software programs, and are difficult to develop, manufacture and distribute. We have quality controls in place to detect defects in the software, media and packaging of our products before they are released. Nonetheless, these quality controls are subject to human error, overriding, and reasonable resource constraints. Therefore, these quality controls and preventative measures may not be effective in detecting defects in our products before they have been reproduced and released into the marketplace. In such an event, we could be required to recall a product, or we may find it

necessary to voluntarily recall a product, and/or scrap defective inventory, which could significantly harm our business and operating results.

If we do not continue to attract and retain key personnel, we will be unable to effectively conduct our business. In addition, compensation-related changes in accounting requirements, as well as evolving legal and operational factors, could have a significant impact on our expenses and operating results.

The market for technical, creative, marketing and other personnel essential to the development and marketing of our products and management of our businesses is extremely competitive. Our leading position within the interactive entertainment industry makes us a prime target for recruiting of executives and key creative talent. If we cannot successfully recruit and retain the employees we need, or replace key employees following their departure, our ability to develop and manage our businesses will be impaired.

We annually review and evaluate with the Compensation Committee of our Board of Directors the compensation and benefits that we offer our employees to ensure that we are able to attract and retain our talent. Within our regular review, we have considered recent changes in the accounting treatment of stock options, the competitive market for technical, creative, marketing and other personnel, and the evolving nature of job functions within our studios, marketing organizations and other areas of the business. Any changes we make to our compensation programs could result in increased expenses and have a significant impact on our operating results.

Our platform licensors are our chief competitors and frequently control the manufacturing of and/or access to our video game products. If they do not approve our products, we will be unable to ship to our customers.

Our agreements with hardware licensors (such as Sony for the PlayStation 2, Microsoft for the Xbox and Nintendo for the Nintendo GameCube) typically give significant control to the licensor over the approval and manufacturing of our products, which could, in certain circumstances, leave us unable to get our products approved, manufactured and shipped to customers. These hardware licensors are also our chief competitors. 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. While we believe that our relationships with our hardware licensors are currently good, the potential for these licensors to delay or refuse to approve or manufacture our products exists. Such occurrences would harm our business and our financial performance.

We also require compatibility code and the consent of Microsoft and Sony in order to include online capabilities in our products for their respective platforms. As online capabilities for video game platforms become more significant, Microsoft and Sony could restrict our ability to provide online capabilities for our console platform products. If Microsoft or Sony refused to approve our products with online capabilities or significantly impacted the financial terms on which these services are offered to our customers, our business could be harmed.

Our international net revenue is subject to currency fluctuations.

For the fiscal year ended March 31, 2006, international net revenue comprised 46 percent of our total net revenue. We expect foreign sales to continue to account for a significant portion of our total net revenue. Such sales may be subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies, which may fluctuate against the U.S. dollar. While we utilize foreign exchange forward contracts to mitigate some foreign currency risk associated with foreign currency denominated assets and liabilities (primarily certain intercompany receivables and payables) and, from time to time, foreign currency option contracts to hedge foreign currency forecasted transactions (primarily related to a portion of the revenue and expenses denominated in foreign currency generated by our operational subsidiaries), our results of operations, including our reported net revenue and net income, and financial condition would be adversely affected by unfavorable foreign currency fluctuations, particularly the Euro, British pound sterling and Canadian dollar.

Changes in our tax rates or exposure to additional tax liabilities could adversely affect our operating results and financial condition.

We are subject to income taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, and, in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.

We are also required to estimate what our taxes will be in the future. Although we believe our tax estimates are reasonable, the estimate process and the applicable law are inherently uncertain, and our estimates are not binding on tax authorities. Our effective tax rate could be adversely affected by changes in our business, including the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in applicable tax laws as well as other factors. Further, our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Should our ultimate tax liability exceed our estimates, our income tax provision and net income could be materially affected.

We incur certain tax expenses that do not decline proportionately with declines in our consolidated income. As a result, in absolute dollar terms, our tax expense will have a greater influence on our effective tax rate at lower levels of pre-tax income than higher levels. In addition, at lower levels of pre-tax income, our effective tax rate will be more volatile.

We are also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. We are regularly under examination by tax authorities with respect to these non-income taxes. There can be no assurance that the outcomes from these examinations, changes in our business or changes in applicable tax rules will not have an adverse effect on our operating results and financial condition.

Changes in our worldwide operating structure could have adverse tax consequences.

As we expand our international operations and implement changes to our operating structure or undertake intercompany transactions in light of changing tax laws, expiring rulings, acquisitions and our current and anticipated business and operational requirements, our tax expense could increase. For example, in the second and fourth quarters of fiscal 2006, we incurred additional income taxes resulting from certain intercompany transactions.

In the fourth quarter of fiscal 2006, we repatriated \$375 million under the American Jobs Creation Act of 2004. As a result, we recorded an additional one-time tax expense in fiscal 2006 of \$17 million.

Beginning in fiscal year 2007, we will recognize expense for stock-based compensation related to our employee equity compensation and employee stock purchase programs. The recognition of this expense will significantly lower our reported net income (or increase our reported net loss).

On April 2, 2006, the first day of our current fiscal year, we adopted Statement of Financial Accounting Standard No. 123 (revised 2004) (“SFAS No. 123R”), “*Share-Based Payment*”, which requires us to recognize compensation expense for all stock-based compensation based on estimated fair values. As a result, beginning with our first quarter of fiscal 2007, our operating results will contain a charge for stock-based compensation related to the equity-based compensation we provide to our employees, as well as stock purchases under our 2000 Employee Stock Purchase Plan. This expense will be in addition to the stock-based compensation expense we have recognized in prior periods related to restricted stock unit grants, acquisitions and other grants. The stock-based compensation charges we incur will depend on the number of equity-based awards we grant, the number of shares of common stock we sell under our 2000 Employee Stock Purchase Plan, as well as a number of estimates and variables such as estimated forfeiture rates, the trading price and volatility of our common stock, the expected term of our options, and interest rates. As a result, our stock-based compensation charges can vary significantly from period to period. Going forward, our adoption of SFAS No. 123R will significantly lower our reported net income

(or increase our reported net loss), which could have an adverse impact on the trading price of our common stock.

Our reported financial results could be adversely affected by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

As a result of the enactment of the Sarbanes-Oxley Act and the review of accounting policies by the SEC and national and international accounting standards bodies, the frequency of accounting policy changes may accelerate. For example, accounting policies affecting software revenue recognition have been the subject of frequent interpretations, which could significantly affect the way we account for revenue related to our products. In addition, the rules for tax accounting are in the process of being changed. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue and taxes, could have a significant adverse effect on our reported results although not necessarily on our cash flows. It is likely that, as the industry transitions to the next generation of consoles, a more significant portion of our business could be generated through online services and, as a result, we would recognize the related revenue over an extended period of time rather than up front and all at once.

The majority of our sales are made to a relatively small number of key customers. If these customers reduce their purchases of our products or become unable to pay for them, our business could be harmed.

Over 70 percent of our U.S. sales were made to five key customers during the fiscal year ended March 31, 2006. In Europe, our top ten customers accounted for approximately 32 percent of our sales in that territory during the fiscal year ended March 31, 2006. Worldwide, we had direct sales to one customer, Wal-Mart Stores, Inc., which represented approximately 13 percent of total net revenue in the fiscal year ended March 31, 2006. In addition, we believe it likely that, had GameStop Corp.'s acquisition of Electronics Boutique Holdings Corp. occurred on April 1, 2005, the combined company would have represented greater than 10 percent of total net revenue for the fiscal year ended March 31, 2006. Though our products are available to consumers through a variety of retailers, the concentration of our sales in one, or a few, large customers could lead to a short-term disruption in our sales if one or more of these customers significantly reduced their purchases or ceased to carry our products, and could make us more vulnerable to collection risk if one or more of these large customers became unable to pay for our products. Additionally, our receivables from these large customers increase significantly in the December quarter as they stock up for the holiday selling season. Also, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

Acquisitions, investments and other strategic transactions could result in operating difficulties, dilution to our investors and other negative consequences.

We have engaged in, evaluated, and expect to continue to engage in and evaluate, a wide array of potential strategic transactions, including (i) acquisitions of companies, businesses, intellectual properties, and other assets, and (ii) investments in new interactive entertainment businesses (for example, online and mobile games). Any of these strategic transactions could be material to our financial condition and results of operations. Although we regularly search for opportunities to engage in strategic transactions, we may not be successful in identifying suitable opportunities. We may not be able to consummate potential acquisitions or investments or an acquisition or investment may not enhance our business or may decrease rather than increase our earnings. In addition, the process of integrating an acquired company or business, or successfully exploiting acquired intellectual property or other assets, could divert a significant amount of our management's time and focus and may create unforeseen operating difficulties and expenditures. Additional risks we face include:

- The need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies,
- Cultural challenges associated with integrating employees from an acquired company or business into our organization,

- Retaining key employees from the businesses we acquire,
- The need to integrate an acquired company's accounting, management information, human resource and other administrative systems to permit effective management, and
- To the extent that we engage in strategic transactions outside of the United States, we face additional risks, including risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Future acquisitions and investments could involve the issuance of our equity securities, potentially diluting our existing stockholders, the incurrence of debt, contingent liabilities or amortization expenses, write-offs of goodwill, intangibles, or acquired in-process technology, or other increased expenses, any of which could harm our financial condition. Our stockholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments.

Our products are subject to the threat of piracy by a variety of organizations and individuals. If we are not successful in combating and preventing piracy, our sales and profitability could be harmed significantly.

In many countries around the world, more pirated copies of our products are sold than legitimate copies. Though we believe piracy has not had a material impact on our operating results to date, highly organized pirate operations have been expanding globally. In addition, the proliferation of technology designed to circumvent the protection measures we use in our products, the availability of broadband access to the Internet, the ability to download pirated copies of our games from various Internet sites, and the widespread proliferation of Internet cafes using pirated copies of our products, all have contributed to ongoing and expanding piracy. Though we take steps to make the unauthorized copying and distribution of our products more difficult, as do the manufacturers of consoles on which our games are played, neither our efforts nor those of the console manufacturers may be successful in controlling the piracy of our products. This could have a negative effect on our growth and profitability in the future.

Our stock price has been volatile and may continue to fluctuate significantly.

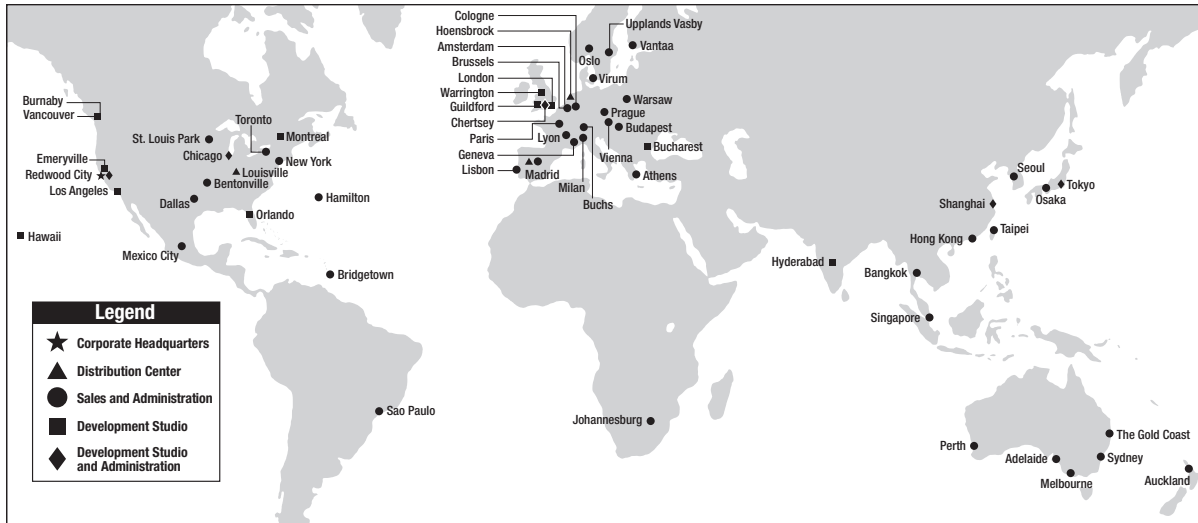
The market price of our common stock historically has been, and we expect will continue to be, subject to significant fluctuations. These fluctuations may be due to factors specific to us (including those discussed in the risk factors above as well as others not currently known to us or that we currently do not believe are material), to changes in securities analysts' earnings estimates or ratings, to our results or future financial guidance falling below the expectations of analysts and investors, to factors affecting the computer, software, Internet, entertainment, media or electronics industries, or to national or international economic conditions.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

The following diagram depicts the locations of the majority of our facilities throughout the world:



We currently own a 418,000 square feet product development studio facility in Burnaby, British Columbia, Canada and a 122,000 square feet administrative, sales and development facility in Chertsey, England. In addition to the properties we own, we lease approximately 2.6 million square feet of facilities, including the following significant leases for our headquarters in Redwood City, California, our studios in Los Angeles, California and Orlando, Florida, and our distribution center in Louisville, Kentucky. Our leased space is summarized as follows (in square feet):

<u>Purpose</u>	<u>North America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
Distribution	250,000	86,735	—	336,735
Sales & Administrative	732,077	167,978	65,519	965,574
Studio Development	<u>1,138,080</u>	<u>122,078</u>	<u>65,805</u>	<u>1,325,963</u>
Total Leased Square Footage	<u>2,120,157</u>	<u>376,791</u>	<u>131,324</u>	<u>2,628,272</u>

Redwood City Headquarters

In February 1995, we entered into a build-to-suit lease (“Phase One Lease”) with a third party for our headquarters facilities in Redwood City, California (“Phase One Facilities”). The Phase One Facilities comprise a total of approximately 350,000 square feet and provide space for sales, marketing, administration and research and development functions. In July 2001, we refinanced the Phase One Lease with Keybank National Association through July 2006. We account for the Phase One Lease arrangement as an operating lease in accordance with SFAS No. 13, “Accounting for Leases”, as amended.

On May 26, 2006, we extended the financing under the Phase One Lease through July 2007. Upon expiration of the financing in July 2007, we may purchase the Phase One Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase One Facilities to a third party.

The Phase One Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease

could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase One Facilities, request an extension of the lease or arrange for the sale of the Phase One Facilities to a third party.

Pursuant to the terms of the Phase One Lease, as amended to date, we have an option to purchase the Phase One Facilities at any time for a maximum purchase price of \$132 million. In the event of a sale to a third party, if the sale price is less than \$132 million, we will be obligated to reimburse the difference between the actual sale price and \$132 million, up to maximum of \$117 million, subject to certain provisions of the Phase One Lease, as amended.

In December 2000, we entered into a second build-to-suit lease (“Phase Two Lease”) with Keybank National Association for a five and one-half year term beginning in December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property (“Phase Two Facilities”). Construction of the Phase Two Facilities was completed in June 2002. The Phase Two Facilities comprise a total of approximately 310,000 square feet and provide space for sales, marketing, administration and research and development functions. We account for the Phase Two Lease arrangement as an operating lease in accordance with SFAS No. 13, as amended.

On May 26, 2006, we extended the financing under the Phase Two Lease through July 2007. Upon the expiration of the financing in July 2007, we may purchase the Phase Two Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase Two Facilities to a third party.

The Phase Two Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase Two Facilities, request an extension of the lease or arrange for the sale of the Phase Two Facilities to a third party.

Pursuant to the terms of the Phase Two Lease, as amended to date, we have an option to purchase the Phase Two Facilities at any time for a maximum purchase price of \$115 million. In the event of a sale to a third party, if the sale price is less than \$115 million, we will be obligated to reimburse the difference between the actual sale price and \$115 million, up to a maximum of \$105 million, subject to certain provisions of the Phase Two Lease, as amended.

The lease rates of the Phase One and Phase Two Leases fluctuate and are based upon LIBOR plus a margin that varies from 0.50% to 1.25% based on our ratio of total consolidated debt to consolidated tangible net worth. Based on the 3-month LIBOR rate of 5.2% as of May 26, 2006, the annual rent obligation of the two leases would total approximately \$14 million. Our rent obligation under the leases could increase or decrease significantly depending on changes in LIBOR.

Guildford, Orlando, Los Angeles and Vancouver Studios; Louisville Distribution Center

In February 2006, we entered into an agreement with an independent third party to lease a studio facility in Guildford, Surrey, United Kingdom, which will commence in June 2006 and will expire in May 2016. The facility comprises a total of approximately 95,000 square feet, which we intend to use for research and development functions. Our rental obligation under this agreement is approximately \$33 million over the initial ten-year term of the lease.

In June 2004, we entered into a lease agreement, amended in December 2005, with an independent third party for a studio facility in Orlando, Florida, which commenced in January 2005 and expires in June 2010, with one five-year option to extend the lease term. The campus facilities comprise a total of 140,000 square feet and provide space for research and development functions. Our rental obligation over the initial five-and-a-half year term of the lease is \$15 million. As of March 31, 2006, our remaining rental obligation under this lease was \$14 million.

In July 2003, we entered into a lease agreement with an independent third party (the “Landlord”) for a studio facility in Los Angeles, California, which commenced in October 2003 and expires in September 2013 with two five-year options to extend the lease term. Additionally, we have options to purchase the property after five and ten years based on the fair market value of the property at the date of sale, a right of first offer to purchase the property upon terms offered by the Landlord, and a right to share in the profits from a sale of the property. Existing campus facilities comprise a total of 243,000 square feet and provide space for research and development functions. Our rental obligation under this agreement is \$50 million over the initial ten-year term of the lease. This commitment is offset by expected sublease income of \$6 million for a sublease to an affiliate of the Landlord of 18,000 square feet of the Los Angeles facility, which commenced in October 2003 and expires in September 2013, with options of early termination by the affiliate after five years and by us after four and five years. As of March 31, 2006, our remaining rental obligation under this lease was \$43 million, offset by expected sublease income of \$5 million.

In October 2002, we entered into a lease agreement, with an independent third party for a studio facility in Vancouver, British Columbia, Canada, which commenced in May 2003 and expires in April 2013. We amended the lease in October 2003. The facility comprises a total of approximately 65,000 square feet and provides space for research and development functions. Our rental obligation under this agreement is approximately \$16 million over the initial ten-year term of the lease. As of March 31, 2006, our remaining rental obligation under this lease was \$12 million.

Our North American distribution is supported by a centralized warehouse facility that we lease in Louisville, Kentucky occupying 250,000 square feet.

In addition to the properties discussed above, we have other properties under lease which have been included in our restructuring costs as discussed in Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this report. While we continually evaluate our facility requirements, we believe that suitable additional or substitute space will be available as needed to accommodate our future needs.

Item 3: *Legal Proceedings*

On February 14, 2005, an employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against the company in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Engineers” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. On May 16, 2006, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of \$14.9 million, to be paid to a third-party administrator, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs’ attorneys’ fees, not to exceed 25% of the total settlement amount, (c) plaintiffs’ costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. The hearing for the court to consider its final approval of the settlement is set for September 22, 2006.

Each of the shareholder actions we have previously disclosed have been voluntarily dismissed by all plaintiffs. The federal securities class action complaint has been dismissed with prejudice, by an order dated January 26, 2006; the federal derivative action has been dismissed, by an order dated March 10, 2006; and the two state derivative actions have been dismissed, by orders dated May 4, 2006 and May 8, 2006.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. We believe that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Item 4: *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of our security holders during the quarter ended March 31, 2006.

PART II

Item 5: *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock is traded on the NASDAQ National Market under the symbol "ERTS". The following table sets forth the quarterly high and low price per share of our common stock from April 1, 2004 through March 31, 2006. Such prices represent prices between dealers and do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	Prices	
	High	Low
Fiscal Year Ended March 31, 2005:		
First Quarter	\$55.91	\$47.42
Second Quarter	55.01	45.52
Third Quarter	62.86	43.38
Fourth Quarter	71.16	54.52
Fiscal Year Ended March 31, 2006:		
First Quarter	\$59.83	\$47.45
Second Quarter	63.12	55.22
Third Quarter	61.97	51.04
Fourth Quarter	58.59	50.14

Holders

There were approximately 1,738 holders of record of our common stock as of June 5, 2006. In addition, we believe that a significant number of beneficial owners of our common stock hold their shares in street name.

Dividends

We have not paid any cash dividends and do not anticipate paying cash dividends in the foreseeable future.

Item 6: Selected Financial Data

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

(In millions, except per share data)

<u>STATEMENTS OF OPERATIONS DATA</u>	<u>Year Ended March 31,</u>				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net revenue	\$2,951	\$3,129	\$2,957	\$2,482	\$1,725
Cost of goods sold	<u>1,181</u>	<u>1,197</u>	<u>1,103</u>	<u>1,073</u>	<u>815</u>
Gross profit	1,770	1,932	1,854	1,409	910
Operating expenses:					
Marketing and sales	431	391	370	332	241
General and administrative	215	221	185	131	108
Research and development	758	633	511	401	381
Amortization of intangibles ⁽¹⁾	7	3	3	8	25
Acquired in-process technology	8	13	—	—	—
Restructuring charges	26	2	9	15	7
Asset impairment charges	—	—	—	66	13
Total operating expenses	<u>1,445</u>	<u>1,263</u>	<u>1,078</u>	<u>953</u>	<u>775</u>
Operating income	325	669	776	456	135
Interest and other income, net	<u>64</u>	<u>56</u>	<u>21</u>	<u>5</u>	<u>13</u>
Income before provision for income taxes and minority interest	389	725	797	461	148
Provision for income taxes	<u>147</u>	<u>221</u>	<u>220</u>	<u>143</u>	<u>46</u>
Income before minority interest	242	504	577	318	102
Minority interest	<u>(6)</u>	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>—</u>
Net income	<u>\$ 236</u>	<u>\$ 504</u>	<u>\$ 577</u>	<u>\$ 317</u>	<u>\$ 102</u>
Net income (loss) per share:					
Common stock:					
Net income:					
Basic	\$ 236	\$ 504	\$ 577	\$ 329	\$ 124
Diluted	\$ 236	\$ 504	\$ 577	\$ 317	\$ 102
Net income per share:					
Basic	\$ 0.78	\$ 1.65	\$ 1.95	\$ 1.17	\$ 0.45
Diluted	\$ 0.75	\$ 1.59	\$ 1.87	\$ 1.08	\$ 0.35
Number of shares used in computation:					
Basic	304	305	295	282	274
Diluted	314	318	308	293	286
Class B common stock:					
Net loss, net of retained interest in EA.com	N/A	N/A	N/A	\$ (12)	\$ (22)
Net loss per share:					
Basic	N/A	N/A	N/A	\$(2.77)	\$(3.77)
Diluted	N/A	N/A	N/A	\$(2.77)	\$(3.77)
Number of shares used in computation:					
Basic	N/A	N/A	N/A	4	6
Diluted	N/A	N/A	N/A	4	6

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA (Continued)

(In millions)

<u>BALANCE SHEET DATA</u>	<u>Year Ended March 31,</u>				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002⁽¹⁾</u>
Cash and cash equivalents	\$1,242	\$1,270	\$2,150	\$ 950	\$ 553
Short-term investments	1,030	1,688	264	638	244
Marketable equity securities	160	140	1	1	7
Working capital	2,143	2,899	2,185	1,334	700
Total assets	4,386	4,370	3,464	2,429	1,699
Long-term liabilities	97	54	42	54	—
Total liabilities	966	861	786	640	453
Minority interest	12	11	—	4	3
Total stockholders' equity	3,408	3,498	2,678	1,785	1,243

⁽¹⁾ In connection with our adoption of Statement of Financial Accounting Standard No. 142, “*Goodwill and Other Intangible Assets*”, in fiscal 2003, we ceased amortizing goodwill. Results for fiscal 2002 include the amortization of goodwill. See Note 1 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The following overview is a top-level discussion of our operating results as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers is important in order to understand our results for the fiscal year ended March 31, 2006, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-K, including in the "Business" section and the "Risk Factors" above, the remainder of "Management's Discussion and Analysis of Financial Condition and Results of Operations", or the Consolidated Financial Statements and related notes.

About Electronic Arts

We develop, market, publish and distribute interactive software games that are playable by consumers on home video game consoles (such as the Sony PlayStation® 2, Microsoft Xbox® and Xbox 360™, and Nintendo GameCube™), personal computers, mobile platforms (including cellular handsets and hand-held game players such as the Nintendo DS™ and the PlayStation® Portable "PSP™") and online, over the Internet and other proprietary online networks. Some of our games are based on content that we license from others (e.g., Madden NFL Football, The Godfather and FIFA Soccer), and some of our games are based on our own wholly-owned intellectual property (e.g., The Sims™, Need for Speed™ and BLACK™). Our goal is to publish titles with mass-market appeal, which often means translating and localizing them for sale in non-English speaking countries. In addition, we also attempt to create software game "franchises" that allow us to publish new titles on a recurring basis that are based on the same property. Examples of this franchise approach are the annual iterations of our sports-based products (e.g., Madden NFL Football, NCAA® Football and FIFA Soccer), wholly-owned properties that can be successfully sequenced (e.g., The Sims, Need for Speed and Battlefield) and titles based on long-lived literary movie properties (e.g. Lord of the Rings and Harry Potter).

Overview of Financial Results

Total net revenue for the fiscal year ended March 31, 2006 was \$2.951 billion, down 6 percent as compared to the fiscal year ended March 31, 2005. Total net revenue for the fiscal year ended March 31, 2006 was driven by sales of *Need for Speed™ Most Wanted*, *Madden NFL 06*, *FIFA 06*, *The Sims™ 2*, and *Harry Potter and the Goblet of Fire™*. Four titles sold more than five million units in the fiscal year ended March 31, 2006: *Need for Speed Most Wanted*, *Madden NFL 06*, *FIFA 06*, and *The Sims 2*.

Net income for the fiscal year ended March 31, 2006 was \$236 million as compared to \$504 million for the fiscal year ended March 31, 2005. Diluted net income per share for the fiscal year ended March 31, 2006 was \$0.75 as compared to \$1.59 for the fiscal year ended March 31, 2005.

We generated \$596 million in cash from operating activities during the year ended March 31, 2006 as compared to generating \$634 million for year ended March 31, 2005. The decrease in cash generated from operating activities was primarily due to a decrease in our net revenue and an increase in our operating expenses primarily to support the development of next-generation console games. This decrease was partially offset by a lower accounts receivable balance as of March 31, 2006 compared to March 31, 2005, resulting from a higher percentage of revenue recognized in the first two months of our fourth quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005, which allowed us to collect a higher percentage of our revenue during the quarter.

Management's Overview of Historical and Prospective Business Trends

Transition to Next-Generation Consoles. Our industry is cyclical and in the midst of a transition stage heading into the next cycle. During the three months ended December 31, 2005, Microsoft launched the Xbox 360, and Sony and Nintendo have both announced their intention to introduce new video game consoles in the coming months. We expect that, as the current generation of consoles continue to progress

and eventually reach the end of their commercial life cycle and next-generation consoles are introduced into the market, sales of video games for current-generation consoles will continue to decline as consumers replace their current-generation consoles with next-generation consoles, or defer game software purchases until they are able to purchase a next-generation console. This pattern is referred to in our industry as a transition to next-generation consoles. During this transition, we intend to continue to develop new titles for current-generation video game consoles while we also continue to make significant investments in the development of products for next-generation consoles. We expect the average selling prices and the number of units of our titles for current-generation consoles to continue to decline as more value-oriented consumers purchase current-generation consoles, a greater number of competitive titles are published at reduced price points, and consumers defer purchases in anticipation of next-generation consoles. We expect our gross margins to be negatively impacted by (1) a decrease in average selling prices of titles for current-generation platforms, (2) higher license royalty rates, and (3) amortization of our newly-acquired intangible assets.

We have incurred, and expect to continue to incur, higher costs during this transition to next-generation consoles. Moreover, we expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. We also expect our operating expenses to increase for the fiscal year ending March 31, 2007 as compared to prior fiscal years, primarily as a result of (1) the recognition of stock-based compensation due to our adoption of Statement of Financial Accounting Standard No. 123 (revised 2004) (“SFAS No. 123R”), and (2) higher expenditures for research and development due to our investment in next-generation consoles, online and mobile platforms. As we move through the life cycle of current-generation consoles, we will continue to devote significant resources to the development of current-generation titles while at the same time continuing to invest heavily in tools, technologies and titles for the next generation of platforms and technology. We expect our operating results to continue to be volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

Expansion of Mobile Platforms. Advances in mobile technology have resulted in a variety of new and evolving platforms for on-the-go interactive entertainment that appeal to a broader demographic of consumers. Our efforts to capitalize on the growth in mobile interactive entertainment are focused in two broad areas — packaged goods games for handheld game systems and downloadable games for cellular handsets.

We have developed and published games for a variety of handheld platforms, including the Nintendo Gameboy and Gameboy Advance, for several years. The introductions of the Sony PSP and the Nintendo DS, with their richer graphics, deeper gameplay, and online functionality, provide a richer mobile gaming experience to consumers. As a result, we have seen, and expect to continue to see, an increase in demand for our games for handheld platforms. In fiscal 2006, our net revenue from handheld platforms increased 217 percent over fiscal 2005 to \$374 million.

As cellular handsets become more-and-more commonplace and wireless technology advances to include high-resolution color displays, increased processing power and improved audio capabilities, we expect sales of games for cellular handsets to become an increasingly important part of our business worldwide. To accelerate our position in this growing segment, in February 2006, we acquired JAMDAT Mobile Inc. (“JAMDAT”), a global publisher of wireless games and other wireless entertainment applications. As a result of this acquisition, in fiscal 2007, we expect our net revenue from games for cellular handsets to increase significantly from \$19 million in fiscal 2006. Likewise, the acquisition, along with the additional investment required to grow this portion of our business globally, will result in increased development and operating expenses.

As mobile technology continues to evolve and the installed base of both handheld game systems and cellular phones expands, we expect that sales of our titles for mobile platforms — for both handhelds and cellular handsets — will become an increasingly important part of our business.

Investment in Online. Today, we generate net revenue from a variety of online products and services, including casual games and downloadable content marketed under our Pogo brand, persistent state world

games such as *Ultima Online*[™], PC-based downloadable content and online-enabled packaged goods. As the nature of online game offerings expands and evolves, we anticipate long-term opportunities for growth in this business. For example, we expect that consumers will take advantage of the online connectivity of next-generation consoles at a much higher rate than they have so far on current-generation consoles, allowing more consumers to enhance their gameplay experience through multiplayer activity, community-building and downloading content. We also plan to increase the amount of content available for download on the PC and consoles, and to enable entire PC-based games to be downloaded electronically. In addition, we plan to expand our casual game offerings internationally and to invest in growing genres such as advanced casual games. Although we intend to make significant investments in online products, infrastructure and services and believe that online gameplay will become an increasingly important part of our business in the long term, we do not expect revenue from persistent state world games or online gameplay and distribution to be significant in fiscal 2007.

International Expansion. Net revenue from international sales accounted for approximately 46 percent of our total net revenue during fiscal 2006. We expect international sales to remain a fundamental part of our business. We believe that in order to succeed in Asia, it is important to locally develop content that is specifically directed toward Asian cultures and consumers. As such, we expect to continue to devote resources to hiring local development talent and expanding our infrastructure outside of North America, most notably, through the expansion and creation of local studio facilities in Asia. In addition, we are in the process of establishing online game marketing, publishing and distribution functions in China. Further, we are planning to expand our development and publishing activities in the cellular handset games business in Europe and Asia. As part of our international expansion strategy, we may seek to partner with established local companies through acquisitions, joint ventures or other similar arrangements.

Sales of "Hit" Titles. Sales of "hit" titles, several of which were top sellers in a number of countries, contributed significantly to our net revenue. Our top-selling titles across all platforms worldwide during the year ended March 31, 2006 were *Need for Speed Most Wanted*, *Madden NFL 06*, *FIFA 06*, *The Sims 2*, and *Harry Potter and the Goblet of Fire*. Hit titles are important to our financial performance because they benefit from overall economies of scale. We have developed, and it is our objective to continue to develop, many of our hit titles to become franchise titles that can be regularly iterated.

Increasing Licensing Costs. We generate a significant portion of our net revenue and operating income from games based on licensed content such as Madden NFL Football, FIFA Soccer, Harry Potter and ESPN. We have recently entered into new licenses and renewed older licenses, some of which contain higher royalty rates than similar license agreements we have entered into in the past. We believe these licenses, and the product franchises they support, will continue to be important to our future operations, but the higher costs of these licenses will negatively impact our gross margins.

International Foreign Exchange Impact. Net revenue from international sales accounted for approximately 46 percent of our total net revenue during fiscal 2006 and approximately 47 percent of our total net revenue during fiscal 2005. Our international net revenue was primarily driven by sales in Europe and, to a lesser extent, in Asia. Foreign exchange rates had an unfavorable impact on our net revenue of \$36 million, or 1 percent, for the year ended March 31, 2006 as compared to the year ended March 31, 2005.

Acquisitions, Investments and Strategic Transactions. We have engaged in, evaluated, and expect to continue to engage in and evaluate, a wide array of potential strategic transactions, including (1) acquisitions of companies, businesses, intellectual properties, and other assets, and (2) investments in new interactive entertainment businesses (for example, online and mobile games). In fiscal 2006, we acquired JAMDAT as part of our efforts to accelerate our growth in mobile gaming, and in fiscal 2005 we acquired Criterion Software Group, Ltd. ("Criterion"), and took a controlling interest in Digital Illusions C.E. ("DICE"). We signed an agreement to fully merge DICE into EA, which will allow DICE to become an integrated studio. The merger is expected to be completed during our fiscal quarter ending September 30, 2006.

Stock-Based Compensation. On April 2, 2006, the first day of our current fiscal year, we adopted SFAS No. 123R, “*Share-Based Payment*”, which requires us to recognize compensation expense for all stock-based compensation based on estimated fair values. As a result, beginning with our first quarter of fiscal 2007, our operating results will contain a charge for stock-based compensation related to the equity-based compensation we provide to our employees, as well as stock purchases under our 2000 Employee Stock Purchase Plan. This expense will be in addition to the stock-based compensation expense we have recognized in prior periods related to restricted stock unit grants, acquisitions and other grants. The stock-based compensation charges we incur will depend on the number of equity-based awards we grant, the number of shares of common stock we sell under our 2000 Employee Stock Purchase Plan, as well as a number of estimates and variables such as estimated forfeiture rates, the trading price and volatility of our common stock, the expected term of our options, and interest rates. As a result, our stock-based compensation charges can vary significantly from period to period. The expensing of stock-based compensation will have a material adverse impact on our Consolidated Statements of Operations and may not be similar to our pro forma disclosure under SFAS No. 123, as amended.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting periods. The policies discussed below are considered by management to be critical because they are not only important to the portrayal of our financial condition and results of operations but also because application and interpretation of these policies requires both judgment and estimates of matters that are inherently uncertain and unknown. As a result, actual results may differ materially from our estimates.

Revenue Recognition, Sales Returns, Allowances and Bad Debt Reserves

We principally derive revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PlayStation 2, Xbox, Xbox 360 and Nintendo GameCube), PCs and mobile platforms including handheld game players (such as the Sony PSP, Nintendo DS and Nintendo Game Boy Advance) and cellular handsets. We evaluate the recognition of revenue based on the criteria set forth in Statement of Position (“SOP”) 97-2, “*Software Revenue Recognition*”, as amended by SOP 98-9, “*Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*” and Staff Accounting Bulletin (“SAB”) No. 101, “*Revenue Recognition in Financial Statements*”, as revised by SAB No. 104, “*Revenue Recognition*”. We evaluate revenue recognition using the following basic criteria and recognize revenue when all four of the following criteria are met:

- Evidence of an arrangement: Evidence of an agreement with the customer that reflects the terms and conditions to deliver products must be present in order to recognize revenue.
- Delivery: Delivery is considered to occur when the products are shipped and risk of loss and reward have been transferred to the customer. For online games and services, revenue is recognized as the service is provided.
- Fixed or determinable fee: If a portion of the arrangement fee is not fixed or determinable, we recognize that amount as revenue when the amount becomes fixed or determinable.
- Collection is deemed probable: At the time of the transaction, we conduct a credit review of each customer involved in a significant transaction to determine the creditworthiness of the customer. Collection is deemed probable if we expect the customer to be able to pay amounts under the arrangement as those amounts become due. If we determine that collection is not probable, we recognize revenue when collection becomes probable (generally upon cash collection).

Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For

example, for multiple element arrangements, we must make assumptions and judgments in order to: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine whether vendor-specific objective evidence of fair value (“VSOE”) exists for each undelivered element; and (4) allocate the total price among the various elements we must deliver.

Changes to any of these assumptions or judgments, or changes to the elements in a software arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Product revenue, including sales to resellers and distributors (“channel partners”), is recognized when the above criteria are met. We reduce product revenue for estimated future returns, price protection, and other offerings, which may occur with our customers and channel partners. In certain countries, we have stock-balancing programs for our PC and video game system products, which allow for the exchange of these products by resellers under certain circumstances. It is our general practice to exchange products or give credits, rather than give cash refunds.

In certain countries, from time to time, we decide to provide price protection for both our PC and video game system products. When evaluating the adequacy of sales returns and price protection allowances, we analyze historical returns, current sell-through of distributor and retailer inventory of our products, current trends in the video game market and the overall economy, changes in customer demand and acceptance of our products and other related factors. In addition, we monitor the volume of sales to our channel partners and their inventories, as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods.

In the future, actual returns and price protections may materially exceed our estimates as unsold products in the distribution channels are exposed to rapid changes in consumer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing products. For example, the risk of product returns and/or price protection for our products may continue to increase as the PlayStation 2, Xbox and Nintendo GameCube consoles move through their lifecycles and an increasing number and aggregate amount of competitive products heighten pricing and competitive pressures. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates changed, our returns and price protection reserves would change, which would impact the total net revenue we report. For example, if actual returns and/or price protection were significantly greater than the reserves we have established, our actual results would decrease our reported total net revenue. Conversely, if actual returns and/or price protection were significantly less than our reserves, this would increase our reported total net revenue.

Significant judgment is required to estimate our allowance for doubtful accounts in any accounting period. We determine our allowance for doubtful accounts by evaluating customer creditworthiness in the context of current economic trends and historical experience. Depending upon the overall economic climate and the financial condition of our customers, the amount and timing of our bad debt expense and cash collection could change significantly.

Royalties and Licenses

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers and (3) co-publishing and/or distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for delivery of product.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of goods sold generally at the greater of the contractual rate or

an effective royalty rate based on expected net product sales. Significant judgment is required to estimate the effective royalty rate for a particular contract. Because the computation of effective royalty rates requires us to project future revenue, it is inherently subjective as our future revenue projections must anticipate (1) the total number of titles subject to the contract, (2) the timing of the release of these titles, (3) the number of software units we expect to sell, and (4) future pricing. Determining the effective royalty rate for hit-based titles is particularly difficult due to the inherent risk of such titles. Accordingly, if our future revenue projections change, our effective royalty rates would change, which could impact the royalty expense we recognize. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally in connection with the development of a particular product and, therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed as research and development as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of goods sold generally at the greater of the contractual rate or an effective royalty rate based on expected net product sales.

Our contracts with some licensors include minimum guaranteed royalty payments which are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid and as a liability when incurred, rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of March 31, 2006 and 2005, approximately \$9 million and \$51 million, respectively, of minimum guaranteed royalty obligations had been recognized.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties and commitments. If actual sales or revised revenue estimates fall below the initial revenue estimate, then the actual charge taken may be greater in any given quarter than anticipated. During fiscal 2006, 2005 and 2004, we recorded impairment charges of \$16 million, \$8 million and \$2 million, respectively.

Valuation of Long-Lived Assets

We evaluate both purchased intangible assets and other long-lived assets in order to determine if events or changes in circumstances indicate a potential impairment in value exists. This evaluation requires us to estimate, among other things, the remaining useful lives of the assets and future cash flows of the business. These evaluations and estimates require the use of judgment. Our actual results could differ materially from our current estimates.

Under current accounting standards, we make judgments about the recoverability of purchased intangible assets and other long-lived assets whenever events or changes in circumstances indicate a potential impairment in the remaining value of the assets recorded on our Consolidated Balance Sheet. In order to determine if a potential impairment has occurred, management makes various assumptions about the future value of the asset by evaluating future business prospects and estimated cash flows. Our future net cash flows are primarily dependent on the sale of products for play on proprietary video game consoles, handheld game players, PCs and cellular handsets (“platforms”). The success of our products is affected by our ability to accurately predict which platforms and which products we develop will be successful. Also, our revenue and earnings are dependent on our ability to meet our product release schedules. Due to product sales shortfalls, we may not realize the future net cash flows necessary to recover our long-lived assets, which may result in an impairment charge being recorded in the future. We did not record any asset impairment charges in fiscal 2006 and fiscal 2005. During fiscal 2004, we recognized less than \$1 million of asset impairment charges.

Income Taxes

In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our current tax exposures in each jurisdiction where we operate. These estimates involve complex issues, require extended periods of time to resolve, and require us to make judgments, such as anticipating the positions that we will take on tax returns prior to our actually preparing the returns and the outcomes of disputes with tax authorities. We are also required to make determinations of the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income in each jurisdiction.

In addition, changes in our business, including acquisitions, changes in our international structure, changes in the geographic location of business functions, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate and result in a variance between the projected effective tax rate for any quarter and the final effective tax rate for the fiscal year.

With respect to our projected annual effective income tax rate at the end of each quarter prior to the end of a fiscal year, we are required to make a projection of several items, including our projected mix of full-year income in each jurisdiction in which we operate and the related income tax expense in each jurisdiction. This projection is inherently uncertain and can fluctuate throughout the fiscal year. The projected annual effective income tax rate may also be adjusted for taxes related to certain anticipated changes in how we do business. Significant non-recurring charges are taken in the quarter incurred. The actual results could and often does vary from those projections, and as such, the overall effective income tax rate for a fiscal year could be different from that previously projected for the full year.

RESULTS OF OPERATIONS

Our fiscal year is reported on a 52 or 53-week period that, historically, has ended on the final Saturday of March in each year. Beginning with the fiscal year ended March 31, 2006, we end our fiscal year on the Saturday nearest March 31. As a result, fiscal 2006 contains 53 weeks with the first quarter containing 14 weeks. Our results of operations for the fiscal years March 31, 2007, 2006, 2005 and 2004 contain the following number of weeks:

<u>Fiscal Years Ended</u>	<u>Number of Weeks</u>	<u>Fiscal Period End Date</u>
March 31, 2007	52 weeks	March 31, 2007
March 31, 2006	53 weeks	April 1, 2006
March 31, 2005	52 weeks	March 26, 2005
March 31, 2004	52 weeks	March 27, 2004

For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end.

Comparison of Fiscal 2006 to Fiscal 2005

Net Revenue

We principally derive net revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PlayStation 2, Xbox, Xbox 360 and Nintendo GameCube), PCs and mobile platforms which include handheld game players (such as the Sony PSP, Nintendo DS and Nintendo Game Boy Advance) and cellular handsets. We also derive net revenue from selling services to some of our online games, programming third-party web sites with our game content, allowing other

companies to manufacture and sell our products in conjunction with other products, and selling advertisements on our online web pages.

From a geographical perspective, our total net revenue for the fiscal years ended March 31, 2006 and 2005 was as follows (in millions):

	Year Ended March 31,				Increase/ (Decrease)	% Change
	2006		2005			
North America	\$1,584	54%	\$1,665	53%	\$ (81)	(5%)
Europe	1,174	40%	1,284	41%	(110)	(9%)
Asia	193	6%	180	6%	13	7%
International	1,367	46%	1,464	47%	(97)	(7%)
Total Net Revenue.....	\$2,951	100%	\$3,129	100%	\$(178)	(6%)

North America

For fiscal 2006, net revenue in North America was \$1,584 million, driven primarily by sales of (1) *Madden NFL 06*, *Need for Speed Most Wanted*, *NBA LIVE 06*, *NCAA® Football 06* and *The Sims 2*, (2) titles for the PSP, which was launched in North America in March 2005, and (3) titles for the Xbox 360, which launched in November 2005. Overall, net revenue decreased \$81 million, or 5 percent, as compared to fiscal 2005. As noted in the Overview section above, our industry is in the midst of a transition from current-generation to next-generation consoles. Our net revenue was adversely impacted by this transition in fiscal 2006 as overall net revenue from sales of our titles for the PlayStation2, Xbox and Nintendo GameCube decreased. While sales of titles for the PSP and the Xbox 360 helped to mitigate the impact of the transition in fiscal 2006, they were not enough to offset the overall decrease in net revenue in North America. As the transition to next-generation consoles continues in fiscal 2007, we expect net revenue from sales of titles for current-generation consoles to further decline.

From a title and franchise perspective, the decrease in net revenue was primarily due to (1) lower sales from our NFL Street, NBA Street, Def Jam and The Urbz™ franchises as there were no corresponding titles released during fiscal 2006, and (2) lower sales from our Lord of the Rings franchise which was released on multiple platforms during fiscal 2005 as compared to two platforms, the PSP and PC, during fiscal 2006. The overall decrease in net revenue was mitigated by (1) sales of *Battlefield 2™* on the PC which was released during the first quarter of fiscal 2006 and *Battlefield 2: Modern Combat™* on the PlayStation 2 and Xbox released during the third quarter of fiscal 2006, (2) increased net revenue from our Madden franchise primarily resulting from the release of *Madden NFL 06* on the Xbox 360 and PSP in fiscal 2006, and (3) increased net revenue from our Burnout franchise primarily resulting from the release of *Burnout™ Revenge* on the Xbox 360 and *Burnout™ Legends* on the PSP in fiscal 2006.

Europe

For fiscal 2006, net revenue in Europe was \$1,174 million, driven primarily by sales of *Need for Speed Most Wanted*, *FIFA 06*, *The Sims 2*, *Harry Potter and the Goblet of Fire*, as well as sales of titles for the PSP and Xbox 360 which were both introduced in Europe during fiscal 2006. Overall, net revenue declined \$110 million, or 9 percent, as compared to fiscal 2005. We estimate that foreign exchange rates (primarily the Euro and the British pound sterling) decreased reported European net revenue by approximately \$36 million, or 3 percent, net of realized gains from hedging activities, for the fiscal 2006 as compared to fiscal 2005. Excluding the effect of foreign exchange rates, we estimate that European net revenue decreased by approximately \$74 million, or 6 percent, for fiscal 2006. Our net revenue in Europe was adversely impacted by the transition to next-generation consoles in fiscal 2006 as overall net revenue from sales of our titles for the PlayStation 2, Xbox and Nintendo GameCube decreased. Sales of titles for the PSP, Nintendo DS, and the Xbox 360, however, were enough to offset the overall decrease in net revenue from sales of titles for current-generation consoles.

From a title and franchise perspective, the overall decrease in net revenue was primarily due to (1) lower sales from our Lord of the Rings and The Sims franchises, (2) the release of *The Urbz™: Sims in the City™* during the three months ended December 31, 2004 as there was no corresponding title released during fiscal 2006, and (3) higher fiscal 2005 sales of *UEFA Euro 2004™*, which was released in the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. The overall decrease in net revenue was mitigated by increased net revenue from our Battlefield franchise due to the release of multiple titles during fiscal 2006 and our FIFA Street franchise due to the initial release of *FIFA Street* late in the fourth quarter of fiscal 2005 which benefited fiscal 2006 and the release of *FIFA Street 2* earlier in the fourth quarter of fiscal 2006.

Asia

For fiscal 2006, net revenue in Asia increased by \$13 million, or 7 percent, as compared to fiscal 2005. The increase in net revenue for fiscal 2006 was driven primarily by sales of titles for the PSP, which launched in the fourth quarter of fiscal 2005. We estimate that the foreign exchange rate impact on Asia net revenue was not material for fiscal 2006 as compared to fiscal 2005.

Our total net revenue by product line for fiscal years 2006 and 2005 was as follows (in millions):

	Year Ended March 31,		Increase/ (Decrease)	% Change		
	2006	2005				
Consoles						
PlayStation 2	\$1,127	38%	\$1,330	43%	\$(203)	(15%)
Xbox	400	13%	516	16%	(116)	(22%)
Xbox 360	140	5%	—	—	140	N/M
Nintendo GameCube	135	5%	212	7%	(77)	(36%)
Other consoles	<u>1</u>	<u>—</u>	<u>10</u>	<u>—</u>	<u>(9)</u>	<u>(90%)</u>
Total Consoles	1,803	61%	2,068	66%	(265)	(13%)
PC	418	14%	531	17%	(113)	(21%)
Mobility						
PSP	252	9%	18	1%	234	1,300%
Nintendo DS	67	2%	23	1%	44	191%
Game Boy Advance and Game Boy Color	55	2%	77	2%	(22)	(29%)
Cellular Handsets	<u>19</u>	<u>1%</u>	<u>—</u>	<u>—</u>	<u>19</u>	<u>N/M</u>
Total Mobility	393	14%	118	4%	275	233%
Co-publishing and Distribution	213	7%	283	9%	(70)	(25%)
Internet Services, Licensing and Other						
Subscription Services	61	2%	55	2%	6	11%
Licensing, Advertising and Other	<u>63</u>	<u>2%</u>	<u>74</u>	<u>2%</u>	<u>(11)</u>	<u>(15%)</u>
Total Internet Services, Licensing and Other	<u>124</u>	<u>4%</u>	<u>129</u>	<u>4%</u>	<u>(5)</u>	<u>(4%)</u>
Total Net Revenue	<u>\$2,951</u>	<u>100%</u>	<u>\$3,129</u>	<u>100%</u>	<u>\$(178)</u>	<u>(6%)</u>

PlayStation 2

For fiscal 2006, net revenue from sales of titles for the PlayStation 2 was \$1,127 million, driven primarily by sales of *Need for Speed Most Wanted*, *Madden NFL 06*, *FIFA 06*, *NCAA Football 06* and *NBA LIVE 06*. We released 28 titles for the PlayStation 2 during fiscal 2006, as compared to 27 titles in fiscal 2005. Overall, PlayStation 2 net revenue decreased \$203 million, or 15 percent, as compared to fiscal 2005. As noted above, we believe the transition to next-generation consoles adversely impacted our net revenue from sales of titles for the PlayStation 2 in fiscal 2006. We expect net revenue from sales of titles for the

PlayStation 2 to continue to decrease in fiscal 2007 as we move through the transition to next-generation consoles. From a title and franchise perspective, the decrease in net revenue was primarily due to (1) lower sales from our Lord of the Rings, The Urbz, Def Jam, NFL Street and NBA Street franchises, none of which had fiscal 2006 releases, and (2) lower sales of fiscal 2006 releases from our Need for Speed and Bond franchises as well as lower sales of our Fight Night franchise from which two titles were released in fiscal 2005 as compared to one title in fiscal 2006. The overall decrease in net revenue was mitigated by the releases of *The Godfather™ The Game*, *BLACK™*, *Medal of Honor European Assault™*, and *Battlefield 2: Modern Combat* none of which had a corresponding release in fiscal 2005.

Xbox

For fiscal 2006, net revenue from sales of titles for the Xbox was \$400 million, driven primarily by sales of *Madden NFL 06*, *Need for Speed Most Wanted*, *NCAA Football 06* and *Burnout Revenge*. We released 28 titles for the Xbox during fiscal 2006, as compared to 26 titles in fiscal 2005. Overall, Xbox net revenue decreased \$116 million, or 22 percent, as compared to fiscal 2005. We believe the transition to next-generation consoles, particularly the launch of the Xbox 360 during the last half of fiscal 2006, adversely impacted our net revenue from sales of titles for the Xbox in fiscal 2006. We expect net revenue from sales of titles for the Xbox to continue to decrease in fiscal 2007 as we move through the transition and the Xbox 360 installed base grows. From a title and franchise perspective, the decrease in net revenue was primarily due to (1) lower sales from our Lord of the Rings, NFL Street, Def Jam, NBA Street and The Urbz franchises, none of which had fiscal 2006 releases, and (2) lower sales of fiscal 2006 releases from our Need for Speed and Bond franchises as well as lower sales of our Fight Night franchise from which two titles were released in fiscal 2005 as compared to one title in fiscal 2006. The overall decrease in net revenue was mitigated by the release of *Battlefield 2: Modern Combat*, *BLACK* and *The Godfather The Game*, none of which had a corresponding release in fiscal 2005.

Xbox 360

The Xbox 360 was launched in North America, Europe and Japan during the three months ended December 31, 2005, and in the rest of Asia during the three months ended March 31, 2006. As of March 31 2006, the installed base of the Xbox 360 continued to be small compared to the installed base of the Xbox. Net revenue from sales of titles for the Xbox 360 was \$140 million for fiscal 2006, driven by sales of *Need for Speed Most Wanted*, *Madden NFL 06* and *EA SPORTS™ Fight Night Round 3*. We released seven titles for the Xbox 360 in fiscal 2006. We expect net revenue from sales of titles for the Xbox 360 to increase in fiscal 2007 as the installed base grows and we release more titles.

Nintendo GameCube

For fiscal 2006, net revenue from sales of titles for the Nintendo GameCube was \$135 million, driven primarily by sales of *Need for Speed Most Wanted*, *Harry Potter and the Goblet of Fire* and *Madden NFL 06*. We released 14 titles for the Nintendo GameCube during fiscal 2006, as compared to 20 titles in fiscal 2005. Overall, Nintendo GameCube net revenue decreased \$77 million, or 36 percent, as compared to fiscal 2005, consistent with the percentage decline in the number of titles we released for this platform. We believe the transition to next-generation consoles adversely impacted our net revenue from sales of titles for the Nintendo GameCube in fiscal 2006. We expect net revenue from sales of titles for the GameCube to continue to decrease in fiscal 2007 as we move through the transition to next-generation consoles. From a title and franchise perspective, the decrease in net revenue in fiscal 2006 was primarily due to (1) lower sales from our Lord of the Rings, The Urbz, NBA Street, NFL Street and Def Jam franchises, none of which had fiscal 2006 releases, and (2) lower sales of fiscal 2006 releases from our Need for Speed and Bond franchises.

PC

For fiscal 2006, net revenue from sales of titles for the PC was \$418 million, driven primarily by sales of titles from The Sims franchise and *Battlefield 2*. We released 22 titles for the PC during fiscal 2006, as

compared to 21 titles in fiscal 2005. Overall, PC net revenue decreased \$113 million, or 21 percent, as compared to fiscal 2005. The decrease was primarily due to (1) significantly higher fiscal 2005 sales of *The Sims 2*, (2) lower sales from our Medal of Honor™ franchise as there were no corresponding titles released during fiscal 2006, and (3) lower sales from our Lord of the Rings franchise. The overall decrease in net revenue was mitigated by current-year sales of products from our Battlefield franchise. On January 27, 2005, we began consolidating the financial results of Digital Illusion C.E. (a game development company based in Sweden of which we are the majority owner) into our financial statements, and, therefore, have characterized *Battlefield 2* PC-based revenue as part of our PC product line. Prior to consolidating DICE's financial results, we classified revenue from the Battlefield franchise as co-publishing and distribution revenue.

Mobile Platforms

Net revenue from mobile products — consisting of packaged goods games for handheld systems and downloadable games for cellular handsets — increased from \$118 million in fiscal 2005 to \$393 million in fiscal 2006. The increase was primarily due to sales of titles released in fiscal 2006 for the PSP, and the Nintendo DS, both of which were launched in fiscal 2005 in certain countries. We released 16 titles for the PSP during fiscal 2006, as compared to three titles in fiscal 2005. Overall, PSP net revenue increased \$234 million, driven primarily by sales of titles from our Need for Speed, FIFA, Burnout and Madden franchises. We released ten titles for the Nintendo DS during fiscal 2006, as compared to three titles in fiscal 2005. Nintendo DS net revenue increased \$44 million, driven primarily by sales of titles from our Need for Speed, The Sims and Madden franchises. The increase in PSP and Nintendo DS net revenue was partially offset by lower sales of titles for the Game Boy Advance.

We expect mobile platform revenue to continue to increase in fiscal 2007, driven primarily by anticipated growth in our cellular handset games business.

Co-Publishing and Distribution

Net revenue from co-publishing and distribution products decreased from \$283 million in fiscal 2005 to \$213 million in fiscal 2006. The decrease was primarily due to (1) the change in our classification of sales of products from our Battlefield franchise, which, as discussed above, we no longer classify as co-publishing and distribution revenue, and (2) overall higher fiscal 2005 sales of various co-publishing and distribution titles. The overall decrease in net revenue was mitigated by sales of *Half-Life® 2* in fiscal 2006.

Subscription Services

Net revenue from subscription services increased from \$55 million in fiscal 2005 to \$61 million in fiscal 2006. The increase in net revenue was primarily due to an increase in the number of paying subscribers to Club Pogo™, partially offset by a decrease in net revenue from *Ultima Online*.

Licensing, Advertising and Other

Net revenue from licensing, advertising and other decreased from \$74 million in fiscal 2005 to \$63 million in fiscal 2006. The decrease in net revenue was primarily due to Nokia N-Gage license revenue in fiscal 2005.

Cost of Goods Sold

Cost of goods sold for our packaged-goods business consists of (1) product costs, (2) certain royalty expenses for celebrities, professional sports and other organizations and independent software developers, (3) manufacturing royalties, net of volume discounts and other vendor reimbursements, (4) expenses for defective products, (5) write-offs of post-launch prepaid royalty costs, (6) amortization of certain intangible assets, and (7) operations expenses. Volume discounts are generally recognized upon achievement of milestones and vendor reimbursements are generally recognized as the related revenue is

recognized. Cost of goods sold for our online products consists primarily of data center and bandwidth costs associated with hosting our web sites, credit card fees and royalties for use of third-party properties. Cost of goods sold for our web site advertising business primarily consists of ad-serving costs.

Cost of goods sold for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>% Change</u>
\$1,181	40.0%	\$1,197	38.2%	(1.3%)

In fiscal 2006, cost of goods sold as a percentage of total net revenue increased 1.8 percent from 38.2 percent to 40.0 percent. As a percentage of total net revenue, the increase was primarily due to an increase in our license royalties associated with new license agreements for our football titles.

We expect cost of goods sold as a percentage of total net revenue to increase during fiscal 2007 as compared to fiscal 2006. Although there can be no assurance, and our actual results could differ materially, we expect gross margin pressure as a result of (1) a decrease in average selling prices of titles for current-generation platforms, (2) higher license royalty rates, and (3) amortization of our newly-acquired intangible assets.

Marketing and Sales

Marketing and sales expenses consist of personnel-related costs and advertising, marketing and promotional expenses, net of advertising expense reimbursements from third parties.

Marketing and sales expenses for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$431	15%	\$391	13%	\$40	10%

Marketing and sales expenses increased by \$40 million, or 10 percent, in fiscal 2006 as compared to fiscal 2005. The increase was primarily due to (1) an increase of \$30 million in our marketing and advertising, promotional and related contracted service expenses as a result of increased advertising to support our titles, and (2) an increase of \$11 million in personnel-related costs resulting from an increase in facilities and headcount-related expenses in support of our marketing and sales functions worldwide.

Marketing and sales expenses included vendor reimbursements for advertising expenses of \$41 million and \$42 million in fiscal 2006 and 2005, respectively.

We expect marketing and sales expenses to increase in absolute dollars in fiscal 2007 primarily due to our adoption of SFAS No. 123R, which will require us to expense stock-based compensation.

General and Administrative

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

General and administrative expenses for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$215	7%	\$221	7%	\$(6)	(3%)

General and administrative expenses decreased by \$6 million, or 3 percent, in fiscal 2006 as compared to fiscal 2005 primarily due to a decrease in employee-related costs resulting from charges taken in connection with certain employee-related litigation matters in fiscal 2005. This decrease was partially offset by an increase in personnel-related expenses due to an increase in headcount costs as well as an increase in professional and contracted services to support our business.

We expect general and administrative expenses to increase in absolute dollars in fiscal 2007 primarily due to our adoption of SFAS No. 123R, which will require us to expense stock-based compensation.

Research and Development

Research and development expenses consist of expenses incurred by our production studios for personnel-related costs, consulting, equipment depreciation and any impairment of prepaid royalties for pre-launch products. Research and development expenses for our online business include expenses incurred by our studios consisting of direct development and related overhead costs in connection with the development and production of our online games. Research and development expenses also include expenses associated with the development of web site content, network infrastructure direct expenses, software licenses and maintenance, and network and management overhead.

Research and development expenses for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$758	26%	\$633	20%	\$125	20%

Research and development expenses increased by \$125 million, or 20 percent, in fiscal 2006 as compared to fiscal 2005. The increase is primarily due to an increase of \$124 million in personnel-related costs resulting from an increase in employee headcount in our Canadian and European studios as we increased our internal development efforts and invested in next-generation tools, technologies and titles, as well as consolidation of DICE. To a lesser extent, these increases were also due to higher facilities-related costs offset by lower third-party development costs.

We expect research and development expenses to increase in absolute dollars in fiscal 2007 primarily as a result of (1) our recognition of stock-based compensation, and (2) our investment in next-generation consoles, online and mobile platforms.

Amortization of Intangibles

Amortization of intangibles for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$7	—	\$3	—	\$4	133%

For fiscal 2006, amortization of intangibles resulted from our acquisitions of JAMDAT, Criterion and others. For fiscal 2005, amortization of intangibles resulted from our acquisition of Criterion and others. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

We expect amortization of intangible expenses to increase in fiscal 2007 primarily due to the amortization of intangibles related to JAMDAT.

Acquired In-process Technology

Acquired in-process technology charges for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$8	—	\$13	1%	\$(5)	(38%)

The acquired in-process technology charge we incurred in fiscal 2006 was primarily the result of our acquisition of JAMDAT. The acquired in-process technology charge we incurred in fiscal 2005 was the result of our acquisitions of Criterion, and a majority stake of the outstanding shares of DICE. Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have an alternative future use. Accordingly, upon consummation of these acquisitions, we incurred a charge for the acquired in-process technology, as reflected in our

Consolidated Statement of Operations. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Restructuring Charges

Restructuring charges for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$26	1%	\$2	—	\$24	1,200%

In November 2005, we announced plans to establish an international publishing headquarters in Geneva, Switzerland. Since that time and through the six months ending September 30, 2006, we expect to continue to relocate certain current employees to our new facility in Geneva, close certain facilities in the U.K., and make other related changes in our international publishing business.

During fiscal 2006, restructuring charges were approximately \$14 million, of which \$8 million was for the closure of certain U.K. facilities, \$3 million for employee-related expenses, and \$3 million in other costs relating to our international publishing reorganization. In fiscal 2007, we expect to incur between \$15 million and \$20 million of restructuring costs. Overall, including fiscal 2006, we expect to incur between \$40 million and \$50 million of restructuring costs, substantially all of which will result in cash expenditures by 2017. These restructuring costs will consist primarily of employee-related relocation assistance (approximately \$28 million), facility exit costs (approximately \$10 million), as well as other reorganization costs (approximately \$8 million). While we may incur severance costs paid to terminating employees in connection with the reorganization, we do not expect these costs to be significant.

During the fourth quarter of fiscal 2006, we aligned our resources with our product plan for fiscal 2007 and strategic opportunities with next-generation consoles, online and mobile platforms. As part of this alignment we recorded a total pre-tax restructuring charge of \$10 million consisting entirely of one-time benefits related to headcount reductions which are included in restructuring charges in our Consolidated Statement of Operations.

Interest and Other Income, Net

Interest and other income, net, for fiscal years 2006 and 2005 was as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$64	2%	\$56	2%	\$8	14%

For fiscal 2006, interest and other income, net, increased by \$8 million, or 14 percent, as compared to fiscal 2005 primarily due to an increase of \$31 million in interest income as a result of higher yields on our cash, cash equivalent and short-term investment balances, partially offset by a net loss of \$22 million in investments and foreign currency activities.

Income Taxes

Income taxes for fiscal years 2006 and 2005 were as follows (in millions):

<u>March 31, 2006</u>	<u>Effective Tax Rate</u>	<u>March 31, 2005</u>	<u>Effective Tax Rate</u>	<u>% Change</u>
\$147	37.6%	\$221	30.5%	(33%)

Our effective income tax rates were 37.6 percent and 30.5 percent for fiscal 2006 and fiscal 2005, respectively. For fiscal 2006, our effective income tax rate is higher than the U.S. statutory rate of 35.0 percent for fiscal 2006 due to a number of factors, including the repatriation of foreign earnings in connection with the American Jobs Creation Act of 2004 (the “Jobs Act”), as discussed below, and additional charges resulting from certain intercompany transactions during the second and fourth quarters of fiscal 2006, which were partially offset by other items.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. taxes have been provided thereon. With the exception of taking advantage of the one-time opportunity afforded to us by the Jobs Act, we currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries.

In July 2005, the Financial Accounting Standards Board (“FASB”) issued an exposure draft of a proposed interpretation of SFAS No. 109, “Accounting for Income Taxes” which addresses the accounting for uncertain tax positions. Including subsequent updates issued by the FASB, the proposed interpretation provides that the best estimate of the impact of a tax position would be recognized in an entity’s financial statements only if it is more likely than not that the position will be sustained on audit based solely on its technical merits. This proposed interpretation also would provide guidance on recognition and measurement, balance sheet presentation, disclosure, accrual of interest and penalties, accounting in interim periods and transition. We cannot predict what actions the FASB will take or how any such actions might ultimately affect our financial position or results of operations. In January 2006, the FASB announced that companies would not have to apply the proposed interpretation until fiscal years beginning after December 31, 2006. An exposure draft of proposed amendments to SFAS No. 109 is expected in the third quarter of calendar year 2006.

Our effective income tax rates for fiscal 2007 and future periods will depend on a variety of factors. For example, changes in our business, including acquisitions and intercompany transactions, changes in our international structure, changes in the geographic location of business functions or assets, changes in the geographic mix of income, as well as changes in, or termination of, our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate for future fiscal years. We incur certain tax expenses that do not decline proportionately with declines in our consolidated income. As a result, in absolute dollar terms, our tax expense will have a greater influence on our effective tax rate at lower levels of pre-tax income than higher levels. In addition, at lower levels of pre-tax income, our effective tax rate will be more volatile.

Net Income

Net income for fiscal years 2006 and 2005 was as follows (in millions):

<u>March 31, 2006</u>	<u>% of Net Revenue</u>	<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$236	8%	\$504	16%	\$(268)	(53%)

Reported net income decreased by \$268 million, or 53 percent, in fiscal 2006 as compared to fiscal 2005. The decrease was primarily due to a decrease in our net revenue and growth in our operating expenses. The growth in our operating expenses was primarily driven by an increase in research and development expenses as we increased our internal development efforts and invested in next-generation tools, technologies and titles, while at the same time we continued to support current-generation product development.

We expect our net income to decline in fiscal 2007 as a result of (1) the effect of stock-based compensation charges required by our adoption of SFAS No. 123R, and (2) our continued support of current-generation product development while at the same time making significant investments in next-generation consoles, online and mobile platforms.

Comparison of Fiscal 2005 to Fiscal 2004

Net Revenue

From a geographical perspective, our total net revenue for the fiscal years ended March 31, 2005 and 2004 was as follows (in millions):

	<u>Year Ended March 31,</u>				<u>Increase</u>	<u>% Change</u>
	<u>2005</u>		<u>2004</u>			
North America	<u>\$1,665</u>	<u>53%</u>	<u>\$1,610</u>	<u>54%</u>	<u>\$ 55</u>	<u>3%</u>
Europe	<u>1,284</u>	<u>41%</u>	<u>1,180</u>	<u>40%</u>	<u>104</u>	<u>9%</u>
Asia	<u>180</u>	<u>6%</u>	<u>167</u>	<u>6%</u>	<u>13</u>	<u>8%</u>
International	<u>1,464</u>	<u>47%</u>	<u>1,347</u>	<u>46%</u>	<u>117</u>	<u>9%</u>
Total Net Revenue	<u>\$3,129</u>	<u>100%</u>	<u>\$2,957</u>	<u>100%</u>	<u>\$172</u>	<u>6%</u>

North America

For fiscal 2005, net revenue in North America increased by 3 percent as compared to fiscal 2004. From a franchise perspective, the net revenue increase was primarily due to higher sales of products in our Need for Speed franchise. The net revenue increase was also driven by sales of titles in our Fight Night and Burnout franchises, neither of which had corresponding titles released in fiscal 2004. Together, these items resulted in a net revenue increase of \$180 million during the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. This increase was partially offset by lower sales of products in our Medal of Honor, SSX™ and Lord of the Rings franchises, which reduced net revenue by \$135 million in the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. As part of this overall increase in net revenue, we benefited from the launch of the Nintendo DS and Sony PSP in November 2004 and March 2005, respectively.

Europe

For fiscal 2005, net revenue in Europe increased by 9 percent as compared to fiscal 2004. We estimate foreign exchange rates (primarily the Euro and the British pound sterling) strengthened reported European net revenue by approximately \$86 million, or 7 percent, for the fiscal year ended March 31, 2005. Excluding the effect of foreign exchange rates, we estimate that European net revenue increased by approximately \$18 million, or 2 percent, for the year ended March 31, 2005. From a franchise perspective, the net revenue increase was primarily due to (1) higher sales of products in our Need for Speed and The Sims franchises, (2) sales of products in our Burnout franchise which did not have a corresponding title release in fiscal 2004 and (3) sales of *UEFA Euro 2004*, which was released during the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. Together, these items resulted in a net revenue increase of \$241 million during the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. This increase was partially offset by lower sales of products in our Medal of Honor, Final Fantasy, SSX and Lord of the Rings franchises, which reduced net revenue by \$143 million in the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004.

Asia

For fiscal 2005, net revenue from sales in Asia increased by 8 percent as compared to fiscal 2004. The increase in net revenue was driven primarily by higher sales of products in our Need for Speed franchise and sales of products in our Burnout franchise, which did not have a corresponding title release in fiscal 2004, partially offset by declines in our Medal of Honor franchise. We estimate foreign exchange rates strengthened reported Asia net revenue by approximately \$9 million, or 5 percent, for the fiscal year ended

March 31, 2005. Excluding the effect of foreign exchange rates, we estimate that Asia net revenue increased by approximately \$4 million, or 3 percent, for the fiscal year ended March 31, 2005.

Our total net revenue by product line for fiscal years 2005 and 2004 was as follows (in millions):

	Year Ended March 31,		Increase/ (Decrease)	% Change		
	2005	2004				
Consoles						
PlayStation 2.....	\$1,330	43%	\$1,315	44%	\$ 15	1%
Xbox	516	16%	384	13%	132	34%
Nintendo GameCube.....	212	7%	200	7%	12	6%
Other consoles	<u>10</u>	<u>—</u>	<u>30</u>	<u>1%</u>	<u>(20)</u>	<u>(67%)</u>
Total Consoles	2,068	66%	1,929	65%	139	7%
PC	531	17%	470	16%	61	13%
Mobility						
Game Boy Advance and Game Boy Color	77	2%	78	3%	(1)	(1%)
Nintendo DS.....	23	1%	—	—	23	N/M
PSP	<u>18</u>	<u>1%</u>	<u>—</u>	<u>—</u>	<u>18</u>	<u>N/M</u>
Total Mobility.....	118	4%	78	3%	40	51%
Co-publishing and Distribution.....	283	9%	398	13%	(115)	(29%)
Internet Services, Licensing and Other						
Subscription Services	55	2%	49	2%	6	12%
Licensing, Advertising and Other.....	<u>74</u>	<u>2%</u>	<u>33</u>	<u>1%</u>	<u>41</u>	<u>124%</u>
Total Internet Services, Licensing and Other ..	<u>129</u>	<u>4%</u>	<u>82</u>	<u>3%</u>	<u>47</u>	<u>57%</u>
Total Net Revenue.....	<u>\$3,129</u>	<u>100%</u>	<u>\$2,957</u>	<u>100%</u>	<u>\$ 172</u>	<u>6%</u>

PlayStation 2

Net revenue from PlayStation 2 products increased from \$1,315 million in fiscal 2004 to \$1,330 million in fiscal 2005. As a percentage of total net revenue, sales of PlayStation 2 products decreased by 1 percent in fiscal 2005.

Xbox

Net revenue from Xbox products increased from \$384 million in fiscal 2004 to \$516 million in fiscal 2005. As a percentage of total net revenue, sales of Xbox products increased by 3 percent in fiscal 2005. The increase in net revenue was primarily due to the continued growth in the Xbox installed base driven by Microsoft's price reductions in the U.S. in March 2004 and in Europe in August 2004, as well as the overall greater demand for our products.

Nintendo GameCube

Net revenue from Nintendo GameCube products increased from \$200 million in fiscal 2004 to \$212 million in fiscal 2005. The increase in net revenue was primarily due to growth in the installed base of the Nintendo GameCube.

PC

Net revenue from PC-based products increased from \$470 million in fiscal 2004 to \$531 million in fiscal 2005. As a percentage of total net revenue, sales of PC products increased by 1 percent in fiscal 2005. The

increase in PC net revenue was primarily due to higher sales of products in The Sims, Lord of the Rings and Need for Speed franchises, partially offset by a decrease in sales of products in our Command and Conquer™ and SimCity™ franchises.

Mobility

Net revenue from mobile products increased from \$78 million in fiscal 2004 to \$118 million in fiscal 2005. Mobile products include all mobile devices such as handhelds and cellular handsets. The increase in mobility net revenue was primarily due to the release of titles in conjunction with the launch of the Nintendo DS and PSP platforms in North America and Japan.

Co-Publishing and Distribution

In fiscal 2005, net revenue from co-publishing and distribution products decreased by \$115 million to \$283 million as compared to fiscal 2004. The decrease was primarily due to a significant decrease in the number of co-publishing and distribution titles we released in fiscal 2005. We released six co-publishing titles in fiscal 2005 as compared to 11 titles in fiscal 2004.

Subscription Services

In fiscal 2005, net revenue from subscription services products increased by \$6 million to \$55 million as compared to fiscal 2004. The increase in net revenue was primarily due to an increase in the number of paying subscribers to Club Pogo, partially offset by a decrease in subscription net revenue from *Earth & Beyond*™ and *The Sims*™ Online subscription services.

Licensing, Advertising and Other

In fiscal 2005, net revenue from licensing, advertising and other products increased by \$41 million to \$74 million as compared to fiscal 2004. The increase was primarily due to licensing revenue related to the Nokia N-Gage platform.

Cost of Goods Sold

Costs of goods sold for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>% Change</u>
\$1,197	38.2%	\$1,103	37.3%	8.5%

In fiscal 2005, cost of goods sold as a percentage of total net revenue increased 0.9 percent from 37.3 percent to 38.2 percent. As a percentage of total net revenue, the increase was primarily due to a 2.3 percent increase for: (1) pricing actions taken in both North America and Europe due to higher than anticipated channel inventory, (2) inventory-related costs due to a one-year rebate agreement across several titles, and (3) incremental costs incurred to produce our titles for the Nintendo DS and Sony PSP. In addition, warranty and online costs increased by 0.8 percent.

Offsetting these increases was a decrease of 2.2 percent, primarily the result of lower co-publishing and distribution royalties due to the lower mix of co-publishing and distribution net revenue during the year ended March 31, 2005 as compared to the year ended March 31, 2004.

Marketing and Sales

Marketing and sales expenses for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$391	13%	\$370	13%	\$21	6%

Marketing and sales expenses increased by 6 percent, but remained flat as a percentage of net revenue, in fiscal 2005 as compared to fiscal 2004 primarily due to:

- An increase of \$21 million in headcount and facilities-related expenses, both to help support the growth of our marketing and sales functions worldwide.
- An increase of \$12 million in marketing-related costs to support our fiscal 2005 releases.

The increase in marketing and sales expenses was partially offset by the following:

- A decrease of \$9 million in advertising expense for fiscal 2005 as compared to fiscal 2004.
- A decrease of \$4 million in bonus expense for fiscal 2005 as compared to fiscal 2004.

Marketing and sales expenses included vendor reimbursements for advertising expenses of \$42 million and \$45 million in fiscal 2005 and fiscal 2004, respectively.

General and Administrative

General and administrative expenses for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$221	7%	\$185	6%	\$36	19%

General and administrative expenses increased by 19 percent, or 1 percent of net revenue, in fiscal 2005 compared to fiscal 2004 primarily due to:

- An increase of \$48 million in employee-related costs primarily due to (1) charges taken in connection with certain employee-related litigation matters and (2) an increase in headcount and other personnel-related costs to help support our administrative functions worldwide.
- An increase of \$20 million in professional and contracted services, such as Sarbanes-Oxley compliance costs, business development expenses and legal fees, along with other costs to support our business.

The increase in general and administrative expenses was partially offset by the following:

- A decrease of \$17 million in facilities-related expenses primarily due to accelerated depreciation on equipment and software that were replaced and due to write-offs of assets that were taken out of service in fiscal 2004.
- A decrease of \$8 million in bonus expense for fiscal 2005 as compared to fiscal 2004.
- A decrease of \$8 million in our investment in strategic university relationships.

Research and Development

Research and development expenses for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$633	20%	\$511	17%	\$122	24%

Research and development expenses increased by 24 percent, or 3 percent of net revenue, in fiscal 2005 as compared to fiscal 2004 primarily due to:

- An increase of \$103 million in personnel-related costs resulting from a 30 percent increase in employee headcount primarily in our Canadian and European studios, which included \$6 million of stock-based employee compensation related to our acquisition of Criterion. These increases were partially offset by a \$20 million reduction in bonus expense for fiscal 2005 as compared to fiscal 2004.

- An increase of \$19 million in external development expenses due to the development of new products with our co-publishing partners and development costs for Renderware and mobile platforms.
- An increase of \$18 million in facilities-related expenses to help support the growth of our research and development functions worldwide.

Acquired In-process Technology

Acquired in-process technology charges for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$13	1%	\$—	—	\$13	N/M

The acquired in process technology was the result of acquiring all outstanding shares of Criterion and an additional 44 percent of Digital Illusions C.E. (“DICE”) during the year ended March 31, 2005. Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have alternative future use. Accordingly, the acquired in process technology was expensed in our Consolidated Statement of Operations upon consummation of these acquisitions. See Note 4 of the Notes to Consolidated Financial Statements for additional information.

Interest and Other Income, Net

Interest and other income, net, for fiscal years 2005 and 2004 was as follows (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$56	2%	\$21	1%	\$35	167%

Interest and other income, net, in fiscal 2005 increased from fiscal 2004 primarily due to:

- An increase of \$15 million in interest income, net, as a result of higher yields on higher average cash, cash equivalents and short-term investments balances in fiscal 2005.
- An increase of \$10 million due to gains on investments.
- An increase of \$8 million due to a net gain from our foreign currency activities.

Income Taxes

Income taxes for fiscal years 2005 and 2004 were as follows (in millions):

<u>March 31, 2005</u>	<u>Effective Tax Rate</u>	<u>March 31, 2004</u>	<u>Effective Tax Rate</u>	<u>% Change</u>
\$221	30.5%	\$220	27.5%	—

Our effective income tax rate reflects tax benefits derived from significant operations outside the U.S., which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. The effective income tax rate was 30.5 percent for fiscal 2005 and 27.5 percent for fiscal 2004. Our increased effective income tax rate in fiscal 2005 primarily reflects the fact that we resolved certain tax-related matters with the Internal Revenue Service during fiscal 2004, which lowered our fiscal 2004 income tax expense by approximately \$20 million and resulted in a 2.5 percent rate reduction. Additionally, adjustments related to certain tax audit developments, a change in valuation allowance, and non-deductible acquisition-related costs, partially offset by the geographic mix of taxable income subject to lower tax rates for fiscal 2005, increased our effective income tax rate in fiscal 2005.

Net Income

Net income for fiscal years 2005 and 2004 was as follows (in millions):

<u>March 31,</u> <u>2005</u>	<u>% of Net</u> <u>Revenue</u>	<u>March 31,</u> <u>2004</u>	<u>% of Net</u> <u>Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$504	16%	\$577	20%	\$(73)	(13%)

Reported net income decreased in fiscal 2005 as compared to fiscal 2004 primarily due to growth in our expenses, especially research and development, as we prepared for the adoption of next-generation technology within our industry while at the same time we continued to devote resources to the development of products for current-generation consoles.

Impact of Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151, *“Inventory Costs — an amendment of ARB No. 43, Chapter 4”*. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *“Inventory Pricing”*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as current-period charges. SFAS No. 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of SFAS No. 151 to have a material impact on our Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No. 123R, *“Share-Based Payment”*. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using a fair-value-based method. The statement replaces SFAS No. 123, *“Accounting for Stock-Based Compensation”*, supersedes Accounting Principles Board No. 25, *“Accounting for Stock Issued to Employees”*, and amends SFAS No. 95, *“Statement of Cash Flows”*. While the fair value method under SFAS No. 123R is similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, there are several key differences between the two standards. For example, SFAS No. 123 permits us to recognize forfeitures as they occur while SFAS No. 123R will require us to estimate future forfeitures and adjust our estimate on a quarterly basis. SFAS No. 123R will also require a classification change in the statement of cash flows, whereby a portion of the income tax benefit from stock options will move from operating cash flow activities to financing cash flow activities (total cash flows will remain unchanged). In March 2005, the Securities and Exchange Commission (“SEC”) released SAB No. 107, *“Share-Based Payment”*, which provides the SEC’s views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations for public companies. In April 2005, the SEC adopted a rule that amends the compliance dates of SFAS No. 123R. Under the revised compliance dates, we are required to adopt the provisions of SFAS No. 123R no later than our first quarter of fiscal 2007. The expensing of stock-based compensation will have a material adverse impact on our Consolidated Statements of Operations and may not be similar to our pro forma disclosure under SFAS No. 123, as amended.

In October 2005, the FASB issued FASB Staff Position (“FSP”) Financial Accounting Standard (“FAS”) No. 123(R) 2, *“Practical Accommodation to the Application of Grant Date As Defined in FASB Statement No. 123(R)”*. The FASB provides companies with a “practical accommodation” when determining the grant date of an award subject to SFAS No. 123R. If (1) the award is a unilateral grant, that is, the recipient does not have the ability to negotiate the key terms and conditions of the award with the employer, (2) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period, and (3) as long as all other criteria in the grant date definition have been met, then a mutual understanding of the key terms and conditions of an award is presumed to exist at the date the award is approved. In November 2005, the FASB issued FSP FAS No. 123(R)-3, *“Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards”*. The FASB allows for a practical exception in calculating the additional paid — in capital pool of excess tax benefits upon adoption that is available to absorb tax deficiencies recognized

subsequent to adoption SFAS No. 123R. Accordingly, we may adopt either the method prescribed under SFAS No. 123R or the one prescribed under FSP FAS No. 123(R)-3. We have not yet determined which method to adopt. In February 2006, the FASB issued FSP FAS No. 123(R)-4, “*Classification of Options and Similar Instruments Issued As Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event*”, which amends certain paragraphs in SFAS No. 123R. FSP FAS No. 123(R)-4 addresses situations when a company has option plans that require the company to settle outstanding options in cash upon the occurrence of certain contingent events. Although we are required to apply FSP FAS No. 123(R)-4 when we initially adopt SFAS No. 123R, we do not expect it to impact our Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, “*Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3*”. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. Under previous guidance, changes in accounting principle were recognized as a cumulative effect in the net income of the period of the change. The new statement requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods’ financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a “restatement”. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. We do not believe that, upon adoption, SFAS No. 154 will have a material impact on our Consolidated Financial Statements, however, after adoption, if a change in accounting principle is made, SFAS No. 154 could have a material impact on our Consolidated Financial Statements.

In February 2006, the FASB issued SFAS No. 155, “*Accounting for Certain Hybrid Financial Instruments — An Amendment of FASB Statements No. 133 and 140*”. SFAS No. 155 (1) permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies that interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, “*Accounting for Derivative Instruments and Hedging Activities*”, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS No. 140, “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — A Replacement of FASB Statement 125*” to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued for fiscal years beginning after September 15, 2006. We do not believe the adoption of SFAS No. 155 will have a material impact on our Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	Year Ended		
	March 31, 2006	March 31, 2005	Increase/ (Decrease)
Cash and cash equivalents	\$1,242	\$ 1,270	\$ (28)
Short-term investments	\$1,030	\$ 1,688	\$ (658)
Marketable equity securities	160	140	20
Total	<u>\$2,432</u>	<u>\$ 3,098</u>	<u>\$ (666)</u>
Percentage of total assets	55%	71%	

(In millions)	Year Ended		
	March 31, 2006	March 31, 2005	Increase/ (Decrease)
Cash provided by operating activities	\$ 596	\$ 634	\$ (38)
Cash used in investing activities	(108)	(1,726)	1,618
Cash provided by (used in) financing activities	(503)	200	(703)
Effect of foreign exchange on cash and cash equivalents	(13)	12	(25)
Net decrease in cash and cash equivalents	<u>\$ (28)</u>	<u>\$ (880)</u>	<u>\$ 852</u>

Changes in Cash Flow

During fiscal 2006, we generated \$596 million of cash from operating activities as compared to \$634 million for fiscal 2005. The decrease in cash generated from operating activities was primarily due to our overall decline in net income resulting from a decrease in net revenue and an increase in operating expenses primarily to support the development of titles for next-generation consoles. This decrease was partially offset by a lower accounts receivable balance as of March 31, 2006 as compared to March 31, 2005, resulting from a higher percentage of net revenue recognized in the first two months of our fourth quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005, which allowed us to collect a higher percentage of our receivables prior to the end of the quarter. We expect cash from operating activities to decline in fiscal 2007.

For fiscal 2006, our primary use of cash in non-operating activities consisted of \$755 million used to purchase short-term investments, \$709 million used to repurchase and retire a portion of our common stock, \$661 million used primarily for our acquisition of JAMDAT, and \$123 million in capital expenditures primarily related to the expansion of our Vancouver studio and investments in our worldwide development tools, technologies and equipment. These non-operating expenditures were partially offset by \$1,427 million in proceeds from the maturities and sales of short-term investments and \$206 million in proceeds from sales of common stock through our employee stock plans and other plans. During fiscal 2007, we anticipate making continued capital investments in our studios as well as investments in next-generation consoles, online infrastructure and mobile platforms.

Short-term investments and marketable equity securities

As of March 31, 2006, our portfolio of cash, cash equivalents and short-term investments was comprised of 55 percent cash and cash equivalents and 45 percent short-term investments. As of March 31, 2005, 43 percent of our portfolio consisted of cash and cash equivalents and 57 percent of our portfolio consisted of short-term investments. In absolute dollars, our cash and cash equivalents decreased from \$1,270 million as of March 31, 2005 to \$1,242 million as of March 31, 2006. This decrease was primarily due to our purchase of short-term investments, our acquisition of JAMDAT, and our common stock repurchase program during the first six months of fiscal 2006. These decreases were partially offset by proceeds received from the maturities and sales of short-term investments. Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of March 31, 2006, our short-term investments included gross unrealized losses of approximately \$7 million, or less than 1 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs. Depending on which short-term investments we liquidate to fund these activities, we could recognize a portion of the gross unrealized losses.

Marketable equity securities increased to \$160 million as of March 31, 2006, from \$140 million as of March 31, 2005, primarily due to an increase in the unrealized gain on our investment in Ubisoft Entertainment.

Receivables, net

Our gross accounts receivable balances were \$431 million and \$458 million as of March 31, 2006 and 2005, respectively. The decrease in our accounts receivable balance was primarily due to a higher percentage of revenue recognized in the first two months of our fourth quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005, which allowed us to collect a higher percentage of our net revenue during the quarter. Reserves for sales returns, pricing allowances and doubtful accounts increased in absolute dollars from \$162 million as of March 31, 2005 to \$232 million as of March 31, 2006. As a percentage of trailing six and nine month net revenue, reserves increased from 8 percent and 6 percent, respectively, as of March 31, 2005, to 12 percent and 9 percent, respectively, as of March 31, 2006. The increase in these reserves was primarily the result of lower anticipated demand for our products and the continued decline in the average prices of our titles for current-generation consoles due to the competitive retail environment. We believe these reserves are adequate based on historical experience and our current estimate of potential returns, pricing allowances and doubtful accounts.

Inventories

Inventories decreased slightly to \$61 million as of March 31, 2006 from \$62 million as of March 31, 2005. No single title represented more than \$7 million of inventory as of March 31, 2006.

Other current assets

Other current assets increased to \$234 million as of March 31, 2006, from \$164 million as of March 31, 2005, primarily due to an increase in prepaid royalties as we continue to invest in our product development and content, as well as an increase in advertising credits owed to us by our vendors due to the timing of our claims.

Accounts payable

Accounts payable increased to \$163 million as of March 31, 2006, from \$134 million as of March 31, 2005, primarily due to higher sales volumes and higher expenditures to support our business in the fourth quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005.

Accrued and other liabilities

Our accrued and other liabilities increased to \$706 million as of March 31, 2006 from \$673 million as of March 31, 2005. The increase was primarily due to liabilities related to our JAMDAT acquisition and an increase in deferred revenue.

Deferred income taxes, net

Our long-term position of deferred income taxes changed by \$48 million, from an asset position as of March 31, 2005 to a liability position as of March 31, 2006 primarily due to (1) a long-term deferred tax liability we recorded in connection with our JAMDAT acquisition purchase accounting, and (2) the utilization of tax credits during fiscal 2006.

Financial Condition

We believe that existing cash, cash equivalents, short-term investments, marketable equity securities and cash generated from operations will be sufficient to meet our operating requirements for at least the next twelve months, including working capital requirements, capital expenditures, potential future acquisitions or strategic investments. We may choose at any time to raise additional capital to strengthen our financial position, facilitate expansion, pursue strategic acquisitions and investments or to take advantage of business opportunities as they arise. There can be no assurance, however, that such additional capital will be available to us on favorable terms, if at all, or that it will not result in substantial dilution to our existing stockholders.

The financing arrangements supporting our Redwood City headquarters leases with Keybank National Association, described in the “Off-Balance Sheet Commitments” section below, are scheduled to expire in July 2007. Upon expiration of the financing, we may purchase the facilities for \$247 million, request an extension of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder, or arrange for a sale of the facilities to a third party. In the event of a sale to a third party, if the sale price is less than \$247 million, we will be obligated to reimburse the difference between the actual sale price and \$247 million, up to maximum of \$222 million, subject to certain provisions of the lease.

A portion of our cash, cash equivalents, short-term investments and marketable equity securities that was generated from operations domiciled in foreign tax jurisdictions (approximately \$692 million as of March 31, 2006) is designated as indefinitely reinvested in the respective tax jurisdiction. During the fourth quarter of fiscal 2006, our CEO approved a domestic reinvestment plan, which was subsequently approved by our Board of Directors, to repatriate \$375 million of foreign earnings in fiscal 2006 under the Jobs Act. We completed the repatriation in fiscal 2006 and resulted in a tax expense of \$17 million related to this \$375 million repatriation.

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of our common stock. Pursuant to the authorization, we repurchased shares of our common stock from time to time in the open market until we had completed our common stock repurchase program in September 2005. We repurchased and retired the following (in millions):

	<u>Number of Shares Repurchased and Retired</u>	<u>Approximate Amount</u>
From the inception of the program through March 31, 2005	0.8	\$ 41
Six months ended September 30, 2005	<u>12.6</u>	<u>709</u>
From the inception of the program through September 30, 2005	<u>13.4</u>	<u>\$750</u>

We have a “shelf” registration statement on Form S-3 on file with the SEC. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings up to a total amount of \$2.0 billion. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we will use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, including for working capital, financing capital expenditures, research and development, marketing and distribution efforts and, if opportunities arise, for acquisitions or strategic alliances. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

Our ability to maintain sufficient liquidity could be affected by various risks and uncertainties including, but not limited to, those related to customer demand and acceptance of our products on new platforms and new versions of our products on existing platforms, our ability to collect our accounts receivable as they become due, successfully achieving our product release schedules and attaining our forecasted sales objectives, the impact of competition, economic conditions in the United States and abroad, the seasonal and cyclical nature of our business and operating results, risks of product returns and the other risks described in the “Risk Factors” section, included in Item 1A of this report.

Contractual Obligations and Commercial Commitments

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe, which we have amended on a number of occasions. The standby letter of credit, as amended, guarantees performance of our obligations to pay Nintendo of Europe for trade payables. As of March 31, 2006, the standby letter of credit, as amended, guaranteed our trade payable obligations to Nintendo of Europe for up to €7 million.

As of March 31, 2006, €2 million was payable to Nintendo of Europe under the standby letter of credit, as amended.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of March 31, 2006, we did not have a payable balance on this standby letter of credit.

Development, Celebrity, League and Content Licenses: Payments and Commitments

The products we produce in our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers (“independent artists” or “third-party developers”). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones. Contractually, these payments are generally considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers.

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that are not dependent on any deliverables. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR and ISC (stock car racing); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Pebble Beach (professional golf); National Hockey League and NHL Players’ Association (professional hockey); Warner Bros. (Harry Potter, Batman and Superman); New Line Productions and Saul Zaentz Company (The Lord of the Rings); Marvel Enterprises (fighting); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); Simco (Def Jam); Viacom Consumer Products (The Godfather); Valve Corporation (Half-Life); ESPN (content in EA SPORTS™ games); Twentieth Century Fox Licensing and Merchandising (The Simpsons); Lamborghini, McLaren and Porsche (car licenses for *Need for Speed*); and mobile game rights with PopCap Games and The Tetris Company. These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations and commercial commitments as of March 31, 2006, and the effect we expect them to have on our liquidity and cashflow in future periods (in millions):

Fiscal Year Ending March 31,	Contractual Obligations				Commercial Commitments	Total
	Leases ⁽¹⁾	Developer/ Licensor Commitments ⁽²⁾	Marketing	Other Purchase Obligations	Letter of Credit, Bank and Other Guarantees	
2007	\$ 36	\$ 155	\$ 45	\$ 7	\$ 4	\$ 247
2008	28	144	30	—	—	202
2009	24	152	31	—	—	207
2010	18	140	31	—	—	189
2011	14	275	31	—	—	320
Thereafter	30	700	186	—	—	916
Total	<u>\$150</u>	<u>\$1,566</u>	<u>\$354</u>	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$2,081</u>

(1) See discussion on operating leases in the “Off-Balance-Sheet Commitments” section below for additional information.

(2) Developer/licensor commitments include \$9 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Consolidated Balance Sheet as of March 31, 2006 because payment is not contingent upon performance by the developer or licensor.

The lease commitments disclosed above include contractual rental commitments of \$25 million under real estate leases for unutilized office space resulting from our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other current liabilities reported on our Consolidated Balance Sheet as of March 31, 2006. See Note 6 of the Notes to Consolidated Financial Statements.

Transactions with Related Parties

On June 24, 2002, we hired Warren Jenson as our Chief Financial and Administrative Officer and agreed to loan him \$4 million to be forgiven over four years based on his continuing employment. The loan does not bear interest. On June 24, 2004, pursuant to the terms of the loan agreement, we forgave \$2 million of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. As of March 31, 2006, the remaining outstanding loan balance was \$2 million, which will be forgiven on June 24, 2006, provided that Mr. Jenson has not voluntarily resigned his employment with us or been terminated for cause prior to that time. No additional funds will be provided to offset the tax implications of the forgiveness of the remaining \$2 million.

OFF-BALANCE SHEET COMMITMENTS

Lease Commitments and Residual Value Guarantees

We lease certain of our current facilities and equipment under non-cancelable operating lease agreements. We are required to pay property taxes, insurance and normal maintenance costs for certain of these facilities and will be required to pay any increases over the base year of these expenses on the remainder of our facilities.

In February 1995, we entered into a build-to-suit lease (“Phase One Lease”) with a third party for our headquarters facilities in Redwood City, California (“Phase One Facilities”). The Phase One Facilities comprise a total of approximately 350,000 square feet and provide space for sales, marketing, administration and research and development functions. In July 2001, we refinanced the Phase One Lease

with Keybank National Association through July 2006. We account for the Phase One Lease arrangement as an operating lease in accordance with SFAS No. 13, "Accounting for Leases", as amended.

On May 26, 2006, we extended the financing under the Phase One Lease through July 2007. Upon expiration of the financing in July 2007, we may purchase the Phase One Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase One Facilities to a third party.

The Phase One Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase One Facilities, request an extension of the lease or arrange for the sale of the Phase One Facilities to a third party.

Pursuant to the terms of the Phase One Lease, as amended to date, we have an option to purchase the Phase One Facilities at any time for a maximum purchase price of \$132 million. In the event of a sale to a third party, if the sale price is less than \$132 million, we will be obligated to reimburse the difference between the actual sale price and \$132 million, up to maximum of \$117 million, subject to certain provisions of the Phase One Lease, as amended.

In December 2000, we entered into a second build-to-suit lease ("Phase Two Lease") with Keybank National Association for a five and one-half year term beginning in December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property ("Phase Two Facilities"). Construction of the Phase Two Facilities was completed in June 2002. The Phase Two Facilities comprise a total of approximately 310,000 square feet and provide space for sales, marketing, administration and research and development functions. We account for the Phase Two Lease arrangement as an operating lease in accordance with SFAS No. 13, as amended.

On May 26, 2006, we extended the financing under the Phase Two Lease through July 2007. Upon the expiration of the financing in July 2007, we may purchase the Phase Two Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase Two Facilities to a third party.

The Phase Two Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase Two Facilities, request an extension of the lease or arrange for the sale of the Phase Two Facilities to a third party.

Pursuant to the terms of the Phase Two Lease, as amended to date, we have an option to purchase the Phase Two Facilities at any time for a maximum purchase price of \$115 million. In the event of a sale to a third party, if the sale price is less than \$115 million, we will be obligated to reimburse the difference between the actual sale price and \$115 million, up to a maximum of \$105 million, subject to certain provisions of the Phase Two Lease, as amended.

The lease rates of the Phase One and Phase Two Leases fluctuate and are based upon LIBOR plus a margin that varies from 0.50% to 1.25% based on our ratio of total consolidated debt to consolidated tangible net worth. Based on the 3-month LIBOR rate of 5.2% as of May 26, 2006, the annual rent obligation of the two leases would total approximately \$14 million. Our rent obligation under the leases could increase or decrease significantly depending on changes in LIBOR.

The Phase One and Phase Two Leases require us to comply with certain financial covenants as shown below, all of which we were in compliance with as of March 31, 2006. In the event we fail to comply with the financial and other covenants contained in the leases, the lessor would have a number of remedies, including the right to keep the leases in effect and suing for periodic rent, evicting us from the facilities, or

Litigation

On February 14, 2005, an employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against the company in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Engineers” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. On May 16, 2006, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of \$14.9 million, to be paid to a third-party administrator, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs’ attorneys’ fees, not to exceed 25% of the total settlement amount, (c) plaintiffs’ costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. The hearing for the court to consider its final approval of the settlement is set for September 22, 2006.

Each of the shareholder actions we have previously disclosed have been voluntarily dismissed by all plaintiffs. The federal securities class action complaint has been dismissed with prejudice, by an order dated January 26, 2006; the federal derivative action has been dismissed, by an order dated March 10, 2006; and the two state derivative actions have been dismissed, by orders dated May 4, 2006 and May 8, 2006.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. We believe that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Director Indemnity Agreements

We have entered into indemnification agreements with the members of our Board of Directors at the time they joined the Board to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued or charged as a result of their service as members of our Board of Directors.

INFLATION

We believe the impact of inflation on our results of operations has not been significant for each of the past three fiscal years.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to various market risks, including changes in foreign currency exchange rates, interest rates, and market prices. Market risk is the potential loss arising from changes in market rates and market prices. We employ established policies and practices to manage these risks. Foreign currency option and foreign exchange forward contracts are used to either hedge anticipated exposures or mitigate some existing exposures subject to market risk. We do not enter into derivatives or other financial instruments for trading or speculative purposes (see Note 3 to the Consolidated Financial Statements included in Item 8 of this report). Interest rate risk is the potential loss arising from changes in interest rates. We do not consider our cash and cash equivalents to be exposed to significant interest rate risk because our portfolio consists of highly liquid investments with original maturities of three months or less (see Note 2 to the Consolidated Financial Statements included in Item 8 of this report).

Foreign Currency Exchange Rate Risk

From time to time, we hedge some of our foreign currency risk related to forecasted foreign-currency-denominated sales and expense transactions by purchasing option contracts that generally have maturities of 15 months or less. These transactions are designated and qualify as cash flow hedges. The derivative

assets associated with our hedging activities are recorded at fair value in other current assets in our Consolidated Balance Sheet. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income in stockholders' equity and subsequently reclassified into net revenue or operating expenses, as appropriate in the period when the forecasted transaction is recorded. The ineffective portion of gains or losses resulting from changes in fair value, if any, is reported in each period in interest and other income, net in our Consolidated Statement of Operations. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements in revenue and operating expenses. As of March 31, 2006, we had no foreign currency option contracts outstanding. As of March 31, 2005, we had foreign currency option contracts outstanding with a total fair value of \$1 million included in other current assets.

We utilize foreign exchange forward contracts to mitigate foreign currency risk associated with foreign-currency-denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of approximately one month and are transacted near month-end. Therefore, the fair value of the forward contracts generally is not significant at each month-end. Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133 and are accounted for as derivatives whereby the fair value of the contracts are reported as other current assets or other current liabilities in our Consolidated Balance Sheet, and gains and losses from changes in fair value are reported in interest and other income, net. The gains and losses on these forward contracts generally offset the gains and losses on the underlying foreign-currency-denominated assets and liabilities, which are also reported in interest and other income, net, in our Consolidated Statement of Operations.

As of March 31, 2006, we had forward foreign exchange contracts to purchase and sell approximately \$161 million in foreign currencies. Of this amount, \$132 million represented contracts to sell foreign currencies in exchange for U.S. dollars, \$14 million to sell foreign currencies in exchange for British pound sterling and \$15 million to purchase foreign currency in exchange for U.S. dollars. As of March 31, 2005 we had forward foreign exchange contracts to purchase and sell approximately \$425 million of foreign currencies. Of this amount, \$379 million represented contracts to sell foreign currencies in exchange for U.S. dollars, \$22 million to sell foreign currencies in exchange for British pound sterling and \$24 million to purchase foreign currency in exchange for U.S. dollars. The fair value of our forward contracts was immaterial as of March 31, 2006 and March 31, 2005.

The counterparties to these forward and option contracts are creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material.

Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. As of March 31, 2006, we had no foreign currency option contracts outstanding. As of March 31, 2005, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would not have resulted in a material loss in fair value of our option contracts under either scenario. However, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in potential losses on our forward contracts of \$16 million and \$23 million, respectively, as of March 31, 2006, and \$40 million and \$61 million, respectively, as of March 31, 2005. This sensitivity analysis assumes a parallel adverse shift in foreign currency exchange rates, which do not always move in the same direction. Actual results may differ materially.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term investment portfolio. We manage our interest rate risk by maintaining an investment portfolio generally consisting of debt instruments of high credit quality and relatively short maturities. Additionally, the contractual terms of the securities do not permit the issuer to call, prepay or otherwise settle the securities at prices less than the stated par value of the securities. Our investments are held for purposes other than trading. Also, we do not use derivative financial instruments or leverage in our short-term investment portfolio.

As of March 31, 2006 and 2005, our short-term investments were classified as available-for-sale and, consequently, recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity. Our portfolio of short-term investments consisted of the following investment categories, summarized by fair value as of March 31, 2006 and 2005 (in millions):

	<u>As of March 31,</u>	
	<u>2006</u>	<u>2005</u>
U.S. agency securities	\$ 575	\$1,168
U.S. Treasury securities	212	298
Corporate bonds	178	180
Asset-backed and other debt securities	<u>65</u>	<u>42</u>
Total short-term investments	<u>\$1,030</u>	<u>\$1,688</u>

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp change in interest rates could have a significant impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of March 31, 2006, arising from potential changes in interest rates. The modeling technique estimates the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS.

(In millions)	<u>Valuation of Securities Given an Interest Rate Increase of X Basis Points</u>			<u>Fair Value as of March 31, 2006</u>	<u>Valuation of Securities Given an Interest Rate Increase of X Basis Points</u>		
	<u>(150 BPS)</u>	<u>(100 BPS)</u>	<u>(50 BPS)</u>		<u>50 BPS</u>	<u>100 BPS</u>	<u>150 BPS</u>
U.S. agency securities ..	\$ 581	\$ 579	\$ 577	\$ 575	\$ 573	\$ 571	\$ 570
U.S. Treasury securities	218	216	214	212	210	208	205
Corporate bonds	182	181	179	178	176	175	173
Asset-backed and other debt securities	<u>66</u>	<u>66</u>	<u>66</u>	<u>65</u>	<u>65</u>	<u>65</u>	<u>65</u>
Total short-term investments	<u>\$1,047</u>	<u>\$1,042</u>	<u>\$1,036</u>	<u>\$1,030</u>	<u>\$1,024</u>	<u>\$1,019</u>	<u>\$1,013</u>

The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of March 31, 2005, arising from selected potential changes in interest rates.

(In millions)	<u>Valuation of Securities Given an Interest Rate Decrease of X Basis Points</u>			<u>Fair Value as of March 31, 2005</u>	<u>Valuation of Securities Given an Interest Rate Increase of X Basis Points</u>		
	<u>(150 BPS)</u>	<u>(100 BPS)</u>	<u>(50 BPS)</u>		<u>50 BPS</u>	<u>100 BPS</u>	<u>150 BPS</u>
U.S. agency securities ..	\$1,177	\$1,175	\$1,172	\$1,168	\$1,162	\$1,156	\$1,151
U.S. Treasury securities	306	303	300	298	295	293	290
Corporate bonds	185	184	182	180	178	177	175
Asset-backed securities	<u>44</u>	<u>43</u>	<u>43</u>	<u>42</u>	<u>42</u>	<u>41</u>	<u>41</u>
Total short-term investments	<u>\$1,712</u>	<u>\$1,705</u>	<u>\$1,697</u>	<u>\$1,688</u>	<u>\$1,677</u>	<u>\$1,667</u>	<u>\$1,657</u>

Market Price Risk

The value of our equity investments in publicly traded companies are subject to market price volatility. As of March 31, 2006, our marketable equity securities were classified as available-for-sale and, consequently, were recorded in our Consolidated Balance Sheets at fair market value with unrealized gains or losses

reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity. The fair value of our marketable equity securities was \$160 million and \$140 million as of March 31, 2006 and 2005, respectively.

At any time, a sharp change in market prices in our investments in marketable equity securities could have a significant impact on the fair value of our investments. The following table presents the hypothetical changes in fair value in our marketable equity securities as of March 31, 2006, arising from changes in market prices plus or minus 25 percent, 50 percent and 75 percent.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock's Market Price			Fair Value as of March 31, 2006	Valuation of Securities Given an X Percentage Increase in Each Stock's Market Price		
	(75%)	(50%)	(25%)		25%	50%	75%
	Marketable equity securities . .	\$40	\$80		\$120	\$160	\$200

The following table presents the hypothetical changes in fair value in our marketable equity securities as of March 31, 2005, arising from changes in market prices plus or minus 25 percent, 50 percent and 75 percent.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock's Market Price			Fair Value as of March 31, 2005	Valuation of Securities Given an X Percentage Increase in Each Stock's Market Price		
	(75%)	(50%)	(25%)		25%	50%	75%
	Marketable equity securities . .	\$35	\$70		\$105	\$140	\$175

Item 8: *Financial Statements and Supplementary Data*

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Other financial statement schedules have been omitted because the information called for in them is not required or has already been included in either the Consolidated Financial Statements or the notes thereto.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions, except par value data)	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,242	\$1,270
Short-term investments	1,030	1,688
Marketable equity securities	160	140
Receivables, net of allowances of \$232 and \$162, respectively	199	296
Inventories	61	62
Deferred income taxes, net	86	86
Other current assets	<u>234</u>	<u>164</u>
Total current assets	3,012	3,706
Property and equipment, net	392	353
Investments in affiliates	11	10
Goodwill	647	153
Other intangibles, net	232	36
Deferred income taxes, net	—	19
Other assets	<u>92</u>	<u>93</u>
TOTAL ASSETS	<u>\$4,386</u>	<u>\$4,370</u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 163	\$ 134
Accrued and other current liabilities	<u>706</u>	<u>673</u>
Total current liabilities	869	807
Deferred income taxes	29	—
Other liabilities	<u>68</u>	<u>54</u>
Total liabilities	966	861
Commitments and contingencies (See Note 9)		
Minority interest	12	11
Stockholders' equity:		
Preferred stock, \$0.01 par value. 10 shares authorized	—	—
Common stock, \$0.01 par value. 1,000 shares authorized; 305 and 310 shares issued and outstanding, respectively	3	3
Paid-in capital	1,081	1,434
Retained earnings	2,241	2,005
Accumulated other comprehensive income	<u>83</u>	<u>56</u>
Total stockholders' equity	<u>3,408</u>	<u>3,498</u>
TOTAL LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	<u>\$4,386</u>	<u>\$4,370</u>

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
(In millions, except per share data)			
Net revenue	\$2,951	\$3,129	\$2,957
Cost of goods sold	<u>1,181</u>	<u>1,197</u>	<u>1,103</u>
Gross profit	1,770	1,932	1,854
Operating expenses:			
Marketing and sales	431	391	370
General and administrative	215	221	185
Research and development	758	633	511
Amortization of intangibles	7	3	3
Acquired in-process technology	8	13	—
Restructuring charges	<u>26</u>	<u>2</u>	<u>9</u>
Total operating expenses	<u>1,445</u>	<u>1,263</u>	<u>1,078</u>
Operating income	325	669	776
Interest and other income, net	<u>64</u>	<u>56</u>	<u>21</u>
Income before provision for income taxes and minority interest	389	725	797
Provision for income taxes	<u>147</u>	<u>221</u>	<u>220</u>
Income before minority interest	242	504	577
Minority interest	<u>(6)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 236</u>	<u>\$ 504</u>	<u>\$ 577</u>
Net income per share:			
Basic	\$ 0.78	\$ 1.65	\$ 1.95
Diluted	\$ 0.75	\$ 1.59	\$ 1.87
Number of shares used in computation:			
Basic	304	305	295
Diluted	314	318	308

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions, share data in thousands)

	Common Stock		Class B Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances as of March 31, 2003	<u>288,267</u>	<u>\$ 3</u>	<u>225</u>	<u>\$ —</u>	<u>\$ 856</u>	<u>\$ 924</u>	<u>\$ 2</u>	<u>\$1,785</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	577	—	577
Change in unrealized gains (losses) on investments, net	—	—	—	—	—	—	(1)	(1)
Translation adjustment	—	—	—	—	—	—	19	19
Comprehensive income								<u>\$ 595</u>
Proceeds from sales of shares through employee stock plans and other plans	13,066	—	—	—	228	—	—	228
Repurchase of Class B shares	—	—	(25)	—	—	—	—	—
Stock-based compensation	—	—	—	—	1	—	—	1
Tax benefit from exercise of stock options	—	—	—	—	69	—	—	69
Balances as of March 31, 2004	<u>301,333</u>	<u>\$ 3</u>	<u>200</u>	<u>\$ —</u>	<u>\$1,154</u>	<u>\$1,501</u>	<u>\$ 20</u>	<u>\$2,678</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	504	—	504
Change in unrealized gains (losses) on investments, net	—	—	—	—	—	—	27	27
Reclassification adjustment for (gains) losses, realized in net income, net	—	—	—	—	—	—	(1)	(1)
Translation adjustment	—	—	—	—	—	—	10	10
Comprehensive income								<u>\$ 540</u>
Proceeds from sales of shares through employee stock plans and other plans	9,914	—	—	—	241	—	—	241
Repurchase and retirement of common stock	(806)	—	—	—	(41)	—	—	(41)
Conversion of Class B shares to common stock	—	—	(200)	—	—	—	—	—
Stock-based compensation	—	—	—	—	5	—	—	5
Tax benefit from exercise of stock options	—	—	—	—	75	—	—	75
Balances as of March 31, 2005	<u>310,441</u>	<u>\$ 3</u>	<u>—</u>	<u>\$ —</u>	<u>\$1,434</u>	<u>\$2,005</u>	<u>\$ 56</u>	<u>\$3,498</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	236	—	236
Change in unrealized gains (losses) on investments, net	—	—	—	—	—	—	29	29
Reclassification adjustment for (gains) losses, realized on investments in net income, net	—	—	—	—	—	—	8	8
Change in unrealized gains (losses) on derivative instruments, net	—	—	—	—	—	—	4	4
Reclassification adjustment for (gains) losses, realized on derivative instruments in net income, net	—	—	—	—	—	—	(4)	(4)
Translation adjustment	—	—	—	—	—	—	(10)	(10)
Comprehensive income								<u>\$ 263</u>
Proceeds from sales of shares through employee stock plans and other plans	7,174	—	—	—	206	—	—	206
Repurchase and retirement of common stock	(12,621)	—	—	—	(709)	—	—	(709)
Stock-based compensation	—	—	—	—	3	—	—	3
Tax benefit from exercise of stock options	—	—	—	—	133	—	—	133
Assumption of stock options in connection with acquisition	—	—	—	—	14	—	—	14
Balances as of March 31, 2006	<u>304,994</u>	<u>\$ 3</u>	<u>—</u>	<u>\$ —</u>	<u>\$1,081</u>	<u>\$2,241</u>	<u>\$ 83</u>	<u>\$3,408</u>

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended March 31,		
	2006	2005	2004
OPERATING ACTIVITIES			
Net income	\$ 236	\$ 504	\$ 577
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	95	75	78
Minority interest	6	—	—
Realized (gains) losses on investments and sale of property and equipment ..	7	(8)	2
Stock-based compensation	3	6	1
Tax benefit from exercise of stock options	133	75	69
Acquired in-process technology	8	13	—
Change in assets and liabilities:			
Receivables, net	104	(80)	(194)
Inventories	(3)	(14)	(23)
Other assets	(71)	(35)	(61)
Accounts payable	31	28	23
Accrued and other liabilities	39	46	191
Deferred income taxes	8	24	6
Net cash provided by operating activities	<u>596</u>	<u>634</u>	<u>669</u>
INVESTING ACTIVITIES			
Capital expenditures	(123)	(126)	(90)
Proceeds from sale of property and equipment	2	16	1
Investments in affiliates	(2)	(2)	(1)
Proceeds from sale of investments in affiliates	2	—	8
Purchase of short-term investments	(755)	(2,442)	(2,511)
Proceeds from maturities and sales of short-term investments	1,427	996	2,883
Proceeds from sale of marketable equity securities	4	4	2
Purchase of marketable equity securities	—	(90)	—
Acquisition of subsidiaries, net of cash acquired	(661)	(81)	(3)
Other investing activities	(2)	(1)	(1)
Net cash provided by (used in) investing activities	<u>(108)</u>	<u>(1,726)</u>	<u>288</u>
FINANCING ACTIVITIES			
Proceeds from sales of common stock through employee stock plans and other plans	206	241	228
Repurchase and retirement of common stock	(709)	(41)	—
Other financing activities	—	—	(3)
Net cash provided by (used in) financing activities	<u>(503)</u>	<u>200</u>	<u>225</u>
Effect of foreign exchange on cash and cash equivalents	(13)	12	18
Increase (decrease) in cash and cash equivalents	(28)	(880)	1,200
Beginning cash and cash equivalents	<u>1,270</u>	<u>2,150</u>	<u>950</u>
Ending cash and cash equivalents	1,242	1,270	2,150
Short-term investments	<u>1,030</u>	<u>1,688</u>	<u>264</u>
Ending cash, cash equivalents and short-term investments	<u>\$2,272</u>	<u>\$ 2,958</u>	<u>\$ 2,414</u>
Supplemental cash flow information:			
Cash paid during the year for income taxes	<u>\$ 24</u>	<u>\$ 101</u>	<u>\$ 65</u>
Non-cash investing activities:			
Change in unrealized gains (losses) on investments, net	\$ 37	\$ 26	\$ (1)
Assumption of stock options in connection with acquisition	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We develop, market, publish and distribute interactive software games that are playable by consumers on home video game consoles (such as the Sony PlayStation® 2, Microsoft Xbox® and Xbox 360™, and Nintendo GameCube™), personal computers, mobile platforms (including cellular handsets and hand-held game players such as the Nintendo DS™ and the PlayStation® Portable “PSP™”) and online, over the Internet and other proprietary online networks. Some of our games are based on content that we license from others (e.g., Madden NFL Football, The Godfather and FIFA Soccer), and some of our games are based on our own wholly-owned intellectual property (e.g., The Sims™, Need for Speed™ and BLACK™). Our goal is to publish titles with mass-market appeal, which often means translating and localizing them for sale in non-English speaking countries. In addition, we also attempt to create software game “franchises” that allow us to publish new titles on a recurring basis that are based on the same property. Examples of this franchise approach are the annual iterations of our sports-based products (e.g., Madden NFL Football, NCAA® Football and FIFA Soccer), wholly-owned properties that can be successfully sequeled (e.g., The Sims, Need for Speed and Battlefield) and titles based on long-lived literary movie properties (e.g. Lord of the Rings and Harry Potter).

A summary of our significant accounting policies applied in the preparation of our Consolidated Financial Statements follows:

(a) Consolidation

The accompanying Consolidated Financial Statements include the accounts of Electronic Arts Inc. and its domestic and foreign wholly-owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Year

Our fiscal year is reported on a 52 or 53-week period that, historically, has ended on the final Saturday of March in each year. Beginning with the fiscal year ended March 31, 2006, our fiscal year ends on the Saturday nearest March 31. As a result, fiscal 2006 contained 53 weeks with the first quarter containing 14 weeks. Our results of operations for the fiscal years March 31, 2006, 2005 and 2004 contain the following number of weeks:

<u>Fiscal Years Ended</u>	<u>Number of Weeks</u>	<u>Fiscal Period End Date</u>
March 31, 2006	53 weeks	April 1, 2006
March 31, 2005	52 weeks	March 26, 2005
March 31, 2004	52 weeks	March 27, 2004

For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end.

(c) Reclassifications

Certain prior-year amounts have been reclassified to conform to the fiscal 2006 presentation.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting period. Such estimates include sales returns and allowances, provisions for doubtful accounts, accrued liabilities, income taxes, estimates regarding the recoverability of prepaid royalties and royalty commitments, inventories,

long-lived assets and deferred income tax assets as well as estimates used in our goodwill impairment test. These estimates generally involve complex issues and require us to make judgments, involve analysis of historical and future trends, can require extended periods of time to resolve, and are subject to change from period to period. In all cases, actual results could differ materially from our estimates.

(e) Cash, Cash Equivalents, Short-Term Investments, Marketable Equity Securities and Other Investments

Cash equivalents consist of highly liquid investments with insignificant interest rate risk and original or remaining maturities of three months or less at the time of purchase.

Short-term investments consist of securities with original or remaining maturities of greater than three months at the time of purchase. The short-term investments are available for use in current operations or other activities such as capital expenditures, business acquisitions, or stock repurchase programs.

As of March 31, 2006 and March 31, 2005, short-term investments and marketable equity securities were classified as available-for-sale and stated at fair value based upon quoted market prices for the securities or similar financial instruments. Unrealized gains and losses are included as a separate component of accumulated other comprehensive income, net of any related tax effect, in stockholders' equity. Realized gains and losses are calculated based on the specific identification method. We recognize an impairment charge when we determine that a decline in the fair value of the securities below its cost basis is other-than-temporary.

Investments in affiliates consist of investments in equity securities accounted for under either the cost method or the equity method in accordance with Accounting Principles Board Opinion ("APB") No. 18, "The Equity Method Of Accounting For Investments In Common Stock". Our share of earnings or losses of investments in affiliates accounted for under the equity method is included in interest and other income, net, in our Consolidated Statement of Operations, except for investments where we are not able to exercise significant influence over the operating and financing decisions of the investee, in which case the cost method of accounting is used. We evaluate the investment in affiliates to determine if events or changes in circumstances indicate an other-than-temporary impairment in value. We recognize an impairment charge when we determine an other-than-temporary impairment in value exists.

(f) Inventories

Inventories consist of materials (including manufacturing royalties paid to console manufacturers), labor and freight-in. Inventories are stated at the lower of cost (first-in, first-out method) or market.

(g) Property and Equipment, Net

Property and equipment, net, are stated at cost. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings	20 to 25 years
Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 5 years
Leasehold improvements	Lesser of the lease term or the estimated useful lives of the improvements, generally 1 to 10 years

Under the provisions of American Institute of Certified Public Accountants Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", we capitalize costs associated with customized internal-use software systems that have reached the application development stage and meet recoverability tests. Such capitalized costs include external direct costs utilized in developing or obtaining the applications and payroll and payroll-related expenses for employees who are directly associated with the applications. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete

and ready for its intended purpose. The net book value of capitalized costs associated with internal-use software amounted to \$23 million and \$28 million as of March 31, 2006 and 2005, respectively, and are being depreciated on a straight-line basis over each project's estimated useful life that ranges from three to five years.

(h) Long-Lived Assets

We evaluate long-lived assets and certain identifiable intangibles for impairment, in accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. This may include assumptions about future prospects for the business that the asset relates to and typically involves computations of the estimated future cash flows to be generated by these businesses. Based on these judgments and assumptions, we determine whether we need to take an impairment charge to reduce the value of the asset stated on our Consolidated Balance Sheet to reflect its actual fair value. Judgments and assumptions about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including but not limited to, significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or the strategy of our overall business and significant under-performance relative to expected historical or projected future operating results. If we were to consider such assets to be impaired, the amount of impairment we would recognize would be measured by the amount by which the carrying amount of the asset exceeds its fair value which is estimated by discounted cash flows. We recognized no long-lived asset impairment charges in fiscal 2006 or 2005. During fiscal 2004, we recognized less than \$1 million of asset impairment charges. See Note 6 of the Notes to Consolidated Financial Statements.

(i) Goodwill

SFAS No. 142, "*Goodwill and Other Intangible Assets*" requires that purchased goodwill and indefinite-lived intangibles not be amortized. Rather, goodwill and indefinite-lived intangible assets are subject to at least an annual assessment for impairment by applying a fair-value-based test.

SFAS No. 142 requires a two-step approach to testing goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to individual assets and liabilities within each reporting unit. We completed the first step of the annual goodwill impairment testing as of January 1, 2006 and found no indicators of impairment of our recorded goodwill. We did not recognize an impairment loss on goodwill in fiscal 2006, 2005 or 2004.

(j) Concentration of Credit Risk

We extend credit to various companies in the retail and mass merchandising industries. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. Although we generally do not require collateral, we perform ongoing credit evaluations of our customers and maintain reserves for potential credit losses. As of March 31, 2006, we had 11 percent of our gross accounts receivable outstanding with Wal-Mart Stores, Inc. As of March 31, 2005, we had 13 percent of our gross accounts receivable outstanding with both Wal-Mart Stores, Inc. and Pinnacle, which is a European logistics and collections company.

Short-term investments are placed with high credit-quality financial institutions or in short-duration, high-quality securities. We limit the amount of credit exposure in any one financial institution or type of investment instrument.

(k) Revenue Recognition

We evaluate the recognition of revenue based on the criteria set forth in SOP 97-2, “*Software Revenue Recognition*”, as amended by SOP 98-9, “*Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*” and Staff Accounting Bulletin (“SAB”) No. 101, “*Revenue Recognition in Financial Statements*”, as revised by SAB No. 104, “*Revenue Recognition*”. We evaluate revenue recognition using the following basic criteria and recognize revenue when all four of the following criteria are met:

- Evidence of an arrangement: Evidence of an agreement with the customer that reflects the terms and conditions to deliver products must be present in order to recognize revenue.
- Delivery: Delivery is considered to occur when the products are shipped and risk of loss and reward have been transferred to the customer. For online games and services, revenue is recognized as the service is provided.
- Fixed or determinable fee: If a portion of the arrangement fee is not fixed or determinable, we recognize that amount as revenue when the amount becomes fixed or determinable.
- Collection is deemed probable: At the time of the transaction, we conduct a credit review of each customer involved in a significant transaction to determine the creditworthiness of the customer. Collection is deemed probable if we expect the customer to be able to pay amounts under the arrangement as those amounts become due. If we determine that collection is not probable, we recognize revenue when collection becomes probable (generally upon cash collection).

Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements, we must make assumptions and judgments in order to: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine whether vendor-specific objective evidence of fair value (“VSOE”) exists for each undelivered element; and (4) allocate the total price among the various elements we must deliver. Changes to any of these assumptions or judgments, or changes to the elements in a software arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Product Revenue: Product revenue, including sales to resellers and distributors (“channel partners”), is recognized when the above criteria are met. We reduce product revenue for estimated future returns, price protection, and other offerings, which may occur with our customers and channel partners.

Shipping and Handling: In accordance with Emerging Issues Task Force (“EITF”) Issue No. 00-10, “*Accounting for Shipping and Handling Fees and Costs*”, we recognize amounts billed to customers for shipping and handling as revenue. Additionally, shipping and handling costs incurred by us are included in cost of goods sold.

Online Subscription Revenue: Online subscription revenue is derived principally from subscription revenue collected from customers for online play related to our massively multiplayer online games and Pogo-branded online games services. These customers generally pay on an annual basis or a month-to-month basis and prepaid subscription revenue, including revenue collected from credit card sales, are recognized ratably over the period for which the services are provided.

Software Licenses: We license software rights to manufacturers of products in related industries (for example, makers of personal computers or computer accessories) to include certain of our products with the manufacturer’s product, or offer our products to consumers who have purchased the manufacturer’s product. We call these combined products “OEM bundles”. These OEM bundles generally require the customer to pay us an upfront nonrefundable fee, which represents the guaranteed minimum royalty amount. Revenue is generally recognized upon delivery of the product master or the first copy. Per-copy royalties on sales that exceed the minimum guarantee are recognized as earned.

(l) Sales Returns and Allowances and Bad Debt Reserves

We estimate potential future product returns, price protection and stock-balancing programs related to current-period product revenue. We analyze historical returns, current sell-through of distributor and retailer inventory of our products, current trends in the video game market and the overall economy, changes in customer demand and acceptance of our products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, we monitor the volume of sales to our channel partners and their inventories as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods.

Similarly, significant judgment is required to estimate our allowance for doubtful accounts in any accounting period. We analyze customer concentrations, customer credit-worthiness, current economic trends, and historical experience when evaluating the adequacy of the allowance for doubtful accounts.

(m) Advertising Costs

We generally expense advertising costs as incurred, except for production costs associated with media campaigns which are recognized as prepaid assets (to the extent paid in advance) and expensed at the first run of the advertisement. Cooperative advertising with our channel partners is accrued when revenue is recognized and such amounts are included in marketing and sales expense if there is a separate identifiable benefit for which we can reasonably estimate the fair value of the benefit identified. Otherwise, they are recognized as a reduction of net revenue. We then reimburse the channel partner when qualifying claims are submitted. We sometimes receive reimbursements for advertising costs from our vendors, and such amounts are recognized as a reduction of marketing and sales expense if the advertising (1) is specific to the vendor, (2) represents an identifiable benefit to us and (3) represents an incremental cost to us. Otherwise, vendor reimbursements are recognized as a reduction of cost of goods sold as the related revenue is recognized. Vendor reimbursements of advertising expenses of \$41 million, \$42 million and \$45 million reduced marketing and sales expense for the fiscal years ended March 31, 2006, 2005 and 2004, respectively. For the fiscal years ended March 31, 2006, 2005 and 2004, advertising expenses, net of vendor reimbursements, totaled approximately \$180 million, \$174 million and \$183 million, respectively.

(n) Software Development Costs

Research and development costs, which consist primarily of software development costs, are expensed as incurred. SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed", provides for the capitalization of certain software development costs incurred after technological feasibility of the software is established or for development costs that have alternative future uses. Under our current practice of developing new products, the technological feasibility of the underlying software is not established until substantially all product development is complete, which generally includes the development of a working model. The software development costs that have been capitalized to date have been insignificant.

(o) Stock-based Compensation

We account for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees". We have adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended.

Had compensation cost for our stock-based compensation plans been measured based on the estimated fair value at the grant dates in accordance with the provisions of SFAS No. 123, as amended, we estimate that our reported net income and net income per share would have been the pro forma amounts indicated below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes

option-pricing model. The following weighted-average assumptions were used for grants made under our stock-based compensation plans in fiscal 2006, 2005 and 2004:

	Year Ended March 31,		
	2006	2005	2004
Risk-free interest rate	4.3%	3.5%	2.3%
Expected volatility	33%	36%	50%
Expected life of stock options (in years)	3.20	3.30	3.09
Expected life of employee stock purchase plans (in months).....	6	6	6
Assumed dividends.....	None	None	None

Our stock-based compensation calculations are based on a multiple option valuation approach and forfeitures are recognized when they occur.

	Year Ended March 31,		
	2006	2005	2004
(In millions, except per share data)			
Net income:			
As reported	\$ 236	\$ 504	\$ 577
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(85)	(83)	(97)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	<u>2</u>	<u>4</u>	<u>—</u>
Pro forma	<u>\$ 153</u>	<u>\$ 425</u>	<u>\$ 480</u>
Net income per share:			
As reported — basic	\$0.78	\$1.65	\$1.95
Pro forma — basic	\$0.50	\$1.39	\$1.63
As reported — diluted	\$0.75	\$1.59	\$1.87
Pro forma — diluted	\$0.49	\$1.35	\$1.58

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004) (“SFAS No. 123R”), “*Share-Based Payment*”. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using a fair-value-based method. The statement replaces SFAS No. 123, “*Accounting for Stock-Based Compensation*”, supersedes APB No. 25, “*Accounting for Stock Issued to Employees*”, and amends SFAS No. 95, “*Statement of Cash Flows*”. While the fair value method under SFAS No. 123R is similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, there are several key differences between the two standards. For example, SFAS No. 123 permits us to recognize forfeitures as they occur while SFAS No. 123R will require us to estimate future forfeitures and adjust our estimate on a quarterly basis. SFAS No. 123R will also require a classification change in the statement of cash flows, whereby a portion of the income tax benefit from stock options will move from operating cash flow activities to financing cash flow activities (total cash flows will remain unchanged).

In March 2005, the Securities and Exchange Commission (“SEC”) released SAB No. 107, “*Share-Based Payment*”, which provides the SEC’s views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations for public companies. In April 2005, the SEC adopted a rule that amends the compliance dates of SFAS No. 123R. Under the revised compliance dates, we are required to adopt the provisions of SFAS No. 123R no later than our first quarter of fiscal 2007. The expensing of stock-based compensation will have a material adverse impact on our Consolidated Statements of Operations which may not be similar to our pro forma disclosure under SFAS No. 123, as amended.

In October 2005, the FASB issued FASB Staff Position (“FSP”) Financial Accounting Standard (“FAS”) No. 123(R)-2, “*Practical Accommodation to the Application of Grant Date As Defined in FASB*

Statement No. 123(R)”. The FASB provides companies with a “practical accommodation” when determining the grant date of an award subject to SFAS No. 123R. If (1) the award is a unilateral grant, that is, the recipient does not have the ability to negotiate the key terms and conditions of the award with the employer, (2) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period, and (3) as long as all other criteria in the grant date definition have been met, then a mutual understanding of the key terms and conditions of an award is presumed to exist at the date the award is approved.

In November 2005, the FASB issued FSP FAS No. 123(R)-3, “*Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*”. The FASB allows for a practical exception in calculating the additional paid-in capital pool of excess tax benefits upon adoption that is available to absorb tax deficiencies recognized subsequent to adoption SFAS No. 123R. Accordingly, we may adopt either the method prescribed under SFAS No. 123R or the one prescribed under FSP FAS No. 123(R)-3. We have not yet determined which method to adopt.

In February 2006, the FASB issued FSP FAS No. 123(R)-4, “*Classification of Options and Similar Instruments Issued As Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event*”, which amends certain paragraphs in SFAS No. 123R. FSP FAS No. 123(R)-4 addresses situations when a company has option plans that require the company to settle outstanding options in cash upon the occurrence of certain contingent events. Although we are required to apply FSP FAS No. 123(R)-4 when we initially adopt SFAS No. 123R, we do not expect it to impact our Consolidated Financial Statements.

(p) Foreign Currency Translation

For each of our foreign operating subsidiaries the functional currency is generally its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using month-end exchange rates, and revenue and expenses are translated into U.S. dollars using average exchange rates. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in stockholders’ equity.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Foreign currency transaction gains (losses) of \$(1) million, \$25 million and \$44 million for the fiscal years ended March 31, 2006, 2005 and 2004, respectively, are included in interest and other income, net, in our Consolidated Statements of Operations.

(q) Impact of Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151, “*Inventory Costs — an amendment of ARB No. 43, Chapter 4*”. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, “*Inventory Pricing*”, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as current-period charges. SFAS No. 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of SFAS No. 151 to have a material impact on our Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, “*Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3*”. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. Under previous guidance, changes in accounting principle were recognized as a cumulative effect in the net income of the period of the change. The new statement requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods’ financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for

long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a “restatement”. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. We do not believe that, upon adoption, SFAS No. 154 will have a material impact on our Consolidated Financial Statements, however, after adoption, if a change in accounting principle is made, SFAS No. 154 could have a material impact on our Consolidated Financial Statements.

In February 2006, the FASB issued SFAS No. 155, “*Accounting for Certain Hybrid Financial Instruments — An Amendment of FASB Statements No. 133 and 140*”. SFAS No. 155 (1) permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies that interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, “*Accounting for Derivative Instruments and Hedging Activities*”, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS No. 140, “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — A Replacement of FASB Statement 125*” to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued for fiscal years beginning after September 15, 2006. We do not believe the adoption of SFAS No. 155 will have a material impact on our Consolidated Financial Statements.

(2) FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

Cash, cash equivalents, receivables, accounts payable and accrued and other liabilities are valued at their carrying amounts as they approximate their fair value due to the short maturity of these financial instruments.

(b) Cash, Cash Equivalents and Short-term Investments

Cash, cash equivalents and short-term investments consisted of the following as of March 31, 2006 (in millions):

	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Cash and cash equivalents:						
Cash	\$ 260	\$ —	\$ —	\$—	\$ 260	\$ —
Money market funds	819	—	—	—	819	—
Commercial paper	145	—	—	—	145	—
U.S. agency securities	14	—	—	—	14	—
Asset-backed securities	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>—</u>
Cash and cash equivalents	1,242	—	—	—	1,242	—
Short-term investments:						
U.S. agency securities	187	(1)	388	(3)	575	(4)
U.S. Treasury securities	202	(1)	10	—	212	(1)
Corporate bonds	106	(1)	72	(1)	178	(2)
Asset-backed and other debt securities ..	<u>65</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65</u>	<u>—</u>
Short-term investments	<u>560</u>	<u>(3)</u>	<u>470</u>	<u>(4)</u>	<u>1,030</u>	<u>(7)</u>
Cash, cash equivalents and short-term investments	<u>\$1,802</u>	<u>\$ (3)</u>	<u>\$470</u>	<u>\$ (4)</u>	<u>\$2,272</u>	<u>\$ (7)</u>

Cash, cash equivalents and short-term investments consisted of the following as of March 31, 2005 (in millions):

	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Cash and cash equivalents:						
Cash	\$ 342	\$ —	\$ —	\$—	\$ 342	\$ —
Money market funds	<u>928</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>928</u>	<u>—</u>
Cash and cash equivalents	1,270	—	—	—	1,270	—
Short-term investments:						
U.S. agency securities	692	(8)	476	(7)	1,168	(15)
U.S. Treasury securities	298	(4)	—	—	298	(4)
Corporate bonds	180	(3)	—	—	180	(3)
Asset-backed securities	<u>42</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>42</u>	<u>—</u>
Short-term investments	<u>1,212</u>	<u>(15)</u>	<u>476</u>	<u>(7)</u>	<u>1,688</u>	<u>(22)</u>
Cash, cash equivalents and short-term investments	<u>\$2,482</u>	<u>\$ (15)</u>	<u>\$476</u>	<u>\$ (7)</u>	<u>\$2,958</u>	<u>\$ (22)</u>

The gross unrealized losses in each of these investment categories were primarily caused by a decrease in the fair value of the investments as a result of an increase in interest rates. The contractual terms of these securities do not permit the issuer to call, prepay or otherwise settle the securities at prices less than the

stated par value of the security. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of March 31, 2006.

Gross unrealized gains in short-term investments were less than \$1 million as of March 31, 2006 and 2005.

Realized losses of \$9 million were recognized from the sale of short-term investments for the year ended March 31, 2006. No material gains or losses were recognized from the sale of short-term investments for the years ended March 31, 2005 and 2004.

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of March 31, 2006 (in millions):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in 1 year or less	\$ 510	\$ 506
Due in 1-2 years	245	243
Due in 2-3 years	<u>282</u>	<u>281</u>
Short-term investments	<u>\$1,037</u>	<u>\$1,030</u>

(c) Marketable Equity Securities

Marketable equity securities consisted of the following (in millions):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
As of March 31, 2006.....	\$91	\$69	\$—	\$160
As of March 31, 2005.....	\$93	\$47	\$—	\$140

Our investments in marketable equity securities consist of investments in common stock of publicly traded companies. On February 3, 2005, we purchased approximately 19.9 percent of the outstanding ordinary shares (18.4 percent of the voting rights) of Ubisoft Entertainment for \$91 million. As the fair value of our marketable equity securities exceed the cost basis of those investments as of March 31, 2006, we do not consider these investments to be other-than-temporarily impaired. During fiscal 2005, no other-than-temporary impairment charges were recognized. During fiscal 2004, we recognized a \$1 million other-than-temporary impairment charge to write-down certain investments to their fair market value.

Realized gains from the sale of marketable equity securities were \$1 million and \$2 million for the years ended March 31, 2006 and 2005, respectively. No material gains or losses were recognized from the sale of marketable equity securities for the year ended March 31, 2004.

(d) Investments in Affiliates

As of March 31, 2006 and 2005, the total investment in affiliates reflected on our Consolidated Balance Sheets was \$11 million and \$10 million, respectively.

Our investments in affiliates included a warrant to acquire 2,327,602 additional shares of Digital Illusions, C.E. (“DICE”) common stock. See Note 4 of the Notes to Consolidated Financial Statements. Prior to April 2005, the warrant was accounted for as a derivative under SFAS No. 133. The warrant was amended in April 2005, such that only subscriptions of 500,000 or more could be exercised. Due to the limited trading volume of DICE’s common stock, there is no market mechanism for settlement and the warrant is no longer readily convertible to cash and is therefore currently accounted for under the cost method as prescribed by APB No. 18. As of March 31, 2006, the cost basis of the warrant was \$5 million.

For cost method investments we estimated that the fair value exceeded the cost basis of those investments. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of March 31, 2006. During fiscal 2006, 2005 and 2004, no other-than-temporary impairments in investments in affiliates were recognized.

(3) DERIVATIVE FINANCIAL INSTRUMENTS

We account for our derivative and hedging activities under SFAS No. 133. The assets or liabilities associated with our derivative instruments and hedging activities are recorded at fair value in other current assets or other current liabilities, respectively, in our Consolidated Balance Sheet. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

We transact business in various foreign currencies and have significant international sales and expenses denominated in foreign currencies, subjecting us to foreign currency risk. Our policy is to purchase foreign currency option contracts, generally with maturities of 15 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue and expenses denominated in certain foreign currencies. In addition, we utilize foreign exchange forward contracts to mitigate foreign currency exchange rate risk associated with foreign-currency-denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of approximately one month and are transacted near month-end; therefore, the fair value of the forward contracts generally is not significant at each month-end. We do not use foreign currency option or foreign exchange forward contracts for speculative or trading purposes.

Cash Flow Hedging Activities

Our foreign currency option contracts are designated and qualify as cash flow hedges under SFAS No. 133. The effectiveness of the cash flow hedge contracts, including time value, is assessed monthly using regression as well as other timing and probability criteria required by SFAS No. 133. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income in stockholders' equity. The gross amount of the effective portion of gains or losses resulting from changes in fair value of these hedges is subsequently reclassified into net revenue or operating expenses, as appropriate, in the period when the forecasted transaction is recorded in the Consolidated Statements of Operations. The ineffective portion of gains or losses resulting from changes in fair value, if any, is reported in each period in interest and other income, net in our Consolidated Statements of Operations. The effective portion of hedges recognized in accumulated other comprehensive income at the end of each year will be reclassified to earnings within 12 months.

The following table summarizes the activity in accumulated other comprehensive income, net of related taxes, with regard to the changes in fair value of derivative instruments, for fiscal 2006 and 2005 (in millions):

	<u>Year Ended</u> <u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Beginning balance of unrealized gains (losses), net, on derivative instruments	\$ —	\$ —
Change in unrealized gains (losses), net, on derivative instruments	4	—
Reclassification adjustment for (gains) losses, realized on derivative instruments to net income, net:		
Net revenue	(4)	—
Operating expenses	<u>—</u>	<u>—</u>
Ending balance of unrealized gains (losses), net, on derivative instruments	<u>\$ —</u>	<u>\$ —</u>

Hedging ineffectiveness for the year ended March 31, 2006 was not significant. The amount of hedging ineffectiveness recognized in interest and other income, net was a loss of \$1 million and \$2 million for the years ended March 31, 2005 and 2004, respectively.

Balance Sheet Hedging Activities

Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133. Accordingly, any gains or losses resulting from changes in the fair value of the forward contracts are reported in interest and other income, net. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying foreign-currency-denominated assets and liabilities, which are also reported in interest and other income, net, in our Consolidated Statements of Operations.

(4) BUSINESS COMBINATIONS

JAMDAT Mobile Inc., Criterion Software Group Ltd. and Digital Illusions C.E.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed in connection with our acquisitions of JAMDAT Mobile Inc. (“JAMDAT”) and Criterion Software Group Ltd. (“Criterion”) and the preliminary allocation of the Digital Illusions C.E. (“DICE”) assets acquired and liabilities assumed for the fiscal years ended March 31, 2006 and 2005 (in millions):

	<u>JAMDAT</u>	<u>Criterion</u>	<u>DICE</u>	<u>Total</u>
Current assets	\$ 50	\$ 21	\$35	\$ 106
Property and equipment, net	2	1	2	5
Long-term deferred tax asset	—	3	—	3
Acquired in-process technology	7	9	4	20
Stock-based employee compensation	—	6	—	6
Goodwill	495	23	36	554
Finite-lived intangibles	212	21	2	235
Liabilities	(82)	(16)	(9)	(107)
Minority interest	—	—	(8)	(8)
Total consideration	<u>\$684</u>	<u>\$ 68</u>	<u>\$62</u>	<u>\$ 814</u>

JAMDAT

On February 15, 2006, we acquired all outstanding shares of JAMDAT. Based in Los Angeles, California, JAMDAT is a global publisher of wireless games and other wireless entertainment applications. This acquisition positions us for further growth in the mobile entertainment market. We paid \$27 per share in cash in exchange for each share of JAMDAT common stock and assumed outstanding stock options and restricted stock units under certain JAMDAT equity plans for an aggregate purchase price of \$684 million, including transaction costs.

Prior to our acquisition of JAMDAT, on April 20, 2005, JAMDAT entered into a purchase agreement with the shareholders of Blue Lava Wireless, LLC (“Blue Lava”). In connection with JAMDAT’s acquisition of Blue Lava, JAMDAT stock was placed in escrow to satisfy certain indemnification provisions under the Blue Lava purchase agreement. Upon completion of our acquisition of JAMDAT, we assumed JAMDAT’s contingent liability and replaced the JAMDAT stock in escrow with \$27 million also placed in escrow. The \$27 million is included in our purchase price of JAMDAT as a pre-acquisition contingency. We are required to pay \$9 million on each of the three anniversaries beginning on April 20, 2006, less any claims we may have pursuant to the indemnification provisions of the Blue Lava purchase agreement. On April 20, 2006, we made the first payment of approximately \$9 million. The preliminary purchase price allocation, including the allocation of goodwill, will be updated in the first quarter of fiscal 2007 as additional information becomes available related to certain accrued liabilities.

The results of operations of JAMDAT and the estimated fair market values of the acquired assets and assumed liabilities have been included in our Consolidated Financial Statements since the date of acquisition.

Except for acquired in-process technology, which is discussed below, the acquired finite-lived intangible assets are being amortized on a straight-line basis over estimated lives ranging from two to twelve years. The intangible assets that make up that amount as of the date of the acquisition include:

	Gross Carrying Amount (in millions)	Weighted-Average Useful Life (Years)
Developed and Core Technology	\$122	10
Carrier Contracts and Related	85	5
Other Intangibles	<u>5</u>	<u>3</u>
Total Finite-Lived Intangibles	<u>\$212</u>	<u>8</u>

We recorded \$495 million of goodwill, substantially none of which is tax deductible.

Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have alternative future use. Accordingly, we expensed acquired in-process technology in our Consolidated Statement of Operations upon consummation of the acquisition.

Criterion

On October 19, 2004, we acquired all outstanding shares of Criterion for an aggregate purchase price of approximately \$68 million, including transaction costs and the assumption of outstanding stock options under certain Criterion stock option plans. Based in England, Criterion is a developer of video games and a provider of middleware solutions for the game development and publishing industry. The results of operations of Criterion and the estimated fair market values of the acquired assets and assumed liabilities have been included in our Consolidated Financial Statements since the date of acquisition. Except for acquired in-process technology, which is discussed below, the acquired finite-lived intangible assets are being amortized on a straight-line basis over estimated lives ranging from two to four years.

Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have alternative future use. Accordingly, the acquired in-process technology was expensed in our Consolidated Statement of Operations upon consummation of the acquisition. Stock-based employee compensation represents the intrinsic value of certain unvested employee stock options that were assumed as part of the transaction. The stock options were considered modified for accounting purposes and were fully amortized over the remaining vesting period in our Consolidated Statement of Operations for the year ended March 31, 2005.

DICE

In 2003 we acquired: (1) approximately 1,911,403 shares of Class B common stock representing a 19 percent equity interest in DICE and (2) a warrant to acquire an additional 2,327,602 shares of to-be-issued Class A common stock at an exercise price of SEK 43.23. Based in Sweden, DICE develops games for personal computers and video game consoles. DICE's products are primarily sold through co-publishing agreements with us. The transactions between DICE and us have been recorded on an arm's length basis. Prior to our tender offer in the fourth quarter of fiscal 2005, we accounted for our Class B common stock investment in DICE under the equity method of accounting, as prescribed by APB No. 18. Separately, the warrant valued at \$5 million as of March 31, 2006 was included in investments in affiliates in our Consolidated Balance Sheets. See Note 2 of the Notes to Consolidated Financial Statements.

On January 27, 2005 we completed a tender offer by acquiring 3,235,053 shares of Class A common stock at a price of SEK 61 per share, representing 32 percent of the outstanding Class A common stock of DICE. During the tender offer period and through the end of fiscal 2005, we acquired, through open market purchases at an average price of SEK 60.33, an additional 1,190,658 shares of Class A common stock, representing approximately 12 percent of the outstanding Class A common stock of DICE. During

fiscal 2006, we acquired, through open market purchases at an average price of SEK 63.07, an additional 1,071,152 shares of Class A common stock, representing approximately 10 percent of the outstanding Class A common stock of DICE. Accordingly, on a cumulative basis as of March 31, 2006 and 2005 we owned approximately 73 percent and 63 percent, respectively, of DICE on an undiluted basis (excluding the warrant discussed above). As a result, we included the assets, liabilities and results of operations of DICE in our Consolidated Financial Statements since January 27, 2005. The 27 percent and 37 percent of DICE stock that we did not own was reflected as minority interest on our Consolidated Balance Sheets as of March 31, 2006 and 2005, respectively, and our Consolidated Statements of Operations for the years ended March 31, 2006 and 2005, respectively.

In March 2006, we signed an agreement to fully merge DICE into EA, which will allow DICE to become a fully integrated studio. We will pay SEK 67.50 per share in cash to DICE shareholders at the time of the merger. The merger is subject to customary closing conditions, including regulatory approvals, and is expected to close during the second quarter of fiscal 2007. The preliminary purchase price allocation, including the allocation of goodwill has been and will continue to be updated as additional information becomes available.

Except for acquired-in-process technology, the acquired finite-lived intangible assets are being amortized on a straight-line basis over estimated lives ranging from one to four years. The acquired in-process technology was expensed in our Consolidated Statement of Operations upon consummation of the acquisition, and in each period, we increased our ownership percentage.

Square Co., Ltd.

In May 1998, we completed the formation of two joint ventures in North America and Japan with Square Co., Ltd. (“Square”), a leading developer and publisher of entertainment software in Japan. In North America, the companies formed Square Electronic Arts, LLC (“Square EA”), which had exclusive publishing rights in North America for future interactive entertainment titles created by Square. Additionally, we had the exclusive right to distribute in North America products published by this joint venture. We contributed \$3 million and owned a 30 percent minority interest in this joint venture while Square owned 70 percent. This joint venture was accounted for under the equity method. The joint venture agreements with Square expired as of March 31, 2003. Our distribution of Square products in North America terminated on June 30, 2003. On May 30, 2003, Square acquired our 30 percent ownership interest in the joint venture for \$8 million and the investment was removed from our Consolidated Balance Sheets.

In Japan, the companies established Electronic Arts Square K.K. (“EA Square KK”) in 1998, which localized and published in Japan a selection of EA’s properties originally created in North America and Europe, as well as developed and published original video games in Japan. We contributed cash and had a 70 percent majority ownership interest, while Square contributed cash and owned 30 percent. Accordingly, the assets, liabilities and results of operations for EA Square KK were included in our Consolidated Balance Sheets and Consolidated Statements of Operations since June 1, 1998, the date of formation.

In May 2003, we acquired Square’s 30 percent ownership interest in EA Square KK for approximately \$3 million in cash. As a result of the acquisition, EA Square KK became our wholly-owned subsidiary and was renamed Electronic Arts K.K. The acquisition was accounted for as a step acquisition purchase and the excess purchase price over fair value of the net tangible assets acquired, \$1 million, was allocated to goodwill.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill information is as follows (in millions):

	Year Ended March 31,	
	2006	2005
Goodwill — beginning of year	\$153	\$ 92
Acquired	496	58
Effects of Foreign Currency Translation	<u>(2)</u>	<u>3</u>
Goodwill — end of year	<u>\$647</u>	<u>\$153</u>

We completed our annual impairment test in the fourth quarter of fiscal 2006, 2005 and 2004 with measurement dates of January 1, 2006, January 1, 2005 and January 1, 2004, respectively, and found no indicators of impairment of our recorded goodwill.

Finite-lived intangible assets, net of accumulated amortization, as of March 31, 2006 and 2005, were \$232 million and \$36 million, respectively, and include costs for obtaining (1) developed technologies, (2) carrier contracts and related, (3) trade names, and (4) subscribers and other intangibles. Amortization of intangibles for fiscal 2006, 2005 and 2004 was \$16 million (of which \$9 million was recognized in cost of goods sold), \$6 million (of which \$3 million was recognized in cost of goods sold) and \$3 million, respectively. Finite-lived intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, typically from two to twelve years. As of March 31, 2006 and 2005, the weighted-average remaining useful life for finite-lived intangible assets was approximately 7.2 years and 4.3 years, respectively.

Finite-lived intangibles consist of the following (in millions):

	As of March 31, 2006				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed and Core Technology	\$169	\$(31)	\$ (9)	\$—	\$129
Carrier Contracts and Related	85	(2)	—	—	83
Trade Name	37	(21)	(1)	—	15
Subscribers and Other Intangibles	<u>17</u>	<u>(9)</u>	<u>(2)</u>	<u>(1)</u>	<u>5</u>
Total	<u>\$308</u>	<u>\$(63)</u>	<u>\$(12)</u>	<u>\$(1)</u>	<u>\$232</u>

	As of March 31, 2005				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed and Core Technology	\$ 47	\$(22)	\$ (9)	\$ 1	\$ 17
Trade Name	37	(18)	(1)	—	18
Subscribers and Other Intangibles	<u>11</u>	<u>(7)</u>	<u>(2)</u>	<u>(1)</u>	<u>1</u>
Total	<u>\$ 95</u>	<u>\$(47)</u>	<u>\$(12)</u>	<u>\$—</u>	<u>\$ 36</u>

As of March 31, 2006, future amortization of finite-lived intangibles that will be recorded in cost of goods sold and operating expenses is estimated as follows (in millions):

Fiscal Year Ended March 31,	
2007	\$ 47
2008	44
2009	32
2010	29
2011	26
Thereafter	<u>54</u>
Total	<u>\$232</u>

(6) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Restructuring and asset impairment information as of March 31, 2006 was as follows (in millions):

	Fiscal 2006 International Publishing Reorganization			Fiscal 2006 Restructuring	Fiscal 2004, 2003 and 2002 Restructurings		Total
	Workforce	Facilities-related	Other	Workforce	Workforce	Facilities-related	
Balances as of March 31, 2003	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ 9	\$ 11
Charges to operations	—	—	—	—	2	7	9
Charges utilized in cash	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>(4)</u>	<u>(6)</u>
Balances as of March 31, 2004	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ 12	\$ 14
Charges utilized in cash	—	—	—	—	(2)	(4)	(6)
Adjustments to operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
Balances as of March 31, 2005	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10	\$ 10
Charges to operations	3	8	3	10	—	—	24
Charges utilized in cash	(2)	—	(1)	(7)	—	(5)	(15)
Adjustments to operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
Balances as of March 31, 2006	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ 21</u>

All restructuring charges recorded subsequent to December 31, 2002, were recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". We generally expense restructuring costs as they are incurred and accrue costs associated with certain facility closures at the time we exit the facility. Adjustments to our restructuring reserves are made in future periods, if necessary, based upon then-current events and circumstances.

Fiscal 2006 International Publishing Reorganization

In November 2005, we announced plans to establish an international publishing headquarters in Geneva, Switzerland. Since that time and through the six months ending September 30, 2006, we expect to continue to relocate certain current employees to our new facility in Geneva, close certain facilities in the U.K., and make other related changes in our international publishing business.

During fiscal 2006, restructuring charges were approximately \$14 million of which \$8 million was for the closure of certain U.K. facilities, \$3 million for employee-related expenses and \$3 million in other costs in connection with our international publishing reorganization. The restructuring accrual of \$11 million as of March 31, 2006 is expected to be utilized by March 2017. This accrual is included in other accrued expenses presented in Note 8 of the Notes to Consolidated Financial Statements.

In fiscal 2007, we expect to incur between \$15 million and \$20 million of restructuring costs. Overall, including fiscal 2006, we expect to incur between \$40 million and \$50 million of restructuring costs,

substantially all of which will result in cash expenditures by 2017. These restructuring costs will consist primarily of employee-related relocation assistance (approximately \$28 million), facility exit costs (approximately \$10 million), as well as other reorganization costs (approximately \$8 million). While we may incur severance costs paid to terminating employees in connection with the reorganization, we do not expect these costs to be significant.

Fiscal 2006 Restructuring

During the fourth quarter of fiscal 2006, we aligned our resources with our product plan for fiscal 2007 and strategic opportunities with next-generation consoles, online and mobile platforms. As part of this alignment we recorded a total pre-tax restructuring charge of \$10 million consisting entirely of one-time benefits related to headcount reductions which are included in restructuring charges in our Consolidated Statement of Operations. The restructuring accrual of \$3 million is expected to be utilized during fiscal 2007. This accrual is included in other accrued expenses presented in Note 8 of the Notes to Consolidated Financial Statements.

Fiscal 2004 Studio Restructuring

During the fourth quarter of fiscal 2004, we closed the majority of our leased studio facility in Walnut Creek, California and our entire owned studio facility in Austin, Texas in order to consolidate local development efforts in Redwood City, California. We recorded total pre-tax charges of \$9 million, consisting of \$7 million for consolidation of facilities (net of expected future sublease income), \$2 million for workforce reductions of approximately 117 personnel and less than \$1 million for the write-off of non-current assets, primarily leasehold improvements. As of March 31, 2006, an aggregate of \$8 million in cash had been paid out under the restructuring plans. In addition, we have made subsequent net adjustments of approximately \$3 million during fiscal 2006 relating to projected future cash outlays under the fiscal 2004 restructuring plan. The remaining projected net cash outlay of \$5 million is expected to be utilized by January 2009. The facilities-related accrued obligation shown above is net of \$7 million of estimated future sub-lease income. The restructuring accrual is included in other accrued expenses presented in Note 8 of the Notes to Consolidated Financial Statements.

Fiscal 2003 and 2002 Restructurings

In fiscal 2003 and 2002, we entered into various restructurings based on management decisions. As of March 31, 2006, an aggregate of \$19 million in cash had been paid out under the restructuring plans. In addition, we have made subsequent net adjustments of approximately \$1 million during fiscal 2006 relating to projected future cash outlays under the fiscal 2003 restructuring plan. The remaining projected net cash outlay of \$2 million is expected to be utilized by December 2006. The facilities-related accrued obligation shown above is net of \$1 million of estimated future sub-lease income. The restructuring accrual is included in other accrued expenses presented in Note 8 of the Notes to Consolidated Financial Statements.

(7) ROYALTIES AND LICENSES

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers and (3) co-publishing and/or distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for delivery of product.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of goods sold generally at the greater of the contractual rate or

an effective royalty rate based on expected net product sales. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally in connection with the development of a particular product and, therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed as research and development as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of goods sold generally at the greater of the contractual rate or an effective royalty rate based on expected net product sales.

Our contracts with some licensors include minimum guaranteed royalty payments which are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid and as a liability when incurred, rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of March 31, 2006 and 2005, approximately \$9 million and \$51 million, respectively, of minimum guaranteed royalty obligations had been recognized and are included in the royalty-related assets and accrual tables below.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties and commitments. If actual sales or revised revenue estimates fall below the initial revenue estimate, then the actual charge taken may be greater in any given quarter than anticipated. During fiscal 2006, 2005 and 2004, we recorded impairment charges of \$16 million, \$8 million and \$2 million, respectively.

The current and long-term portions of prepaid royalties and minimum guaranteed royalty-related assets, included in other current assets and other assets, consisted of (in millions):

	As of March 31,	
	<u>2006</u>	<u>2005</u>
Other current assets	\$ 76	\$ 59
Other assets	<u>55</u>	<u>76</u>
Royalty-related assets	<u>\$131</u>	<u>\$135</u>

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors and/or independent software developers, we recognize unpaid royalty amounts due to these parties as either accounts payable or accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other current liabilities as well as other liabilities, consisted of (in millions):

	As of March 31,	
	<u>2006</u>	<u>2005</u>
Accrued and other current liabilities	\$ 82	\$ 88
Other liabilities	<u>7</u>	<u>33</u>
Royalty-related liabilities	<u>\$ 89</u>	<u>\$121</u>

In addition, as of March 31, 2006, we were committed to pay approximately \$1,557 million to co-publishing and/or distribution affiliates and content licensors, but significant performance remained with the counterparty (i.e., delivery of the product or content or other factors) and such commitments were therefore not recorded in our Consolidated Financial Statements. See Note 9 of the Notes to Consolidated Financial Statements.

(8) BALANCE SHEET DETAILS***(a) Inventories***

Inventories as of March 31, 2006 and 2005 consisted of (in millions):

	As of March 31,	
	2006	2005
Raw materials and work in process	\$ 1	\$ 2
Finished goods (including manufacturing royalties)	<u>60</u>	<u>60</u>
Inventories	<u>\$ 61</u>	<u>\$ 62</u>

(b) Property and Equipment, Net

Property and equipment, net as of March 31, 2006 and 2005 consisted of (in millions):

	As of March 31,	
	2006	2005
Computer equipment and software	\$ 418	\$ 381
Buildings	127	106
Leasehold improvements	78	73
Land	57	60
Office equipment, furniture and fixtures	57	53
Warehouse equipment and other	11	12
Construction in progress	<u>59</u>	<u>43</u>
	807	728
Less accumulated depreciation	<u>(415)</u>	<u>(375)</u>
Property and equipment, net	<u>\$ 392</u>	<u>\$ 353</u>

Depreciation expense associated with property and equipment amounted to \$79 million, \$69 million and \$75 million for the fiscal years ended March 31, 2006, 2005 and 2004, respectively.

(c) Accrued and Other Current Liabilities

Accrued and other current liabilities as of March 31, 2006 and 2005 consisted of (in millions):

	As of March 31,	
	2006	2005
Accrued income taxes	\$ 234	\$ 267
Other accrued expenses	216	151
Accrued compensation and benefits	122	132
Accrued royalties	82	88
Deferred revenue	<u>52</u>	<u>35</u>
Accrued and other current liabilities	<u>\$ 706</u>	<u>\$ 673</u>

(9) COMMITMENTS AND CONTINGENCIES***Lease Commitments and Residual Value Guarantees***

We lease certain of our current facilities and equipment under non-cancelable operating lease agreements. We are required to pay property taxes, insurance and normal maintenance costs for certain of these

facilities and will be required to pay any increases over the base year of these expenses on the remainder of our facilities.

In February 1995, we entered into a build-to-suit lease (“Phase One Lease”) with a third party for our headquarters facilities in Redwood City, California (“Phase One Facilities”). The Phase One Facilities comprise a total of approximately 350,000 square feet and provide space for sales, marketing, administration and research and development functions. In July 2001, we refinanced the Phase One Lease with Keybank National Association through July 2006. We account for the Phase One Lease arrangement as an operating lease in accordance with SFAS No. 13, “*Accounting for Leases*”, as amended.

On May 26, 2006, we extended the financing under the Phase One Lease through July 2007. Upon expiration of the financing in July 2007, we may purchase the Phase One Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase One Facilities to a third party.

The Phase One Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase One Facilities, request an extension of the lease or arrange for the sale of the Phase One Facilities to a third party.

Pursuant to the terms of the Phase One Lease, as amended to date, we have an option to purchase the Phase One Facilities at any time for a maximum purchase price of \$132 million. In the event of a sale to a third party, if the sale price is less than \$132 million, we will be obligated to reimburse the difference between the actual sale price and \$132 million, up to maximum of \$117 million, subject to certain provisions of the Phase One Lease, as amended.

In December 2000, we entered into a second build-to-suit lease (“Phase Two Lease”) with Keybank National Association for a five and one-half year term beginning in December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property (“Phase Two Facilities”). Construction of the Phase Two Facilities was completed in June 2002. The Phase Two Facilities comprise a total of approximately 310,000 square feet and provide space for sales, marketing, administration and research and development functions. We account for the Phase Two Lease arrangement as an operating lease in accordance with SFAS No. 13, as amended.

On May 26, 2006, we extended the financing under the Phase Two Lease through July 2007. Upon the expiration of the financing in July 2007, we may purchase the Phase Two Facilities, request up to two one-year extensions of the financing (subject to bank approval), self-fund approximately 90 percent of the financing and extend the remainder through July 2009, or arrange for the sale of the Phase Two Facilities to a third party.

The Phase Two Lease terminates upon expiration of the financing in July 2007 unless we have extended the financing or elected to self-fund the financing as described above, in which case the term of the lease could be extended until as late as July 2009. Subject to certain terms and conditions, upon termination of the lease, we may purchase the Phase Two Facilities, request an extension of the lease or arrange for the sale of the Phase Two Facilities to a third party.

Pursuant to the terms of the Phase Two Lease, as amended to date, we have an option to purchase the Phase Two Facilities at any time for a maximum purchase price of \$115 million. In the event of a sale to a third party, if the sale price is less than \$115 million, we will be obligated to reimburse the difference between the actual sale price and \$115 million, up to a maximum of \$105 million, subject to certain provisions of the Phase Two Lease, as amended.

The lease rates of the Phase One and Phase Two Leases fluctuate and are based upon LIBOR plus a margin that varies from 0.50% to 1.25% based on our ratio of total consolidated debt to consolidated tangible net worth. Based on the 3-month LIBOR rate of 5.2% as of May 26, 2006, the annual rent

amended the lease in October 2003. The facility comprises a total of approximately 65,000 square feet and provides space for research and development functions. Our rental obligation under this agreement is approximately \$16 million over the initial ten-year term of the lease. As of March 31, 2006, our remaining rental obligation under this lease was \$12 million.

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe, which we have amended on a number of occasions. The standby letter of credit, as amended, guarantees performance of our obligations to pay Nintendo of Europe for trade payables. As of March 31, 2006, the standby letter of credit, as amended, guaranteed our trade payable obligations to Nintendo of Europe for up to €7 million. As of March 31, 2006, €2 million was payable to Nintendo of Europe under the standby letter of credit, as amended.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of March 31, 2006, we did not have a payable balance on this standby letter of credit.

Development, Celebrity, League and Content Licenses: Payments and Commitments

The products we produce in our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers (“independent artists” or “third-party developers”). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones. Contractually, these payments are generally considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers.

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that are not dependent on any deliverables. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR and ISC (stock car racing); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Pebble Beach (professional golf); National Hockey League and NHL Players’ Association (professional hockey); Warner Bros. (Harry Potter, Batman and Superman); New Line Productions and Saul Zaentz Company (The Lord of the Rings); Marvel Enterprises (fighting); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); Simco (Def Jam); Viacom Consumer Products (The Godfather); Valve Corporation (Half-Life); ESPN (content in EA SPORTS™ games); Twentieth Century Fox Licensing and Merchandising (The Simpsons); Lamborghini, McLaren and Porsche (car licenses for *Need for Speed*); and mobile game rights with PopCap Games and The Tetris Company. These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations and commercial commitments as of March 31, 2006 (in millions):

Fiscal Year Ending March 31,	Contractual Obligations				Commercial Commitments	Total
	Leases	Developer/ Licensor Commitments ⁽¹⁾	Marketing	Other Purchase Obligations	Letter of Credit, Bank and Other Guarantees	
2007	\$ 36	\$ 155	\$ 45	\$7	\$4	\$ 247
2008	28	144	30	—	—	202
2009	24	152	31	—	—	207
2010	18	140	31	—	—	189
2011	14	275	31	—	—	320
Thereafter.....	<u>30</u>	<u>700</u>	<u>186</u>	<u>—</u>	<u>—</u>	<u>916</u>
Total	<u>\$150</u>	<u>\$1,566</u>	<u>\$354</u>	<u>\$7</u>	<u>\$4</u>	<u>\$2,081</u>

⁽¹⁾ Developer/licensor commitments include \$9 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Consolidated Balance Sheet as of March 31, 2006 because payment is not contingent upon performance by the developer or licensor.

Total rent expense for all operating leases was \$59 million, \$41 million and \$27 million, for the fiscal years ended March 31, 2006, 2005 and 2004, respectively.

The lease commitments disclosed above include contractual rental commitments of \$25 million under real estate leases for unutilized office space resulting from our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other current liabilities reported on our Consolidated Balance Sheet as of March 31, 2006. See Note 6 of the Notes to Consolidated Financial Statements.

Litigation

On February 14, 2005, an employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against the company in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Engineers” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. On May 16, 2006, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of \$14.9 million, to be paid to a third-party administrator, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs’ attorneys’ fees, not to exceed 25% of the total settlement amount, (c) plaintiffs’ costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. The hearing for the court to consider its final approval of the settlement is set for September 22, 2006.

Each of the shareholder actions we have previously disclosed have been voluntarily dismissed by all plaintiffs. The federal securities class action complaint has been dismissed with prejudice, by an order dated January 26, 2006; the federal derivative action has been dismissed, by an order dated March 10, 2006; and the two state derivative actions have been dismissed, by orders dated May 4, 2006 and May 8, 2006.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. We believe that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Director Indemnity Agreements

We have entered into indemnification agreements with the members of our Board of Directors at the time they joined the Board to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued or charged as a result of their service as members of our Board of Directors.

(10) INCOME TAXES

Our pretax income from operations for the fiscal years ended March 31, 2006, 2005 and 2004 consisted of the following components (in millions):

	<u>Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Domestic.....	\$200	\$386	\$490
Foreign	<u>189</u>	<u>339</u>	<u>307</u>
Income before provision for income taxes and minority interest	<u>\$389</u>	<u>\$725</u>	<u>\$797</u>

Income tax expense (benefit) for the fiscal years ended March 31, 2006, 2005 and 2004 consisted of (in millions):

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
March 31, 2006			
Federal	\$(30)	\$ 17	\$(13)
State	1	2	3
Foreign	32	(8)	24
Charge in association with disposition from employee stock plans	<u>133</u>	<u>—</u>	<u>133</u>
	<u>\$136</u>	<u>\$ 11</u>	<u>\$147</u>
March 31, 2005			
Federal	\$115	\$ 4	\$119
State	4	11	15
Foreign	9	3	12
Charge in association with disposition from employee stock plans	<u>75</u>	<u>—</u>	<u>75</u>
	<u>\$203</u>	<u>\$ 18</u>	<u>\$221</u>
March 31, 2004			
Federal	\$121	\$ 28	\$149
State	4	(15)	(11)
Foreign	18	(5)	13
Charge in association with disposition from employee stock plans	<u>69</u>	<u>—</u>	<u>69</u>
	<u>\$212</u>	<u>\$ 8</u>	<u>\$220</u>

Our current income tax benefit for fiscal 2006 reflects a \$73 million reduction we recorded during fiscal year following a recent U.S. Tax Court ruling regarding the proper allocation of the tax deduction for stock options between U.S. and foreign entities. Although the Tax Court ruling remains subject to appeal, as a precedent, it is relevant to our situation. Accordingly, we released a reserve of \$73 million during fiscal 2006, whereby, we recorded a reduction to our income tax payable and an increase to additional paid-in capital with no impact to net income.

The differences between the statutory income tax rate and our effective tax rate, expressed as a percentage of income before provision for income taxes and minority interest, for the years ended March 31, 2006, 2005 and 2004 were as follows:

	<u>Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.8%	1.4%	1.8%
Differences between statutory rate and foreign effective tax rate	(4.9%)	(7.3%)	(6.2%)
Research and development credits	(0.2%)	(0.5%)	(0.6%)
Resolution of tax-related matters with tax authorities	(6.1%)	—	(2.5%)
Non-deductible acquisition related costs and tax expense from integration restructurings	8.7%	0.8%	—
Change in valuation allowance	0.4%	0.5%	—
Jobs Act Repatriation, including state taxes	4.3%	—	—
Other	<u>(0.4%)</u>	<u>0.6%</u>	<u>—</u>
Effective tax rate	<u>37.6%</u>	<u>30.5%</u>	<u>27.5%</u>

Our effective income tax rate was higher than the U.S. statutory rate of 35.0 percent due to a number of factors, including the repatriation of foreign earnings in connection with the American Jobs Creation Act of 2004 (the “Jobs Act”) and additional charges resulting from certain intercompany transactions during the second and fourth quarters of fiscal 2006, non-deductible acquisition related costs from our acquisitions of JAMDAT and an additional 10 percent of DICE, which were partially offset by other items.

Undistributed earnings of our foreign subsidiaries amounted to approximately \$873 million as of March 31, 2006. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

The IRS examined our U.S. income tax returns for fiscal 1997 through 1999 and proposed certain adjustments. During the fourth quarter of fiscal 2004, we resolved certain of these matters with the IRS, which lowered our income tax expense by approximately \$20 million and resulted in a 2.5 percent rate reduction. However, we have not resolved certain other issues identified by the IRS for these tax years and are planning to contest them. In addition, the IRS examined our U.S. income tax returns for fiscal years 2000 through 2003 and proposed certain adjustments. We do not agree with these adjustments and are planning to contest them. During the second quarter of fiscal 2006, we recorded various adjustments for the resolution of certain tax-related matters with foreign tax authorities that resulted in a 6.1 percent rate reduction. While the ultimate resolution of tax audits is uncertain, we expect that the aggregate tax accruals which have been provided should be adequate for the aggregate adjustments that are likely to result for these years.

The components of the net deferred tax assets as of March 31, 2006 and 2005 consisted of (in millions):

	As of March 31,	
	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Accruals, reserves and other expenses	\$103	\$ 78
Tax credit carryforwards	26	42
Amortization	—	23
Unrealized loss on marketable equity securities	3	8
Net operating loss & capital loss carryforwards	<u>4</u>	<u>1</u>
Total	136	152
Valuation allowance	<u>(6)</u>	<u>(11)</u>
Deferred tax asset net of valuation allowance	<u>130</u>	<u>141</u>
Deferred tax liabilities:		
Depreciation	(40)	(26)
Amortization	(27)	—
Other	<u>(6)</u>	<u>(10)</u>
Total	<u>(73)</u>	<u>(36)</u>
Net deferred tax asset	<u>\$ 57</u>	<u>\$105</u>

As of March 31, 2006, net deferred tax assets of \$86 million were classified as current assets and deferred tax liabilities of \$29 million were classified as long-term liabilities. As of March 31, 2005, net deferred tax assets of \$86 million and \$19 million were classified as current assets and long-term assets, respectively.

Of the tax credit carryforwards as of March 31, 2006, we have research and development tax credit carryforwards of approximately \$40 million for California purposes, which can be carried forward indefinitely. The state tax credit carryforwards are valued at \$26 million, net of federal benefits.

In the fourth quarter of fiscal 2006, we repatriated \$375 million of foreign earnings to take advantage of the favorable provisions of the Jobs Act. Under the Jobs Act, the qualifying portion of this repatriation was eligible for a temporary 85 percent dividends received deduction on certain foreign earnings. Accordingly, we recorded tax expense in fiscal 2006 of \$17 million related to this repatriation.

In July 2005, the FASB issued an exposure draft of a proposed interpretation of SFAS No. 109, "Accounting for Income Taxes" which addresses the accounting for uncertain tax positions. Including subsequent updates issued by the FASB, the proposed interpretation provides that the best estimate of the impact of a tax position would be recognized in an entity's financial statements only if it is more likely than not that the position will be sustained on audit based solely on its technical merits. This proposed interpretation also would provide guidance on recognition and measurement, balance sheet presentation, disclosure, accrual of interest and penalties, accounting in interim periods and transition. We cannot predict what actions the FASB will take or how any such actions might ultimately affect our financial position or results of operations. In January 2006, the FASB announced that companies would not have to apply the proposed interpretation until fiscal years beginning after December 31, 2006. An exposure draft of proposed amendments to SFAS No. 109 is expected in the third quarter of calendar year 2006.

(11) STOCKHOLDERS' EQUITY

(a) Preferred Stock

As of March 31, 2006 and 2005, we had 10,000,000 shares of preferred stock authorized but unissued. The rights, preferences, and restrictions of the preferred stock may be designated by the Board of Directors without further action by our stockholders.

(b) Common Stock

On March 22, 2000, our stockholders authorized the issuance of a new series of common stock, designated as Class B common stock ("Tracking Stock"). The Tracking Stock was intended to reflect the performance of the EA.com online games business segment. As a result of the approval of the Tracking Stock proposal, our existing common stock was re-classified as Class A common stock and was intended to reflect the performance of our core console and PC business segment. With the authorization of the Class B common stock, we transferred a portion of our consolidated assets, liabilities, revenue, expenses and cash flows to EA.com Inc., a wholly-owned subsidiary of Electronic Arts.

In March 2003, we consolidated the operations of EA.com back into our core operations in order to increase efficiency, simplify our reporting structure and more directly integrate our online activities into our core console and PC business. As a result, we eliminated dual class reporting starting in fiscal 2004. The majority of outstanding Class B options and warrants not directly held by us were acquired or converted to common stock and warrants.

At our Annual Meeting of Stockholders, held on July 29, 2004, our stockholders approved an amendment and restatement of our Certificate of Incorporation to (1) consolidate our Class A and Class B common stock into a single class of common stock by reclassifying each outstanding share of Class A common stock as one share of common stock and converting each outstanding share of Class B common stock into 0.001 share of common stock, and (2) increase the authorized common stock from 500 million total shares of Class A and Class B common stock combined to 1 billion shares of the newly consolidated single class of common stock.

(c) Share Repurchase Program

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of our common stock. We completed the repurchase program in September 2005. We repurchased and retired the following (in millions):

	Number of Shares Repurchased and Retired	Approximate Amount
From the inception of the program through March 31, 2005	0.8	\$ 41
Six months ended September 30, 2005	<u>12.6</u>	<u>709</u>
From the inception of the program through September 30, 2005	<u>13.4</u>	<u>\$750</u>

(12) EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

(a) Employee Stock Purchase Plan

Since September 1991, we have offered our employees the ability to participate in an employee stock purchase plan. Pursuant to our current plan, the 2000 Employee Stock Purchase Plan, eligible employees may authorize payroll deductions of up to 10 percent of their compensation to purchase shares at 85 percent of the lower of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month purchase period.

At our Annual Meeting of Stockholders, held on July 28, 2005, our stockholders approved an amendment to the 2000 Employee Stock Purchase Plan to increase by 1.5 million the number of shares of common stock reserved for issuance under the plan.

Information related to stock issuances under this plan is as follows:

	Year Ended March 31,		
	2006	2005	2004
Number of shares issued (in thousands)	625	624	867
Range of exercise prices for purchase rights	\$42.31 to \$47.95	\$38.14 to \$51.35	\$22.44 to \$38.14
Estimated weighted-average fair value of purchase rights	\$15.42	\$13.96	\$9.53

The fair value above was estimated on the date of grant using the Black-Scholes option-pricing model assumptions described in Note 1(o) of the Notes to Consolidated Financial Statements. As of March 31, 2006, we had approximately 2.3 million shares of common stock reserved for future issuance under the 2000 Employee Stock Purchase Plan.

(b) Stock Option Plans

Our 2000 Equity Incentive Plan (the “Equity Plan”) allows us to grant options to purchase our common stock, restricted stock and restricted stock units to our employees, officers and directors. Pursuant to the Equity Plan, incentive stock options may be granted to employees and officers and non-qualified options may be granted to employees, officers and directors, at not less than 100 percent of the fair market value on the date of grant.

At our Annual Meeting of Stockholders, held on July 28, 2005, our stockholders approved an amendment to our 2000 Equity Incentive Plan to (a) increase the number of shares authorized by 10 million, (b) authorize the issuance of awards of stock appreciation rights, (c) increase by 1 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan — from 3 million to 4 million shares, (d) modify the payment alternatives under the Equity Plan, (e) add flexibility to grant performance-based stock options and stock appreciation rights and modify the permissible performance factors currently contained in the Equity Plan, and (f) revise the share-counting methodology used in the Equity Plan.

We also have options outstanding that were granted under (1) the Criterion Software Limited Approved Share Option Scheme (the “Criterion Plan”), which we assumed in connection with our acquisition of Criterion, and (2) the JAMDAT Mobile Inc. Amended and Restated 2000 Stock Incentive Plan and the JAMDAT Mobile Inc. 2004 Equity Incentive Plan (collectively, the “JAMDAT Plans”), which we assumed in connection with our acquisition of JAMDAT. See Note 4 of the Notes to Consolidated Financial Statements.

Options granted under the Equity Plan generally expire ten years from the date of grant and are generally exercisable as to 24 percent of the shares after 12 months, and then the remainder ratably over 38 months. All options granted under the Criterion Plan were exercisable as of March 31, 2005, and expire in January 2012. Certain assumed options granted under the JAMDAT Plans have acceleration rights upon the occurrence of various triggering events. Otherwise, the terms of the JAMDAT Plans are similar to our Equity Plan.

In connection with the consolidation of our Class A and Class B common stock into a single class of common stock described above, each outstanding option to purchase one share of Class B common stock was converted into an option to purchase 0.001 shares of common stock.

The following summarizes the activity under our common stock option plans during the fiscal years ended March 31, 2006, 2005 and 2004:

(In thousands, except weighted-average exercise price)

	<u>Options Outstanding</u>	
	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance as of March 31, 2003.....	47,959	\$22.19
Granted	9,182	45.38
Canceled	(1,363)	28.71
Exercised	<u>(12,224)</u>	<u>17.10</u>
Balance as of March 31, 2004.....	43,554	28.31
(18,477 shares were exercisable at a weighted-average price of \$20.26)		
Granted and Assumed ⁽¹⁾	9,091	58.89
Canceled	(2,422)	35.18
Exercised	<u>(9,271)</u>	<u>23.26</u>
Balance as of March 31, 2005.....	40,952	35.82
(19,100 shares were exercisable at a weighted-average price of \$24.58)		
Granted and Assumed ⁽²⁾	9,455	52.44
Canceled	(2,976)	50.11
Exercised	<u>(6,549)</u>	<u>27.11</u>
Balance as of March 31, 2006.....	<u>40,882</u>	<u>\$40.02</u>
(22,478 shares were exercisable at a weighted-average price of \$29.88)		
Options available for grant as of March 31, 2006.....	17,449	

⁽¹⁾ We assumed options to purchase approximately 128,000 shares of our common stock as part of our acquisition of Criterion.

⁽²⁾ We assumed options to purchase approximately 1,878,000 shares of our common stock as part of our acquisition of JAMDAT.

The following summarizes the activity under our Class B stock option plan during the fiscal years ended March 31, 2005 and 2004:

(In thousands, except weighted-average exercise price)

	<u>Options Outstanding</u>	
	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance as of March 31, 2003.....	2,122	10.30
(1,470,855 shares were exercisable at a weighted-average price of \$10.03)		
Canceled	<u>(2,087)</u>	<u>10.38</u>
Balance as of March 31, 2004.....	35	9.11
Canceled	<u>(35)</u>	<u>9.11</u>
Balance as of March 31, 2005 and March 31, 2006.....	<u>—</u>	<u>\$ —</u>
Options available for grant as of March 31, 2006.....	—	

Additional information regarding outstanding options to purchase our common stock as of March 31, 2006 is as follows:

(In thousands, except exercise price and remaining contractual life)

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Potential Dilution	Number of Shares	Weighted-Average Exercise Price	Potential Dilution
\$0.53-\$14.94	4,287	2.40	\$11.09	1.4%	4,262	\$11.15	1.4%
14.95-24.66	4,188	4.93	22.88	1.4%	4,178	22.88	1.4%
24.67-30.05	4,689	5.72	27.82	1.5%	4,329	27.82	1.4%
30.06-31.32	4,950	6.44	31.18	1.6%	3,654	31.23	1.2%
31.33-47.45	4,221	7.27	40.47	1.4%	2,371	39.82	0.8%
47.46-52.03	7,067	8.66	50.28	2.3%	2,141	49.06	0.7%
52.04-54.41	2,789	9.50	53.04	0.9%	268	52.65	0.1%
<u>54.42-65.93</u>	<u>8,691</u>	<u>9.10</u>	<u>61.43</u>	<u>2.8%</u>	<u>1,275</u>	<u>62.70</u>	<u>0.4%</u>
<u>\$0.53-\$65.93</u>	<u>40,882</u>	<u>7.02</u>	<u>\$40.02</u>	<u>13.4%</u>	<u>22,478</u>	<u>\$29.88</u>	<u>7.4%</u>

Potential dilution is computed by dividing the options in the related range of exercise prices by the shares of common stock issued and outstanding as of March 31, 2006 (305 million shares). The weighted-average estimated fair value of stock options granted during fiscal years 2006, 2005 and 2004 was \$15.19, \$17.70 and \$16.22, respectively. The fair value was estimated on the date of grant using the Black-Scholes option-pricing model assumptions described in Note 1 (o) of the Notes to Consolidated Financial Statements.

Our outstanding options have vested or will vest approximately in the following fiscal years (in thousands):

	<u>2006 and Prior</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Number of options	<u>22,478</u>	<u>7,859</u>	<u>4,499</u>	<u>3,788</u>	<u>2,258</u>	<u>40,882</u>

(c) Restricted Stock Units

For the first time in fiscal 2006, we granted restricted stock units (“RSUs”) under our Equity Plan to employees worldwide. An RSU grant is a right to receive a share of common stock at the end of a specified period of time, which is subject to forfeiture and transfer restrictions. Vesting for RSUs is based on continued employment of the holder. Upon vesting, the equivalent number of common shares are typically issued net of tax withholdings. If the vesting conditions are not met, unvested RSUs will be forfeited. Generally, our RSU grants vest according to one of the following vesting schedules:

- 100 percent after one year;
- Three year vesting with 25 percent cliff vesting at the end of each of the first and second years, and 50 percent cliff vesting at the end of the third year; or
- Four year vesting with 25 percent cliff vesting at the end of each year.

The following summarizes our RSU activity during the fiscal year ended March 31, 2006:

(In thousands, except weighted-average grant date fair value)

	<u>Restricted Stock Units</u>	
	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Balance as of March 31, 2005	—	
Granted and Assumed ⁽¹⁾	664	\$52.21
Canceled	(9)	
Vested	<u>—</u>	
Balance as of March 31, 2006	<u>655</u>	

⁽¹⁾ We assumed approximately 10,000 restricted stock units as part of our acquisition of JAMDAT.

The weighted average grant date fair value of restricted stock units is based on the quoted fair value of our common stock on the date of grant.

In fiscal 2006, we recognized \$2 million of pretax compensation expense and additional paid-in-capital related to our RSU grants using the accelerated vesting attribution method.

(d) 401(k) Plan and Registered Retirement Savings Plan

We have a 401(k) plan covering substantially all of our U.S. employees, and a Registered Retirement Savings Plan covering substantially all of our Canadian employees. These plans permit us to make discretionary contributions to employees' accounts based on our financial performance. We contributed \$3 million, \$4 million and \$5 million to these plans in fiscal 2006, 2005 and 2004, respectively.

(13) COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income", requires classifying items of other comprehensive income (loss) by their nature in a financial statement and displaying the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. Accumulated other comprehensive income primarily includes foreign currency translation adjustments, and the net-of-tax amounts for unrealized gains (losses) on investments and unrealized gains (losses) on derivatives designated as cash flow hedges. Foreign currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

The change in the components of accumulated other comprehensive income is summarized as follows (in millions):

	<u>Foreign Currency Translation Adjustment</u>	<u>Unrealized Gains (Losses) on Investments, Net</u>	<u>Accumulated Other Comprehensive Income</u>
Balances as of March 31, 2003	\$ 1	\$ 1	\$ 2
Other comprehensive income (loss)	<u>19</u>	<u>(1)</u>	<u>18</u>
Balances as of March 31, 2004	20	—	20
Other comprehensive income	<u>10</u>	<u>26</u>	<u>36</u>
Balances as of March 31, 2005	30	26	56
Other comprehensive income (loss)	<u>(10)</u>	<u>37</u>	<u>27</u>
Balances as of March 31, 2006	<u>\$ 20</u>	<u>\$63</u>	<u>\$83</u>

The change in unrealized gains (losses) on investments are shown net of taxes of \$1 million in fiscal year 2005. The change in unrealized gains (losses) on investments, net of taxes, for fiscal 2004 was not material.

During fiscal 2006, we realized all gains and losses outstanding from our derivative instruments. As of March 31, 2006, we did not have any derivative instruments outstanding. In fiscal 2005 and 2004, activity related to derivatives was not material. See Note 3 of the Notes to Consolidated Financial Statements.

(14) INTEREST AND OTHER INCOME, NET

Interest and other income, net, for the years ended March 31, 2006, 2005 and 2004 consisted of (in millions):

	<u>Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income, net	\$75	\$ 45	\$ 29
Net gain (loss) on foreign currency assets and liabilities	(1)	25	44
Net loss on foreign currency forward contracts	(3)	(23)	(50)
Ineffective portion of hedging	—	(1)	(2)
Other income (expense), net	<u>(7)</u>	<u>10</u>	<u>—</u>
Interest and other income, net	<u>\$64</u>	<u>\$ 56</u>	<u>\$ 21</u>

(15) NET INCOME PER SHARE

The following table summarizes the computations of basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic EPS is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock

options, restricted stock unit awards, warrants and other convertible securities using the treasury stock method.

(In millions, except per share amounts)	Year Ended March 31,		
	2006	2005	2004
Net income	<u>\$ 236</u>	<u>\$ 504</u>	<u>\$ 577</u>
Shares used to compute net income per share:			
Weighted-average common stock outstanding — basic	304	305	295
Dilutive potential common shares	<u>10</u>	<u>13</u>	<u>13</u>
Weighted-average common stock outstanding — diluted	<u>314</u>	<u>318</u>	<u>308</u>
Net income per share:			
Basic	\$0.78	\$1.65	\$1.95
Diluted	\$0.75	\$1.59	\$1.87

Options to purchase 7 million, 1 million and 3 million shares of common stock were excluded from the above computation of weighted-average common stock for Diluted EPS for the fiscal years ended March 31, 2006, 2005 and 2004, respectively, as the options' exercise price was greater than the average market price of the common stock. For fiscal 2006, 2005 and 2004, the weighted-average exercise price of these options was \$63.34, \$63.63 and \$47.19 per share, respectively.

(16) RELATED PARTY TRANSACTIONS

On June 24, 2002, we hired Warren Jenson as our Chief Financial and Administrative Officer and agreed to loan him \$4 million to be forgiven over four years based on his continuing employment. The loan does not bear interest. On June 24, 2004, pursuant to the terms of the loan agreement, we forgave \$2 million of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. As of March 31, 2006, the remaining outstanding loan balance was \$2 million, which will be forgiven on June 24, 2006, provided that Mr. Jenson has not voluntarily resigned his employment with us or been terminated for cause prior to that time. No additional funds will be provided to offset the tax implications of the forgiveness of the remaining \$2 million.

(17) SEGMENT INFORMATION

Our reporting segments are based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our chief operating decision maker, to evaluate segment performance; the availability of separate financial information; and overall materiality considerations.

We manage our business primarily based on geographical performance. Accordingly, our combined global publishing organizations represent our reportable segment, our Publishing segment, due to their similar economic characteristics, products and distribution methods. Publishing refers to the manufacturing, marketing, advertising and distribution of products developed or co-developed by us, or distribution of certain third-party publishers' products through our co-publishing and distribution program.

The following table summarizes the financial performance of our Publishing segment and a reconciliation of our Publishing segment's profit to our consolidated operating income (in millions):

	Year Ended March 31,		
	2006	2005	2004
Publishing segment:			
Net revenue	\$ 2,927	\$ 3,125	\$ 2,958
Depreciation and amortization	(19)	(25)	(23)
Other expenses	<u>(1,690)</u>	<u>(1,613)</u>	<u>(1,515)</u>
Publishing segment profit	1,218	1,487	1,420
Reconciliation to consolidated operating income:			
Other:			
Net revenue	24	4	(1)
Depreciation and amortization	(76)	(50)	(55)
Other expenses	<u>(841)</u>	<u>(772)</u>	<u>(588)</u>
Consolidated operating income	<u>\$ 325</u>	<u>\$ 669</u>	<u>\$ 776</u>

Publishing segment profit differs from consolidated operating income primarily due to the exclusion of substantially all of our research and development expense as well as certain corporate functional costs that are not allocated to the publishing organizations.

Information about our total net revenue by product line for the fiscal years ended March 31, 2006, 2005 and 2004 is presented below (in millions):

	Year Ended March 31,		
	2006	2005	2004
Consoles			
PlayStation 2	\$ 1,127	\$ 1,330	\$ 1,315
Xbox	400	516	384
Xbox 360	140	—	—
Nintendo GameCube	135	212	200
Other consoles	<u>1</u>	<u>10</u>	<u>30</u>
Total Consoles	1,803	2,068	1,929
PC	418	531	470
Mobility			
PSP	252	18	—
Nintendo DS	67	23	—
Game Boy Advance and Game Boy Color	55	77	78
Cellular Handsets	<u>19</u>	<u>—</u>	<u>—</u>
Total Mobility	393	118	78
Co-publishing and Distribution	213	283	398
Internet Services, Licensing and Other			
Subscription Services	61	55	49
Licensing, Advertising and Other	<u>63</u>	<u>74</u>	<u>33</u>
Total Internet Services, Licensing and Other	<u>124</u>	<u>129</u>	<u>82</u>
Total Net Revenue	<u>\$ 2,951</u>	<u>\$ 3,129</u>	<u>\$ 2,957</u>

Information about our operations in North America, Europe and Asia for the fiscal years ended March 31, 2006, 2005 and 2004 is presented below (in millions):

	<u>North America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
<u>Year ended March 31, 2006</u>				
Net revenue from unaffiliated customers	\$1,584	\$1,174	\$193	\$2,951
Long-lived assets	1,061	203	7	1,271
<u>Year ended March 31, 2005</u>				
Net revenue from unaffiliated customers	\$1,665	\$1,284	\$180	\$3,129
Long-lived assets	314	218	10	542
<u>Year ended March 31, 2004</u>				
Net revenue from unaffiliated customers	\$1,610	\$1,180	\$167	\$2,957
Long-lived assets	259	143	6	408

Our direct sales to Wal-Mart Stores, Inc. represented approximately 13 percent of total net revenue in both fiscal 2006 and 2004 and approximately 14 percent of total net revenue in fiscal 2005.

(18) QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(In millions, except per share data)	<u>Quarter Ended</u>				<u>Year Ended</u>
	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>March 31</u>	
<u>Fiscal 2006 Consolidated</u>					
Net revenue	\$ 365	\$ 675	\$1,270	\$ 641	\$2,951
Gross profit	214	391	768	397	1,770
Operating income (loss)	(96)	49	347	25	325
Net income (loss)	(58) ^(a)	51 ^(b)	259 ^(c)	(16) ^(d)	236
<u>Common Stock</u>					
Net income (loss) per share — basic	\$(0.19)	\$ 0.17	\$ 0.86	\$(0.05)	\$ 0.78
Net income (loss) per share — diluted	\$(0.19)	\$ 0.16	\$ 0.83	\$(0.05)	\$ 0.75
Common stock price per share					
High	\$59.83	\$63.12	\$61.97	\$58.59	\$63.12
Low	\$47.45	\$55.22	\$51.04	\$50.14	\$47.45
<u>Fiscal 2005 Consolidated</u>					
Net revenue	\$ 432	\$ 716	\$1,428	\$ 553	\$3,129
Gross profit	255	432	925	320	1,932
Operating income	25	125	519	—	669
Net income	24	97	375 ^(e)	8 ^(f)	504
<u>Common Stock</u>					
Net income per share — basic	\$ 0.08	\$ 0.32	\$ 1.23	\$ 0.02	\$ 1.65
Net income per share — diluted	\$ 0.08	\$ 0.31	\$ 1.18	\$ 0.02	\$ 1.59
Common stock price per share					
High	\$55.91	\$55.01	\$62.86	\$71.16	\$71.16
Low	\$47.42	\$45.52	\$43.38	\$54.52	\$43.38

^(a) Net income includes acquired in-process technology of \$1 million, pre-tax.

- (b) Net income includes certain litigation expense of \$1 million, pre-tax, and net tax credits of \$9 million.
- (c) Net income includes restructuring charges of \$9 million, pre-tax.
- (d) Net income includes acquired in-process technology of \$7 million, restructuring charges of \$17 million, a litigation expense credit of \$1 million, all pre-tax, and net tax expense of \$34 million.
- (e) Net income includes acquired in-process technology of \$9 million, pre-tax, and non-deductible acquisition related costs from our acquisition of Criterion of \$3 million.
- (f) Net income includes acquired in-process technology of \$4 million, restructuring charges of \$1 million, certain litigation expenses of \$21 million and a bonus reversal of \$26 million, all pre-tax.

Our common stock is traded on the NASDAQ National Market under the symbol ERTS. The prices for the common stock in the table above represent the high and low sales prices as reported on the NASDAQ National Market.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have audited the accompanying consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of April 1, 2006 and March 26, 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended April 1, 2006. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electronic Arts Inc. and subsidiaries as of April 1, 2006 and March 26, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended April 1, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Electronic Arts Inc.'s internal control over financial reporting as of April 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 9, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Mountain View, California
June 9, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Electronic Arts Inc. maintained effective internal control over financial reporting as of April 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Electronic Arts Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Electronic Arts Inc. maintained effective internal control over financial reporting as of April 1, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Electronic Arts Inc. maintained, in all material respects, effective internal control over financial reporting as of April 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management excluded from their evaluation of their internal control over financial reporting the internal control over financial reporting of JAMDAT Mobile Inc. ("JAMDAT"), which the Company acquired on February 15, 2006. As of April 1, 2006, total assets, excluding goodwill and acquired intangible assets, subject to JAMDAT's internal control over financial reporting represented 1% of the Company's consolidated total assets. For the period from February 15, 2006 through April 1, 2006, total net revenue subject to JAMDAT's internal control over financial reporting represented less than 1% of the Company's consolidated net revenue. Our audit of internal control over financial reporting of Electronic Arts Inc. also excluded an evaluation of the internal control over financial reporting of JAMDAT.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of April 1, 2006 and March 26, 2005 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended April 1, 2006, and our report dated June 9, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Mountain View, California
June 9, 2006

Item 9: *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A: *Controls and Procedures*

Definition and Limitations of Disclosure Controls

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Executive Vice President, Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluates these controls and procedures on an ongoing basis.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial and Administrative Officer, after evaluating the effectiveness of our disclosure controls and procedures, believe that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing the requisite reasonable assurance that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding the required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with our policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of the end of our most recently completed fiscal year. We have excluded from our evaluation of our internal control over financial reporting the internal control over financial reporting of JAMDAT Mobile Inc. (“JAMDAT”), which we acquired on February 15, 2006. As of March 31, 2006, total assets, excluding goodwill and acquired intangible assets, subject to JAMDAT’s internal control over financial reporting represented

1 percent of our consolidated total assets. For the period from February 15, 2006 through March 31, 2006, total net revenue subject to JAMDAT's internal control over financial reporting represented less than 1 percent of our consolidated net revenue. In making its assessment, management used the criteria set forth in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management believes that, as of the end of our most recently completed fiscal year, our internal control over financial reporting was effective.

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on management's assessment of our internal control over financial reporting. That report appears on page 107.

Changes in Internal Controls

In preparation for management's report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. During fiscal 2006, there were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our disclosure controls and procedures.

Item 9B: Other Information

None.

PART III

Item 10: *Directors and Executive Officers of the Registrant*

The information regarding directors who are nominated for election required by Item 10 is incorporated herein by reference to the information to be included in our definitive Proxy Statement for our 2006 Annual Meeting of Stockholders (the “Proxy Statement”) under the caption “Proposal No. 1 — Election of Directors”. The information regarding executive officers required by Item 10 is included in Item 1 of this report. The information regarding Section 16 compliance is incorporated herein by reference to the information to be included in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance”.

The information required by Item 10 regarding our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers) appears in Item 1 of this Form 10-K under the caption “Investor Information”.

Item 11: *Executive Compensation*

The information required by Item 11 is incorporated herein by reference to the information to be included in the Proxy Statement under the caption “Compensation of Executive Officers” specifically excluding the “Compensation Committee Report on Executive Compensation”.

Item 12: *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated herein by reference to the information to be included in the Proxy Statement under the captions “Principal Stockholders” and “Equity Compensation Plan Information”.

Item 13: *Certain Relationships and Related Transactions*

The information required by Item 13 is incorporated herein by reference to the information to be included in the Proxy Statement under the caption “Certain Transactions”.

Item 14: *Principal Accounting Fees and Services*

The information required by Item 14 is incorporated herein by reference to the information to be included in the Proxy Statement under the caption “Fees of Independent Auditors”.

PART IV

Item 15: *Exhibits, Financial Statement Schedule*

(a) Documents filed as part of this report

1. Financial Statements: See Index to Consolidated Financial Statements under Item 8 on Page 66 of this report.
2. Financial Statement Schedule: See Schedule II on Page 118 of this report.

3. Exhibits: The following exhibits (other than exhibits 32.1 and 32.2, which are furnished with this report) are filed as part of, or incorporated by reference into, this report:

<u>Number</u>	<u>Exhibit Title</u>
2.01	Agreement and Plan of Merger by and among Electronic Arts Inc., EArts (Delaware), Inc. and JAMDAT Mobile Inc. dated December 8, 2005.(***) (1)
3.01	Amended and Restated Certificate of Incorporation of Electronic Arts Inc.(2)
3.02	Amended and Restated Bylaws.(3)
4.01	Specimen Certificate of Registrant's Common Stock.(4)
10.01	Registrant's Directors Stock Option Plan and related documents.(*)(5)
10.02	Registrant's 1991 Stock Option Plan and related documents as amended.(*)(6)
10.03	Registrant's 1998 Directors' Stock Option Plan and related documents, as amended.(*)(6)
10.04	Registrant's 2000 Equity Incentive Plan as amended, and related documents.(*)(7)
10.05	Registrant's 2000 Employee Stock Purchase Plan as amended, and related documents.(*)(7)
10.06	Form of Indemnity Agreement with Directors.(*)(8)
10.07	Electronic Arts Discretionary Bonus Program Plan Document (*)(9)
10.08	Electronic Arts Deferred Compensation Plan.(*)(3)
10.09	Electronic Arts Executive Long-Term Disability Plan.(*)(10)
10.10	Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood, Inc. dated February 14, 1995.(11)
10.11	Guarantee from Electronic Arts Inc. to Flatirons Funding, LP dated February 14, 1995.(11)
10.12	Amended and Restated Guaranty from Electronic Arts Inc. to Flatirons Funding, LP dated March 7, 1997.(12)
10.13	Amended and Restated Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood Inc. dated March 7,1997.(12)
10.14	Amendment No. 1 to Lease Agreement between Electronic Arts Redwood Inc. and Flatirons Funding, LP dated March 7, 1997.(12)
10.15	Lease Agreement by and between Registrant and Louisville Commerce Realty Corporation, dated April 1, 1999.(13)
10.16	Option agreement, agreement of purchase and sale, and escrow instructions for Zones 2 and 4, Electronic Arts Business Park, Redwood Shores California, dated April 5, 1999.(13)
10.17	Licensed Publisher Agreement by and between EA and Sony Computer Entertainment America Inc. dated as of April 1, 2000.(**) (14)
10.18	Master Lease and Deed of Trust by and between Registrant and Selco Service Corporation, dated December 6, 2000.(15)
10.19	Guaranty, dated as of December 6, 2000, by Electronic Arts Inc. in favor of Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and Keybank National Association.(16)
10.20	Participation Agreement among Electronic Arts Redwood, Inc., Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Keybank National Association, dated December 6, 2000.(17)
10.21	Amendment No. 1 to Amended and Restated Credit Agreement by and among Flatirons Funding LP and The Dai-Ichi Kangyo Bank, Limited, New York Branch, dated February 21, 2001.(18)
10.22	Amendment No. 2 to Lease Agreement by and between Electronic Arts Redwood, Inc. and Flatirons Funding, LP dated July 16, 2001.(19)
10.23	Participation Agreement among Electronic Arts Redwood, Inc., Electronic Arts Inc., Flatirons Funding, LP, Selco Service Corporation and Selco Redwood, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Tranche B Banks and Keybank National Association dated July 16, 2001.(19)

<u>Number</u>	<u>Exhibit Title</u>
10.24	Guaranty, dated as of July 16, 2001, by Electronic Arts Inc. in favor of Flatirons Funding, Limited Partnership, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Tranche B Banks, and KeyBank National Association.(16)
10.25	First Amendment to Participation Agreement, dated as of May 13, 2002, by and among Electronic Arts Redwood, Inc., Electronic Arts Inc., Flatirons Funding, Limited Partnership, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, KeyBank National Association, and The Bank of Nova Scotia.(16)
10.26	Offer Letter for Employment at Electronic Arts Inc. to Warren Jenson, dated June 21, 2002.(*)(20)
10.27	Full Recourse Promissory Note between Electronic Arts Inc. and Warren Jenson, dated July 19, 2002.(20)
10.28	Full Recourse Promissory Note between Electronic Arts Inc. and Warren Jenson, dated July 19, 2002.(20)
10.29	Lease Agreement by and between Registrant and Ontrea, Inc. dated October 7, 2002.(21)
10.30	Lease Agreement by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003.(22)
10.31	Agreement Re: Right of First Offer to Purchase and Option to Purchase by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003.(22)
10.32	Profit Participation Agreement by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003.(22)
10.33	Sublease Agreement by and between Electronic Arts Inc. and Playa Capital Company, LLC, dated July 31, 2003.(22)
10.34	Amending Agreement among Ontrea Inc. (the “Landlord”), Electronic Arts (Canada), Inc. (the “Tenant”), and Electronic Arts Inc. (the “Indemnifier”), dated October 30, 2003.(23)
10.35	First Amendment of Lease by and between Louisville Commerce Realty Corporation and Electronic Arts Inc., dated February 23, 2004.(8)
10.36	First Amendment to lease agreement by and between Playa Vista — Water’s Edge, LLC and Electronic Arts Inc., entered into April 19, 2004.(3)
10.37	Lease agreement between ASP WT, L.L.C. (“Landlord”) and Tiburon Entertainment, Inc. (“Tenant”) for space at Summit Park I, dated June 15, 2004.(3)
10.38	Omnibus Amendment Agreement (2001 transaction), dated as of September 15, 2004, Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank Of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and KeyBank National Association.(16)
10.39	Omnibus Amendment Agreement (2000 transaction), dated as of September 15, 2004, by and among Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank Of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and KeyBank National Association.(16)
10.40	Omnibus Amendment (2000 transaction), dated as of July 11, 2005, among Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, various Liquidity Banks, Deutsche Bank Trust Company Americas, and KeyBank National Association.(16)
10.41	Omnibus Amendment (2001 transaction), dated as of July 11, 2005, among Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, various Liquidity Banks, Deutsche Bank Trust Company Americas, The Bank of Nova Scotia, and KeyBank National Association.(16)
10.42	First amendment to lease, dated December 13, 2005, by and between Liberty Property Limited Partnership, a Pennsylvania limited partnership and Electronic Arts — Tiburon, a Florida corporation f/k/a Tiburon Entertainment, Inc.(24)

<u>Number</u>	<u>Exhibit Title</u>
10.43	Agreement for Underlease relating to Onslow House, Guildford, Surrey, dated 7 February 2006, by and between The Standard Life Assurance Company and Electronic Arts Limited and Electronic Arts Inc.(24)
10.44	Offer Letter for Employment at Electronic Arts Inc. to Gabrielle Toledano, dated February 6, 2006.(*)
10.45	Second Omnibus Amendment (2001 Transaction), dated as of May 26, 2006, among Electronic Arts Redwood LLC, as Lessee, Electronic Arts Inc., as Guarantor, SELCO Service Corporation (doing business in California as “Ohio SELCO Service Corporation”), as Lessor, the Various Liquidity Banks party thereto, as Liquidity Banks, The Bank of Nova Scotia, as Documentation Agent and Keybank National Association, as Agent.(25)
10.46	Second Omnibus Amendment (2000 Transaction), dated as of May 26, 2006, among Electronic Arts Redwood LLC, as Lessee, Electronic Arts Inc., as Guarantor, SELCO Service Corporation (doing business in California as “Ohio SELCO Service Corporation”), as Lessor, the Various Liquidity Banks party thereto, as Liquidity Banks, and KeyBank National Association, as Agent.(25)
21.01	Subsidiaries of the Registrant.
23.01	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	Additional exhibits furnished with this report:
32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

** Portions of this exhibit have been redacted pursuant to a confidential treatment request filed with the SEC.

*** Certain schedules have been omitted and the Company agrees to furnish to the Commission supplementally a copy of any omitted schedules upon request.

- (1) Incorporated by reference to exhibits filed with Registrant’s Current Report on Form 8-K/A, filed December 12, 2005.
- (2) Incorporated by reference to exhibits filed with Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- (3) Incorporated by reference to exhibits filed with Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- (4) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-4, filed March 3, 1994 (File No. 33-75892).
- (5) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant’s Registration Statement on Form S-8, filed November 6, 1991 (File No. 33-32616).
- (6) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-8, filed July 30, 1999 (File No. 333-84215).
- (7) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-8, filed August 3, 2005 (File No. 333-127156).

- (8) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2004.
- (9) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- (10) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2005.
- (11) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1995.
- (12) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1997.
- (13) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1999.
- (14) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant's Registration Statement on Form S-3, filed November 21, 2003 (File No. 333-102797).
- (15) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.
- (16) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (17) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2002.
- (18) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2001.
- (19) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2002.
- (20) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (21) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2003.
- (22) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- (23) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2003.
- (24) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005.
- (25) Incorporated by reference to exhibits filed with Registrant's Current Report on Form 8-K, filed June 1, 2006.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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.

By: /s/ Lawrence F. Probst III
Lawrence F. Probst III,
Chairman of the Board and
Chief Executive Officer

Date: June 9, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the Registrant in the capacities indicated and on the 9th of June 2006.

<u>Name</u>	<u>Title</u>
<u>/s/ Lawrence F. Probst III</u> Lawrence F. Probst III	Chairman of the Board and Chief Executive Officer
<u>/s/ Warren C. Jenson</u> Warren C. Jenson	Executive Vice President, Chief Financial and Administrative Officer
<u>/s/ Kenneth A. Barker</u> Kenneth A. Barker	Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)
Directors:	
<u>/s/ M. Richard Asher</u> M. Richard Asher	Director
<u>/s/ Leonard S. Coleman</u> Leonard S. Coleman	Director
<u>/s/ Gary M. Kusin</u> Gary M. Kusin	Director
<u>/s/ Gregory B. Maffei</u> Gregory B. Maffei	Director
<u>/s/ Timothy Mott</u> Timothy Mott	Director
<u>/s/ Vivek Paul</u> Vivek Paul	Director
<u>/s/ Robert W. Pittman</u> Robert W. Pittman	Director
<u>/s/ Linda J. Srere</u> Linda J. Srere	Director

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Years Ended March 31, 2006, 2005 and 2004

(In millions)

<u>Allowance for Doubtful Accounts, Price Protection and Returns</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged (credited) to Other Accounts⁽¹⁾</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Year Ended March 31, 2006	<u>\$162</u>	<u>\$483</u>	<u>\$(6)</u>	<u>\$407</u>	<u>\$232</u>
Year Ended March 31, 2005	<u>\$155</u>	<u>\$471</u>	<u>\$ 7</u>	<u>\$471</u>	<u>\$162</u>
Year Ended March 31, 2004	<u>\$165</u>	<u>\$299</u>	<u>\$14</u>	<u>\$323</u>	<u>\$155</u>

⁽¹⁾ Primarily the translation effect of using the average exchange rate for expense items and the year-ended exchange rate for the balance sheet item (allowance account) and other reclassification adjustments.

ELECTRONIC ARTS INC.
2006 FORM 10-K ANNUAL REPORT
EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.44	Offer Letter for Employment at Electronic Arts Inc. to Gabrielle Toledano, dated February 6, 2006.
21.01	Subsidiaries of the Registrant.
23.01	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

ADDITIONAL EXHIBITS ACCOMPANYING THIS REPORT:

32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Corporate Information

BOARD OF DIRECTORS

M. Richard Asher
Consultant
Former Chief Executive
Officer & President
PolyGram Records, Inc.

Leonard S. Coleman
Former Senior Advisor
Major League Baseball

Gary M. Kusin
Special Advisor
Texas Pacific Group

Gregory B. Maffei
President & Chief
Executive Officer
Liberty Media Corporation

Timothy Mott
Chairman
All Covered

Vivek Paul
Partner
Texas Pacific Group

Robert W. Pittman
Member of
Pilot Group Manager, LLC

Lawrence F. Probst III
Chairman & Chief
Executive Officer
Electronic Arts Inc.

Linda J. Sreer
Marketing &
Advertising Consultant
Former President
Young & Rubicam Advertising

CANDIDATE FOR DIRECTOR

Richard A. Simonson
Chief Financial Officer
Nokia Corporation

CORPORATE OFFICERS

Lawrence F. Probst III
Chairman & Chief
Executive Officer

V. Paul Lee
President
Worldwide Studios

Gerhard Florin
Executive Vice President
General Manager
International Publishing

David P. Gardner
Executive Vice President
Chief Operating Officer
Worldwide Studios

Frank D. Gibeau
Executive Vice President
General Manager
North America Publishing

William B. Gordon
Executive Vice President
Chief Creative Officer

Warren C. Jenson
Executive Vice President
Chief Financial &
Administrative Officer

Joel Linzner
Executive Vice President
Business & Legal Affairs

Nancy L. Smith
Executive Vice President
General Manager
The Sims Franchise

Kenneth A. Barker
Senior Vice President
Chief Accounting Officer

Stephen G. Bené
Senior Vice President
General Counsel
& Corporate Secretary

Mitch Lasky
Senior Vice President
EA Mobile

Gabrielle Toledano
Senior Vice President
Human Resources

CORPORATE OFFICES

Corporate Headquarters
209 Redwood Shores Parkway
Redwood City, CA 94065
(650) 628-1500

North America
Bentonville, Arkansas
Burnaby, British Columbia
Vancouver, British Columbia
Emeryville, California
Los Angeles, California
Orlando, Florida
Honolulu, Hawaii
Chicago, Illinois
Louisville, Kentucky
St. Louis Park, Minnesota
New York, New York
Toronto, Ontario
Montreal, Quebec
Dallas, Texas

International
Adelaide, Australia
The Gold Coast, Australia
Melbourne, Australia
Perth, Australia
Sydney, Australia
Wayville, Australia
Vienna, Austria
Bridgetown, Barbados
Brussels, Belgium
Hamilton, Bermuda
Sao Paulo, Brazil
Hong Kong, China
Shanghai, China
Prague, Czech Republic
Virum, Denmark
Chertsey, England
Guildford, England
London, England
Warrington, England
Vantaa, Finland
Lyon, France
Paris, France
Cologne, Germany
Athens, Greece
Budapest, Hungary
Hyderabad, India
Milan, Italy
Osaka, Japan
Tokyo, Japan
Mexico City, Mexico
Amsterdam, The Netherlands
Hoensbroeck, The Netherlands
Auckland, New Zealand
Oslo, Norway
Warsaw, Poland
Lisbon, Portugal
Bucharest, Romania
Singapore
Johannesburg, South Africa
Seoul, South Korea
Madrid, Spain
Upplands Vasby, Sweden
Buchs, Switzerland
Geneva, Switzerland
Taipei, Taiwan
Bangkok, Thailand

AUDITORS

KPMG LLP
Independent Registered
Public Accounting Firm
Mountain View, California

TRANSFER AGENT

Wells Fargo Shareowner
Services
St. Paul, Minnesota

FORM 10-K

A copy of the Company's
Annual Report on Form 10-K,
as filed with the Securities
and Exchange Commission,
is available by contacting:

Investor Relations
Electronic Arts Inc.
209 Redwood Shores Parkway
Redwood City, CA 94065
(650) 628-7352

ANNUAL MEETING

The Company's Annual
Meeting of Stockholders is
scheduled to be held on
July 27, 2006 at 2:00 P.M. at
the Company's headquarters:

Electronic Arts Inc.
209 Redwood Shores Parkway
Building 250
Redwood City, CA 94065

