



**Electronic Arts
Third Quarter Fiscal Year 2010
Earnings Call
Prepared Comments
February 8, 2010**

Mary Vegh:

Thank you all for joining us this afternoon. Welcome to our third quarter fiscal 2010 earnings call.

Today on the call we have:

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

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

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

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

During the course of this call – we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you that actual events and results may differ materially. We refer you to our most recent Form 10-Q for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of February 8, 2010 and disclaim any duty to update them.

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

John Riccitiello:

Thank you, Mary.

Earlier today, we announced our Q3 results which were in line with the update we provided on January 11. We also provided our FY11 guidance, which, at the mid-point of our range, translates to more than a 40% increase in non GAAP EPS.

On today's call, I'll begin with brief comments on our progress. Eric will review the Q3 results and review our guidance in detail. John Schappert will provide an operations update. And then we'll take your questions.

Let me start with an update on EA's execution, framed against the four strategic initiatives we have identified as crucial to our long-term growth in profitability.

- First – **Product quality** - In calendar 09, we shipped 19 titles with a Metacritic rating of 80 or better. The next best third party publisher shipped only 6. We also just shipped Mass Effect 2 with a Metacritic rating of 96 – one of the highest rated games ever released on the Xbox 360. EA is clearly the quality leader among multi-platform publishers. I believe this is a significant driver in the fact that EA has gained share, fiscal year-to-date.
- Second – **Creating hits in core packaged goods**. We're very proud that both Madden and FIFA remain at the top of the charts again in calendar 09. We're also pleased that we have established two new IPs as sequel-ready successes so far this fiscal year in Dragon Age and EA SPORTS Active and that our recent win with Mass Effect suggests these three titles can be sequeled successfully in the future.
- Third – **Our investment in digital revenue streams** is meeting, and in many cases, exceeding our own high expectations. We achieved a record \$152 million in quarterly non-GAAP net revenue in Q3 – this brings us to 30% growth in digital revenue fiscal year-to-date. Our overall digital business is now at scale (over half a billion dollars annually), growing very rapidly and profitable.
- Lastly – **Operating efficiencies** – In the past two years we have dramatically lowered headcount despite acquisitions and the addition of multiple digital business models. Our operating costs are expected to be down in FY10 versus FY09 – and down even further in FY11.

With that, I will turn it over to Eric.

Eric Brown:

Thank you, John.

First, EA's Q3 together with our guidance for Q4 is at the lower end of the range we guided on January 11. While we are very pleased with the performance of our titles so far in the fourth quarter, we remain cautious in a packaged goods market that remains soft overall, and hit-driven.

Second, our guidance for FY11 is framed by three major considerations.

- While we see reasons for optimism for the packaged goods sector, we believe using a using -3% rate for the sector is a better planning assumption.
- We've made the call to de-emphasize low-margin distribution in our FY11 guidance. This reduces topline revenue, but has limited effect on earnings. While there may be the occasional distribution deal that meets our criteria going forward, part of our mantra of fewer and bigger is the recognition that tighter focus will yield better results.
- Lastly, we note that we've built a plan around an expense base that is approximately \$100 million lower in FY11 than FY10, and like on like - adjusting for foreign exchange, bonus, and Playfish run rate - is approximately \$200 million lower on a non GAAP basis.

By driving down expenses aggressively, we are able to guide to non GAAP EPS growth of 40% at the midpoint of our guidance range while maintaining a realistic stance on the packaged goods sector.

I will now provide industry comments and then turn to EA results:

- 1) For western markets overall, the packaged goods sector was down 9% in the quarter versus expectations of a flat quarter. Both North America and Europe were down 9%. Europe's biggest market, the UK, was down 16% year over year.
- 2) In the quarter, Sony PS3 hardware sales increased 48% year-over-year. Wii hardware sales decreased 2% year-over year, while Microsoft Xbox 360 hardware sales declined 21% year-over-year. Hardware sales responded to price promotions, particularly the Wii in North America, with Wal-Mart promoting the Wii at an effective \$149 price point.
- 3) In North America, concentration of sales in the top titles continued with the top 20 titles in calendar Q4 09 representing 48% share in dollars versus 37% share in calendar Q4 06.
- 4) For the global market including Asia, we estimate that total packaged goods represented approximately 60% of the overall software market for calendar 2009, while total digital, consisting of mobile and online, was approximately 40%. While packaged goods were down 9% in calendar 09, we estimate that total digital increased by approximately 28%, growing the combination of packaged goods plus digital by 3% year-over-year.

EA's fiscal third quarter results were in line with the update we provided on our January 11, 2010 call.

Non-GAAP net revenue was \$1.346 billion –short of our going-in expectations due to a soft December for EA and the weak overall packaged goods sector. We also experienced product mix shift to lower margin distribution titles in the December quarter in North America. On a GAAP basis, net revenue was \$1.243 billion.

At constant currency rates, net revenue decreased \$435 million or 25% year-over-year. The primary cause of change year over year was the greater number of frontline titles like Need for Speed, Mirror's Edge and Dead Space in Q3 FY09.

In our Packaged Goods business:

- FIFA 10 – sold through over 7 million copies at retail in the quarter for Europe and North America combined and launched with a Metacritic rating of 91 on the PS3 and Xbox 360. In Europe, it was the #2 title across all platforms in the quarter and the #2 title in calendar 09.
- Madden NFL 10 – sold through over 2.3 million copies at retail in the quarter. In North America, Madden NFL 10 charted #4 overall in calendar 09. Year-over-year, Madden sales on all platforms combined continued to close the gap in North America from -17 % through Q2 to -6% through the end of Q3. Our core platforms PS3 and Xbox 360 are up 15% on a cumulative basis.
- Dragon Age: Origins was a key frontline title for the quarter – it sold-in 2.7 million copies worldwide on the PC, PS3, and Xbox 360 platforms and received a Metacritic rating of 88 across all platforms.

In our distribution business –

- Left 4 Dead 2 – in partnership with Valve, exceeded our expectations with 2.9 million copies sold-in worldwide on the PC and Xbox 360 during the holiday quarter and it charted in the top 10 in North America according to NPD.

In our digital business:

- FIFA 10 with its innovative Ultimate Team mode, Dragon Age premium digital content, Battlefield 1943, and The Sims store all performed well in the quarter.
- Pogo continues to be the #1 online game site worldwide in terms of user engagement.
- We started recognizing Playfish revenue in the fiscal third quarter. During Q3, we had 2 of the top 10 Facebook games.
- We continue to be the #1 mobile games provider in western markets. We had seven of the top eleven games in December for the iPhone and four

of the top five selling games for 2009. EA had seven of the top ten games on Verizon during the quarter, and achieved over 50% of the top 10 games on AT&T, Sprint, and T Mobile.

- We had 1.9 million total subscribers in the quarter; this includes Pogo, as well as Massively Multiplayer Online (MMO) subscribers.
- We finished the quarter with 49 million registered users in our central user identity management system, up 16% from the prior quarter -- this includes console and PC users.

Performance by digital business model included the following for the quarter:

- We achieved another record quarter with \$152 million in non-GAAP digital net revenue – up 30% year-over-year.
- Mobile revenue was \$57 million – up 14% year-over-year.
- Digital revenue from all other non-mobile sources was \$95 million for the quarter, up 42% year-over-year. This includes full game downloads, PC and console Premium Downloadable Content or PDLC, browser games, subscriptions, social games, and advertising.

Moving to the rest of the income statement.

- Non-GAAP gross profit margin was 51.6% versus 47.1% a year ago. This is up from the prior year due to a greater mix of published titles.
- Non-GAAP operating expenses were \$540 million – down \$47 million or 8% year-over-year.
- Total bonus accrued as of the end of Q3 is \$54 million compared with \$43 million through Q3 last year.
- Total variable marketing expense in the quarter was \$149 million compared with \$187 million in the same quarter last year, which is in line with the different title plan where we had more frontline releases last year.

Non-GAAP operating income was \$154 million versus non-GAAP operating income of \$234 million a year ago.

Below the operating income line.

- Non-GAAP other income and expense was negative \$2 million versus positive \$14 million a year ago. This reduction is due to lower cash balances and a \$7 million adverse foreign currency movement compared to a year ago.
- On a GAAP basis, we recorded a tax benefit of \$28 million, primarily due to a reduction in our deferred tax valuation allowance related to the change in U.S. tax law for tax loss carrybacks.
- On a non-GAAP basis, we reported taxes at 28%.

GAAP diluted loss per share was \$0.25 versus a diluted loss per share of \$2.00 a year ago. Last year we recorded a significant goodwill impairment and tax valuation allowance charge in Q3.

Non-GAAP diluted earnings per share was \$0.33 versus diluted earnings per share of \$0.56 a year ago.

In Q3, we generated \$221 million of operating cash flow versus \$212 million a year ago. Fiscal year-to-date, our operating cash flow improved by \$102 million versus last year.

We ended the quarter with 8,537 employees versus 9,760 a year ago. 20% of our employees are now in low cost locations versus 17% a year ago.

Turning to the Balance Sheet.

Cash and short term investments were approximately \$1.466 billion at quarter end – down approximately \$159 million from last quarter primarily due to the acquisition of Playfish.

Marketable equity securities were \$318 million – down \$69 million from last quarter primarily due to the sale of The9 shares and a decline in the value of our UbiSoft investment. At quarter-end, we had \$179 million of net unrealized gains on investments.

Gross accounts receivable were \$762 million – down \$335 million from last year, or down 31%. DSOs were 51 days versus 57 last year.

Reserves against outstanding receivables totaled \$267 million – down \$36 million from a year ago. Reserve levels were 8% of trailing nine month non-GAAP revenue – versus 9% a year ago.

Inventory was \$144 million – down \$151 million from a year ago.

Ending deferred net revenue from packaged goods and digital content was \$895 million – up \$383 million from a year ago due to the additional deferral for all console and PC on-line enabled games.

Restructuring Update

Our restructuring plan is on track. During Q3, we recorded \$96 million of restructuring expense for our FY10 Restructuring Plan of the estimated total amount of \$150 million to \$155 million. We closed 5 locations and are approximately 2/3 complete with position reductions at the end of January 2010.

Now to our Outlook for Q4 FY10.

Revenue

- On a GAAP basis, we expect revenue of \$925 million to \$1.0 billion.

- On a non-GAAP basis, we expect revenue of \$800 to \$850 million.

Operating Expenses

- We expect GAAP operating expenses to be approximately \$625-640 million and non-GAAP operating expenses of approximately \$520-535 million.

Below the Line

- We expect GAAP diluted EPS of \$0.05 to \$0.23.
- We expect non-GAAP EPS of \$0.02 to \$0.06.
- For taxes, we expect a GAAP tax expense of approximately \$0-10 million excluding the impact of tax-related charges that may arise in connection with the Playfish integration.
- On a non-GAAP basis, we expect to report taxes at 28%.
- For share count, please use 328 million shares to compute both GAAP and non GAAP EPS.

FY11 outlook and guidance.

As we go through our FY11 guidance, we will refer to three principal lines of business:

- Packaged Goods – this includes higher margin EA owned titles and co-published titles; PC titles like The Sims 3 can yield up to a 90% gross profit margin, and owned console products typically yield 60% to 70% gross profit margins.
- Distribution – this includes third party titles distributed by EA yielding a net margin typically in the teen percent range.
- Digital – this is the aggregation of our online, mobile, and digital products and services. The business units at scale in our portfolio, like Pogo and Mobile, have pro forma operating margins of 20% or more.

For FY11, we are making the following assumptions:

Sector –

1. Our guidance is based on an assumption that total worldwide packaged goods will be down 3% in calendar year 2010.
2. We are projecting continued robust growth in digital of approximately 26%, which is expected to grow the composite sector by 8% for calendar 2010.
3. While there is a possibility of software catalysts including a) a strong industry title slate, b) growth coming from the introduction of Microsoft and Sony motion controllers and c) growth coming from potential console price reductions in calendar 10, we are not counting on packaged goods software growth in our FY11 plan.

Total EA –

1. We expect to end FY10 with a total of approximately 8,120 headcount. We expect to end FY11 with roughly the same total headcount. Total low cost location headcount is increasing from approximately 21% or 1,800 pre-restructuring at the end of Q2 to 2,100 or 26% at the end of FY11.
2. For exchange rates, we are assuming \$1.43 USD to the Euro, \$0.95 USD to the Canadian dollar, and \$1.60 USD to the British Pound. Currency markets are still volatile and our R&D costs will increase if the Canadian dollar strengthens.

Packaged Goods –

1. Our FY11 Plan currently includes a total of 36 titles for the fiscal year versus 54 in FY10. This number excludes expansion packs.
2. Our top 20 titles for FY11 are expected to generate approximately 80% of total non-distribution packaged goods revenue; this compares to an estimated 76% for the top 20 titles in FY10. We have included an FY11 title plan with our earnings press release which details our principal titles including digital games for console and PC.
3. Our total variable marketing and advertising in FY11 is an estimated \$475 to \$495 million which is comparable to the total amount for FY10.
4. On a non-GAAP basis, we expect FY11 revenue from EA published packaged goods titles to be between \$2.75 billion to \$3.0 billion, which reflects flat share at the middle of the range.

Distribution –

While we have great relationships with our partners, we are modeling a reduction in our distribution business as we concentrate on higher margin EA owned titles and digital initiatives. This will result in a \$450 million year-over-year reduction in expected distribution revenue.

Digital –

1. We are not assuming that we bring a major new MMO to market in FY11. We will continue to incur significant development costs as we prepare this title for launch.
2. In FY11, we will continue to introduce new service and product features that benefit unique registered purchasers on PC and console games. Our most recent example is the Cerberus content network introduced with Mass Effect 2.
3. We are planning a number of digital launches in FY11 including Tiger Woods Online going from beta to full launch, FIFA Online, and Need

For Speed World. We expect to launch a similar number of mobile and social network games compared to FY10.

4. We expect to grow our total digital direct revenue by 30% or more, from approximately \$575 million in FY10 to at least \$750 million in FY11. The year over year dollar growth is expected to be comprised of:
 - a. One quarter from console full games and PDLC
 - b. One quarter from PC and browser full games and PDLC
 - c. And half from games services and advertising which includes Playfish social games, Pogo, Mobile, and subscriptions

Q1 FY11 Guidance –

Revenue

- On a GAAP basis, we expect revenue of \$710 million to \$750 million.
- On a non-GAAP basis, we expect revenue of \$460 million to \$500 million. Q1 revenue is down year over year as we are comparing to a Q1 last year that included The Sims 3 and EA SPORTS Active launches.
- The Q1 FY11 title slate includes: FIFA World Cup, Skate 3, Tiger PGA Tour and a Sims 3 expansion pack; there is a total of 4 frontline titles compared to 10 frontline titles last year.
- Looking at Q1 year over year, World Cup comps Active and there are no Q1 FY11 comps for Harry Potter and The Sims 3.

Below the Line

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

FY11 Full Year Guidance –

Revenue

- On a GAAP basis, we expect revenue of \$3.45 to \$3.70 billion.
- On a non-GAAP basis, we expect total revenue of \$3.65 to \$3.90 billion. Breaking this down into three components:
 - We expect digital revenue of \$750 million or more in FY11.
 - We expect approximately \$160 million in distribution revenue, which is a \$450 million year-over-year decrease.
 - And we expect packaged goods revenue ranging from approximately \$2.75 billion to \$3.0 billion.

Gross Margins

- We expect GAAP gross profit margins of approximately 57% to 58% and non-GAAP gross profit margins of approximately 60%.

Operating Expenses

- We expect GAAP operating expenses to be approximately \$2.3 billion and non-GAAP operating expenses of approximately \$2 billion. Absolute non-GAAP operating expenses are down \$100 million overall. On a like-on-like basis, operating expenses are down approximately \$200 million year – over-year if we adjust for the impact of foreign exchange, the assumption of full bonus, and the impact of the Playfish expenses. The \$200 million savings compares favorably to the \$100 million net savings expectation we communicated when we announced our FY10 restructuring plan.

At the bottom line...

- We expect GAAP diluted loss per share of (\$0.60) to (\$0.90).
- We expect to be profitable and generate non-GAAP EPS of \$0.50 to \$0.70.
- We expect that non-GAAP other income and expense will be approximately \$5 million.
- We expect our GAAP tax rate will continue to be volatile but on an absolute dollar basis, and subject to changes in the business or the tax laws, we expect tax expense ranging from \$30 million to \$40 million. We expect GAAP losses in FY11 – creating additional valuation allowances on US deferred tax assets.
- On a non-GAAP basis, we expect to report taxes at 28%.
- For share count, please use 328 million shares to compute the GAAP loss per share and 330 million shares to compute non-GAAP EPS.

FY11 Revenue Phasing

1. We currently expect a total of 36 frontline titles shipping in FY11 versus 54 in FY10.
2. By quarter, we currently expect the following number of titles to ship in FY11:
 - a. Q1 – 4
 - b. Q2 – 9
 - c. Q3 – 14
 - d. Q4 – 9

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

Q1	approximately 13%
Q2	approximately 25%
Q3	approximately 40% and,
Q4	approximately 20% to 25%.

This concludes our outlook and guidance.

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

John Schappert:

Thanks, Eric.

I would like to update you on our titles for Q4 FY10 and then turn to our plans for FY11.

I'll start by highlighting three of the biggest titles in our current quarter.

- BioWare's *Mass Effect 2* shipped January 26th on Xbox 360 and PC to record pre-orders and record-setting quality. Forty critics gave it a perfect 10 and the game launched with a Metacritic rating of 96. We backed it with a big marketing campaign and we are very pleased with both the quality and the consumer response on this one. We announced the shipment of 2 million copies and the early read on sell through is strong.
- *Dante's Inferno*, from our Visceral Studio, ships tomorrow, February 9th on PS3, Xbox 360 and PSP. We have another strong marketing campaign for Dante's, including our first ever Super Bowl ad which aired yesterday. We saw more than 3 million downloads of our demo, pre-orders are tracking well, and we are eager for the launch this week.
- *Battlefield: Bad Company 2*, from our DICE Studio, ships March 2nd on Xbox 360, PS3, and PC. Early feedback from critics has been very positive and we are very excited about this title.

Now, I'd like to sketch some of the product highlights for FY11. Included in our earnings release is a table that shows you most, but not all of the titles we are planning for the fiscal year, as well as preliminary platform plans and an estimated launch window.

And while this list shows some of our big launches, it does not reflect the large and growing revenue we hope to see from digital opportunities like Playfish and mobile; from online games like FIFA Online, or from post-launch downloadable content we offer with most of our games. So while this list can inform your modeling – it is by no means a complete look at EA's overall opportunity.

With that, here are a few highlights starting with Q1:

- *2010 FIFA World Cup South Africa* – as fan excitement builds for the world's biggest sporting event, our game will feature all the teams from qualifying nations and an authentic online tournament mode.
- Next, *Skate 3* is an award-winning new franchise that has gone head-to-head with an old competitor, and won. This year *Skate 3* will include a co-op skateboarding experience and online features that allow players to form teams and compete against rival crews.
- Also in Q1, is *Tiger Woods PGA TOUR 11*.
- I should also mention that our web-based *Tiger Woods PGA TOUR Online* game recently went into open beta and offers a terrific online experience.

- And finally, *Need For Speed World* is a web-based open-world game with licensed cars, extensive game modes, and a massive online environment. This game will launch in open beta in the quarter.

In Q2, we are laying down some big bets with blockbusters from EA SPORTS and the EA Games Label.

- I'll start with the North American flag ships: *NCAA Football 11* and *Madden NFL 11*. And of course, the world's most beautiful game, *FIFA 11*.
- We will also be bringing FIFA Online to the Western world – a totally web-based experience that has been extremely popular in Asian markets.
- And finally from EA SPORTS, the franchise that wins so much recognition from critics -- *NHL 11*.
- My final call out for Q2 is the return of *Medal of Honor* – This great franchise is leaving WWII and taking players directly into today's war in Afghanistan. I saw the demo last week, and this one is shaping up to be terrific.

Now on to Q3 – our holiday quarter,

- *EA SPORTS Active* for the Wii was one of EA's most successful new franchises in 2009. It will be back in 2010, but this time, across multiple platforms.
- Also from EA SPORTS in Q3, *NBA Live 11*. And you'll see the return of arcade-favorite, *NBA Jam*.
- Next, one of the most anticipated new properties of the year, *EA SPORTS MMA*. Our Mixed Martial Arts game will feature an array of the top fighters and fighting styles.
- Also in the holiday quarter, *The Sims 3* is coming to consoles.
- We are also launching a new *Harry Potter* title, a new action-based *Need for Speed*, from our Criterion Studio, and several offerings for kids and families from our partnership with Hasbro.
- Another game for the holiday is *Crysis 2* from our partners at Crytek. This is a publishing agreement with full EA margins -- a shooter based in New York City and it's coming to both consoles and the PC.

And finally, Q4,

- Winter of 2011 marks the chilling return of *Dead Space* – a highly rated, wholly owned franchise.
- Another big driving simulation from *Need For Speed*;
- A new shooter being developed by Epic Studios and co-published by EA.
- And finally, something far reaching from *Mass Effect*.

That's a look at some of our big title launches for both packaged goods and online. In FY11, every one of EA's releases will have an online component – both downloadable content and online play.

And don't forget that we have a full roster of titles coming from our online subscription site, Pogo.com; from our mobile and iPhone group; and of course our social gaming team, Playfish.

That's a lot of exciting content and revenue opportunities coming through all three of our businesses -- packaged goods, digital and distribution.

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

John Riccitiello:

Thanks John

We have an outstanding portfolio of IP that is getting stronger with the addition of *Dragon Age*, *Mass Effect*, *EA SPORTS Active* and the re-invigoration of key franchises like *Need For Speed*, *Battlefield*, and *FIFA*. And while EA's IP portfolio was described by some as tired a few short years ago, it is now a major competitive advantage.

Our packaged goods business is performing. We have gained market share this fiscal year as a result of great quality and improved marketing. In FY11, we believe titles like *Medal of Honor*, *Crysis 2*, *Dead Space 2*, *The Sims 3* on console and others have break out potential.

We have a profitable, scale digital business that recently hit the half-a-billion dollar threshold. Our digital business is growing at 30%, and is projected to break through three quarters of a billion dollars in FY11. We have programs in place that should take this to well beyond one billion dollars in the coming two years.

John, Eric and I would be happy to take your questions.

Non-GAAP Financial Measures

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

applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

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

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

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

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

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

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

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

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

Goodwill Impairment. Adverse economic conditions, including the decline in the Company's market capitalization and expected financial performance, indicated that a potential impairment of goodwill existed during the three months ended December 31, 2008. As a result, the Company performed goodwill impairment tests for its reporting units and determined that goodwill related to its mobile reporting unit was impaired. As the Company excludes the GAAP impact of acquired intangible assets (such as goodwill) from its financial results when analyzing the operating performance of an acquisition in subsequent periods, Electronic Arts believes it is appropriate to exclude goodwill impairment charges from its non-GAAP financial measures.

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

Loss on Licensed Intellectual Property Commitment. During the fourth quarter of fiscal 2009, Electronic Arts amended an agreement with a content licensor. This amendment resulted in the termination of our rights to use the licensor's intellectual property in certain products and we incurred a related estimated loss of \$38 million. This significant non-recurring loss is excluded from our Non-GAAP financial measures in order to provide comparability between periods. Further, the Company excluded this loss when evaluating its operating performance and the performance of its management team during this period and will continue to do so when it plans, forecasts and analyzes future periods.

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

Restructuring Charges. Although Electronic Arts has engaged in various restructuring activities in the past, each has been a discrete, extraordinary event

based on a unique set of business objectives. Each of these restructurings has been unlike its predecessors in terms of its operational implementation, business impact and scope. As such, the Company believes it is appropriate to exclude restructuring charges from its non-GAAP financial measures.

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

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

Income Tax Adjustments. The Company uses a fixed, long-term projected tax rate of 28 percent internally to evaluate its operating performance, to forecast, plan and analyze future periods, and to assess the performance of its management team. Accordingly, the Company has applied the same 28 percent tax rate to its non-GAAP financial results.

In its earnings press release dated February 8, 2010, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP financial measures.

Safe Harbor Statement

Some statements set forth in this document, including the estimates relating to EA's fiscal years 2010 and 2011 guidance information and fiscal year 2011 title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements. Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the general health of the U.S. and global economy and the related impact on discretionary consumer spending; fluctuations in foreign exchange rates; consumer spending trends; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the consumer demand for, and the availability of an adequate supply of console hardware units (including the Xbox 360® video

game and entertainment system, the PLAYSTATION®3 computer entertainment system and the Wii™); the Company's ability to predict consumer preferences among competing hardware platforms; the financial impact of the Playfish acquisition and potential future acquisitions by EA; the Company's ability to realize the anticipated benefits of acquisitions; the seasonal and cyclical nature of the interactive game segment; the Company's ability to attract and retain key personnel; changes in the Company's effective tax rates; the performance of strategic investments; the impact of certain accounting requirements, such as the Company's ability to estimate and recognize goodwill impairment charges and make tax valuation allowances; adoption of new accounting regulations and standards; potential regulation of the Company's products in key territories; developments in the law regarding protection of the Company's products; the Company's ability to secure licenses to valuable entertainment properties on favorable terms; the stability of the Company's key customers, and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009. These forward-looking statements speak only as of February 8, 2010. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this document are estimates based on information currently available to Electronic Arts. While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2009. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended December 31, 2009.