# Electronic Arts
# Fourth Quarter and Fiscal Year 2009
# Earnings Call
# Prepared Comments
# May 5, 2009

***Tricia Gugler:***

Welcome to our fourth quarter fiscal 2009 earnings call.

Today on the call we have

- John Riccitiello, our Chief Executive Officer
- Eric Brown, our Chief Financial Officer
- John Pleasants, our Chief Operating Officer and
- Rod Humble, Head of our EA Play Label

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

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

Please see the supplemental information on our website for our trailing twelve month segment shares, additional GAAP to non-GAAP reconciliations, a summary of our FY10 financial guidance and our Q110 slate.

During the course of this call – we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you that actual events and results may differ materially. We refer you to our most recent Form 10-Q for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of May 5, 2009 and disclaim any duty to update them.

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

***John Riccitiello:***

Thanks Tricia.

Earlier today, we announced our Q4 FY09 results. We reported that our EPS in Q4 was better than expected and we successfully implemented our cost restructuring. We also confirmed our FY10 non-GAAP guidance.

On today's call –

- I will touch briefly on the retail environment and the industry and provide an update on our strategy,

- Eric will review our Q409 results, provide an update on our cost cutting actions and our detailed guidance for FY10,
- Rod will discuss the upcoming launch of The Sims 3, and
- I'll wrap up with a few closing thoughts, before we open it up for Q&A.

**Let me start with the industry and retail environment.**
We continue to see a challenging environment. The retail channel is cleaner than it was one quarter ago, but retailers continue to be cautious with initial orders, waiting for confirmation of strong sell-through before committing to more inventory. In Europe, which has a more fragmented retail footprint, we saw a few retailers close their doors in the UK and Spain is suffering disproportionately due to piracy. Overall, retailers remain cautiously optimistic on the category and in some cases are increasing shelf space for the video game sector at the expense of other categories – but remain conservative on inventory buying and management.

After a strong January and February software growth comp to 2008, we saw a negative comp in March turning industry growth negative in North America on a year-to-date basis. We expect negative monthly comps to continue – from April thru June. We now expect software sales to grow in the low to mid single digits in CY09 across both North America and Europe. We anticipate comps to improve in the back half of the year fueled by a strong slate of games and easier compares. We remain cautiously optimistic on the industry.

**For EA.**
I am confident in the quality of our games and the marketing and sales programs that we are building to create and sustain demand. In addition, I'm also pleased to see the investments we have made in online begin to payoff.

Ninety days ago we provided FY10 guidance, a quarter earlier than our usual pattern. Even though we are a bit more cautious on the industry today, we haven't made any material changes to our assumptions and are confirming our FY10 non-GAAP guidance. As we said on our last call, we took a more measured view on top-line from the start, we've cut our operating expenses significantly – down $500M from our original projection – and are focused on delivering the operating profit in our guidance.

**Now on to our strategy.** As we discussed on our last call, we are focused on four main areas in FY10:

1. Drive hits – particularly on EA's core platforms – the PS3, Xbox 360 and PC,
2. Aggressively manage expenses,
3. Build on the progress we have made on the Nintendo Wii, and
4. Drive our digital services revenue.

Let me provide a brief update on each one.

**Drive hits.** We plan to match strong quality with strong marketing – particularly for our top ten PC, PS3 and Xbox 360 titles.

We've got a strong lineup this year coming from each of our Labels. Our annual franchises are looking great and we have a number of quality titles that we didn't have last year – including EA SPORTS Active, The Sims 3, Dragon Age, Mass Effect 2, Brutal Legends and Harry Potter.

Our marketing plans for these titles are well underway. Our goal is to ensure our marketing campaigns are crisp and that we optimize every dollar we spend. A few points here –

- First – we are changing when we spend our marketing dollars versus the approach we took last year.
- Second – we are adjusting our allocation between traditional and new forms of media to ensure we are finding our consumers.

The first titles that will be getting EA's revamped marketing are EA SPORTS Active, launching in May and The Sims 3 launching in June.

**Second – aggressively manage costs.** We have executed on our cost reduction plans slightly better than expected, ending FY09 with lower operating expenses than anticipated. I am pleased with the progress our teams made during the quarter – never in EA's history have we reduced costs this aggressively and at such a rapid pace. As we exit FY09, our cost reduction plans are substantially complete, and our focus is on executing our FY10 plans. Eric will provide a more detailed update shortly.

**Third – capitalize on the progress we have made on the Wii.** Versus a year ago – where I believe we only had a few Wii titles that charted well – this year we have at least ten that have the potential to chart well in both North America and Europe. For the first time, all of our games are either specifically designed for the Wii or the Wii game is the lead SKU.

One additional highlight – we are bundling the Wii Motion Plus with Tiger Woods PGA TOUR 10 and EA SPORTS Grand Slam Tennis at launch.

We're also moving ahead with a unique set of marketing plans for the Wii. We're launching our own website dedicated to EA's titles on the Wii later this month. We're also building a brand campaign around EA on the Wii that will launch later this year and we're taking a different approach to retail marketing.

**Finally – drive our digital services revenue.** I believe that as much as global publishing has long been a strategic advantage for EA, our direct-to-consumer initiatives will define our leadership in the years ahead. Our digital business is at scale at over $400M and it is growing north of 20%.

- We're the number one publisher in wireless in North America and Europe combined. This year we plan to extend that leadership, in part, by launching 30 games on the iPhone.
- Digital content – both full game downloads as well as micro-transactions were roughly $80M in revenue – up 2x from FY08. We expect this to roughly double again in FY10. This is driving ARPU and margins.

- On PC, our subscription revenue streams continue to grow – with our Pogo and Warhammer businesses. We also plan to introduce two additional online subscription services later in the fiscal year.
- And finally, Asia. We recently began commercializing NBA Street Online in Korea and launched the open beta of FIFA Online 2 in China. This is an important milestone setting the stage for future growth in China. In FY10, we have a robust line-up of titles in Asia. After a multi-year period of investment in this area, we expect this business to be profitable in FY10.

That wraps up my update. Now, I would like to turn the call over to Eric.

***Eric Brown:***

Good afternoon.

For Q4, we delivered non-GAAP revenue of $609M and non-GAAP diluted loss per share of $0.37. We came in better than expected on non-GAAP operating expenses and slightly lower than expected on revenue – netting to $0.05 above our guidance. This was done in a quarter where we were collectively focused on restructuring the business.

On a GAAP basis, revenue was $860M and GAAP diluted loss per share was $0.13.

Key titles in the quarter were –

- Skate 2 and Lord of the Rings Conquest – each sold over 1M copies.
- SimAnimals and MySims Party – each sold over 500K copies.

In our digital direct businesses, we generated $110M in non-GAAP revenue – up 16% year-over-year – representing 18% of our total non-GAAP revenue in the quarter. We had strong performance across all units.

- POGO ended the year with 1.8M subscribers – up 9% from a year ago.
- Wireless revenue was $48M. In February, we had four of the top-10 games in North America and five of the top-10 in Europe.
- Digital download games and micro-transaction revenue was $25M – up more than 2x from a year ago – due to further expansion of our online distribution capabilities.
- Warhammer ended the year with over 300K subscribers**.

We executed sharply on our cost reduction plans, ending the year at $2.18BN in non-GAAP operating expenses vs. our previous guidance of $2.25BN – approximately $70M better than expected. This savings came from lower costs from headcount related items, contracted services, and marketing.

- Approximately 75% of the headcount reductions were completed by year-end and
- We have closed 5 facilities.

We expect the remaining restructuring actions to be completed by the end of Q2 FY10.

We enter FY10 having effectively reset our operating expense run rate.

I would now like to discuss Q4 in more detail. Please note that all of the following references to fourth quarter results are non-GAAP, unless otherwise stated.

**Non-GAAP revenue* was $609M** – down 34% from a year ago. At constant currency rates, revenue decreased 30%. This decline primarily relates to –

- A decline in catalog revenue, which is revenue related to launches in prior quarters – which was ~37% of total revenue vs. ~35% a year ago.
- As expected, frontline revenue was down due to shipping smaller scale titles in the quarter vs. a year ago. Skate 2 and Lord of the Rings did not comp last year's launch of Army of Two and Burnout Paradise.
- Distribution revenue was also down – given the strong comp of Rock Band in the prior year.

**By geography.**

- North America non-GAAP revenue* was $366M – down $178M – or 33%.
- International non-GAAP revenue* was $243M – down $132M – or 35%.

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

Non-GAAP gross profit* was $302M – down 35% consistent with the decline in non-GAAP revenue.

Non-GAAP gross profit margin* was 49.6% vs. 50.4% a year ago. The decrease is primarily attributable to a higher mix of revenue from licensed IP and higher sales reserves, slightly offset by a lower mix of distribution revenue.

During the quarter, we amended a licensor agreement related to the use of certain IP in our games. This resulted in a GAAP charge of $38M to cost of goods sold due to the loss on this IP commitment. This has no impact on our FY09 non-GAAP gross profit or our cash flows.

**Operating expenses.**

Our non-GAAP operating expenses are down $21M year-over-year to $467M as a result of our cost reduction program. The bonus expense in Q409 was comparable to Q4 last year.

- Non-GAAP marketing and sales expense was $111M – down $12M due to lower advertising and lower personnel-related costs.
- Non-GAAP G&A expense was $61M – down $19M due to lower bad debt expense and lower contracted services costs.
- Non-GAAP R&D was $295M – up $10M as a result of increased developer advances in EA Partners, slightly offset by lower personnel-related costs.

During the quarter, we recorded $39M of total restructuring expense.

**Below the operating income line.**

**Non-GAAP other income and expense** was a loss of $2M due to a decline in interest income and increased foreign exchange losses.

**Income Taxes.**

- On a GAAP basis we recorded a tax benefit of $17M. We haven't recorded any net benefits for U.S. deferred tax benefits due to the valuation allowance.
- On a non-GAAP basis, we recorded taxes at 28%.

**GAAP diluted loss per share was $0.13** vs. a diluted loss per share of $0.30 a year ago.

**Non-GAAP diluted loss per share* was $0.37** vs. diluted earnings per share of $0.09 a year ago.

**Our trailing twelve month operating cash flow was $12M** vs. $338M for the prior period.

**Turning to the Balance Sheet.**

**Cash and short term investments** were approximately $2.2BN at quarter end – up approximately $200M from last quarter due to cash generated from operations.

**Marketable equity securities** were $365M – up $63M from last quarter due to increases in the market value of our strategic investments. At quarter end – we had a net unrealized gain of $190M.

**Gross accounts receivable** were $333M – down from last year and consistent with the revenue decline.

**Reserves against outstanding receivables** totaled $217M – down $21M from a year ago. Reserve levels were 9% of trailing six month non-GAAP revenue – consistent with last year. As a percentage of trailing nine month non-GAAP revenue – reserves were 6% – down one point from last year.

**Inventory** was $217M – up $49M from a year ago. Excluding our EA Partner inventory, for which EA has limited exposure – inventory was roughly flat year-over-year.

**Ending deferred net revenue from packaged goods and digital content** was $261M – down $126M from a year ago.

**Before we get into our guidance, I would like to highlight several reporting changes:**

- First, beginning in Q1, we will be deferring revenue on a GAAP only basis for every online-enabled game. Historically, we only deferred revenue for a subset of console and PC games – primarily those games where EA

provided online hosting. Given our focus on driving our content digital/direct to consumer – all of our future online-enabled games will have the potential for post release downloadable content, including free content. As a result, we will now defer revenue on all online-enabled games, including our Xbox 360 SKUs. This change will result in an additional $500M of revenue being deferred out of FY10 into FY11 on a GAAP only basis. This change will not impact our non-GAAP revenue, our non GAAP EPS or our cash flows.

- Second, this quarter, we've adjusted and expanded our revenue reporting in our press release tables. For example, we now break out our digital service revenue. We believe this new presentation is more reflective of how we view the business. All prior periods have been adjusted to conform to this new presentation. Next quarter – we expect to report our co-publishing revenue with EA publisher revenue since the economics of these deals are more akin to EA publisher revenue vs. distribution.
- Third, effective this quarter, we are making several changes to our title and SKU definitions given our evolving business models. Under our new definition, we are making the following changes –
    - We will no longer count expansion packs as titles or SKUs given that the lines are blurring between the physical expansion packs and other post release content.
    - We will be including our online only games as "titles". The first country of launch will be counted as a "title". For example, NBA Street launched in Korea in Q4 will be counted as a title.
    - We will still call out important expansion packs and post release downloadable content.
    - By this definition – our title count is over 50 and our SKU count is approximately 120.
- And finally, I would like to highlight that our Redwood City headquarters leases are scheduled to expire in July 2009. We are currently reviewing our options, including buying the building outright, financing the building purchase or extending the lease.

**Now for our FY10 Guidance.**

We are confirming our non-GAAP guidance.

On a GAAP basis, we expect revenue of $3.70 to $3.85BN. This is $500M lower than our previous GAAP revenue guidance for FY10 due to the additional revenue deferral beginning in Q1.

On a non-GAAP basis, we expect $4.3BN of revenue – up 5% year-over-year or $200M. The primary drivers of the revenue growth by business is as follows –

- Roughly +$300M from the Play label driven by the launch of The Sims 3 and our two movie based titles.
- Roughly +$100M from our EA Sports label driven by EA SPORTS Active, EA SPORTS Grand Slam Tennis and Fight Night Round 4. We expect our core simulation sports titles in total to be roughly flat year-over-year.

- Roughly +$200M from our EA Games label, excluding our distribution business. This growth is driven by Mass Effect 2, Army of Two: 40th Day, Godfather 2, Dragon Age, Saboteur, Dante's Inferno and Brutal Legend.
- And finally, we expect our distribution business, separate from the EA Games statistic given above, to be down roughly $400M year-over-year.

We're planning our catalog revenue in FY10 to be down year-over-year and represent a smaller portion of our total revenue.

And finally, just a point on launch dates. In FY10, we expect to ship FIFA 10 and NFS SHIFT at the end of Q2 vs. Q3 in the prior year.

**Gross Margins**

- We expect GAAP gross profit margins of approximately 51% to 53% and non-GAAP gross profit margins of approximately 58% to 59%.
- We expect our non-GAAP gross profit margins to increase significantly year-over-year due to a lower mix of distribution revenue, lower SRA reserves and a higher mix of owned IP.

**Operating Expenses**

- We expect GAAP operating expenses to be under $2.4BN and non-GAAP operating expenses of approximately $2.1BN.
- On a Non-GAAP basis. We expect all of our expense line items to be down in absolute dollars and down as a percentage of revenue. This is also true, assuming we pay a full bonus in FY10 vs. a much lower bonus funding assumption in FY09.
    - We expect R&D to be approximately 27% of revenue.
    - We expect sales and marketing to be approximately 15% of revenue.
    - And we expect G&A to be approximately 6% of revenue.

**Below the Line**

- We expect GAAP loss per share of $0.85 to $1.45 and non-GAAP EPS of $1.00.
- A dollar in non-GAAP EPS translates to a non-GAAP operating margin of approximately 10%.
- We expect that non-GAAP other income and expense will be roughly $25M – down from last year as a result of steep declines in interest rates.
- On taxes – we expect our GAAP tax rate to 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 $10M to $45M. Keep in mind, we continue to expect GAAP losses in FY10 – creating additional valuation allowances on US deferred tax assets. On a non-GAAP basis, we expect to record non-GAAP taxes at 28%.
- On share count, you should use 323M shares to compute the GAAP loss per share and 325M to compute non-GAAP EPS.

**Foreign Exchange**

- Our foreign exchange assumptions used for guidance are based on the rates we used on our last call, which were close to current spot rates at that time: 1.40 USD/Euro, 1.48 USD/GBP and 0.82 USD/CDN.
- We are comfortable with our guidance at current rates**.** To the extent the US dollar continues to strengthen against the Euro and GBP, we will have downside revenue and EPS exposure. To the extent the Canadian dollar strengthens against the US dollar, we will also have downside EPS exposure.

This concludes our guidance and outlook commentary.

With that – I'll turn the call over to Rod.

***Rod Humble:***

Thanks Eric.

I'm happy to be here today to talk about our upcoming launch of The Sims 3 on June 2.

Just to refresh everyone's memory – The Sims franchise has sold over 100M copies since its launch in 2000. Our last big launch, The Sims 2, shipped in 2004 with a very long tail – selling over 4M copies of the base game each year for three years in a row. For those who don't know – we also keep our Sims 2 game fresh by supplementing it with additional content via expansion packs about every 3 to 6 months. So we start with a very large and enthusiastic community.

Today, I would like to talk about The Sims 3:

- The game itself – what we focused on from a creative standpoint
- Our online & community services
- The consumers we expect to appeal to and
- Our marketing campaign.

I'll start with the game. The Sims 3 allows you to make any place you want – and person you want – and live out their lives any way you want. Compared to The Sims 2 – we give you a town instead of just a set of houses, and you now create characters that are more varied and lifelike than the characters in any other video game ever made. With The Sims 3, you get to create an entire world that feels real from the people you create and interact with, to the town in which they live. Our revolutionary artificial intelligence simulates what every character is doing – falling in love, getting a job, robbing their neighbor – or just enjoying a sunset at the beach.

We've evolved from a packaged goods standalone game to a robust online community based experience. Lots to say here, but let me make a couple points.

- The game seamlessly supports the ability to create and share content with millions of other Sims players around the world – right from inside the game.

- The game has an integrated online store. From the start, customers are given 10 dollars to begin shopping.
- The game will be available for digital purchase, both at the EA Online Store and the digital stores of our retail partners.
- In addition, we have announced that at no additional charge we are making an entire second city available as a download on day one.

Real places, real people and real interaction and sharing with your friends. That is The Sims 3.

Now let me talk about our target demographic. The design of The Sims 3, aims not only to retain our current Sims 2 customer base, but we also expect to attract new users to the world of The Sims. More than anything, it is the game characters and what they get to do that will excite both existing and new players. Live out your fantasies, whether these dreams are about being a great student, a criminal mastermind or a rockstar. It's all in the game and the motivations and capabilities for each of these character types is richly provided for.

We are also making the game more accessible to a broader audience. The game will play on a wide spectrum of PCs, including lower-end models. And for the first time – The Sims 3 will be available at launch on Apple Macintosh computers and iPhones. We know Apple users are big players of The Sims and we're happy to be able to offer them a great game – day and date at launch.

And finally, our marketing campaign. We postponed the launch date to June 2 allowing us to give The Sims 3 the campaign it deserves. Our marketing for this game is in high gear.

- Our "Let There Be Sims" marketing started with an aggressive outdoor campaign in major cities in the US. In addition, around the world – you will be seeing such things as Sims themed smart cars, trains, buses and mall displays.
- Our retail campaign – is the largest EA has ever launched, including specially designed end caps and in-store displays.
- Online – we have a large online investment including search, ads and several innovative interactive applications that run across social networks and the web.
- We are also planning a significant TV presence.

So far – consumer, media and retail reaction has been extremely positive and pre-orders are tracking ahead of The Sims 2.

I've been having a wonderful time playing The Sims 3 – I can't wait until June 2nd when our players get to enjoy it too.

***John Riccitiello:***

Thanks Rod.

A few closing thoughts –

- First – we are confident we have the right strategy for driving hits. You'll see this strategy executed when we ship The Sims 3 – a high-quality, truly innovative game, supported by great marketing, and supplemented with deeply integrated direct-to-consumer features.
- Second – although we are in uncertain times, we continue to believe we will have an extended hardware cycle and we continue to see robust growth with our various direct service businesses. Both are positives for properly positioned publishers.
- Lastly – our digital direct-to-consumer initiatives are beginning to pay out – we are through the net investment stage and expect strong returns. I believe that as much as global publishing has long been a strategic advantage for EA, our digital service initiatives will define our leadership in the years ahead.

We look forward to seeing everyone at E3 in June.

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

***Non-GAAP Financial Measures**

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

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

Through the end of fiscal 2008, Electronic Arts made certain income tax adjustments to its non-GAAP financial measures to reflect the income tax effects of each of the items it excluded from its pre-tax non-GAAP financial measures,

as well as certain discrete one-time income tax adjustments. This approach was consistent with how the Company evaluated operating performance, planned, forecasted and analyzed future periods, and assessed the performance of its management team.

In fiscal 2009, the Company began using 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 fiscal 2009 non-GAAP financial results.

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 will be 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).* Beginning in fiscal 2008, Electronic Arts was no longer able to objectively determine the fair value of the online service included in certain of its packaged goods games and online content. As a result, the Company began recognizing the revenue from the sale of these games and content over the estimated online service period. Although Electronic Arts defers the recognition of a significant portion of its net revenue as a result of this change, there has been no adverse impact to its operating cash flow. 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 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.

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

Electronic Arts believes it is appropriate to exclude goodwill impairment charges from its non-GAAP financial measures.

*Loss on 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 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 will exclude this loss when evaluating its operating performance and the performance of its management team during this period and when it plans, forecasts and analyzes future periods.

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

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

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

In its earnings press release dated May 5, 2009, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to each of the historical non-GAAP financial measures.

** Warhammer subscribers include individuals who have paid a subscription fee or have an active prepaid time card, as well as those who have purchased the game and are within their free month of service. The definition excludes all

players under free promotional subscriptions, expired or cancelled subscriptions, and expired prepaid cards. Subscribers in licensees' territories are defined by the same rules.

Safe Harbor Statement

*Some statements set forth in this document, including the estimates relating to EA's fiscal year 2010 guidance information contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements. Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles during fiscal year 2010; the general health of the U.S. and global economy and the related impact on discretionary consumer spending; fluctuations in foreign exchange rates; consumer spending trends; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the consumer demand for, and the availability of an adequate supply of console hardware units (including the Xbox 360® video game and entertainment system, the PLAYSTATION®3 computer entertainment system and the Wii™); consumer demand for software for the PlayStation 2; the Company's ability to predict consumer preferences among competing hardware platforms; the financial impact of 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 quarter ended December 31, 2008. These forward-looking statements speak only as of May 5, 2009. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this document are estimates based on information currently available to Electronic Arts. While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Annual Report on Form 10-K for the fiscal year ended March 31, 2009. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2009.*