

Changes to External Financial Reporting for Electronic Arts – FAQ

July 19, 2016

INTRODUCTION

On May 17, 2016, the Staff of the United States Securities and Exchange Commission (the “SEC”) updated their Compliance & Disclosure Interpretations (“C&DIs”) related to the use of publicly reported non-GAAP financial measures.

The C&DIs are applicable to all companies with SEC reporting requirements and were effective immediately. After consideration of the C&DIs, EA has determined to modify the way in which it externally reports its financial results. Going forward, EA will report only GAAP financial measures and give GAAP guidance.

In addition, EA will separately report financial data that EA management uses internally to calculate adjustments to its GAAP financial measures. EA’s management uses these adjusted financial measures, which were historically reported as non-GAAP financial measures, to assess operating results, to plan, forecast and analyze future periods. In addition, EA’s management team is evaluated, in part, on the basis of non-GAAP financial measures. EA will stop externally reporting many non-GAAP financial measures after it reports its Q1 FY17 financial results on August 2, 2016.

The below Q&A is intended to clarify the ways in which EA will externally report its financial results and the ways in which EA’s modified system of external reporting differs from EA’s previous practices.

GENERAL QUESTIONS

Question 1: How will you be reporting your financial results in FY17?

Answer 1: EA will use its Q1 FY17 quarterly results report as a transition period from its historical structure of financial reporting to the updated structure. EA will report both GAAP results and non-GAAP results for the quarter ending June 30, 2016, and provide investors with a description of the ways in which EA’s external reporting is changing.

For quarterly and annual guidance provided in Q1 FY17 earnings materials, EA will only report GAAP projections and the financial data used internally by EA’s Board and management to calculate non-GAAP projections.

Starting in Q2 FY17, EA will no longer report many non-GAAP financial measures or provide non-GAAP guidance. EA will continue to report its GAAP results and also provide the same financial data that management uses internally to calculate adjustments to its GAAP financial measures so that investors can calculate these adjusted financial measures, if they wish.

Q2: Are you restating your historical financial results?

A2: No. This is only a change in EA’s external financial reporting on a prospective basis. The C&DIs do not have a retroactive effect. As a reminder, the changes have no effect on EA’s business, nor the way EA, or its Board of Directors, manage the business. EA will only be recasting the financial measures available in the downloadable model available on the IR website to allow investors to access comparable historical financial results.

Q3. Why did you report non-GAAP previously?

A3: EA has been externally reporting both GAAP and non-GAAP financial measures using a consistent methodology since fiscal 2008, along with the required reconciliation between the two measures. EA's non-GAAP measures included an adjustment for revenue recognition due to the delayed revenue recognition for software with online capabilities. EA sells games that can be played online, and those games often include the right to receive unspecified future updates. Because EA does not separately sell these services, it does not have "Vendor Specific Objective Evidence" of their fair value.

Therefore, GAAP rules require EA to recognize the revenue ratably over the period it expects people to play the games. However, EA does not defer its costs – costs are generally expensed as incurred. Given the seasonality of the business and these revenue recognition requirements, EA's profitability under GAAP is subject to significant variability depending on when its products are sold. In order to better match revenue with costs, EA has historically provided non-GAAP measures that adjusted GAAP revenue for the impact of the revenue deferral.

THE MODIFICATIONS EA IS MAKING

Q4: What specific changes are you making to your external financial reporting?

A4: EA will no longer report operating results on a non-GAAP basis starting in Q2 FY17. Historically, EA has reported non-GAAP net revenue, gross profit, operating expenses, operating income, net income and earnings per share (EPS). Beginning in Q2 FY17, these financial measures will be reported only on a GAAP basis.

EA will separately report financial data that EA management uses to adjust GAAP financial measures when operating the business. Examples of these types of financial data include the change in deferred net revenue associated with online-enabled games ("Change in Deferred Net Revenue"), stock-based compensation and acquisition-related expenses. EA will also report the long term tax rate that management and the Board of Directors use to evaluate performance.

Appendix A provides EA's calculation of non-GAAP financial measures for Q4 FY16 that investors can use as a guide for their own calculations. In order to see the current financial data that EA's Board and management use to adjust GAAP financial measures, please see EA's most recent earnings press release.

Q5: Is anything changing about how EA calculates the financial data used to adjust GAAP financial measures?

A5: No. The financial data EA management uses to adjust its GAAP financial measures, including the Change in Deferred Net Revenue, will continue to be calculated in the same way as EA's historical practices. EA will now report this financial information (such as Change in Deferred Net Revenue and stock based compensation) as separate line items. EA will also report the long term tax rate that management and the Board of Directors use to evaluate performance.

IMPACT TO REPORTING NET REVENUE

Q6: Will EA continue to report non-GAAP net revenue?

A6: No. EA's Q1 FY17 earnings materials will report both GAAP net revenue and non-GAAP net revenue, as well as description of the ways in which EA's external reporting is changing. Beginning in Q2 FY17, EA will only report GAAP net revenue.

Q7: Will I still be able to calculate non-GAAP net revenue from your reported results?

A7: Yes. EA will report the Change in Deferred Net Revenue as a separate line item when GAAP revenue is reported. Adjusting EA's reported GAAP revenue for the Change in Deferred Net Revenue results in the financial measure EA historically reported as non-GAAP net revenue.

Q8: How did EA calculate non-GAAP net revenue?

A8: The financial measure EA historically reported as non-GAAP net revenue can be calculated using the following formula:

$$\boxed{\text{GAAP Net Revenue}} + \boxed{\text{Change in Deferred Net Revenue (online-enabled games)}} = \boxed{\text{Non-GAAP Net Revenue}}$$

Q9: Does this change have an impact to reporting components of EA's total revenue, such as digital revenue and packaged goods revenue?

A9: Yes. EA has historically reported components of total non-GAAP revenue by geography, platform and composition (such as packaged goods versus digital). EA's Q1 FY17 earnings materials will report net revenue associated with each component on both a GAAP and non-GAAP basis and will provide investors with a description of the ways in which EA's external reporting is changing.

Beginning in Q2 FY17, EA will only report GAAP revenue for these components along with the Change in Deferred Net Revenue associated with that particular component.

As an example, the calculation formula for Digital Net Revenue is as follows:

$$\boxed{\text{GAAP Digital Net Revenue}} + \boxed{\text{Digital Change in Deferred Net Revenue (online-enabled games)}} = \boxed{\text{Non-GAAP Digital Net Revenue}}$$

The formula is identical for each other component of EA's total net revenue, such as packaged goods, mobile, full game downloads and extra content as well as EA's reported revenue by platform or geography.

IMPACT TO GUIDANCE

Q10: How will your guidance change?

A10: For quarterly and annual guidance provided in Q1 FY17 earnings materials and beyond, EA will only report GAAP projections and the financial data used internally by EA's Board and management to calculate non-GAAP projections. This financial data includes the Change in Deferred Net Revenue, stock

based compensation, acquisition-related expenses, other items, and the long term tax rate that management and the Board of Directors use to evaluate performance.

IMPACT TO MANAGEMENT AND EMPLOYEE COMPENSATION

Q11: Will you change your Fiscal 2017 compensation policies and practices?

A11: No. The C&DIs only require EA to modify the way in which it externally reports financial results and have no impact to EA's fiscal 2017 compensation policies and procedures. Fiscal 2017 bonus payments to EA employees, including its CEO and other executive officers, will be made pursuant to the guidelines that EA previously disclosed on its Form 8-K filed on June 28, 2016.

FORWARD LOOKING STATEMENTS

These materials may include forward-looking statements regarding future events with respect to the Company, including the ways in which the Company may modify its external financial reporting and the ways in which our Board and management will assess the Company's performance. Actual events may differ materially from our expectations. Important factors that could cause actual events to differ materially from those in the forward-looking statements include additional guidance or rules from the Securities and Exchange Commission, refinement of our analysis with respect to the subject matter of the forward-looking statements and any of the risks discussed in our most recent periodic filings. Electronic Arts makes these statements as of today, July 19, 2016 and disclaims any duty to update them.

APPENDIX A

Q4 FY16 Adjustments

Non-GAAP Results (in millions, except per share data)

The following tables reconcile the Company's net revenue, gross profit, operating income, net income and number of diluted shares as presented in its Unaudited Condensed Consolidated Statements of Operations and prepared in accordance with Generally Accepted Accounting Principles ("GAAP") to its non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income, non-GAAP net income, and number of non-GAAP diluted shares.

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2016	2015	2016	2015
Net revenue				
GAAP net revenue	\$ 1,308	\$ 1,185	\$ 4,396	\$ 4,515
Change in deferred net revenue (online-enabled games)	(384)	(289)	170	(196)
Non-GAAP net revenue	<u>\$ 924</u>	<u>\$ 896</u>	<u>\$ 4,566</u>	<u>\$ 4,319</u>
Gross profit				
GAAP gross profit	\$ 1,082	\$ 951	\$ 3,042	\$ 3,086
Acquisition-related expenses	12	14	47	52
Change in deferred net revenue (online-enabled games)	(384)	(289)	170	(196)
Loss on licensed intellectual property commitment (COGS)	—	—	—	122
Stock-based compensation	1	—	2	2
Non-GAAP gross profit	<u>\$ 711</u>	<u>\$ 676</u>	<u>\$ 3,261</u>	<u>\$ 3,066</u>
Operating income				
GAAP operating income	\$ 536	\$ 400	\$ 898	\$ 948
Acquisition-related expenses	13	16	54	63
Change in deferred net revenue (online-enabled games)	(384)	(289)	170	(196)
Loss on licensed intellectual property commitment (COGS)	—	—	—	122
College football settlement expenses	—	—	—	(5)
Stock-based compensation	47	36	178	144
Non-GAAP operating income	<u>\$ 212</u>	<u>\$ 163</u>	<u>\$ 1,300</u>	<u>\$ 1,076</u>
Net Income				
GAAP net income	\$ 899	\$ 395	\$ 1,156	\$ 875
Acquisition-related expenses	13	16	54	63
Amortization of debt discount and loss on conversion of notes	5	6	27	22
Change in deferred net revenue (online-enabled games)	(384)	(289)	170	(196)
Loss on licensed intellectual property commitment (COGS)	—	—	—	122
College football settlement expenses	—	—	—	(5)
Stock-based compensation	47	36	178	144
Income tax adjustments	(419)	(39)	(567)	(219)
Non-GAAP net income	<u>\$ 161</u>	<u>\$ 125</u>	<u>\$ 1,018</u>	<u>\$ 806</u>
Non-GAAP earnings per share				
Basic	\$ 0.52	\$ 0.40	\$ 3.28	\$ 2.59
Diluted	\$ 0.50	\$ 0.39	\$ 3.14	\$ 2.51
Number of shares				
GAAP & Non-GAAP Basic	307	310	310	311
GAAP Diluted	322	332	330	325
Shares from convertible bond hedge	(3)	(8)	(6)	(4)
Non-GAAP Diluted	<u>319</u>	<u>324</u>	<u>324</u>	<u>321</u>