ELECTRONIC ARTS

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TO OUR STOCKHOLDERS

Fiscal year 2001 was both a challenging and exciting period for our company and for the industry. The transition from the current generation of game consoles to next generation systems continued, marked by the debut of the first entry in the next wave of new technology – the PlayStation®2 computer entertainment system from Sony. Nintendo and Microsoft will launch new platforms later this year, creating unprecedented levels of competition, creativity and excitement for consumers. Most importantly, this provides a unique opportunity for Electronic Arts to drive revenue and profit growth as we move through the next technology cycle. In conjunction with steady increases in the PC market, plus the significant new opportunity in online gaming, we believe Electronic Arts is poised to achieve new levels of success and leadership in the interactive entertainment category.

In FY01, consolidated net revenue decreased 6.9 percent to $1,322 million. As a result of our investment in building the leading Internet gaming website, consolidated net income decreased $128 million to a consolidated net loss of $11 million, while consolidated diluted earnings per share decreased $0.96 to a diluted loss per share of $0.08. Pro forma consolidated net income and earnings per share, excluding goodwill, non-cash and one-time charges were $6 million and $0.04, respectively, for the year.

LEADERSHIP ON FOUR STRATEGIC INITIATIVES

EA has established four key strategic initiatives by which we measure our performance. We pledged to become the number one publisher on next generation consoles, number one on the PC platform, and the number one provider of interactive entertainment on the Internet. Our fourth key initiative is to be the number one "People Company" in the entertainment industry.

I would like to share with you our assessment of how we performed against each of these strategic initiatives in fiscal year 2001.

Strategic Initiative #1 — Leadership on Next Generation Consoles Although early in the game, EA has carved out the leading position on the PlayStation 2 console, the first of the next generation consoles. In North America, we achieved a 44 percent market share for this platform during the introductory period through December and maintained a 40 percent share during the March quarter based on dollar sales. In total, we released fifteen new products for this system in less than a six-month period, making EA by far the most prolific publisher for the PlayStation 2 console. We led the best-seller charts with titles and franchises like *Madden NFL*™, *NBA Live* and *SSX*, our new snowboarding game. Both *Madden* and *SSX* have already sold more than one million units each on this new platform. In Europe, we estimate we achieved a 35 percent share across all territories on the PlayStation 2 for the calendar year ended December 2000, based on dollar sales, led by *FIFA Soccer* and *SSX*. In Japan, our *FIFA Soccer World Championship* reached number one on the charts, and we firmly established ourselves as the leading US-based publisher in this market. While we do not expect to sustain market share at this level on the PlayStation 2, we have demonstrated our strength in development and publishing and firmly established ourselves as a leader on this console. We have announced support for both the Xbox™ video game console from Microsoft and the Nintendo GameCube,™ which will debut later this year. In summary, we succeeded well beyond our expectations on the PlayStation 2; we believe we are well positioned to succeed on Xbox and Nintendo GameCube; and we fully expect to achieve our goal of leadership on next generation consoles.

Strategic Initiative #2—Leadership on the PC Platform On the PC platform we made tremendous strides. We grew market share by more than five points in North America, ending the March quarter in the number one position with a 21.6 percent share based on dollar sales. In Europe, we estimate we were the leading company for calendar 2000 with more than a 24 percent share based on dollar sales. In Asia Pacific, we estimate we led in all territories, and we moved to the number two market share position in Japan for the fiscal year. For the second year in a row EA published the number one title in the market – *The Sims*™ in calendar 2000 and *SimCity 3000*™ in calendar 1999. *The Sims* is a global phenomenon; it appeals to a very broad demographic of users, including men, women and children, along with both hard-core and casual gamers. We have sold more than four million units of the core product, and nearly seven million units total when you include expansion packs and data disks. It has become our most important wholly-owned intellectual property, and we plan to continue to develop this franchise with additional expansion packs and an online version in FY02. In addition, we had great success with products like *Command & Conquer*™*: Red Alert*™ *2* and *Black & White*,™ both of which have sold more than one million units worldwide to date.

Strategic Initiative #3—Be the Leading Provider of Interactive Entertainment on the Internet In the online space we launched EA.com℠ in FY01 and continue to make strong progress towards our goal of leadership in this medium. We acquired Pogo Corporation in Q4, which gives us the "stickiest" site on the web for popular entertainment. During the month of March we had more than nine million unique visitors to the EA.com site. Users logged more than 1.7 billion minutes on the EA.com/pogo.com℠ web sites in March, making this the fifth most heavily trafficked site on the Internet. In the summer we will launch *Majestic*,™ the highly anticipated online thriller, followed by *Motor City Online, Earth and Beyond*™ and *The Sims Online*™ later in the fiscal year. We are developing a rich content portfolio; we intend to validate the subscription model for online entertainment; and we are committed to making EA.com a profitable component of our overall business.

Strategic Initiative #4—Number One "People Company" in the Entertainment Industry We are on track to achieving this goal. We know that industry leadership is predicated on attracting and developing the best talent. We strive to create an environment where people want to work and where great careers are realized.

When it comes to recruiting talent, we are widely recognized for combining an innovative web-based strategy with a "high touch" approach. In just over a year, the career site on our corporate home page has registered more than 50,000 candidates, forming a private talent pool for EA's ongoing recruitment.

We must also retain our best people. We've developed *EA University* to enhance our technical and management skills. Our proprietary *Emerging Leader Program* provides management insight and broad business skills to employees who show potential for next generation leadership. We've also launched an innovative cross-functional program with the Massachusetts Institute of Technology. *The Creative Leadership Program* brings academics and developers together in workshops on narrative, art, and design. In addition, we listen to our people through our *Talk Back* organization feedback process, which allows us to stay in touch with the ever-changing needs of our workforce.

These highlighted efforts coupled with industry-leading compensation and reward practices, value-based management practices, and the most up-to-date work environments, are making us a #1 People Company.

LOOKING AHEAD: HITS AND INNOVATION

Historically, the console market has grown by 50 percent or more with each new generation of technology. By most estimates, the next generation of 128-bit machines could develop an installed base of more than 200 million systems worldwide. More hardware units translate into more software sales. Also, as gameplay, graphics and audio improve to match the enhanced technology, software tie ratios (the number of software units sold per hardware system) are likely to increase in the future. These are all clear indications of organic growth in our industry.

As new entries from Nintendo and Microsoft heat up the competition in console gaming, and as online gaming continues to grow, EA's primary goal will be to expand on the market leadership we achieved in FY01. Within our industry, EA's scale allows us the unique ability to leverage intellectual properties across multiple platforms and publish them around the globe.

EA's fundamental strategy is based on creating new hits and innovative products. In FY01, titles like *The Sims* and *SSX* along with our lineup of franchises under our EA SPORTS™ brand – *Madden NFL*™, *FIFA Soccer*, *NHL*®, *NBA Live*, *Tiger Woods PGA TOUR® Golf*, *Triple Play Baseball*,™ *Formula One*, *Knockout Kings*™ and *NASCAR*® – inspired loyal consumers and drew new audiences to the fun of video games. In FY02 we will release a full slate of potential new hits including *NBA STREET*, *James Bond 007…Agent Under Fire*,™ *Pirates of Skull Cove*™ and the first in a series of multiple products based upon the Harry Potter™ property, which EA has licensed exclusively for the video game category.

This strategy of hits and innovation will usher in a new age of video gaming. As our core consumers mature and younger gamers enter the market, we're also seeing greater numbers of women drawn to our products. As technology improves and gameplay adopts deeper story lines and character development, the evolution of video games is accelerating. Interactive entertainment has truly become mainstream entertainment. EA intends to remain at the forefront of this exciting and rapidly expanding industry.

As always, I want to thank and acknowledge our customers, stockholders and employees for their commitment and ongoing support of Electronic Arts.

Sincerely,

Larry Probst

Lawrence F. Probst III **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

This Annual Report, including this Letter to Stockholders, as well as Management's Discussion and Analysis on pages 14 to 32, contains forward-looking statements about circumstances that have not yet occurred. All statements, trend analysis and other information related to markets, our products and trends in revenue, as well as other statements including such words as "anticipate", "believe" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and actual events or our actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. 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 and performance include, but are not limited to those listed under the heading "Risk Factors" at page 30 of this Annual Report and under the same heading in our Annual Report on Form 10-K for the year ended March 31, 2001.

INDUSTRY AWARDS

FIRST ANNUAL

GAME DEVELOPERS CHOICE AWARDS

March 21, 2001

Held by the International Game Developers Association and the Gama Network

- **Lifetime Achievement Award** — *Will Wright*
  Chief Game Designer At Maxis. Creator of The Sims, a cultural phenomenon, and developer of SimCity which has won 24 domestic and international awards since its release in 1989.
- **Game of the Year**, **Excellence in Programming** — *The Sims*
- **Excellence in Level Design** — *American McGee's Alice*

FOURTH ANNUAL

INTERACTIVE ACHIEVEMENT AWARDS

March 22, 2001

Held by the Academy of Interactive Arts and Sciences

- **Best in Art Direction**, **Best in Animation**, **Best in Console Role Playing** — *Final Fantasy IX*
- **Console Game of the Year**, **Best in Console Racing**, **Best in Visual Engineering**, **Best in Console Sports**, **Best in Gameplay Engineering** — *SSX*
- **Best in PC Sports** — *FIFA 2001*
- **Best in Sound Design**, **Best in Original Music Composition** — *Medal of Honor: Underground*

EA STUDIOS

REACHING NEW HEIGHTS IN GAME DEVELOPMENT

In the end, it all comes down to the software. It's as true in video games as it is in motion pictures and television – content is king. Innovation, technical mastery and attention to detail have made EA the number one developer on the personal computer and on the next generation of game consoles.

On consoles, Sony, Microsoft and Nintendo have provided game developers with an extraordinary opportunity. They've each revolutionized the canvas on which our artists, engineers and storytellers practice their art. They've challenged us to create stories, characters and sports simulations that take full advantage of the technology. They've given us responsibility for creating an experience that proves to consumers that a new game console is much more than a box full of circuits.

At EA, we put an enormous amount of research into our decisions on console development. We ask if the technology is sound – if it allows developers to create quality games, and ultimately, if it pays off for the consumer. Before we start, we make certain the games will be fun.

The great news for consumers is that the PlayStation 2 console, Xbox and Nintendo GameCube all meet that measure. The millions of calculations these machines perform, the number of pixels and polygons that compose each image, the number of cycles per second that provide smoothness of motion – these are the practical elements that make up a revolution in entertainment. The capability of these consoles is astonishing engineers, challenging storytellers and enthralling consumers.

On PC's, EA leads the North American market for the second year in a row. Our Maxis™ studio created *The Sims*, which has sold more than four million copies life-to-date and was crowned "Game of The Year" at a major industry awards ceremony. Internet connectivity offers a unique element to PC games that, so far, can't be duplicated on consoles. Our studios are working on persistent worlds – games that bring design innovation, community, cooperation and competition to the PC experience.

On both PC and console games, EA moves through each game's development cycle with an attention to detail that pays off in extraordinary ways:

On *Madden NFL*, the camera can zoom in so close that you see the hair and veins on the arms of players and the passion in their faces. When a pass is thrown, the receiver tracks the ball all the way to his hands; he braces against his tackler and grimaces as he's brought down. Above, the sky darkens in the third quarter and the stadium lights shine off the player helmets.

On *Tiger Woods PGA TOUR® Golf*, a chip shot takes you to the green at Pebble Beach. When Tiger lines up for the putt, the console moves millions of polygons per second, giving him a lifelike, 3D fluidity of motion. Will Tiger sink the putt? Before you answer, remember: it's as windy in the game as it is at Pebble Beach.

On *SSX*, our smash-hit snowboarding game, you take a jump, tuck, twist and soar hundreds of feet above the course. The camera moves up and over your character to reveal the terror and the exhilaration of a stunning drop. Vertigo tenses your muscles and a flock of butterflies moves in your stomach.

Next year, at Hogwarts™ School of Witchcraft and Wizardry, you'll straddle Harry Potter's broom and speed through a game of Quidditch.™ With the other team hot on your tail, you'll speed after the Snitch. Speed and cunning may not be enough to catch it; you'll need magic to win.

Whether you play games on a PC or on a console, technology is redefining, broadening and brightening the experience. But it's the games that make the magic – and the best game makers in the world work for EA.

AT THE CORE OF EA'S GLOBAL LEADERSHIP IS OUR PEOPLE AND THE POWERFUL PARTNERSHIP BETWEEN OUR STUDIO AND PUBLISHING DIVISIONS. THE DYNAMIC BETWEEN THE QUALITY OF OUR GAMES AND THE GLOBAL REACH OF OUR DISTRIBUTION CHANNEL IS THE ENVY OF OUR INDUSTRY AND THE ENTERTAINMENT INDUSTRY.

EA PUBLISHING

Worldwide, EA publishes approximately 80 titles which are localized in more than 20 languages and distributed in 75 countries. In North America, independent sources estimate EA was the leading developer on the PlayStation 2 and the PC with market shares of 41.5 percent and 21.0 percent, respectively, for the fiscal year based on dollar sales. On the PlayStation, EA was the second leading developer, behind Sony, with a 17.5 percent market share for the fiscal year. In Europe, independent sources and EA estimate the Company had a 35 percent market share on the PlayStation 2 and a 25 percent market share on the PC for the fiscal year. In Japan, independent sources and EA estimate the Company was the leading Western publisher and the number two publisher on the PC for the fiscal year.

Our global publishing reach is a powerful asset at a time when industry economics tend to reward companies that can produce a game for multiple platforms and publish it across multiple markets.

A great example of this is EA's smash hit on the PC, *The Sims*, which has now sold more than four million units worldwide and spawned line extensions that also performed well. At the core of this success is a terrifically innovative game built by designer Will Wright and the team at our Maxis studio.

EA developed localized content for *The Sims* and turned it into a worldwide success. Localization goes beyond the packaging – there were language and cultural nuances built into versions that sold well in Europe and Asia and a marketing campaign that spread the excitement. The result was the biggest PC success in EA history: our publishing strength took a great game and turned it into a global blockbuster. No other publisher but EA has that kind of reach.

Multiple markets equal bigger profits. Our experience shows that titles having appeal in multiple markets are typically more successful. Powerful EA global franchises such as *The Sims*, *FIFA Soccer*, *James Bond*™ and *NBA Live* outperform many titles with single market appeal. Globally recognized games can provide a powerful bond – a 15-year old gamer in Japan and a 15-year old in France may share an experience that is foreign to non-gaming classmates.

EA Distribution (EAD) is a division of our company that offers smaller developers access to our worldwide distribution capability. SquareSoft, LucasArts and NovaLogic – some of the industry's most innovative and popular studios – depend on EA to distribute their products. The arrangement allows developers to spread the success of hit games to other markets, while providing EA additional revenue opportunities.

In this industry, success begins with great studios, graphics and gameplay. However, profitability often depends on the ability to get the software into as many languages, markets and stores as possible. That's where EA's worldwide leadership pays good dividends.

WITH HARD WORK, LONG HOURS AND THE BEST CREATIVE, TECHNICAL AND MANAGEMENT TALENT IN THE INDUSTRY, EA.COM WAS BUILT AND LAUNCHED IN JUST 11 MONTHS. OUR TEAM BUILT A BUSINESS FROM THE GROUND UP, WITH QUICK-ACCESS GAMES THAT APPEAL TO A BROAD DEMOGRAPHIC AND A QUALITY THAT STRETCHES THE TECHNOLOGICAL LIMITS OF NARROW-BAND ENTERTAINMENT.

EA.COM

EXTENDING EA LEADERSHIP INTO A NEW CHANNEL OF GAMING

On October 5, 2000, EA.com went live with 30 games, ranging from action and adventure to sports, cards, puzzles and trivia. In February, EA.com acquired Pogo Corporation, which added a compatible array of quick-access games and 17 million registered members. EA.com quickly became the "stickiest" site on the web, with traffic that rivals some of the most popular destinations on the entire Internet. By the end of March, EA.com had the most minutes per user per day on the whole Internet.

We are off to a great start to be the number one company in this new channel of gaming. Revenue will come from rich subscription products and advertising. We offer popular, quick-access content that is free and generates revenue from advertising. The high-volume traffic generated on this model provides good promotional exposure for our core offering, rich-content sold in monthly subscriptions.

If this was a baseball game, we'd still be in the first inning – but we're about to get our first turn at bat. EA.com is about to launch one of the most anticipated games in history: *Majestic* – a ground-breaking form of entertainment that calls on players to use the Net to save the lives of three people trapped in a conspiracy. Each month, as players finish an episode, another is introduced. Development costs for *Majestic* are relatively low, when scaled across a volume of subscriptions.

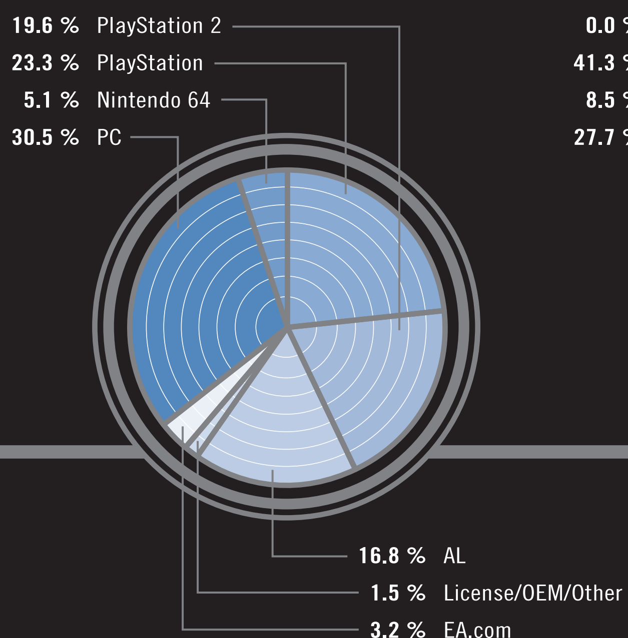
Also coming to EA.com are a series of persistent worlds that provide consumers with a broadband-quality game experience in a narrow-band environment. Consumers start with EA software that is easily loaded onto a PC. They connect to EA.com for a second stream of data that completes the rich worlds, community and content to the data already provided on the disc. When scaled, revenue from the retail sale of the software, combined with the monthly subscriptions, provide strong margins.

EA pioneered this genre with our popular medieval fantasy, *Ultima Online*.™ On a similar format we're developing *Motor City Online* for people who like to build and race cars; a space-based fantasy called *Earth and Beyond* and another persistent world based on the most popular PC game in EA history: *The Sims Online*. We also offer subscription content based on the most powerfully branded trademark in video gaming: EA SPORTS.

At EA.com, we believe these rich-content offerings are the "killer applications" that will usher the traffic, the subscriptions and the revenue that will lead our site to profitability.

WORLDWIDE NET REVENUE

FISCAL 2001



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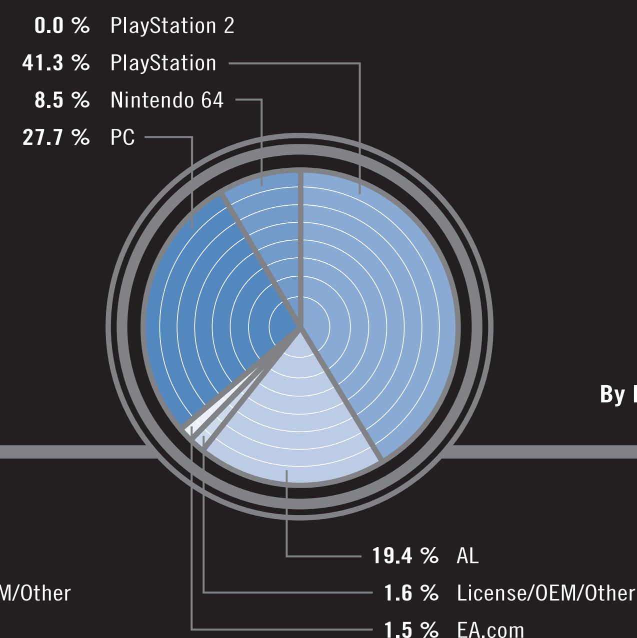
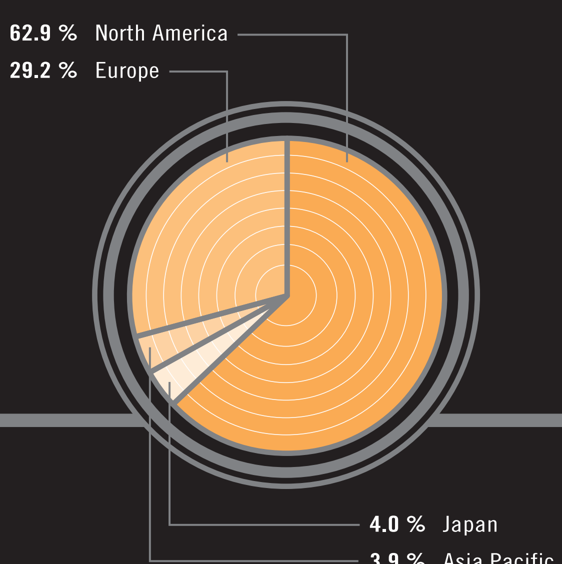


By Platform

FISCAL 2001



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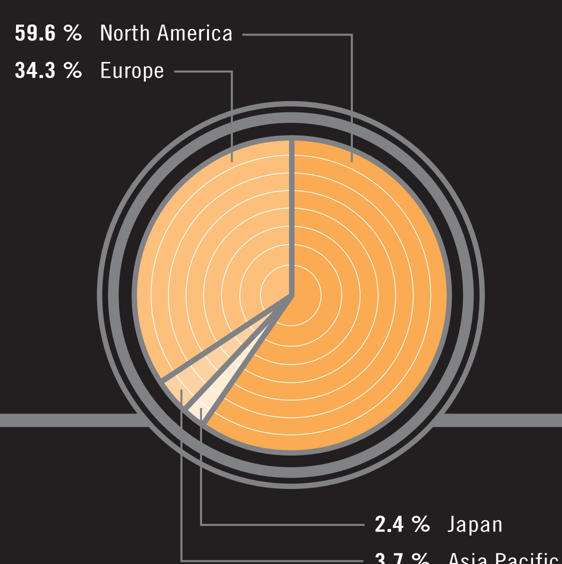

By Geography

FINANCIAL CONTENTS

(In thousands, except per share data) **Years Ended March 31,**		2001		2000		1999		1998		1997
Class A common stock:										
Net income (loss):										
Basic	$	11,944[a]		N/A		N/A		N/A		N/A
Diluted	$	(11,082)[a]		N/A		N/A		N/A		N/A
Net income (loss) per share:										
Basic	$	0.09[a]		N/A		N/A		N/A		N/A
Diluted	$	(0.08)[a]		N/A		N/A		N/A		N/A
Number of shares used in computation:										
Basic		131,404		N/A		N/A		N/A		N/A
Diluted		132,056		N/A		N/A		N/A		N/A
Class B common stock:										
Net loss, net of retained interest in EA.com	$	(23,026)[a]		N/A		N/A		N/A		N/A
Net loss per share:										
Basic	$	(3.83)[a]		N/A		N/A		N/A		N/A
Diluted	$	(3.83)[a]		N/A		N/A		N/A		N/A
Number of shares used in computation:										
Basic		6,015		N/A		N/A		N/A		N/A
Diluted		6,015		N/A		N/A		N/A		N/A

BALANCE SHEET DATA AT FISCAL YEAR END

		2001		2000		1999		1998		1997
Cash, cash equivalents and short-term investments	$	466,492	$	339,804	$	312,822	$	374,560	$	268,141
Marketable securities		10,022		236		4,884		3,721		5,548
Working capital		478,701		440,021		333,256		408,098		284,863
Long-term investments		8,400		8,400		18,400		24,200		34,478
Total assets		1,378,918		1,192,312		901,873		745,681		584,041
Total liabilities		340,026		265,302		236,209		181,713		136,237
Minority interest		4,545		3,617		2,733		–		28
Total stockholders' equity		1,034,347		923,393		662,931		563,968		447,776

Note: The selected five-year financial data has been restated to reflect the acquisition of Maxis, Inc. which was accounted for as a pooling of interest.

(a) Net income (loss) and net income (loss) per share include one-time acquisition related charges of $1.9 million, net of taxes, incurred in connection with the acquisition of Pogo Corporation made during the year as well as goodwill amortization of $13.3 million, net of taxes.

(b) Net income and net income per share include one-time acquisition related charges of $4.5 million, net of taxes, incurred in connection with the acquisition of Kesmai and other business combinations made during the year as well as goodwill amortization of $8.3 million, net of taxes.

(c) Net income and net income per share include one-time acquisition related charges of $37.5 million, net of taxes, incurred in connection with the acquisition of Westwood Studios and other business combinations made during the year as well as goodwill amortization of $4.0 million, net of taxes.

(d) Net income and net income per share include one-time acquisition related charges of $1.0 million, net of taxes, incurred in connection with the acquisition of the remaining minority ownership interest in Electronic Arts Victor, Inc. as well as merger costs of $7.2 million, net of taxes, associated with the merger with Maxis, offset by a one-time gain on sale of Creative Wonders, LLC in the amount of $8.5 million, net of taxes.

Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for discussions of EA Core and EA.com pro forma financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report, including the "Letter to Stockholders" at pages 1 to 3 and the following "Management's Discussion and Analysis of Financial Condition and Results of Operations", contains forward-looking statements about circumstances that have not yet occurred. All statements, trend analysis and other information contained below relating to markets, our products and trends in revenue, as well as other statements including words such as "anticipate", "believe" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and actual events or our actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. 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 and performance include, but are not limited to, those discussed under the heading "Risk Factors" at page 30 of this Annual Report and under the same heading in our Annual Report on Form 10-K for the year ended March 31, 2001.

RESULTS OF OPERATIONS

Comparison of Fiscal 2001 to 2000:

Revenues

We derive revenues primarily from shipments of entertainment software, which includes EA Studio products for dedicated entertainment systems (that we call video game systems or consoles such as PlayStation, PlayStation 2 and Nintendo 64), EA Studio personal computer products (or PC), Co-Publishing products that are co-published and distributed by us, and Affiliated Label (or AL) products that are published by third parties and distributed by us. We also derive revenues from licensing of EA Studio products and AL products through hardware companies (or OEM), selling subscriptions on our online gaming service, selling advertisements on our online web pages and selling our packaged goods through our online store.

Information about our net revenues for North America and foreign areas for fiscal 2001 and 2000 is summarized below (in thousands):

	2001	2000	Increase/ (Decrease)	% Change
North America	$ 831,924	$ 846,637	$ (14,713)	(1.7 %)
Europe	386,728	486,816	(100,088)	(20.6 %)
Asia Pacific	51,039	53,187	(2,148)	(4.0 %)
Japan	52,582	33,371	19,211	57.6 %
International	490,349	573,374	(83,025)	(14.5 %)
Consolidated Net Revenues	$ 1,322,273	$ 1,420,011	$ (97,738)	(6.9 %)

North America Net Revenues The decrease in North America net revenues for fiscal 2001 compared to fiscal 2000 was primarily attributable to:

- Expected declines in sales of PlayStation and Nintendo 64 ("N64") titles due to the beginning of the transition to next generation consoles. PlayStation net revenues decreased 49% and N64 net revenues decreased 46% also due to fewer titles shipping in the current year for both platforms.
- A 6% decrease in AL revenues primarily due to the acquisition of an affiliate, DreamWorks Interactive, by Electronic Arts in the fourth quarter of the prior fiscal year.
- Offset partially by the launch of PlayStation 2 platform in North America which generated $171,034,000 in revenue for the year from titles such as *Madden NFL 2001*, *SSX*, *NBA Live 2001* and *NHL 2001*. PlayStation 2 revenues did not offset the decrease in PlayStation revenues due to a reduced number of hardware units reaching the market due to hardware component shortages, according to Sony.

- Offset by a 21% increase in PC revenues due to the shipment of key releases including *Command & Conquer: Red Alert 2* and *The Sims: Livin' Large* and continued strong catalog sales of *The Sims*.

International Net Revenues The decrease in international net revenues for fiscal 2001 compared to fiscal 2000 was attributable to the following:

- Europe's net revenues decreased 21% primarily due to the console transition, lower AL sales due to product release slips and fewer hit titles released in the current year, lower PC sales with fewer titles shipping in the period, the strong sales of *Command & Conquer: Tiberian Sun*™ for the PC in the comparable prior year period, and weakness in the Euro currency. In addition, PlayStation revenues decreased 43% due to fewer titles shipping during the console transition period with most franchise titles showing significant decreases from the prior year releases. PlayStation 2 revenues did not offset the decrease in PlayStation revenues due to fewer hardware units reaching the market and the weighting of titles specifically appropriate for the North American market rather than the European market.
- Asia Pacific's net revenues decreased 4%, mainly due to the decrease in PlayStation revenues as there were no significant new titles released in the current year. This was offset by sales of PlayStation 2 titles such as *SSX* and *FIFA 2001*.
- Offset by Japan's net revenues which increased 58% compared to the prior year primarily due to the shipment of PlayStation 2 titles such as *FIFA Soccer World Championship*, *FIFA 2001* and *SSX*.

Information about our net revenues by product line for fiscal 2001 and 2000 is presented below (in thousands):

	2001	2000	Increase/ (Decrease)	% Change
EA STUDIO:				
PC	$ 408,454	$ 397,777	$ 10,677	2.7 %
PlayStation	309,988	586,821	(276,833)	(47.2 %)
PlayStation 2	258,988	–	258,988	N/A
N64	67,044	120,415	(53,371)	(44.3 %)
Online Subscriptions	28,878	16,771	12,107	72.2 %
License, OEM and Other	20,468	22,894	(2,426)	(10.6 %)
Advertising	6,175	–	6,175	N/A
	1,099,995	1,144,678	(44,683)	(3.9 %)
AFFILIATED LABEL:	222,278	275,333	(53,055)	(19.3 %)
Consolidated Net Revenues	$ 1,322,273	$ 1,420,011	$ (97,738)	(6.9 %)

Personal Computer Product Net Revenues The increase in sales of PC products for fiscal 2001 was primarily attributable to the continued strong sales of *The Sims*, which shipped in the prior year. Key current year releases were *Command & Conquer: Red Alert 2* and *The Sims: Livin' Large*. We released 20 PC titles in fiscal 2001 compared to 31 titles in fiscal 2000. *The Sims* continues to be the number one PC title and has now sold over 4 million copies. Due to the sales of *The Sims* in fiscal 2001, we expect revenues from PC products to be flat or lower in fiscal 2002.

PlayStation Product Net Revenues We released 17 PlayStation titles in fiscal 2001 compared to 30 in fiscal 2000. As expected, PlayStation sales decreased for fiscal 2001 compared to the prior year primarily attributable to the PlayStation 2 platform transition. With the exception of *Madden NFL*, all of our franchises experienced significant decreases from the prior year release. Although our PlayStation products are playable on the PlayStation 2 console, we expect sales of current PlayStation products to continue to decline significantly in fiscal 2002.

Under the terms of a licensing agreement entered into with Sony Computer Entertainment of America in July 1994 (the "Sony Agreement"), as amended, we are authorized to develop and distribute software products compatible with the PlayStation. Pursuant to the Sony Agreement, we engage Sony to manufacture PlayStation Compact Disks for distribution by us. Accordingly, we have limited ability to control our supply of PlayStation products or the timing of their delivery.

PlayStation 2 Product Net Revenues We released 15 titles worldwide in fiscal 2001 for the PlayStation 2. Key releases for the year included *Madden NFL 2001*, *SSX*, *FIFA 2001*, *NBA Live 2001* and *NHL 2001*. Revenue was lower than expected due to the shortage of PlayStation 2 hardware in the year resulting from component shortages which limited the number of units that could be manufactured, according to Sony. We expect Sony to correct these issues for the next fiscal year, and expect revenues from PlayStation 2 products to grow in fiscal 2002.

Affiliated Label Product Net Revenues The decrease in Affiliated Label net revenues for fiscal 2001 compared to the prior fiscal year was primarily due to the strong sales of *Final Fantasy® VIII* in the prior year, our acquisition of DreamWorks Interactive, formerly an AL, in the fourth quarter of the prior year, fewer hit AL product releases and product release slips in Europe.

N64 Product Net Revenues We released three N64 titles in fiscal 2001 compared to eight titles during fiscal 2000. The expected decrease in N64 revenues for the fiscal year, compared to the prior fiscal year, was primarily due to fewer releases. The decrease was also due to the weaker market for N64 products in the current year. With the expected release of Nintendo GameCube in North America in November 2001, per Nintendo, we expect revenues for N64 products to continue to decline significantly in fiscal 2002. The key release for the year was *The World Is Not Enough*.

Under the terms of the N64 Agreement, we engage Nintendo to manufacture our N64 cartridges for distribution by us. Accordingly, we have little ability to control our supply of N64 cartridges or the timing of their delivery. A shortage of microchips or other factors outside our control could impair our ability to obtain an adequate supply of cartridges.

Online Net Revenues The increase in online revenues for fiscal 2001 as compared to fiscal 2000 was attributable to the following:

- The average number of paying customers for *Ultima Online* increased to approximately 200,000 for fiscal 2001 as compared to over 140,000 for fiscal 2000. This increase was due to continued strong sales of *Ultima Online*, the addition of new events and parties within the *Ultima* worlds and the release of *Ultima Online Renaissance* in April 2000.
- We generated over $5,100,000 in subscription revenues for Kesmai and Worldplay online games for fiscal 2001. These products were not part of EA.com last year due to the Kesmai acquisition in the fourth quarter of fiscal 2000. Revenues associated with these services will continue to decrease as some of these products will be converted into our advertising supported free offerings or incorporated in our bundled subscription offerings.

License, OEM and Other Revenues The decrease in license, OEM and other revenues for fiscal 2001 as compared to fiscal 2000 was primarily a result of lower license revenue of certain titles on the Game Boy platform.

Advertising Following the launch of EA.com on the worldwide web and the AOL Games Channel in October, we began selling advertising on EA.com and AOL properties, including the *Slingo* game. In addition, we generated advertising revenue from Pogo's websites as a result of the purchase of Pogo Corporation (now referred to as "Pogo") in February 2001.

Operations by Segment The series of common stock designated as Class B (see Note 2) was approved to reflect the performance of EA.com. Accordingly, management considers EA.com to be a separate reportable segment. Prior period information has been restated to disclose this separate segment. We operate in two principal business segments globally:

- Electronic Arts Core ("EA Core") business segment: creation, marketing and distribution of entertainment software.
- EA.com business segment: creation, marketing and distribution of entertainment software which can be played or sold online, ongoing management of subscriptions of online games and website advertising.

EA.com, a division of Electronic Arts Inc., represents Electronic Arts' online and e-Commerce businesses. EA.com's business includes subscription revenues collected for Internet gameplay on our websites, website advertising, sales of packaged goods for Internet-only based games and sales of Electronic Arts games sold through the EA.com web store. The Consolidated Statement of Operations includes all revenues and costs directly attributable to EA.com, including charges for shared facilities, functions and services used by EA.com and provided by Electronic Arts. Certain costs and expenses have been allocated based on management's estimates of the cost of services provided to EA.com by Electronic Arts.

Information about our operations by segment for fiscal 2001 and 2000 is presented below (in thousands):

Year Ended March 31, 2001	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,280,172	$ 42,101	$ –	$ 1,322,273
Group sales	2,658	–	(2,658)[a]	–
Total net revenues	1,282,830	42,101	(2,658)	1,322,273
Cost of goods sold from unaffiliated customers	640,239	12,003	–	652,242
Group cost of goods sold	–	2,658	(2,658)[a]	–
Total cost of goods sold	640,239	14,661	(2,658)	652,242
Gross profit	642,591	27,440	–	670,031
Operating expenses:				
Marketing and sales	163,928	12,475	8,933[c]	185,336
General and administrative	93,885	10,156	–	104,041
Research and development	248,534	77,243	63,151[b]	388,928
Network development and support	–	51,794	(51,794)[b]	–
Customer relationship management	–	11,357	(11,357)[b]	–
Carriage fee	–	8,933	(8,933)[c]	–
Amortization of intangibles	12,829	6,494	–	19,323
Charge for acquired in-process technology	–	2,719	–	2,719
Total operating expenses	519,176	181,171	–	700,347
Operating income (loss)	123,415	(153,731)	–	(30,316)
Interest and other income, net	16,659	227	–	16,886
Income (loss) before benefit from income taxes and minority interest	140,074	(153,504)	–	(13,430)
Benefit from income taxes	(4,163)	–	–	(4,163)
Income (loss) before minority interest	144,237	(153,504)	–	(9,267)
Minority interest in consolidated joint venture	(1,815)	–	–	(1,815)
Net income (loss) before retained interest in EA.com	$ 142,422	$ (153,504)	$ –	$ (11,082)

Allocation of retained interest (in thousands):

Year Ended March 31, 2001	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net income (loss) before retained interest in EA.com	$ 142,422	$ (153,504)	$ –	$ (11,082)
Net loss related to retained interest in EA.com	(130,478)	130,478	–	–
Net income (loss)	$ 11,944	$ (23,026)	$ –	$ (11,082)

Year Ended March 31, 2000	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,399,093	$ 20,918	$ –	$ 1,420,011
Group sales	2,014	–	(2,014)[(a)]	–
Total net revenues	1,401,107	20,918	(2,014)	1,420,011
Cost of goods sold from unaffiliated customers	700,024	4,678	–	704,702
Group cost of goods sold	–	2,014	(2,014)[(a)]	–
Total cost of goods sold	700,024	6,692	(2,014)	704,702
Gross profit	701,083	14,226	–	715,309
Operating expenses:				
Marketing and sales	185,714	2,897	–	188,611
General and administrative	87,513	4,905	–	92,418
Research and development	205,933	34,716	21,317[(b)]	261,966
Network development and support	–	17,993	(17,993)[(b)]	–
Customer relationship management	–	3,324	(3,324)[(b)]	–
Amortization of intangibles	10,866	1,123	–	11,989
Charge for acquired in-process technology	2,670	3,869	–	6,539
Total operating expenses	492,696	68,827	–	561,523
Operating income (loss)	208,387	(54,601)	–	153,786
Interest and other income, net	16,017	11	–	16,028
Income (loss) before provision for income taxes and minority interest	224,404	(54,590)	–	169,814
Provision for income taxes	52,642	–	–	52,642
Income (loss) before minority interest	171,762	(54,590)	–	117,172
Minority interest in consolidated joint venture	(421)	–	–	(421)
Net income (loss)	$ 171,341	$ (54,590)	$ –	$ 116,751

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.
(b) Represents reclassification of Network Development and Support and Customer Relationship Management to Research and Development.
(c) Represents reclassification of amortization of the Carriage fee to Marketing and Sales.

The following table presents pro-forma results of operations allocating taxes between EA Core and EA.com. Consolidated taxes have been allocated to EA Core and EA.com on a pro rata basis based on the consolidated effective tax rates, thereby giving EA.com the tax benefit of its losses which is utilized by the consolidated group. Such tax benefit could not be recognized by EA.com on a stand-alone basis. The sum of tax expense and tax benefit for EA Core and EA.com is the same as consolidated tax expense and tax benefit. This presentation represents how management analyzes each segment of the business (in thousands):

Year Ended March 31, 2001	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Income (loss) before provision for (benefit from) income taxes and minority interest	$ 140,074	$ (153,504)	$ –	$ (13,430)
Provision for (benefit from) income taxes	43,423	(47,586)	–	(4,163)
Income (loss) before minority interest	96,651	(105,918)	–	(9,267)
Minority interest in consolidated joint venture	(1,815)	–	–	(1,815)
Net income (loss)	$ 94,836	$ (105,918)	$ –	$ (11,082)

Year Ended March 31, 2000	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Income (loss) before provision for (benefit from) income taxes and minority interest	$ 224,404	$ (54,590)	$ –	$ 169,814
Provision for (benefit from) income taxes	69,565	(16,923)	–	52,642
Income (loss) before minority interest	154,839	(37,667)	–	117,172
Minority interest in consolidated joint venture	(421)	–	–	(421)
Net income (loss)	$ 154,418	$ (37,667)	$ –	$ 116,751

Costs and Expenses, Interest and Other Income, Net, Income Taxes and Net Income (Loss) for both EA Core and EA.com Segments

Cost of Goods Sold Cost of goods sold for our packaged goods business consists of actual product costs, royalties expense for celebrities, professional sports organizations and independent software developers, manufacturing royalties, expense for defective products and operations expense. Cost of goods sold for our subscription business consists primarily of data center and bandwidth costs associated with hosting our websites, credit card fees and intercompany royalties for use of EA properties for subscription games.

Marketing and Sales Marketing and sales expenses consist of personnel related costs, advertising and marketing and promotional expenses. In addition, marketing and sales includes the amortization of the AOL carriage and revenue share fees (now referred to as “Carriage Fee”), which began with the launch of EA.com in October. The Carriage Fee will be amortized straight line over the term of the AOL agreement.

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 bad debts.

Research and Development Research and development expenses consist of personnel related costs, consulting and equipment depreciation. In addition, research and development includes customer relationship management expenses associated with the supervision of online play and the operation of *Ultima Online*. EA.com has research and development expenses incurred by Electronic Arts' studios consisting of direct development costs and related overhead costs (facilities, network and development management and supervision) in connection with the development and production of EA.com online games.

Network Development and Support Network development and support costs consist of expenses associated with development of web content, depreciation on server equipment to support online games, network infrastructure, software licenses and maintenance, and network and management overhead.

COST OF GOODS SOLD Cost of goods sold as a percentage of revenues decreased in fiscal 2001 due to:

- An increase in sales of higher margin PC titles as a percentage of revenues. The current year included sales on titles such as *The Sims*, *Command & Conquer: Red Alert 2* and *The Sims: Livin' Large*.
- The introduction of higher margin PlayStation 2 products in the current year.
- A decrease in sales of lower margin AL and N64 titles.
- An increase in higher margin Online and Advertising revenue.
- Offset by a decrease in sales of PlayStation titles combined with the decrease in average margins on PlayStation products due to a decrease in the average sales price on front line and catalogue products.

MARKETING AND SALES Marketing and sales expenses for fiscal 2001 increased as a percentage of revenue, primarily attributed to:

- Higher EA.com marketing and sales expenses due to increased staff required to support the live game site and advertising campaigns run on the AOL service promoting the Games Channel. In future periods, EA.com intends to further increase marketing and advertising spending in order to promote our game site and the Games Channel on AOL.
- The amortization of the AOL carriage fee, which began with the launch of EA.com in October of the current fiscal year.
- Offset by lower television and print advertising in North America and Europe due to fewer number of releases compared to last year.

GENERAL AND ADMINISTRATIVE General and administrative expenses increased 12.6% for fiscal 2001, primarily attributed to:

- The expansion of the EA.com staff and additional administrative-related costs required to support the growth of the EA.com business.
- Increase in bad debts due to a write off of a receivable as a result of the default of payment from a customer in Europe for approximately $1,000,000.
- Increase in depreciation expense for Europe due to the implementation of a new transaction processing system.

RESEARCH AND DEVELOPMENT (EXCLUDING NETWORK DEVELOPMENT AND SUPPORT) Research and development expenses increased in absolute dollars by 38.2% for fiscal 2001, primarily attributed to:

- Increase in research and development expenses by EA.com (including expenses incurred by EA Core on behalf of EA.com) due to an increase in the number of online projects in development and increased development staff to support these products. The type of games that will be in development will most likely increase in complexity and depth.

- An increase in development spending for next generation console products including development for the PlayStation 2 console, Xbox and Nintendo GameCube.
- The increase is also due to research and development expenses related to the acquisition of DreamWorks Interactive, a software development company, in the fourth quarter of the prior fiscal year.
- Increased headcount related costs associated with the formation of our customer relationship management organization for the live game site.

We released a total of 55 new packaged goods products in fiscal 2001 compared to 69 new products in fiscal 2000. In addition, the EA.com website launched in October 2000, and has over 80 live games.

NETWORK DEVELOPMENT AND SUPPORT The increase in network development and support expenses was primarily due to increased spending for the network infrastructure, and the Games Channel on the AOL service and the amortization of capitalized costs as required under SOP 98-1 associated with the pre-launch network infrastructure build. As a result, we expect network development and support expenses to increase in absolute dollars in the future.

CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY

Fiscal 2001 In connection with the acquisition of Pogo in the fourth fiscal quarter of fiscal 2001, we allocated and expensed $2,719,000 of the $43,333,000 purchase price to acquired in-process technology. At the date of acquisition, this amount was expensed as a non-recurring charge as the in-process technology had not yet reached technological feasibility and had no alternative future uses. Pogo had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Pogo projects acquired were expected to be approximately $1,200,000 in future periods. We believe there have been no significant changes to these estimates as of March 31, 2001. We currently expect to complete the development of these projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the acquisition of Pogo, we accrued approximately $100,000 related to direct transaction and other related costs.

Fiscal 2000

- In connection with the acquisition of Kesmai by EA.com in the fourth quarter of fiscal 2000, we allocated and expensed $3,869,000 of the purchase price to acquired in-process technology.
- In connection with the acquisitions of two development companies by EA Core, made in the 2nd and 4th quarters of fiscal 2000, we allocated and expensed $2,670,000 of the purchase price to acquired in-process technology.

These charges were made after we concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

AMORTIZATION OF INTANGIBLES The amortization of intangibles results primarily from the acquisitions of Westwood, Kesmai, DreamWorks Interactive, ABC Software, Pogo and other acquisitions. Amortization of intangibles was $12,829,000 for EA Core and $6,494,000 for EA.com for fiscal 2001. Amortization of intangibles was $10,866,000 for EA Core and $1,123,000 for EA.com for fiscal 2000.

INTEREST AND OTHER INCOME, NET Interest and other income, net, increased in absolute dollars primarily due to higher interest income as a result of higher average cash balances and investing in higher yielding taxable securities in the current year. Those gains were partially offset by realized gains on sales of marketable securities in the prior year.

INCOME TAXES Our effective tax rate was 31.0% for fiscal 2001 and fiscal 2000. At March 31, 2001, we generated a federal income tax net operating loss. A substantial portion of this loss will be utilized in a carryback claim with the remainder being carried forward. A valuation allowance has not been established on this loss carryforward or other net deferred tax assets as we believe it is more likely than not that the results of future operations will generate sufficient taxable income to realize them.

NET INCOME (LOSS) In absolute dollars, reported net income (loss) decreased in fiscal 2001 primarily related to lower revenues as well as higher costs and expenses compared to the same period last year. The decrease in revenues was primarily due to the beginning of the transition period to next generation console systems. The increase in expenses was primarily due to increases in development of next generation console products in the Core business and the investment in EA.com, including expenses to build network and online game products and to launch our game sites in October 2000.

Excluding goodwill, non-cash compensation and one-time charges in the amount of $17,077,000, net of taxes, for fiscal 2001, net income would have been $5,995,000. Excluding goodwill, non-cash compensation and one-time charges in the amount of $13,292,000, net of taxes, for fiscal 2000, net income would have been $130,043,000.

Comparison of Fiscal 2000 to 1999:

Revenues

Information about our net revenues for North America and foreign areas for fiscal 2000 and 1999 is summarized below (in thousands):

	2000	1999	Increase	% Change
North America	$ 846,637	$ 704,998	$ 141,639	20.1 %
Europe	486,816	436,772	50,044	11.5 %
Asia Pacific	53,187	46,725	6,462	13.8 %
Japan	33,371	33,368	3	0.0 %
International	573,374	516,865	56,509	10.9 %
Consolidated Net Revenues	$ 1,420,011	$ 1,221,863	$ 198,148	16.2 %

North America Net Revenues The increase in North America net revenues for fiscal 2000 compared to fiscal 1999 was primarily attributable to:

- A 52% increase in PC revenues due to strong sales of *Command & Conquer: Tiberian Sun*, *SimCity 3000™*, as well as the fourth quarter shipment of *The Sims* in fiscal 2000.
- A 20% increase in PlayStation revenues due to more titles released during fiscal 2000 including *Madden NFL 2000*, *NBA Live 2000* and *Tomorrow Never Dies* as compared to fiscal 1999.
- A 17% increase in AL revenues primarily due to the shipment of titles published by Square EA offset by the loss of an affiliate, Accolade, due to its acquisition by a third party in the first quarter of fiscal 2000.
- These increases were partially offset by an expected decline in sales of N64 products.

International Net Revenues The increase in international net revenues for fiscal 2000 compared to fiscal 1999 was attributable to the following:

- Europe's net revenues increased by 12% primarily due to an increase in sales of PC titles including *Command & Conquer: Tiberian Sun*, *SimCity 3000* and *The Sims* as well as an increase in PlayStation revenues due to the success of *FIFA 2000*, *Tomorrow Never Dies* and *F1 2000*. These increases were partially offset by an expected decline in sales of N64 products. Overall European revenues were adversely impacted by a devaluation of the Euro in fiscal 2000 compared to fiscal 1999.
- Asia Pacific's net revenues increased 14% due to PC sales of *Command & Conquer: Tiberian Sun* and *SimCity 3000*.
- Japan's net revenues were flat compared to fiscal 1999. PC and Affiliated Label revenues increased, offset by a decrease in PlayStation product sales primarily due to strong sales of *FIFA: Road to World Cup* and *World Cup 98* in fiscal 1999.

Information about our net revenues by product line for fiscal 2000 and 1999 is presented below (in thousands):

	2000	1999	Increase/ (Decrease)	% Change
EA STUDIO:				
PlayStation	$ 586,821	$ 519,830	$ 66,991	12.9 %
PC	397,777	270,793	126,984	46.9 %
N64	120,415	152,349	(31,934)	(21.0 %)
Online Subscriptions	16,771	12,570	4,201	33.4 %
License, OEM and Other	22,894	18,216	4,678	25.7 %
	1,144,678	973,758	170,920	17.6 %
AFFILIATED LABEL:	275,333	248,105	27,228	11.0 %
Consolidated Net Revenues	$ 1,420,011	$ 1,221,863	$ 198,148	16.2 %

Personal Computer Product Net Revenues We released 31 PC titles in fiscal 2000 compared to 29 PC titles in fiscal 1999. The worldwide increase in sales of PC revenues was primarily attributable to an increase in sales in North America and Europe due to the success of *Command & Conquer: Tiberian Sun* released in the second quarter of fiscal 2000 and continued strong catalog sales of *SimCity 3000* released in the fourth quarter of fiscal 1999. Other key titles for fiscal 2000 include *The Sims* and *FIFA 2000*.

PlayStation Product Net Revenues We released 30 new PlayStation titles in fiscal 2000 compared to 21 in fiscal 1999. The increase in PlayStation product sales was attributable to more titles released in the current fiscal year compared to the same period last year. Key releases for fiscal 2000 include *FIFA 2000*, *Tomorrow Never Dies*, *Madden NFL 2000*, *NBA Live 2000* and *Knockout Kings™ 2000*.

Affiliated Label Product Net Revenues AL product sales increased due to higher sales in North America. The increase in Affiliated Label revenues was due to the distribution of titles by Square EA, including *Final Fantasy® VIII*, partially offset by the termination of our distribution agreement with Accolade, which was acquired by a third party.

N64 Product Net Revenues The expected decrease in N64 revenues for fiscal 2000 compared to fiscal 1999 was due to the weak market for N64 products as well as strong comparisons of *World Cup 98* in fiscal 1999. We released eight titles in fiscal 2000, including *WCW™ Mayhem*, compared to nine titles in fiscal 1999.

Online Subscription Revenues Online subscription revenues are revenues collected for Internet gameplay on our websites. The increase in online revenues for fiscal 2000 as compared to fiscal 1999 was attributable to the following:

- The average number of paying customers for *Ultima Online* increased to over 140,000 for fiscal 2000 as compared to over 105,000 in fiscal 1999.
- The increase in paying customers was due to continued strong sales of *Ultima Online*, the addition of new events within the *Ultima* worlds and the release of *Ultima Online: The Second Age*™ in October 1998. *Ultima Online: The Second Age* added features including new worlds, monsters and an in-game chat feature.
- We established servers for *Ultima Online* in Europe in June 1999 and in Japan in October 1998. This local dial-in capability resulted in new customers in those territories for the fiscal 2000, as compared to fiscal 1999.

License, OEM and Other Revenues The increase in license, OEM and other revenues was primarily due to the following:

- License/OEM revenues increased due to the sales of Game Boy® Color titles in fiscal 2000.
- Other revenues decreased primarily due to decreases in 32-bit products, other than PlayStation, as we no longer publish games for those platforms.

Operations by Segment Information about our operations by segment for fiscal 2000 and 1999 is presented below (in thousands):

Year Ended March 31, 2000	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,399,093	$ 20,918	$ –	$ 1,420,011
Group sales	2,014	–	(2,014)[a]	–
Total net revenues	1,401,107	20,918	(2,014)	1,420,011
Cost of goods sold from unaffiliated customers	700,024	4,678	–	704,702
Group cost of goods sold	–	2,014	(2,014)[a]	–
Total cost of goods sold	700,024	6,692	(2,014)	704,702
Gross profit	701,083	14,226	–	715,309
Operating expenses:				
Marketing and sales	185,714	2,897	–	188,611
General and administrative	87,513	4,905	–	92,418
Research and development	205,933	34,716	21,317[b]	261,966
Network development and support	–	17,993	(17,993)[b]	–
Customer relationship management	–	3,324	(3,324)[b]	–
Amortization of intangibles	10,866	1,123	–	11,989
Charge for acquired in-process technology	2,670	3,869	–	6,539
Total operating expenses	492,696	68,827	–	561,523
Operating income (loss)	208,387	(54,601)	–	153,786
Interest and other income, net	16,017	11	–	16,028
Income (loss) before provision for income taxes and minority interest	224,404	(54,590)	–	169,814
Provision for income taxes	52,642	–	–	52,642
Income (loss) before minority interest	171,762	(54,590)	–	117,172
Minority interest in consolidated joint venture	(421)	–	–	(421)
Net income (loss)	$ 171,341	$ (54,590)	$ –	$ 116,751

Year Ended March 31, 1999	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,204,689	$ 17,174	$ –	$ 1,221,863
Group sales	985	–	(985)[a]	–
Total net revenues	1,205,674	17,174	(985)	1,221,863
Cost of goods sold from unaffiliated customers	624,252	3,337	–	627,589
Group cost of goods sold	–	985	(985)[a]	–
Total cost of goods sold	624,252	4,322	(985)	627,589
Gross profit	581,422	12,852	–	594,274
Operating expenses:				
Marketing and sales	161,029	2,378	–	163,407
General and administrative	74,995	1,224	–	76,219
Research and development	181,245	8,050	10,080[b]	199,375
Network development and support	–	8,488	(8,488)[b]	–
Customer relationship management	–	1,592	(1,592)[b]	–
Charge for acquired in-process technology	44,115	–	–	44,115
Amortization of intangibles	5,880	–	–	5,880
Total operating expenses	467,264	21,732	–	488,996
Operating income (loss)	114,158	(8,880)	–	105,278
Interest and other income, net	13,180	–	–	13,180
Income (loss) before provision for income taxes and minority interest	127,338	(8,880)	–	118,458
Provision for income taxes	45,414	–	–	45,414
Income (loss) before minority interest	81,924	(8,880)	–	73,044
Minority interest in consolidated joint venture	(172)	–	–	(172)
Net income (loss)	$ 81,752	$ (8,880)	$ –	$ 72,872

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.
(b) Represents reclassification of Network Development and Support and Customer Relationship Management to Research and Development.

The following table presents pro-forma results of operations allocating taxes between EA Core and EA.com. Consolidated taxes have been allocated to EA Core and EA.com on a pro rata basis based on the consolidated effective tax rates, thereby giving EA.com the tax benefit of its losses which is utilized by the consolidated group. Such tax benefits could not be recognized by EA.com on a stand-alone basis. The sum of tax expense and tax benefit for EA Core and EA.com is the same as consolidated tax expense. This presentation represents how management analyzes each segment of the business (in thousands):

Year Ended March 31, 2000	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Income (loss) before provision for (benefit from) income taxes and minority interest	$ 224,404	$ (54,590)	$ –	$ 169,814
Provision for (benefit from) income taxes	69,565	(16,923)	–	52,642
Income (loss) before minority interest	154,839	(37,667)	–	117,172
Minority interest in consolidated joint venture	(421)	–	–	(421)
Net income (loss)	$ 154,418	$ (37,667)	$ –	$ 116,751

Year Ended March 31, 1999	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Income (loss) before provision for (benefit from) income taxes and minority interest	$ 127,338	$ (8,880)	$ –	$ 118,458
Provision for (benefit from) income taxes	48,256	(2,842)	–	45,414
Income (loss) before minority interest	79,082	(6,038)	–	73,044
Minority interest in consolidated joint venture	(172)	–	–	(172)
Net income (loss)	$ 78,910	$ (6,038)	$ –	$ 72,872

Costs and Expenses, Interest and Other Income, Net, Income Taxes and Net Income for both EA Core and EA.com Segments

COST OF GOODS SOLD Cost of goods sold as a percentage of revenues decreased in fiscal 2000 due to:

- An increase in sales of higher margin PC titles as a percentage of revenues.
- An increase in sales of higher margin AL co-published titles which make up a greater amount of total AL revenues for fiscal 2000 as compared to fiscal 1999.
- A decrease in sales of lower margin N64 titles.
- Higher average margin for PC sales due to higher percentage of revenues from internally developed and Intellectual Property owned titles, such as *Command & Conquer: Tiberian Sun*, *SimCity 3000* and *The Sims*.
- Offset by a decrease, as a percentage of revenues, of PlayStation products.

MARKETING AND SALES Marketing and sales expenses increased in absolute dollars by 15% primarily attributed to:

- Increased print, Internet and television advertising to support new releases.
- Increased cooperative advertising associated with higher revenues in North America and Europe as compared to the prior year.
- Additional headcount related to the continued expansion of our worldwide distribution business.

GENERAL AND ADMINISTRATIVE General and administrative expenses increased in absolute dollars by 21% primarily due to:

- An increase in payroll and occupancy costs to support the increase in growth in North America and Europe.
- Increased general and administrative spending for EA.com. EA.com expanded its staff and incurred additional administrative related costs required to support growth of the business.

RESEARCH AND DEVELOPMENT The increase in absolute dollars by 28% for research and development expenses (excluding Network Development and Support) was due to:

- Increased research and development spending due to the ongoing investment in our online business. EA.com increased the number of online projects in development and increased development staff.
- Additional headcount-related expenses attributable to the increased in-house development capacity and a higher number of SKUs released in fiscal 2000.
- An increase in development spending for next generation console products including development for the PlayStation 2 console.

We released a total of 69 new products in fiscal 2000 compared to 59 in fiscal 1999.

NETWORK DEVELOPMENT AND SUPPORT The increase in network development and support expenses was due to increased EA.com spending for network infrastructure in preparation for new online products and the EA.com game site. In addition, we incurred higher infrastructure costs related to increased server capacity for *Ultima Online*, allowing EA.com to serve a higher number of active subscribers.

CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY

Fiscal 2000

- In connection with the acquisition of Kesmai by EA.com in the fourth quarter of fiscal 2000, we allocated and expensed $3,869,000 of the purchase price to acquired in-process technology. Kesmai had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Kesmai projects acquired were expected to be approximately $10,550,000 in future periods. During fiscal 2001, some of these development projects were completed and launched on the EA.com gamesites. In addition, as certain games are completed, we expect resources to be redirected to ongoing live game operations or to building the EA.com publishing platform. As a result, we do not anticipate incurring significant future development costs in relation to these projects after fiscal 2002. We believe there have been no significant changes to these estimates. We currently expect to complete the development of these projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the merger of Kesmai, we accrued approximately $200,000 related to direct transaction and other related costs.
- In connection with the acquisitions of two development companies by EA Core, made in the 2nd and 4th quarters of fiscal 2000, we allocated and expensed $2,670,000 of the purchase price to acquired in-process technology.

Fiscal 1999

- In connection with the acquisition of Westwood by EA Core in September 1998, we allocated and expensed $41,836,000 of the purchase price to acquired in-process technology.
- Additionally, in connection with the acquisition of two software development companies by EA Core, in the first quarter of fiscal 1999, we incurred a total charge of $2,279,000 for acquired in-process technology.

These charges were made after we concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

AMORTIZATION OF INTANGIBLES The amortization of intangibles results primarily from the acquisitions of Westwood, Kesmai, ABC Software and other acquisitions made in fiscal 2000. Amortization of intangibles was $10,866,000 for EA Core and $1,123,000 for EA.com in fiscal 2000. For fiscal 1999, amortization of intangibles was $5,880,000 resulting from the acquisitions of Westwood and ABC Software by EA Core.

INTEREST AND OTHER INCOME, NET Interest and other income, net, increased in absolute dollars primarily due to realized gains on sales of marketable securities and the sale of our interest in an affiliate. Those gains were partially offset by a write-off of a note receivable from an affiliate in fiscal 2000 as well as a gain on sale of land recognized in fiscal 1999.

INCOME TAXES Our effective tax rate was 31.0% for fiscal 2000 and 38.3% for fiscal 1999. The effective tax rate was lower than the comparable prior year period (excluding the effect of the one-time charges in the prior year) primarily as a result of a higher portion of international income for fiscal 2000 subject to a lower foreign tax rate as compared to the prior year. Our effective tax rate for fiscal 1999 was negatively affected as there was no tax benefit recorded for a portion of the charges related to the acquired in-process technology. Excluding the effect of these charges, the effective tax rate for fiscal 1999 would have been 32.0%.

NET INCOME In absolute dollars, reported net income increased by 60% primarily related to higher revenues and gross profits as compared to fiscal 1999. The increase was also due to significant one-time charges for acquired in-process technology in fiscal 1999. This was partially offset by higher costs incurred by EA.com for the development of online projects, the network infrastructure development and higher infrastructure costs for *Ultima Online* and *Ultima Online: The Second Age*. Excluding the one-time charges relating to acquired in-process technology of $4,512,000, net of taxes, in fiscal 2000, net income would have been $121,263,000. Excluding the one-time charges relating to acquired in-process technology of $37,506,000, net of taxes in fiscal 1999, net income would have been $110,378,000.

Excluding one-time charges related to acquired in-process technology and goodwill amortization, net income would have been $129,535,000 for fiscal 2000. Excluding one-time charges relating to acquired in-process technology and goodwill amortization, net income would have been $114,376,000 for fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, our working capital was $478,701,000 compared to $440,021,000 at March 31, 2000. Cash, cash equivalents and short-term investments increased by $126,688,000 in fiscal 2001. We generated $193,939,000 of cash from operations, $102,628,000 of cash through the sale of equity securities under our stock plans, offset by $120,347,000 of cash used in capital expenditures in fiscal 2001. During fiscal 2001, we invested $43,333,000 in cash for the acquisition of Pogo.

Reserves for bad debts and sales returns increased from $65,067,000 at March 31, 2000 to $89,833,000 at March 31, 2001. Reserves have been charged for returns of product and price protection credits issued for products sold in prior periods. Management believes these reserves are adequate based on historical experience and its current estimate of potential returns and allowances.

Our principal source of liquidity is $466,492,000 in cash, cash equivalents and short-term investments and $10,022,000 in marketable securities. Management believes the existing cash, cash equivalents, short-term investments, marketable securities and cash generated from operations will be sufficient to meet cash and investment requirements on both a short-term and long-term basis.

Included in the amounts above is the following for the EA.com business:

- With the exception of the proceeds from the sale of stock to AOL in fiscal 2000 in the amount of $20,000,000, to date, EA.com has been funded solely by Electronic Arts. This funding has been accounted for as capital contributions from Electronic Arts. Excess cash generated from operations is transferred to Electronic Arts, and has been accounted for as a return of capital. We anticipate these funding procedures will continue in the near-term. However, Electronic Arts may, at its discretion, provide funds to EA.com under a debt arrangement, instead of treating such funding as a capital contribution.

- During fiscal 2001, EA.com used $132,210,000 of cash in operations (including payments to AOL of approximately $11,250,000), $68,887,000 in capital expenditures for computer equipment, network infrastructure, internal use software and related third party software, $43,333,000 for the acquisition of Pogo, gross of cash received of $762,000, offset by $245,141,000 provided through capital contributions from Electronic Arts.
- During fiscal 2000, EA.com used $68,329,000 of cash in operations (including payments to AOL of approximately $36,000,000), $37,605,000 in capital expenditures for computer equipment, network infrastructure, internal use software and related third party software, $1,499,000 for an investment in a 3rd party developer, $32,539,000 for the acquisition of Kesmai and another acquisition, offset by $140,410,000 provided through capital contributions from Electronic Arts.

EA.com is required to pay $50,000,000 to AOL as a carriage fee under the AOL agreement. Of this amount, $25,000,000 was paid upon signing the agreement and the remainder is due in four equal annual installments on the first four anniversaries of the initial payment. During fiscal 2001, the Company paid AOL the first annual carriage payment of $6,250,000. EA.com is also required to pay to AOL $31,000,000 as an advance of a minimum guaranteed revenue share for revenues generated by subscriptions and other certain commercial transactions on the EA.com site. Of this amount, $11,000,000 was paid upon signing of the agreement and the remainder is due in four equal annual installments on the first anniversary of the initial payment. During fiscal 2001, the Company paid AOL the first annual revenue share payment of $5,000,000.

EA.com also made a commitment to spend $15,000,000 in offline media advertisements promoting our online games, including those on the AOL service, during the term of the AOL agreement.

Future liquidity needs of EA.com will be met by Electronic Arts as Electronic Arts intends to continue to fund the cash requirements of EA.com for the foreseeable future.

Impact of Recently Issued Accounting Standards In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133") "*Accounting for Derivative Instruments and Hedging Activities*", as amended by SFAS 137 "*Accounting for Derivative Instruments and Hedging Activities– Deferral of the Effective Date of FASB Statement No. 133– an Amendment of FASB Statement No. 133*" and SFAS 138 "*Accounting for Certain Derivative Instruments and Certain Hedging Activities– an Amendment of FASB Statement No. 133*" which establishes accounting and reporting standards for derivative instruments and hedging activities. The terms of SFAS 133 and SFAS 138 are effective as of the beginning of the first quarter of the fiscal year beginning after June 15, 2000. The Company is determining the effect of SFAS 133, 137 and 138 on its financial statements.

In April 2001, the Emerging Issues Task Force issued No. 00-25 ("EITF 00-25"), "*Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products*", which states that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration can be categorized as a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration. That benefit must meet certain conditions described in EITF 00-25. The consensus should be applied no later than in annual or interim financial statements for periods beginning after December 15, 2001. The Company is currently evaluating the impact of this consensus on its Statement of Operations.

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies (the "legacy currency") and the one common legal currency known as the "Euro". From January 1, 1999 through June 30, 2002 the countries will be able to use their legacy currencies or the Euro to transact business. By July 1, 2002, at the latest, the conversion to the Euro will be complete at which time the legacy currencies will no longer be legal tender. The fixed conversion rates between their existing currencies have eliminated exchange rate risk among the member countries.

The conversion to the Euro has reduced the number of forward contracts that we use to hedge the exchange rate risk. The forward contracts that were used to hedge the individual legacy currencies have been replaced by a single Euro hedge contract and the intercompany transactions among subsidiaries within the European Union are no longer subject to exchange rate risk.

RISK FACTORS

Our business is subject to many risks and uncertainties which may affect our performance. Some of those risks and uncertainties are as follows:

- Platform transitions such as the one now occurring typically depress the market for video game software until new platforms achieve a wide market acceptance.
- Potential delays in the launches or limited supply of the Nintendo GameCube and the Xbox could delay or reduce shipments of our products for these platforms.
- Our business is both seasonal and cyclical, especially during the current platform transitions and uncertain economic conditions in the United States.
- New video game platforms create additional technical and business model uncertainties.
- Our significant investment in EA.com may not be successful or generate profits.
- Acceptance of our online products by paying subscribers is unproven.
- The business models and technology for e-Commerce and online gaming are unproven.
- Product development schedules are frequently unreliable, particularly for products for new platforms, and make predicting quarterly results difficult.
- Our business, our products and our distribution are subject to increasing regulation in key territories.
- Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products.
- We face intense competition for talent from competitors.

For a discussion of these and other important risk factors, see the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk We are exposed to various market risks, including the changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from changes in market rates and prices. Foreign exchange contracts used to hedge foreign currency exposures and short-term investments are subject to market risk. We do not consider our cash and cash equivalents to be subject to interest rate risk due to their short maturities. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

FOREIGN CURRENCY EXCHANGE RATE RISK We utilize foreign exchange contracts to hedge foreign currency exposures of underlying assets and liabilities, primarily certain intercompany receivables that are denominated in foreign currencies, thereby, limiting our risk. Gains and losses on foreign exchange contracts are reflected in the income statement. At March 31, 2001, we had foreign exchange contracts, all with maturities of less than nine months to purchase and sell approximately $279,415,000 in foreign currencies, primarily British Pounds, European Currency Units ("Euro"), Canadian Dollars, Japanese Yen and other currencies.

Fair value represents the difference in value of the contracts at the spot rate and the forward rate. The counterparties to these contracts are substantial and creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material. Notwithstanding our efforts to manage foreign exchange risks, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

The following table below provides information about our foreign currency forward exchange contracts at March 31, 2001. The information is provided in U.S. dollar equivalents and presents the notional amount (forward amount), the weighted average contractual foreign currency exchange rates and fair value.

	Contract Amount	Weighted-Average Contract Rate	Fair Value
	(In thousands)		*(In thousands)*
Foreign currency to be sold under contract:			
British Pound	$ 155,842	1.4483	$ 3,477
Euro	45,718	0.8792	120
Canadian Dollar	21,942	1.5267	687
Japanese Yen	11,854	119.7900	611
Swedish Krona	4,521	10.3969	7
South African Rand	4,312	8.1159	(56)
Norwegian Krone	1,518	9.2235	(8)
Australian Dollar	1,284	0.4937	21
Danish Krone	941	8.5009	–
Total	$ 247,932		$ 4,859
Foreign currency to be purchased under contract:			
British Pound	$ 31,483	1.4160	$ (34)
Total	$ 31,483		$ (34)
Grand total	$ 279,415		$ 4,825

While the contract amounts provide one measurement of the volume of these transactions, they do not represent the amount of our exposure to credit risk. The amounts (arising from the possible inabilities of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed our obligations as these contracts can be settled on a net basis at our option. We control credit risk through credit approvals, limits and monitoring procedures.

INTEREST RATE RISK Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments of high credit quality and relatively short average maturities. We also manage our interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. At March 31, 2001, our cash equivalents, short-term and long-term investments included debt securities of $404,696,000. Notwithstanding our efforts to manage interest rate risks, there can be no assurances that we will be adequately protected against the risks associated with interest rate fluctuations.

The table below presents the amounts and related weighted average interest rates of our investment portfolio at March 31, 2001:

(Dollars in thousands)	**Average Interest Rate**	**Cost**	**Fair Value**
Cash equivalents[1]			
Fixed rate	5.16 %	$ 91,879	$ 91,879
Variable rate	5.12 %	$ 257,737	$ 257,737
Short-term investments[1][2]			
Fixed rate	3.93 %	$ 46,346	$ 46,680
Variable rate	0.00 %	$ –	$ –
Long-term investments[1]			
Fixed rate	0.00 %	$ –	$ –
Variable rate	6.35 %	$ 8,400	$ 8,601

(1) See definition in note 1 of the Notes to the Consolidated Financial Statements.
(2) Maturity dates for short-term investments range from 3 months to 16 months.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Electronic Arts Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Mountain View, California
May 4, 2001

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

As of March 31,	2001	2000
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	$ 466,492	$ 339,804
Marketable securities	10,022	236
Receivables, less allowances of $89,833 and $65,067, respectively	174,449	234,087
Inventories, net	15,686	22,986
Other current assets	152,078	108,210
Total current assets	818,727	705,323
Property and equipment, net	337,199	285,466
Long-term investments	8,400	8,400
Investment in affiliates	19,052	22,601
Goodwill and other intangibles, net	136,764	117,236
Other assets	58,776	53,286
	$ 1,378,918	$ 1,192,312
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 73,061	$ 97,703
Accrued and other liabilities	266,965	167,599
Total current liabilities	340,026	265,302
Minority interest in consolidated joint venture	4,545	3,617
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 10,000,000 shares	–	–
Common stock		
Class A common stock, $0.01 par value. Authorized 400,000,000 shares; issued and outstanding 134,714,464 and 128,869,088 shares, respectively	1,347	1,288
Class B common stock, $0.01 par value. Authorized 100,000,000 shares; issued and outstanding 6,250,000 and 6,000,000 shares, respectively	63	60
Paid-in capital	540,354	412,038
Retained earnings	505,286	516,368
Accumulated other comprehensive loss	(12,703)	(6,361)
Total stockholders' equity	1,034,347	923,393
	$ 1,378,918	$ 1,192,312

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

Years Ended March 31,	**2001**	**2000**	**1999**
Net revenues	$ 1,322,273	$ 1,420,011	$ 1,221,863
Cost of goods sold	652,242	704,702	627,589
Gross profit	670,031	715,309	594,274
Operating expenses:			
Marketing and sales	185,336	188,611	163,407
General and administrative	104,041	92,418	76,219
Research and development	388,928	261,966	199,375
Amortization of intangibles	19,323	11,989	5,880
Charge for acquired in-process technology	2,719	6,539	44,115
Total operating expenses	700,347	561,523	488,996
Operating income (loss)	(30,316)	153,786	105,278
Interest and other income, net	16,886	16,028	13,180
Income (loss) before provision for (benefit from) income taxes and minority interest	(13,430)	169,814	118,458
Provision for (benefit from) income taxes	(4,163)	52,642	45,414
Income (loss) before minority interest	(9,267)	117,172	73,044
Minority interest in consolidated joint venture	(1,815)	(421)	(172)
Net income (loss)	$ (11,082)	$ 116,751	$ 72,872
Net income per share:			
Basic	N/A	$ 0.93	$ 0.60
Diluted	N/A	$ 0.88	$ 0.58
Number of shares used in computation:			
Basic	N/A	125,660	121,495
Diluted	N/A	132,742	126,545
Class A common stock:			
Net income (loss):			
Basic	$ 11,944	N/A	N/A
Diluted	$ (11,082)	N/A	N/A
Net income (loss) per share:			
Basic	$ 0.09	N/A	N/A
Diluted	$ (0.08)	N/A	N/A
Number of shares used in computation:			
Basic	131,404	N/A	N/A
Diluted	132,056	N/A	N/A
Class B common stock:			
Net loss, net of retained interest in EA.com	$ (23,026)	N/A	N/A
Net loss per share:			
Basic	$ (3.83)	N/A	N/A
Diluted	$ (3.83)	N/A	N/A
Number of shares used in computation:			
Basic	6,015	N/A	N/A
Diluted	6,015	N/A	N/A

See accompanying notes to consolidated financial statements, including segment information in note 19.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands) Years Ended March 31, 2001, 2000 and 1999	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total
Balances at March 31, 1998	120,319	$1,203	–	$ –	$233,693	$330,540	$(1,468)	–	$ –	$563,968
Net income						72,872				72,872
Change in unrealized appreciation of investments, net							2,533			2,533
Reclassification adjustment for gains realized in net income, net							(989)			(989)
Translation adjustment							(2,643)			(2,643)
Comprehensive income										71,773
Proceeds from sales of shares through stock plans	2,265	23			27,779	(1,300)		200	4,075	30,577
Purchase of treasury stock								(446)	(9,001)	(9,001)
Tax benefit related to stock options					5,614					5,614
Balances at March 31, 1999	122,584	1,226	–	–	267,086	402,112	(2,567)	(246)	(4,926)	662,931
Net income						116,751				116,751
Change in unrealized appreciation of investments, net							1,739			1,739
Reclassification adjustment for gains realized in net income, net							(5,194)			(5,194)
Translation adjustment							(339)			(339)
Comprehensive income										112,957
Proceeds from sales of shares through stock plans	6,285	62			83,096	(2,495)		246	4,926	85,589
Issuance of Class B common stock			6,000	60	27,993					28,053
Issuance of Class B stock warrant					1,300					1,300
Tax benefit related to stock options					32,563					32,563
Balances at March 31, 2000	128,869	1,288	6,000	60	412,038	516,368	(6,361)	–	–	923,393

(In thousands) Years Ended March 31, 2001, 2000 and 1999	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total
Balances at March 31, 2000	128,869	1,288	6,000	60	412,038	516,368	(6,361)	–	–	923,393
Net loss						(11,082)				(11,082)
Change in unrealized appreciation of investments, net							3,097			3,097
Reclassification adjustment for gains realized in net income, net							–			–
Translation adjustment							(9,439)			(9,439)
Comprehensive loss										(17,424)
Proceeds from sales of shares through stock plans	5,845	59			101,937					101,996
Issuance of Class B common stock			250	3	2,247					2,250
Notes receivable in connection with issuance of Class B stock					(1,618)					(1,618)
Tax benefit related to stock options					25,750					25,750
Balances at March 31, 2001	134,714	$1,347	6,250	$63	$540,354	$505,286	$(12,703)	–	$ –	$1,034,347

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years Ended March 31,	2001	2000	1999
OPERATING ACTIVITIES			
Net income (loss)	$ (11,082)	$ 116,751	$ 72,872
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Minority interest in consolidated joint venture	1,815	421	172
Equity in net (income) loss of affiliates	(820)	(1,138)	155
Gain on sale of affiliate	(214)	(842)	–
Depreciation and amortization	69,668	46,725	40,461
Carriage fee amortization	8,933	–	–
Loss on sale of fixed assets	1,992	31	729
Gain on sale of marketable securities	–	(7,528)	(1,454)
Provision for doubtful accounts	7,541	6,714	6,027
Charge for acquired in-process technology	2,719	6,539	44,115
Tax benefit from exercise of stock options	25,750	32,563	5,614
Change in assets and liabilities, net of acquisitions:			
Receivables	53,775	(77,779)	(11,702)
Inventories	7,300	(579)	1,282
Other assets	(4,238)	(69,727)	(24,266)
Accounts payable	(27,476)	29,673	1,622
Accrued and other liabilities	91,356	(6,919)	32,797
Deferred income taxes	(33,080)	2,994	(12,042)
Net cash provided by operating activities	193,939	77,899	156,382
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	4,134	444	8,281
Proceeds from sales of marketable securities, net	–	8,598	1,818
Proceeds from sale of affiliate	–	8,842	–
Capital expenditures	(120,347)	(134,884)	(115,820)
Investment in affiliates, net	1,662	(4,099)	(5,478)
Purchase of marketable securities	(2,479)	–	–
Proceeds from maturity of securities	–	–	17,306
Change in short-term investments, net	46,907	(13,860)	76,755
Acquisition of Pogo Corporation, net of cash acquired	(42,571)	–	–
Acquisition of Westwood Studios, Inc.	–	–	(122,688)
Acquisition of Kesmai	–	(22,500)	–
Acquisition of other subsidiaries, net of cash acquired	–	(22,096)	(11,805)
Net cash used in investing activities	(112,694)	(179,555)	(151,631)

(In thousands)

Years Ended March 31,		2001		2000		1999
FINANCING ACTIVITIES						
Proceeds from sales of Class A shares through employee stock plans and other plans		101,996		85,589		30,577
Proceeds from sales of Class B shares and stock warrants		632		20,000		–
Purchase of treasury shares		–		–		(9,001)
Proceeds from minority interest investment in consolidated joint venture		–		–		2,109
Net cash provided by financing activities		102,628		105,589		23,685
Translation adjustment		(10,326)		124		(2,191)
Increase in cash and cash equivalents		173,547		4,057		26,245
Beginning cash and cash equivalents		246,265		242,208		215,963
Ending cash and cash equivalents		419,812		246,265		242,208
Short-term investments		46,680		93,539		70,614
Ending cash, cash equivalents and short-term investments	$	466,492	$	339,804	$	312,822
Supplemental cash flow information:						
Cash paid during the year for income taxes	$	13,556	$	15,525	$	43,050
Non-cash investing activities:						
Class B common stock issued in connection with the Kesmai acquisition	$	–	$	9,353	$	–
Change in unrealized appreciation of investments and marketable securities	$	4,488	$	(5,008)	$	1,805

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001, 2000 and 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements of Electronic Arts Inc. and its wholly-owned and majority-owned subsidiaries (the "Company") follows:

(a) Consolidation The accompanying consolidated financial statements include the accounts of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Year The Company's fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to March 31 in each year. The results of operations for fiscal 2001 contain 53 weeks. The results of operations for fiscal 2000 and 1999 contain 52 weeks. For clarity of presentation herein, all fiscal periods are treated as ending on a calendar month end.

(c) Revenue Recognition The Company's revenue recognition policies are in compliance with American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "*Software Revenue Recognition*", and SOP 98-9, "*Modification of SOP 97-2, With Respect to Certain Transactions*",which provide guidance on generally accepted accounting principles for recognizing revenue on software transactions. SOP 97-2 requires that revenue recognized from software arrangements be allocated to each element of the arrangement based on the relative fair values of the elements. The Company has adopted the provisions of these SOPs as of April 1, 1998. The adoption has, in certain circumstances, resulted in the deferral of certain revenues associated with the Company's sales promotions and products with multiple deliverable elements. Neither the changes in certain business practices nor the deferral of certain revenues have resulted in a material impact on the Company's operating results, financial position or cash flows for the fiscal year ended March 31, 2001. Total deferred revenue at March 31, 2001 and 2000 was $16,967,000, and $1,847,000, respectively.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101("SAB 101"), "*Revenue Recognition*", which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the SEC. The adoption of SAB 101 did not have a material impact on the Company's financial position and results of operations.

PRODUCT SALES The Company recognizes revenue upon shipment of its packaged goods products based on "FOB Shipping" terms. Under FOB Shipping terms, title and risk of loss are transferred when the products are delivered to the customer. In order to recognize revenue, the Company must not have any continuing obligations and it must also be probable that the Company will collect the accounts receivable. Subject to certain limitations, the Company permits customers to obtain exchanges within certain specified periods and provides price protection on certain unsold merchandise. Revenue is recognized net of an allowance for returns and price protection.

ONLINE SUBSCRIPTION REVENUES Online subscription revenues are derived principally from subscription revenues collected from customers for online play, who are only contractually obligated for pay on a month-to-month basis. Prepaid monthly subscription revenues, including revenues collected from credit card sales as well as sales of Gametime subscription cards, are deferred and subsequently recognized ratably over the period for which the hosting services are provided.

ADVERTISING REVENUES Advertising revenues are derived principally from the sale of banner and in-game advertisements. Banner and in-game advertising is typically generated from contracts in which either the Company or AOL provides a minimum number of impressions over the term of the agreed upon commitment. Revenue is recognized as the impressions are delivered, provided that no significant obligations remain and collection of the related receivable is probable. Advertising revenue generated on the AOL Games Channel is recorded net of the applicable revenue share owed to AOL under the AOL agreement (see Note 5).

SOFTWARE LICENSES For those agreements which provide the customers the right to multiple copies in exchange for guaranteed minimum royalty amounts, revenue is recognized at delivery of the product master or the first copy. Per copy royalties on sales that exceed the guarantee are recognized as earned.

Revenue from the licensing of software was $18,944,000, $21,704,000 and $17,788,000 for the fiscal years ended March 31, 2001, 2000, and 1999, respectively.

(d) Cash and Investments Cash equivalents consist of highly liquid investments with insignificant rate risk and with maturities of three months or less at the date of purchase. Short-term investments include securities with maturities greater than three months and less than one year, except for certain investments with stated maturities greater than one year. Long-term investments consist of securities with maturities greater than one year.

The Company accounts for investments under Statement of Financial Accounting Standards No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*", ("SFAS 115"). The Company's policy is to protect the value of its investment portfolio and to minimize principal risk by earning returns based on current interest rates. Management determines the appropriate classification of its debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities classified as held-to-maturity are carried at amortized cost, which is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Debt securities, not classified as held-to-maturity, are classified as available-for-sale and are stated at fair value. Securities sold are based on the specific identification method.

(e) Prepaid Royalties Prepaid royalties consist primarily of prepayments for manufacturing royalties, original equipment manufacturer (OEM) fees and license fees paid to celebrities and professional sports organizations for use of their trade name. Also included in prepaid royalties are prepayments made to independent software developers under development arrangements that have alternative future uses. Prepaid royalties are expensed at the contractual or effective royalty rate as cost of goods sold based on actual net product sales. Management evaluates the future realization of prepaid royalties quarterly and charges to the Statement of Operations any amounts that management deems unlikely to be realized through product sales. Royalty advances are classified as current and non-current assets based upon estimated net product sales for the following year. The current portion of prepaid royalties, included in other current assets, was $46,264,000 and $54,970,000 at March 31, 2001 and 2000, respectively. The long-term portion of prepaid royalties, included in other assets, was $9,664,000 and $11,373,000 at March 31, 2001 and 2000, respectively.

(f) Software Development Costs Research and development costs, which consist primarily of software development costs, are expensed as incurred. Statement of Financial Accounting Standards No. 86, "*Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*" ("SFAS 86"), 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 the Company's 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.

(g) Inventories Inventories are stated at the lower of cost or market. Inventories at March 31, 2001 and 2000 consisted of:

(In thousands)	2001	2000
Raw materials and work in process	$ 976	$ 920
Finished goods	14,710	22,066
	$ 15,686	$ 22,986

(h) Advertising Costs The Company generally expenses advertising costs as incurred, except for production costs associated with media campaigns which are deferred and charged to expense at the first run of the ad. Cooperative advertising with distributors and retailers is accrued when revenue is recognized. Cooperative advertising credits are reimbursed when qualifying claims are submitted. For the fiscal years ended March 31, 2001, 2000 and 1999, advertising expenses totaled approximately $75,429,000, $87,377,000 and $72,437,000, respectively.

(i) Property and Equipment Property and equipment are stated at cost. Depreciation is calculated using the accelerated and straight-line methods over the following useful lives:

Buildings	20 to 25 years
Computer equipment and software	3 to 7 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Lesser of the lease terms or the estimated useful lives of the improvements

Under the provisions of Statement of Position (SOP) 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*", the Company capitalizes costs associated with customized internal-use software systems that have reached the application 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. Capitalized costs associated with internal-use software amounted to $74,684,000 at March 31, 2001, of which $60,754,000 is being depreciated on a straight-line basis over each project's estimated useful life.

(j) Intangible Assets Intangible assets net of accumulated amortization at March 31, 2001 and 2000, of $136,764,000, and $117,236,000, respectively, include goodwill, costs of obtaining product technology and non-compete covenants which 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. Amortization expense for fiscal years ended March 31, 2001, 2000 and 1999 was $19,323,000, $11,989,000 and $5,880,000, respectively. The Company assesses the recoverability of goodwill by determining whether the carried value of the assets may be recovered through estimated future undiscounted net cash flows.

(k) Income Taxes The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company records a valuation allowance to reduce tax assets to an amount whose realization is more likely than not.

(l) Foreign Currency Translation For each of the Company's foreign subsidiaries the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using current exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates. The effects of foreign currency translation adjustments are deferred and included as a component of accumulated other comprehensive income (loss) 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. Included in interest and other income in the statements of operations are foreign currency transaction losses of $888,000, $1,781,000 and $1,168,000, for the fiscal years ended March 31, 2001, 2000 and 1999, respectively.

(m) Net Income (Loss) Per Share The following summarizes the computations of Basic Earnings Per Share ("EPS") and Diluted EPS. Basic EPS is computed as net earnings 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 awards, warrants and other convertible securities using the treasury stock method.

Net income (loss) per share was calculated on a consolidated basis until Class A common stock and Class B common stock were created as a result of the approval of the Tracking Stock Proposal (see Note 2). Net income (loss) per share is computed individually for Class A common stock and Class B common stock. Please see the discussion regarding segment reporting in the MD&A.

(In thousands, except for per share amounts): **Year Ended March 31, 2001**	**Class A Common Stock-Basic**	**Class A Common Stock-Diluted**	**Class B Common Stock**
Net income (loss) before retained interest in EA.com	$ 142,422	$ (11,082)	$ (153,504)
Net loss related to retained interest in EA.com	(130,478)	–	130,478
Net income (loss)	$ 11,944	$ (11,082)	$ (23,026)
Shares used to compute net income (loss) per share:			
Weighted-average common shares	131,404	131,404	6,015
Dilutive stock equivalents	–	652	–
Dilutive potential common shares	131,404	132,056	6,015
Net income (loss) per share:			
Basic	$ 0.09	N/A	$ (3.83)
Diluted	N/A	$ (0.08)	$ (3.83)

(In thousands, except for per share amounts):

Years Ended March 31,	**2000**	**1999**
Net income	$ 116,751	$ 72,872
Shares used to compute net income per share:		
Weighted-average common shares	125,660	121,495
Dilutive stock equivalents	7,082	5,050
Dilutive potential common shares	132,742	126,545
Net income per share:		
Basic	$ 0.93	$ 0.60
Diluted	$ 0.88	$ 0.58

The Diluted EPS calculation for Class A common stock, presented above, includes the potential dilution from the conversion of Class B common stock to Class A common stock in the event that the initial public offering for Class B common stock does not occur. Net loss used for the calculation of Diluted EPS for Class A common stock is $11,082,000 for the fiscal year ended March 31, 2001. This net loss includes the remaining 15% interest in EA.com, which is directly attributable to outstanding Class B shares owned by third parties, which would be included in the Class A common stock EPS calculation in the event that the initial public offering for Class B common stock does not occur.

Due to the net loss attributable for the twelve months ended March 31, 2001 on a diluted basis to Class A Stockholders, stock options have been excluded from the Diluted EPS calculation. Had net income been reported for this period, an additional 5,971,000 shares would have been added to diluted potential common shares for Class A common stock for the twelve months ended March 31, 2001.

Due to the net loss attributable for the twelve months ended March 31, 2001 on a diluted basis to Class B Stockholders, stock options have been excluded from the Diluted EPS calculation. Had net income been reported for this period, an additional 472,000 shares would have been added to diluted potential common shares for Class B common stock for the twelve months ended March 31, 2001.

Excluded from the above computation of weighted-average shares for Class A diluted EPS for the fiscal years ended March 31, 2001, 2000 and 1999 were options to purchase 2,705,000, 229,000 and 645,000 shares of common stock, respectively, as the options' exercise price was greater than the average market price of the common shares. For the fiscal year ended March 31, 2001, the weighted-average exercise price of the respective options was $48.63. Class B common stock, authorized on March 22, 2000, was excluded from the Company's calculations of basic and diluted EPS because its impact on the calculations was immaterial for the fiscal year ended March 31, 2000.

(n) Employee Benefits The Company has a 401(k) Plan covering substantially all of its U.S. employees. The 401(k) Plan permits the Company to make discretionary contributions to employees' accounts based on the Company's financial performance. The Company contributed $1,127,000, $1,799,000 and $2,092,000 to the Plan in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

(o) Stock-based Compensation The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25") and Financial Accounting Standards Board issued Interpretation No. 44 "*Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB Opinion No. 25)*" ("FIN 44"). The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "*Accounting for Stock-Based Compensation*" ("SFAS 123").

(p) Impact of Recently Issued Accounting Standards In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133") "*Accounting for Derivative Instruments and Hedging Activities*", as amended by SFAS 137 "*Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133– an Amendment of FASB Statement No. 133*" and SFAS 138 "*Accounting for Certain Derivative Instruments and Certain Hedging Activities– an Amendment of FASB Statement No. 133*" which establishes accounting and reporting standards for derivative instruments and hedging activities. The terms of SFAS 133 and SFAS 138 are effective as of the beginning of the first quarter of the fiscal year beginning after June 15, 2000. The Company is determining the effect of SFAS 133, 137 and 138 on its financial statements.

In April 2001, the Emerging Issues Task Force issued No. 00-25 ("EITF 00-25"), "*Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products*", which states that consideration from the vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration can be categorized as a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration. That benefit must meet certain conditions described in EITF 00-25. The consensus should be applied no later than in annual or interim financial statements for periods beginning after December 15, 2001. The Company is currently evaluating the impact of this consensus on its Statement of Operations.

(q) Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include provisions for doubtful accounts, sales returns and allowances, warranty provisions, and estimates regarding the recoverability of prepaid royalty advances and inventories. Actual results could differ from those estimates.

(r) Reclassifications Certain amounts have been reclassified to conform to fiscal 2001 presentation.

(s) Long-Lived Assets The Company evaluates long-lived assets and certain identifiable intangibles for impairment 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. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

(2) TRACKING STOCK

On March 22, 2000, the stockholders of Electronic Arts authorized the issuance of a new series of common stock, designated as Class B common stock ("Tracking Stock"). The Tracking Stock is intended to reflect the performance of Electronic Arts' online and e-Commerce division ("EA.com"). As a result of the approval of the Tracking Stock Proposal, Electronic Arts' existing common stock has been re-classified as Class A common stock ("Class A Stock") and that stock reflects the performance of Electronic Arts' other businesses ("EA Core").

(3) FINANCIAL INSTRUMENTS

(a) Cash and Investments

(In thousands)

As of March 31,	2001	2000
Cash and cash equivalents:		
Cash	$ 70,196	$ 153,436
Money market funds	250,182	11,503
Municipal securities	91,879	81,326
Commercial paper	7,555	–
Cash and cash equivalents	419,812	246,265
Short-term investments:		
Available-for-sale		
Municipal securities	42,604	76,513
Corporate bonds	4,076	3,013
U.S. Agency bonds	–	4,013
Held-to-maturity		
U.S. Treasury securities	–	10,000
Short-term investments	46,680	93,539
Cash, cash equivalents and short-term investments	$ 466,492	$ 339,804
Long-term investments:		
U.S. Treasury securities	$ 8,400	$ 8,400

Long-term and short-term held-to-maturity investments include commercial notes with original maturities of five to eight years secured by U.S. Treasury Notes which enable the Company to take advantage of certain tax incentives from its Puerto Rico operation. These investments are treated as held-to-maturity for financial reporting purposes.

The fair value of held-to-maturity securities at March 31, 2001 was $8,601,000 which included gross unrealized gains of $201,000. The fair value of held-to-maturity securities at March 31, 2000 was $18,162,000 which included gross unrealized losses of $238,000.

(b) Marketable Securities Marketable securities are comprised of equity securities. The Company has accounted for investments in equity securities as "available-for-sale" and has stated applicable investments at fair value, with net unrealized appreciation reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. Marketable securities had an aggregate cost of $7,066,000 and $15,000 at March 31, 2001 and 2000, respectively. At March 31, 2001, marketable securities included gross unrealized gains of $2,956,000. At March 31, 2000, marketable securities included gross unrealized gains of $221,000.

There were no sales of marketable securities in fiscal year 2001. For the fiscal year ended March 31, 2000, the fair value of marketable securities sold was $8,604,000. The gross realized gains from these sales totaled $7,528,000. The gain on sale of investments is based on the specific identification method.

(c) Foreign Currency Forward Exchange Contracts The Company utilizes foreign exchange contracts to hedge foreign currency exposures of underlying assets and liabilities, primarily certain intercompany receivables that are denominated in foreign currencies, thereby limiting our risk. The Company does not use forward exchange contracts for speculative or trading purposes. The Company's accounting policies for these instruments are based on the Company's designation of such instruments as hedging transactions. The criteria the Company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching of forward exchange contracts to underlying transactions. Gains and losses on currency forward contracts that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on currency forward contracts that are designated and effective as hedges of firm commitments are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. The Company transacts business in various foreign currencies. At March 31, 2001, the Company had foreign exchange contracts, all with maturities of less than seven months, to purchase and sell approximately $279,415,000 in foreign currencies, primarily in British Pounds, Euro, Canadian Dollars, Japanese Yen and other European currencies.

Fair value represents the difference in value of the contracts at the spot rate and the forward rate, plus the unamortized premium or discount. At March 31, 2001, fair value of these contracts is $4,825,000. The counterparties to these contracts are substantial and creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material. Notwithstanding our efforts to manage foreign exchange risk, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

(4) COMMITMENTS

The Company leases certain of its current facilities and certain equipment under non-cancelable capital and operating lease agreements. The Company is required to pay property taxes, insurance and normal maintenance costs for certain of its facilities and will be required to pay any increases over the base year of these expenses on the remainder of the Company's facilities.

In February 1995, the Company entered into a master operating lease, as subsequently amended, for the purchase of land and construction of three buildings and a parking structure in Redwood City, California. The initial term of the lease is for a period of three years from November 30, 1998. Monthly lease payments are based upon the London InterBank Offered Rate. The Company has the option to purchase the property for the unamortized financed balance at any time after the non-cancelable lease term, or it may terminate the lease at any time after the non-cancelable term by arranging a third party sale or by making a termination payment. Should the Company elect to terminate the lease, it will guarantee a residual value of up to 85% of the unamortized value of the property. As part of the agreement, the Company must also comply with certain financial covenants.

In December 2000, the Company entered into a second operating lease for the construction and occupation of two buildings and a parking structure to be constructed in Redwood City, California. The initial term of the lease is for a period of five years from December 8, 2000. Monthly lease payments are based upon the Commercial Paper Rate and the London InterBank Offered Rate. The Company has the option to purchase the property for the unamortized financed balance at any time after the non-cancelable lease term, or it may terminate the lease at any time after the non-cancelable term by arranging a third party sale or by making a termination payment. Should the Company elect to terminate the lease, it will guarantee a residual value of up to 85% of the unamortized value of the property. As part of the agreement, the Company must also comply with certain financial covenants.

Total future minimum lease commitments as of March 31, 2001 are:

(In thousands)	**Year Ended March 31,**	
	2002	$ 20,905
	2003	13,887
	2004	10,542
	2005	8,279
	2006	7,874
	Thereafter	16,526
		$ 78,013

Total rent expense for all operating leases was $27,526,000, $23,591,000 and $19,480,000, for the fiscal years ended March 31, 2001, 2000 and 1999, respectively.

(5) AMERICA ONLINE, INC. ("AOL") AGREEMENT

In November 1999, Electronic Arts Inc., EA.com and AOL entered into a five year agreement which establishes the basis for EA.com's production of a games site on the world wide web that will be available to AOL subscribers and to users of other branded AOL properties.

The Company is required to pay $50,000,000 to AOL as a carriage fee under the AOL agreement. Of this amount, $25,000,000 was paid upon signing the agreement and the remainder is due in four equal installments on the first four anniversaries of the initial payment. During fiscal 2001, the Company paid AOL the first annual carriage payment of $6,250,000. The Company is also required to pay to AOL $31,000,000 as an advance of a minimum guaranteed revenue share for revenues generated by subscriptions and other certain commercial transactions on the EA.com site. Of this amount $11,000,000 was paid upon signing of the agreement and the remainder is due in four equal annual installments on the first anniversary of the initial payment. During fiscal 2001, the Company paid AOL the first annual revenue share payment of $5,000,000. The fair value of the payments made under the AOL agreement was determined by an independent valuation and the resulting amounts are being amortized (beginning with the site launch) over the remaining term of the five-year agreement. Advances of $41,462,000 and $35,395,000 are included in other long-term assets as of March 31, 2001 and 2000, respectively.

The Company also committed to spend $15,000,000 in offline media advertisements promoting its games on AOL during the term of the agreement.

SALE OF CLASS B COMMON STOCK AND WARRANT TO AOL In connection with the agreement with AOL, the Company sold shares of Class B common stock to AOL (the "AOL Shares") representing 10 percent of the initial equity value attributable to EA.com valued at $18,700,000.

In addition to the AOL Shares, the Company sold AOL a warrant (the "AOL Warrant") to purchase shares of Class B common stock representing an additional 5 percent of the initial equity value attributable to EA.com for $1,300,000. The aggregate exercise price of the AOL Warrant will be $40,000,000. The AOL Warrant expires at the latest at the fifth anniversary of its date of issuance, and under certain conditions may expire at an earlier date.

AOL EXCHANGE RIGHTS AOL may exchange their Class B common stock shares for a number of Class A common stock based on the ratio of per share price paid by AOL for the Class B stock relative to $41.89. As of March 31, 2001, none of the AOL shares have been exchanged for Class A common stock.

(6) CONCENTRATION OF CREDIT RISK

The Company extends credit to various companies in the retail and mass merchandising industry. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact the Company's overall credit risk. Although the Company generally does not require collateral, the Company performs ongoing credit evaluations of its customers and reserves for potential credit losses are maintained.

Short-term investments are placed with high credit-quality financial institutions or in short-duration high quality securities. The Company limits the amount of credit exposure in any one institution or type of investment instrument.

(7) LITIGATION

The Company is subject to pending claims and litigation. Management, after review and consultation with counsel, considers that any liability from the disposition of such lawsuits would not have a material adverse effect upon the consolidated financial condition of the Company.

(8) STOCK SPLIT

On August 14, 2000, the Company's Board of Directors authorized a two-for-one stock split of its Class A common stock which was distributed on September 8, 2000 in the form of a stock dividend for shareholders of record at the close of business on August 25, 2000. All authorized and outstanding share and per share amounts of Class A common stock in the accompanying consolidated financial statements for all periods have been restated to reflect the stock split.

(9) PREFERRED STOCK

At March 31, 2001 and 2000, the Company 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 the Company's stockholders.

(10) TREASURY STOCK

In February 1999, the Board of Directors approved a plan to purchase up to two million shares of the Company's common stock. For the years ended March 31, 2001 and 2000, the Company did not repurchase shares. For the year ended March 31, 1999, the Company repurchased 446,000 shares for approximately $9,001,000 under this program. For the fiscal year ended March 31, 2001, there were no shares reissued under the Company's Stock Plans. For the fiscal year ended March 31, 2000, 246,000 shares were reissued under the Company's Stock Plans. For the fiscal year ended March 31, 1999, 200,000 shares were reissued under the Company's Stock Plans.

When treasury shares were reissued, any excess of the average acquisition cost of the shares over the proceeds from reissuance was charged to retained earnings.

(11) STOCK PLANS

(a) Employee Stock Purchase Plan The Company has an Employee Stock Purchase Plan program whereby eligible employees may authorize payroll deductions of up to 10% of their compensation to purchase shares at 85% of the lower of the fair market value of the Class A Common Stock on the date of commencement of the offering or on the last day of the six-month purchase period. The program commenced in September 1991. In fiscal 2001, 350,164 shares were purchased by the Company and distributed to employees at prices ranging from $29.14 to $42.50. In fiscal 2000, 491,046 shares were purchased by the Company and distributed to employees at prices ranging from $16.21 to $29.14. In fiscal 1999, 483,028 shares were purchased by the Company and distributed to employees at prices ranging from $13.10 to $18.30. The weighted average fair value of the fiscal 2001, fiscal 2000 and fiscal 1999 awards was $18.31, $10.00 and $9.14, respectively. Under the Employee Stock Purchase Plan 62,000 shares were distributed from reissued treasury stock in fiscal 1999. No shares were distributed from reissued treasury stock in fiscal 2001 or fiscal 2000. At March 31, 2001, the Company had 1,383,678 shares of Class A Common Stock reserved for future issuance under the Plan.

(b) Stock Option Plans The Company's 2000 Class A Equity Incentive Plan, 1991 Stock Option Plan, 1993 Stock Option Plan, 1995 Stock Option Plan, and Directors' Plan ("Option Plans") provide options for employees, officers and directors to purchase the Company's Class A common stock. Pursuant to these Option Plans, the Board of Directors may grant non-qualified and incentive stock options to employees and officers and non-qualified options to directors, at not less than the fair market value on the date of grant.

Under the Company's stock option plans, 246,000 and 138,000 shares were reissued from treasury stock in fiscal 2000 and 1999, respectively. No shares were distributed from reissued treasury stock in fiscal 2001.

Together with the Tracking Stock Proposal, the stockholders approved the Electronic Arts Inc. 2000 Class B Equity Incentive Plan. The Class B equity plan allows the award of stock options or restricted stock for up to an aggregate of 6,000,000 shares of Class B common stock. The Class B Plan includes a provision for automatic option grants to the Company's outside directors. As of March 31, 2001 there were 250,000 restricted shares issued under the Class B equity plan.

In the fiscal year 2001, the Board of Directors approved the Key Partner Class B Equity Incentive Program which allows for the issuance of warrants to key business partners to purchase up to 750,000 shares of Class B common stock.

The options generally expire ten years from the date of grant and are generally exercisable in monthly increments over 50 months. Class B common stock grants will generally vest over 50 months with 2% vesting per month.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock Based Compensation*" ("SFAS 123"). Accordingly, no compensation expense has been recognized for options granted under the Company's employee-based stock option plans. Had compensation expense been determined based on the fair value at the grant dates for awards under those plans in accordance with the provisions of SFAS 123, the Company's pro forma net income (loss) and net income (loss) per share for fiscal 2001, 2000 and 1999 would have been:

(In thousands, except per share data)	2001	2000	1999
CONSOLIDATED			
Net income (loss):			
As reported	$ (11,082)	$ 116,751	$ 72,872
Pro forma	$ (69,350)	$ 78,380	$ 45,886
Earnings per share:			
As reported – basic	N/A	$ 0.93	$ 0.60
Pro forma – basic	N/A	$ 0.62	$ 0.38
As reported – diluted	N/A	$ 0.88	$ 0.58
Pro forma – diluted	N/A	$ 0.60	$ 0.37

(In thousands, except per share data)	2001	2000	1999
CLASS A COMMON STOCK			
Net income (loss):			
As reported – basic	$ 11,944	N/A	N/A
Pro forma – basic	$ (45,493)	N/A	N/A
As reported – diluted	$ (11,082)	N/A	N/A
Pro forma – diluted	$ (69,350)	N/A	N/A
Earnings (loss) per share:			
As reported – basic	$ 0.09	N/A	N/A
Pro forma – basic	$ (0.35)	N/A	N/A
As reported – diluted	$ (0.08)	N/A	N/A
Pro forma – diluted	$ (0.53)	N/A	N/A

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 are used for grants made in 2001, 2000 and 1999 under the stock plans: risk-free interest rates of 4.59% to 6.55% in 2001; 4.93% to 6.54% in 2000; and 4.39% to 5.55% in 1999; expected volatility of 74% in fiscal 2001, 65% in fiscal 2000, and 59% in fiscal 1999; expected lives of 2.32 years in fiscal 2001, 2.29 years in fiscal 2000 and 2.27 years in fiscal 1999 under the Option Plans and one year for the Employee Stock Purchase Plan. No dividends are assumed in the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized when they occur.

(In thousands, except per share data)	2001	2000	1999
CLASS B COMMON STOCK			
Net loss:			
As reported	$ (23,026)	N/A	N/A
Pro forma	$ (23,857)	N/A	N/A
Loss per share:			
As reported – basic	$ (3.83)	N/A	N/A
Pro forma – basic	$ (3.97)	N/A	N/A
As reported – diluted	$ (3.83)	N/A	N/A
Pro forma – diluted	$ (3.97)	N/A	N/A

The fair value of each Class B option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used were the same as those for Class A.

Additional information regarding options outstanding for Class A as of March 31, 2001 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 0.995 – $12.313	2,340,445	4.36	$ 10.12	2,240,889	$ 10.03
12.500 – 17.500	3,371,315	5.63	16.26	2,422,802	15.80
17.531 – 21.813	3,233,297	7.25	20.69	1,425,803	21.02
22.188 – 28.869	2,419,281	7.82	24.85	846,083	24.63
29.875	3,117,574	8.37	29.88	969,704	29.88
30.844 – 42.000	2,462,736	9.05	37.69	485,709	36.93
42.063 – 45.969	617,041	8.86	44.85	168,082	44.93
46.188 – 49.313	2,397,850	9.51	49.11	309,996	49.18
49.500 – 55.688	1,584,300	9.46	50.78	33,721	51.08
56.125	300	9.99	56.13	–	–
$ 0.995 – $56.125	21,544,139	7.58	$ 28.66	8,902,789	$ 20.55

Additional information regarding options outstanding for Class B as of March 31, 2001 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 9.000	3,857,042	9.03	$ 9.00	17,790	$ 9.00
10.000	132,990	9.34	10.00	–	–
12.000	1,116,450	9.66	12.00	4,200	12.00
$ 9.000 – $12.000	5,106,482	9.18	$ 9.68	21,990	$ 9.57

The following summarizes the activity under the Company's Class A stock option plans during the fiscal years ended March 31, 2001, 2000 and 1999:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
Balance at March 31, 1998	19,704,260	$ 12.88
Granted	6,294,432	22.09
Canceled	(1,137,966)	17.37
Exercised	(1,982,208)	11.37
Balance at March 31, 1999 (10,188,150 shares were exercisable at a weighted average price of $11.40)	22,878,518	15.33
Granted	7,815,952	31.92
Canceled	(1,721,172)	21.68
Exercised	(6,039,390)	12.42
Balance at March 31, 2000 (8,907,324 shares were exercisable at a weighted average price of $14.93)	22,933,908	21.30
Granted	5,851,961	46.05
Canceled	(1,746,449)	15.71
Exercised	(5,495,281)	31.15
Balance at March 31, 2001	21,544,139	$ 28.66
Options available for grant at March 31, 2001	3,049,149	

The following summarizes the activity under the Company's Class B stock option plan during the fiscal year ended March 31, 2001:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
Balance at March 31, 2000	–	$ –
Granted	5,785,792	9.62
Canceled	(429,310)	9.28
Exercised	(250,000)	9.00
Balance at March 31, 2001	5,106,482	$ 9.68
Options available for grant at March 31, 2001	1,392,718	

(12) PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2001 and 2000 consisted of:

(In thousands)	2001	2000
Computer equipment and software	$ 310,147	$ 213,815
Buildings	94,784	99,819
Land	44,721	51,686
Office equipment, furniture and fixtures	32,569	25,210
Leasehold improvements	13,483	12,157
Warehouse equipment and other	4,319	3,914
	500,023	406,601
Less accumulated depreciation and amortization	(162,824)	(121,135)
	$ 337,199	$ 285,466

Depreciation and amortization expenses associated with property and equipment amounted to $50,345,000, $34,736,000 and $34,581,000, for the fiscal years ended March 31, 2001, 2000 and 1999, respectively.

(13) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities at March 31, 2001 and 2000 consisted of:

(In thousands)	2001	2000
Accrued compensation and benefits	$ 75,603	$ 59,580
Accrued expenses	67,957	37,840
Accrued royalties	55,997	36,566
Accrued income taxes	42,371	22,682
Deferred revenue	16,967	1,847
Warranty reserve	8,070	8,886
Deferred income taxes	–	198
	$ 266,965	$ 167,599

(14) BUSINESS COMBINATIONS

(a) Pogo Corporation On February 28, 2001, EA.com acquired Pogo Corporation (now referred to as "Pogo") for $43,333,000, including an initial investment of $42,000,000 and the redemption of Pogo preferred stock of $1,333,000. Pogo operates an ad-supported games service that reaches a broad consumer market. Pogo's internet-based family games focus on easy-to-play card, board and puzzle games.

The acquisition has been accounted for under the purchase method. The results of operations of Pogo and the estimated fair market values of the acquired assets and liabilities have been included in the consolidated financial statements from the date of acquisition. The adjusted allocation of the excess purchase price over the net tangible assets acquired was $40,516,000, of which, based on management's estimates prepared in conjunction with a third party valuation consultant, $2,719,000 was allocated to purchased in-process research and development and $37,797,000 was allocated to other intangible assets. Amounts allocated to other intangibles include goodwill of $16,927,000, existing technology of $12,505,000, and other intangibles of $8,365,000. The allocation of intangible assets is being amortized on a straight line basis over lives ranging from three to seven years.

Purchased in-process research and development includes the value of products in the development stage that are not considered to have reached technological feasibility or to have alternative future use. Accordingly, this non-recurring item was expensed in the Consolidated Statement of Operations upon consummation of the acquisition. The non-recurring charge for in-process research and development increased diluted loss per share by approximately $0.01 and $0.07 in the fiscal year 2001 for Class A and Class B, respectively.

Pogo had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Pogo projects acquired were expected to be approximately $1,200,000 in future periods. The Company believes there have been no significant changes to these estimates as of March 31, 2001. The Company currently expects to complete the development of these projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the acquisition of Pogo, the Company accrued approximately $100,000 related to direct transaction costs and other related costs.

The purchase price for the Pogo transaction was allocated to assets acquired and liabilities assumed as set forth below (in thousands):

Current assets	$ 3,048
Fixed assets	4,998
Other long-term assets	1,969
In-process technology	2,719
Goodwill and other intangibles	37,797
Liabilities	(7,198)
Total cash paid	$ 43,333

The following table reflects unaudited pro forma combined results of operations of the Company and Pogo on the basis that the acquisition had taken place on April 1, 1999 (in thousands, except per share data):

	As Reported	Pro Forma
FISCAL YEAR ENDED MARCH 31, 2001		
Net revenues	$ 1,322,273	$ 1,336,654
Class A common stock:		
Net income (loss):		
Basic	$ 11,944	$ 475
Diluted	$ (11,082)	$ (26,292)
Net income (loss) per share:		
Basic	$ 0.09	$ 0.00
Diluted	$ (0.08)	$ (0.20)
Number of shares used in computation:		
Basic	131,404	131,404
Diluted	132,056	132,056
Class B common stock:		
Net loss, net of retained interest in EA.com	$ (23,026)	$ (26,767)
Net loss per share:		
Basic	$ (3.83)	$ (4.45)
Diluted	$ (3.83)	$ (4.45)
Number of shares used in computation:		
Basic	6,015	6,015
Diluted	6,015	6,015
FISCAL YEAR ENDED MARCH 31, 2000		
Net revenues	$ 1,420,011	$ 1,422,340
Net income	$ 116,751	$ 107,285
Net income per share:		
Basic	$ 0.93	$ 0.85
Diluted	$ 0.88	$ 0.81
Number of shares used in computation:		
Basic	125,660	125,660
Diluted	132,742	132,742

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 2000 or of future operations of the combined companies under the ownership and management of the Company.

(b) Kesmai On February 7, 2000, the Company acquired Kesmai Corporation (now referred to as "Kesmai") from News America Corporation ("News Corp") in exchange for $22,500,000 in cash and approximately 206,000 shares of the Company's existing common stock valued at $8,650,000. Kesmai™ specializes in the design and development of multiplayer games delivered directly to consumers over the Internet and is a major provider of game content to the Games Channel on the AOL service. The Company granted 5 percent of the initial equity attributable to EA.com to News Corp, adjusting the total common stock consideration relating to the acquisition by $703,000 to $9,353,000. The Company has contributed Kesmai to EA.com.

The Company is also committed to spend $5,000,000 in advertising with News Corp or any of its affiliates.

If a qualified public offering of Class B common stock does not occur within twenty-four months of News Corp's purchase of such shares, then News Corp has the right to (1) exchange Class B common stock for approximately 206,000 shares of Class A common stock, and (2) receive cash from Electronic Arts in the amount of $9,650,000.

The acquisition has been accounted for under the purchase method. The results of operations of Kesmai and the estimated fair market values of the acquired assets and liabilities have been included in the consolidated financial statements from the date of acquisition. The adjusted allocation of the excess purchase price over the net tangible liabilities assumed was $32,815,000, of which, based on management's estimates prepared in conjunction with a third party valuation consultant, $3,869,000 was allocated to purchased in-process research and development and $28,946,000 was allocated to other intangible assets. Amounts allocated to other intangibles include goodwill of $18,932,000, existing technology of $3,992,000, amounts attributed to a prior AOL agreement of $3,131,000 and other intangibles of $2,891,000. The allocation of intangible assets is being amortized over lives ranging from two to seven years.

Purchased in-process research and development includes the value of products in the development stage that are not considered to have reached technological feasibility or to have alternative future use. Accordingly, this non-recurring item was expensed in the Consolidated Statement of Operations upon consummation of the acquisition. The non-recurring charge for in-process research and development reduced diluted earnings per share by $0.02 in the fiscal year 2000.

Kesmai had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Kesmai projects acquired were approximately $10,550,000 in future periods. During fiscal 2001, some of these development projects were completed and launched on the EA.com gamesites. In addition, as certain games are completed, we expect resources to be redirected to ongoing live game operations or to building the EA.com publishing platform. As a result, we do not anticipate incurring significant future development costs in relation to these projects after fiscal 2002. The Company believes there have been no significant changes to these estimates as of March 31, 2001. The Company currently expects to complete the development of these projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the acquisition of Kesmai, the Company accrued approximately $200,000 related to direct transaction costs and other related costs.

The purchase price for the Kesmai transaction was allocated to assets acquired and liabilities assumed as set forth below (in thousands):

Current assets	$ 605
Fixed assets (net of depreciation)	759
In-process technology	3,869
Goodwill and other intangibles	28,946
Liabilities	(2,326)
Total cash and stock paid	$ 31,853

The following table reflects unaudited pro forma combined results of operations of the Company and Kesmai on the basis that the acquisition had taken place on April 1, 1998 (in thousands, except per share data):

Years Ended March 31,	2000	1999
Net revenues	$ 1,421,313	$ 1,223,444
Net income	$ 113,996	$ 64,237
Net income per share – basic	$ 0.91	$ 0.53
Net income per share – diluted	$ 0.86	$ 0.51
Number of shares used in computation – basic	125,660	121,495
Number of shares used in computation – diluted	132,742	126,545

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 1999 or of future operations of the combined companies under the ownership and management of the Company.

(c) Westwood Studios In September 1998, the Company completed the acquisition of Westwood Studios, Inc. and certain assets of the Irvine, California – based Virgin Studio (collectively "Westwood") for approximately $122,688,000 in cash, including transaction expenses. The adjusted allocation of the excess purchase price over the net tangible liabilities assumed was $128,573,000 of which, based on management's estimates prepared in conjunction with a third party valuation consultant, $41,836,000 was allocated to purchased in-process research and development and $86,737,000 was allocated to other intangible assets. Amounts allocated to other intangibles include franchise trade names of $32,357,000, existing technology of $6,510,000, workforces of $1,680,000 and other goodwill of $46,190,000 and are being amortized over lives ranging from two to twelve years. Purchased in-process research and development includes the value of products in the development stage that are not considered to have reached technological feasibility or to have alternative future use. Accordingly, this non-recurring item was expensed in the Consolidated Statement of Operations upon consummation of the acquisition. The non-recurring charge for in-process research and development reduced diluted earnings per share by approximately $0.30 in the fiscal year 1999. The results of the operations of Westwood and the estimated fair value of assets acquired and liabilities assumed are included in the Company's financial statements from the date of acquisition.

In conjunction with the merger of Westwood, the Company accrued approximately $1,500,000 related to direct transaction costs and other related accruals. At March 31, 2001, there were $500,000 in accruals remaining related to these items.

In connection with the Westwood acquisition, the purchase price has been allocated to the assets and liabilities assumed based upon the fair values on the date of acquisition, as follows (in thousands):

Current assets	$ 4,500
Property and equipment	3,257
In-process technology	41,836
Other intangible assets	86,737
Current liabilities	(13,642)
Total purchase price	$ 122,688

The following table reflects unaudited pro forma combined results of operations of the Company and Westwood on the basis that the acquisition had taken place on April 1, 1997 (in thousands, except per share data):

	1999
Revenues	$ 1,229,055
Net income	$ 111,308
Net income per share – basic	$ 0.92
Net income per share – diluted	$ 0.88
Number of shares used in computation – basic	121,495
Number of shares used in computation – diluted	126,545

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 1998 or at the beginning of fiscal 1999 or of future operations of the combined companies under the ownership and management of the Company.

(d) Square Co., Ltd. In May 1998, the Company and Square Co., Ltd. ("Square"), a leading developer and publisher of entertainment software in Japan, completed the formation of two new joint ventures in North America and Japan. In North America, the companies formed Square Electronic Arts, LLC ("Square EA"), which has exclusive publishing rights in North America for future interactive entertainment titles created by Square. Additionally, the Company has the exclusive right to distribute in North America products published by this joint venture. The Company contributed $3,000,000 and owns a 30% minority interest in this joint venture while Square owns 70%. This joint venture is accounted for under the equity method.

In Japan, the companies established Electronic Arts Square KK ("EA Square KK"), which will localize and publish in Japan the Company's properties originally created in North America and Europe, as well as develop and publish original video games in Japan. The Company contributed cash and has a 70% majority ownership interest, while Square contributed cash and owns 30%. Accordingly, the assets, liabilities and results of operations for EA Square KK are included in the Company's Consolidated Balance Sheets and Results of Operations since June 1, 1998, the date of formation. Square's 30% interest in EA Square KK has been reflected as "Minority interest in consolidated joint venture" on the Company's Consolidated Financial Statements.

(e) Other Business Combinations Additionally, during the year ended March 31, 2000, the Company acquired two software development companies. In connection with these acquisitions, the Company incurred a charge of $2,670,000 for acquired in-process technology. The charge was made after the Company concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

(15) INCOME TAXES

The Company's pretax income (loss) from operations for the fiscal years ended March 31, 2001, 2000 and 1999 consisted of the following components:

(In thousands)	2001	2000	1999
Domestic	$ (27,166)	$ 104,096	$ 79,789
Foreign	13,736	65,718	38,669
Total pretax income (loss)	$ (13,430)	$ 169,814	$ 118,458

Income tax expense (benefit) for the fiscal years ended March 31, 2001, 2000 and 1999 consisted of:

(In thousands)	Current	Deferred	Total
2001:			
Federal	$ (4,233)	$ (19,975)	$ (24,208)
State	582	(13,809)	(13,227)
Foreign	6,981	541	7,522
Charge in lieu of taxes from employee stock plans for Class A	25,750	–	25,750
	$ 29,080	$ (33,243)	$ (4,163)
2000:			
Federal	$ 2,766	$ 3,231	$ 5,997
State	299	859	1,158
Foreign	15,573	(2,649)	12,924
Charge in lieu of taxes from employee stock plans	32,563	–	32,563
	$ 51,201	$ 1,441	$ 52,642
1999:			
Federal	$ 31,204	$ (10,340)	$ 20,864
State	4,401	(2,590)	1,811
Foreign	15,715	1,410	17,125
Charge in lieu of taxes from employee stock plans	5,614	–	5,614
	$ 56,934	$ (11,520)	$ 45,414

The components of the net deferred tax assets as of March 31, 2001 and 2000 consist of:

(In thousands)	2001	2000
Deferred tax assets:		
Accruals, reserves and other expenses	$ 110,331	$ 70,131
Total	110,331	70,131
Deferred tax liabilities:		
Undistributed earnings of DISC	(1,189)	(1,487)
Prepaid royalty expenses	(44,678)	(38,562)
Fixed assets	(4,456)	(3,249)
Unrealized gains on marketable securities	–	(68)
Total	(50,323)	(43,366)
Net deferred tax asset	$ 60,008	$ 26,765

At March 31, 2001, deferred tax assets of $57,082,000 and $2,926,000 were included in other current assets and other assets, respectively.

At March 31, 2001, the Company had net Federal operating loss carryforwards of approximately $19,000,000 for income tax reporting purposes, which expire in 2021.

The Company also has research and experimental tax credits aggregating approximately $15,000,000 and $11,000,000 for federal and California purposes, respectively. The federal credit carryforwards expire in 2021. The California credits carry over indefinitely until utilized.

The differences between the statutory income tax rate and the Company's effective tax rate, expressed as a percentage of income before provision for income taxes, for the years ended March 31, 2001, 2000 and 1999 were as follows:

	2001	2000	1999
Statutory Federal tax rate	(35.0 %)	35.0 %	35.0 %
State taxes, net of Federal benefit	(10.0 %)	1.5 %	1.5 %
Differences between statutory rate and foreign effective tax rate	20.2 %	(2.8 %)	(2.5 %)
Research and development credits	(4.7 %)	(1.7 %)	(2.1 %)
Nondeductible acquisition costs	0.0 %	0.0 %	7.4 %
Other	(1.5 %)	(1.0 %)	(1.0 %)
	(31.0 %)	31.0 %	38.3 %

The Company provides for U.S. taxes on an insignificant portion of the undistributed earnings of its foreign subsidiaries and does not provide taxes on the remainder. The Company has not provided for Federal income tax on approximately $170,000,000 of undistributed earnings of its foreign subsidiaries, since the Company intends to reinvest this amount in foreign subsidiary operations indefinitely.

At March 31, 2001, the Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

The Company's U.S. income tax returns for the years 1992 through 1995 have been examined by the Internal Revenue Service (IRS). In 1998, the Company received a notice of deficiencies from the IRS. These deficiencies relate primarily to operations in Puerto Rico, which the Company is contesting in Tax Court. The Company believes that any additional liabilities, if any, that arise from the outcome of this examination will not be material to the Company's consolidated financial statements.

(16) INTEREST AND OTHER INCOME, NET

Interest and other income, net for the years ended March 31, 2001, 2000 and 1999 consisted of:

(In thousands)	2001	2000	1999
Interest income	$ 17,903	$ 13,744	$ 12,625
Gain (loss) on disposition of assets, net	(1,778)	8,339	725
Foreign currency losses	(888)	(1,781)	(1,168)
Equity in net gain (loss) of affiliates	820	1,138	(155)
Other income (expense), net	829	(5,412)	1,153
	$ 16,886	$ 16,028	$ 13,180

(17) COMPREHENSIVE INCOME

SFAS 130 requires classification of other comprehensive income in a financial statement and display of other comprehensive income separately from retained earnings and additional paid-in capital. Other comprehensive income includes primarily foreign currency translation adjustments and unrealized gains (losses) on investments.

The change in the components of comprehensive income, net of tax, is summarized as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance at March 31, 1998	$ (3,198)	$ 1,730	$ (1,468)
Other comprehensive income (loss)	(2,643)	1,544	(1,099)
Balance at March 31, 1999	(5,841)	3,274	(2,567)
Other comprehensive loss	(339)	(3,455)	(3,794)
Balance at March 31, 2000	(6,180)	(181)	(6,361)
Other comprehensive income (loss)	(9,439)	3,097	(6,342)
Balance at March 31, 2001	$ (15,619)	$ 2,916	$ (12,703)

Change in unrealized gains (losses) on investments, net are shown net of taxes of $1,391,000, $(1,553,000) and $727,000 in fiscal 2001, 2000 and 1999, respectively.

The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

(18) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities – the carrying amount approximates fair value because of the short maturity of these instruments.

Long-term investments, investments classified as held-to-maturity and marketable securities – fair value is based on quoted market prices.

(19) SEGMENT INFORMATION

SFAS 131 establishes standards for the reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region and by product lines for purposes of making operating decisions and assessing financial performance.

As a result of the issuance of Class B common stock, which is intended to reflect the performance of EA.com, management considers EA.com to be a separate reportable segment. Accordingly, prior period information has been restated to disclose separate segments. The Company operates in two principal business segments globally:

- Electronic Arts core ("EA Core") business segment: creation, marketing and distribution of entertainment software.
- EA.com business segment: creation, marketing and distribution of entertainment software which can be played or sold online, ongoing management of subscriptions of online games and website advertising.

Please see the discussion regarding segment reporting in the MD&A.

Information about Electronic Arts business segments is presented below for the fiscal years ended March 31, 2001, 2000 and 1999 (in thousands):

Year Ended March 31, 2001	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,280,172	$ 42,101	$ –	$ 1,322,273
Group sales	2,658	–	(2,658)[a]	–
Total net revenues	1,282,830	42,101	(2,658)	1,322,273
Cost of goods sold from unaffiliated customers	640,239	12,003	–	652,242
Group cost of goods sold	–	2,658	(2,658)[a]	–
Total cost of goods sold	640,239	14,661	(2,658)	652,242
Gross profit	642,591	27,440	–	670,031
Operating expenses:				
Marketing and sales	163,928	12,475	8,933[c]	185,336
General and administrative	93,885	10,156	–	104,041
Research and development	248,534	77,243	63,151[b]	388,928
Network development and support	–	51,794	(51,794)[b]	–
Customer relationship management	–	11,357	(11,357)[b]	–
Carriage fee	–	8,933	(8,933)[c]	–
Amortization of intangibles	12,829	6,494	–	19,323
Charge for acquired in-process technology	–	2,719	–	2,719
Total operating expenses	519,176	181,171	–	700,347
Operating income (loss)	123,415	(153,731)	–	(30,316)
Interest and other income, net	16,659	227	–	16,886
Income (loss) before benefit from income taxes and minority interest	140,074	(153,504)	–	(13,430)
Benefit from income taxes	(4,163)	–	–	(4,163)
Income (loss) before minority interest	144,237	(153,504)	–	(9,267)
Minority interest in consolidated joint venture	(1,815)	–	–	(1,815)
Net income (loss) before retained interest in EA.com	$ 142,422	$ (153,504)	$ –	$ (11,082)
Interest income	$ 17,809	$ 94	$ –	$ 17,903
Depreciation and amortization	45,382	24,286	–	69,668
Identifiable assets	1,167,846	211,072	–	1,378,918
Capital expenditures	51,460	68,887	–	120,347

Year Ended March 31, 2000	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,399,093	$ 20,918	$ –	$ 1,420,011
Group sales	2,014	–	(2,014)[a]	–
Total net revenues	1,401,107	20,918	(2,014)	1,420,011
Cost of goods sold from unaffiliated customers	700,024	4,678	–	704,702
Group cost of goods sold	–	2,014	(2,014)[a]	–
Total cost of goods sold	700,024	6,692	(2,014)	704,702
Gross profit	701,083	14,226	–	715,309
Operating expenses:				
Marketing and sales	185,714	2,897	–	188,611
General and administrative	87,513	4,905	–	92,418
Research and development	205,933	34,716	21,317[b]	261,966
Network development and support	–	17,993	(17,993)[b]	–
Customer relationship management	–	3,324	(3,324)[b]	–
Amortization of intangibles	10,866	1,123	–	11,989
Charge for acquired in-process technology	2,670	3,869	–	6,539
Total operating expenses	492,696	68,827	–	561,523
Operating income (loss)	208,387	(54,601)	–	153,786
Interest and other income, net	16,017	11	–	16,028
Income (loss) before provision for income taxes and minority interest	224,404	(54,590)	–	169,814
Provision for income taxes	52,642	–	–	52,642
Income (loss) before minority interest	171,762	(54,590)	–	117,172
Minority interest in consolidated joint venture	(421)	–	–	(421)
Net income (loss)	$ 171,341	$ (54,590)	$ –	$ 116,751
Interest income	$ 13,733	$ 11	$ –	$ 13,744
Depreciation and amortization	39,818	6,907	–	46,725
Identifiable assets	1,085,411	106,901	–	1,192,312
Capital expenditures	97,279	37,605	–	134,884

Year Ended March 31, 1999	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	$ 1,204,689	$ 17,174	$ –	$ 1,221,863
Group sales	985	–	(985)[a]	–
Total net revenues	1,205,674	17,174	(985)	1,221,863
Cost of goods sold from unaffiliated customers	624,252	3,337	–	627,589
Group cost of goods sold	–	985	(985)[a]	–
Total cost of goods sold	624,252	4,322	(985)	627,589
Gross profit	581,422	12,852	–	594,274
Operating expenses:				
Marketing and sales	161,029	2,378	–	163,407
General and administrative	74,995	1,224	–	76,219
Research and development	181,245	8,050	10,080[b]	199,375
Network development and support	–	8,488	(8,488)[b]	–
Customer relationship management	–	1,592	(1,592)[b]	–
Charge for acquired in-process technology	44,115	–	–	44,115
Amortization of intangibles	5,880	–	–	5,880
Total operating expenses	467,264	21,732	–	488,996
Operating income (loss)	114,158	(8,880)	–	105,278
Interest and other income, net	13,180	–	–	13,180
Income (loss) before provision for income taxes and minority interest	127,338	(8,880)	–	118,458
Provision for income taxes	45,414	–	–	45,414
Income (loss) before minority interest	81,924	(8,880)	–	73,044
Minority interest in consolidated joint venture	(172)	–	–	(172)
Net income (loss)	$ 81,752	$ (8,880)	$ –	$ 72,872
Interest income	$ 12,625	$ –	$ –	$ 12,625
Depreciation and amortization	40,271	190	–	40,461
Identifiable assets	898,905	2,968	–	901,873
Capital expenditures	113,939	1,881	–	115,820

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.
(b) Represents reclassification of Network Development and Support and Customer Relationship Management to Research and Development.
(c) Represents reclassification of amortization of the Carriage fee to Marketing and Sales.

Information about Electronic Arts' operations in the North America and foreign areas for the fiscal years ended March 31, 2001, 2000 and 1999 is presented below:

(In thousands)	North America	Europe	Asia Pacific (Excluding Japan)	Japan	Eliminations	Total
FISCAL 2001						
Net revenues from unaffiliated customers	$ 831,924	$ 386,728	$ 51,039	$ 52,582	$ –	$ 1,322,273
Intercompany revenues	11,915	30,996	13,040	3,802	(59,753)	–
Total net revenues	843,839	417,724	64,079	56,384	(59,753)	1,322,273
Operating income (loss)	(31,996)	(8,914)	2,962	7,437	195	(30,316)
Interest income	14,230	3,271	402	–	–	17,903
Depreciation and amortization	62,568	6,510	275	315	–	69,668
Capital expenditures	103,048	15,535	1,104	660	–	120,347
Identifiable assets	1,034,625	300,196	20,364	23,733	–	1,378,918
Long-lived assets	334,398	154,832	3,807	3,806	–	496,843
FISCAL 2000						
Net revenues from unaffiliated customers	$ 846,637	$ 486,816	$ 53,187	$ 33,371	$ –	$ 1,420,011
Intercompany revenues	28,701	30,440	9,059	–	(68,200)	–
Total net revenues	875,338	517,256	62,246	33,371	(68,200)	1,420,011
Operating income	101,919	50,828	1,498	1,921	(2,380)	153,786
Interest income	11,775	1,755	214	–	–	13,744
Depreciation and amortization	35,114	9,968	473	1,170	–	46,725
Capital expenditures	78,298	54,379	1,447	760	–	134,884
Identifiable assets	734,626	418,034	18,019	21,633	–	1,192,312
Long-lived assets	244,845	154,475	3,306	3,975	–	406,601
FISCAL 1999						
Net revenues from unaffiliated customers	$ 704,998	$ 436,772	$ 46,725	$ 33,368	$ –	$ 1,221,863
Intercompany revenues	32,216	19,473	2,800	12	(54,501)	–
Total net revenues	737,214	456,245	49,525	33,380	(54,501)	1,221,863
Operating income	78,826	24,536	2,853	2,192	(3,129)	105,278
Interest income	9,931	2,551	143	–	–	12,625
Depreciation and amortization	29,272	9,399	506	1,284	–	40,461
Capital expenditures	54,029	58,383	418	2,990	–	115,820
Identifiable assets	596,357	268,152	20,938	16,426	–	901,873
Long-lived assets	174,582	91,546	2,051	2,992	–	271,171

For the fiscal years ended March 31, 2001, 2000 and 1999, Electronic Arts had sales to one customer which represented 12% of total net revenues in all three years.

Information about Electronic Arts' net revenues by product line for the fiscal years ended March 31, 2001, 2000 and 1999 is presented below (in thousands):

	2001	2000	1999
PC	$ 408,454	$ 397,777	$ 270,793
PlayStation	309,988	586,821	519,830
PlayStation 2	258,988	–	–
Affiliated label	222,278	275,333	248,105
N64	67,044	120,415	152,349
Online Subscriptions	28,878	16,771	12,570
License, OEM and Other	20,468	22,894	18,216
Advertising	6,175	–	–
	$ 1,322,273	$ 1,420,011	$ 1,221,863

QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(In thousands, except per share data)	Quarter Ended June 30	Quarter Ended Sept. 30	Quarter Ended Dec. 31	Quarter Ended March 31	Year Ended
FISCAL 2001					
CONSOLIDATED					
Net revenues	$ 154,799	$ 219,900	$ 640,319	$ 307,255	$ 1,322,273
Operating income (loss)	(64,377)	(60,154)	125,368	(31,153)	(30,316)
Net income (loss)	(42,271)[a]	(38,909)[b]	87,978[a]	(17,880)[c]	(11,082)
CLASS A STOCKHOLDERS					
Net income (loss) per share – basic	$ (0.30)[a]	$ (0.27)[b]	$ 0.72[a]	$ (0.07)[c]	$ 0.09
Net income (loss) per share – diluted	$ (0.33)[a]	$ (0.30)[b]	$ 0.63[a]	$ (0.13)[c]	$ (0.08)
Common stock price per share					
High	$ 39.06	$ 54.47	$ 55.38	$ 56.13	$ 56.13
Low	$ 26.59	$ 37.06	$ 35.19	$ 29.84	$ 26.59
CLASS B STOCKHOLDERS					
Net loss per share – basic	$ (0.61)	$ (0.67)	$ (1.24)	$ (1.31)	$ (3.83)
Net loss per share – diluted	$ (0.61)	$ (0.67)	$ (1.24)	$ (1.31)	$ (3.83)
Common stock price per share					
High	N/A	N/A	N/A	N/A	N/A
Low	N/A	N/A	N/A	N/A	N/A
FISCAL 2000					
Net revenues	$ 186,120	$ 338,887	$ 600,691	$ 294,313	$ 1,420,011
Operating income (loss)	(849)	23,697	129,536	1,402	153,786
Net income	2,326[d]	18,132[d]	92,861[d]	3,432[e]	116,751
Net income per share – basic	$ 0.02[d]	$ 0.15[d]	$ 0.73[d]	$ 0.03[e]	$ 0.93
Net income per share – diluted	$ 0.02[d]	$ 0.14[d]	$ 0.69[d]	$ 0.03[e]	$ 0.88
Common stock price per share					
High	$ 27.41	$ 38.10	$ 60.47	$ 51.10	$ 60.47
Low	$ 22.82	$ 26.44	$ 33.22	$ 34.50	$ 22.82
FISCAL 1999					
Net revenues	$ 178,221	$ 245,763	$ 520,155	$ 277,724	$ 1,221,863
Operating income (loss)	3,050	(29,545)	102,439	29,334	105,278
Net income (loss)	3,700[f]	(25,273)[g]	72,531[h]	21,914[h]	72,872
Net income (loss) per share – basic	$ 0.03[f]	$ (0.21)[g]	$ 0.60[h]	$ 0.18[h]	$ 0.60
Net income (loss) per share – diluted	$ 0.03[f]	$ (0.20)[g]	$ 0.57[h]	$ 0.17[h]	$ 0.58
Common stock price per share					
High	$ 27.41	$ 27.78	$ 28.00	$ 26.10	$ 28.00
Low	$ 20.82	$ 19.07	$ 16.94	$ 19.13	$ 16.94

(a) Net income (loss) and net income (loss) per share include goodwill amortization of $3.2 million, net of taxes.
(b) Net loss and net loss per share include goodwill amortization of $3.3 million, net of taxes.
(c) Net loss and net loss per share include one-time acquisition related charges of $1.9 million, net of taxes, incurred in connection with the acquisition of Pogo as well as goodwill amortization of $3.6 million, net of taxes.
(d) Net income and net income per share include goodwill amortization of $1.8 million, net of taxes.
(e) Net income and net income per share include one-time acquisition related charges of $4.5 million, net of taxes, incurred in connection with the acquisition of Kesmai and other business combinations made during the quarter as well as goodwill amortization of $2.9 million, net of taxes.
(f) Net income and net income per share include one-time acquisition related charges of $1.6 million, net of taxes, incurred in connection with the acquisition of two software development companies made during the quarter.
(g) Net income and net income per share include one-time acquisition related charges of $35.9 million, net of taxes, incurred in connection with the acquisition of Westwood Studios as well as goodwill amortization of $0.6 million, net of taxes.
(h) Net income and net income per share include goodwill amortization of $1.7 million, net of taxes.

The Company's common stock is traded in the over-the-counter market under the Nasdaq Stock Market symbol ERTS. The closing prices for the common stock in the table above represent the high and low closing prices as reported on the Nasdaq National Market.

CORPORATE INFORMATION

BOARD OF DIRECTORS

M. RICHARD ASHER
Consultant, Former President
Polygram Records, Inc.

WILLIAM J. BYRON
Former Owner and President
CMA Sales

DANIEL H. CASE III
Chairman
JPMorgan H&Q

GARY M. KUSIN
President & CEO
HQ Global Workplaces, Inc.

TIMOTHY MOTT
Partner
Ironwood Capital

LAWRENCE F. PROBST III
Chairman and Chief Executive Officer
Electronic Arts

CORPORATE OFFICERS

LAWRENCE F. PROBST III
Chairman and Chief Executive Officer

DON A. MATTRICK
President
Worldwide Studios

JOHN S. RICCITIELLO
President and Chief Operating Officer

WILLIAM B. GORDON
Executive Vice President
Chief Creative Officer

E. STANTON MCKEE, JR.
Executive Vice President and Chief
Financial and Administrative Officer

NANCY L. SMITH
Executive Vice President
and General Manager
North American Publishing

DAVID L. CARBONE
Senior Vice President
Finance

DAVID GARDNER
Senior Vice President
European Publishing

RUTH A. KENNEDY
Senior Vice President,
General Counsel, and Secretary

V. PAUL LEE
Senior Vice President and
Chief Operating Officer
Worldwide Studios

J. RUSSELL RUEFF, JR.
Senior Vice President
Human Resources

CORPORATE OFFICES

CORPORATE HEADQUARTERS

209 Redwood Shores Parkway
Redwood City, CA 94065
(650) 628-1500

NORTH AMERICA

Burnaby, British Columbia
Costa Mesa, California
Irvine, California
Los Angeles, California
San Diego, California
San Francisco, California
San Rafael, California
Walnut Creek, California
Maitland, Florida
Chicago, Illinois
Louisville, Kentucky
Hunt Valley, Maryland
Las Vegas, Nevada
New York, New York
Santa Isabel, Puerto Rico
Austin, Texas
Dallas, Texas
Charlottesville, Virginia
Bellevue, Washington

INTERNATIONAL

Adelaide, Australia
The Gold Coast, Australia
Mackay, Australia
Melbourne, Australia
Perth, Australia
Sydney, Australia
Neudorf, Austria
Bridgetown, Barbados
Sao Paulo, Brazil
Beijing, China
Hong Kong, China
Virum, Denmark
Chertsey, England
Turku, Finland
Lyon, France
Aachen, Germany
Milano, Italy
Tokyo, Japan
Rotterdam, The Netherlands
Auckland, New Zealand
Oslo, Norway
Lisbon, Portugal
Singapore
Cape Town, South Africa
Johannesburg, South Africa
Seoul, South Korea
Barcelona, Spain
Madrid, Spain
Upplands Vasby, Sweden
Sennwald, Switzerland
Taipei, Taiwan
Bangkok, Thailand

AUDITORS

KPMG LLP
Mountain View, California

LEGAL COUNSEL

Fenwick & West
Palo Alto, 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, will be furnished upon written request to:

Investor Relations Department
Electronic Arts Inc.
209 Redwood Shores Parkway
Redwood City, CA 94065

ANNUAL MEETING

The Annual Meeting of stockholders will be held on August 1, 2001 at 3:00 P.M. at the Company's headquarters:

Electronic Arts Inc.
209 Redwood Shores Parkway
Redwood City, CA 94065

ELECTRONIC ARTS™

EA GAMES™ EA SPORTS™ EA.com™

ELECTRONIC ARTS 209 REDWOOD SHORES PARKWAY, REDWOOD CITY, CA 94065-1175 **www.ea.com**