ELECTRONIC ARTS

ANNUAL REPORT

1999

OPERATING HIGHLIGHTS

- 34% increase in net revenues
- 53% increase in net income (excluding one-time items from both years)
- Released 59 titles — 21 PlayStation, 9 N64, 28 PC-CD, 1 Online
- Established two joint ventures with Square Company Ltd. of Japan
- Expanded direct distribution presence to over 75 countries
- Signed long-term license agreements with World Championship Wrestling, Formula One Racing, and FIFA
- Made three acquisitions: Westwood Studios, Tiburon Entertainment, ABC Software AG and GmbH

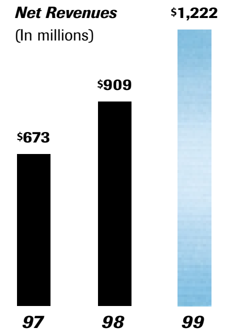
1999 FINANCIAL HIGHLIGHTS

(In thousands, except per share data)

Fiscal years ended March 31,	1999	1998	% change
Net Revenues	$1,221,863	$908,852	34 %
Operating Income	105,278	83,449	26
Net Income	72,872	72,562	—
Earnings Per Share — Diluted	1.15	1.19	(3)
Operating Income (excluding one-time items)	149,393	95,741	56
Net Income (excluding one-time items)	110,378	72,339	53
Earnings Per Share — Diluted (excluding one-time items)	1.74	1.19	46
Working Capital	333,256	408,098	(18)
Total Assets	901,873	745,681	21
Total Stockholders' Equity	$ 662,931	$563,968	18 %

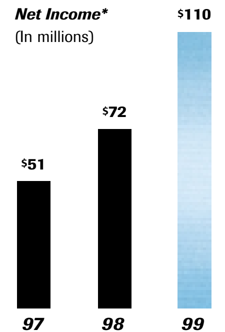
To Our Stockholders

When Electronic Arts was founded in 1982, interactive entertainment software was barely more than an interesting idea. Most observers believed that computer games had only limited consumer appeal and would never be more than a niche market comprised of arcade enthusiasts. Today that "niche market" has grown into a $15 billion industry that is the very definition of mainstream entertainment.



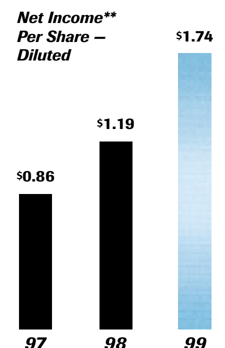
At EA, we have always considered this popularity and rapid market growth as more than an opportunity. We see it as a challenge. Never content to merely ride the rising tide of our industry, EA has continually sought to acquire or collaborate with the best available development talent, build popular product franchises, establish a steady stream of top-selling titles, and create an unsurpassed global distribution presence – all with a goal of solidifying the Company's position as the world's leading interactive entertainment software publisher.

In fiscal 1999 we were again successful in each of these areas, with progress reflected in our financial results as net revenues rose 34% to $1,221.9 million and net income* was up 53% to $110.4 million or $1.74 per diluted share. This strong performance reflects our continuing focus on the three key drivers of EA's growth: reinforcing our leadership on the PlayStation® platform; increasing our presence on the rapidly growing PC platform; and extending EA's already potent global distribution capabilities.



Strength on the PlayStation

Sony's PlayStation is the dominant hardware platform in our industry with a worldwide installed base of more than 50 million units at fiscal year end. With a 21% share of the PlayStation software market, EA trails only Sony in total dollar sales on this leading console system. In fiscal 1999 we introduced a total of 21 new PlayStation titles, including well-established top-sellers from EA SPORTS™ such as FIFA 99, World Cup 98, NASCAR® 99, NBA Live 99, and Madden NFL™ 99, the #1 football game on the PlayStation in North America. Each of these illustrates EA's ability to create enduring franchise properties that can generate strong sales with each new updated release. During this past year we both strengthened these proven franchise properties and established valuable new ones.



For example, we signed an exclusive eight-year agreement extending our license for the most recognizable and sought-after brand in international football, FIFA and FIFA World Cup. We also acquired interactive rights to leading European football

* *For 1999, the amount excludes one-time charges of $37.5 million. For 1998, the amount excludes one-time items netting to a gain of $0.2 million.*

** *For 1999, the amount excludes 59 cents of one-time charges. For 1998, the net impact of the one-time items had no impact to net income per share.*

leagues, including The FA Premier League in England, La Liga de Futbol Profesional in Spain, and Die Bundesliga in Germany. EA's soccer-related titles generated $200 million in sales this past fiscal year, and these licensing agreements solidify our position as the world's premier software publisher in the world's most popular sport.

We also built several exciting new franchise properties to maintain our strength on the PlayStation. Knockout Kings™, which features 38 of the most famous boxers in history, sold more than one million units in its first six months and is well on its way to being the newest EA SPORTS franchise property. Tiger Woods 99 PGA TOUR® Golf was very well received in its initial product launch. Our soon-to-be-released title featuring the stars of World Championship Wrestling has tremendous promise. We also recently licensed the rights to the Formula One brand, a natural complement to EA's auto racing product family that should prove as attractive to our growing international audience as the popular NASCAR titles are in North America.

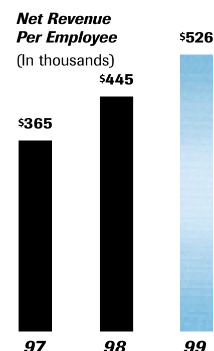
Clearly, EA has built a very strong position on the PlayStation platform, and given the upcoming introduction of Sony's next-generation PlayStation 2, we believe the future holds even more promise. We have been working with this extraordinary new technology and have already begun both updating our franchise properties and developing new properties for PlayStation 2. As with the original PlayStation, our objective is to be the leading independent publisher for PlayStation 2, and we intend to be a major factor in the launch of this revolutionary hardware platform during calendar 2000.

At the same time, we also remain firmly committed to supporting Nintendo's N64™ console. In fiscal 1999 we released 9 N64 products – including World Cup 98, Madden NFL 99, Beetle® Adventure Racing, and NASCAR 99 – and we will continue to devote significant development resources to this highly regarded platform.

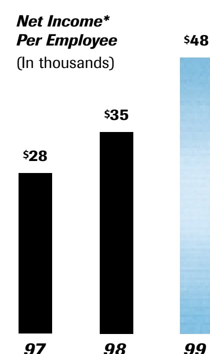
Expanding Presence on PC

Driven by faster microprocessors, better sound and graphics technology and declining hardware prices, the PC has grown to comprise nearly one-third of the interactive entertainment software business. EA has long been one of the top three publishers of PC entertainment titles, but we aim to be the market leader on this increasingly important platform. The core of our strategy has been to improve our PC product offering, especially in the categories PC gamers prefer, such as real-time strategy, simulation, and role-playing titles.

EA works closely with world-class creative talent, including Sid Meier, whose Alpha Centauri™ title we recently released to strong sales and widespread critical acclaim. In fact, one leading industry publication, *PC Gamer* magazine, gave Alpha Centauri a 98% rating, which ranks this title as the highest-quality product the magazine has ever reviewed. To further improve our PC product line, we have steadily strengthened our internal development capabilities and acquired leading PC content studios. Twenty months ago we acquired Maxis, and early in calendar 1999 we released SimCity 3000™. Here again, critical response and initial sales have been extremely positive, with this latest version of an industry classic topping the sales charts in many markets for three consecutive months.



In fiscal 1999, we took several other important steps toward leadership on the PC platform. We acquired Westwood Studios, one of our industry's most successful and respected studios. Westwood's Lands of Lore™ and Command & Conquer™ series are genuine blockbuster franchises that have built large and loyal followings, and we expect very strong consumer response to an upcoming release, Command & Conquer: Tiberian Sun™.



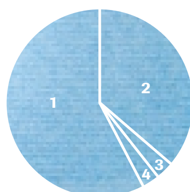
We have also made an equity investment in Pixel Entertainment, a Tel Aviv–based developer of military simulation technology for the PC. Pixel's highly advanced terrain-rendering engine makes flight simulations extraordinarily realistic, and it promises to significantly enhance the graphic quality of our Jane's® Combat Simulation products.

Another avenue we are pursuing to build EA's share of the PC market is online content. Our revolutionary Ultima™ Online has proven the viability of persistent-state, massively multiplayer Internet-based gaming. Ultima Online will soon surpass 125,000 paying customers, and we have added servers in Great Britain and Japan to accommodate growing demand. We are now developing similar subscription-driven online games, with a particular emphasis on deploying some of our EA SPORTS franchises on pay-for-play web sites.

We are also using the Internet as a vehicle to market our products, build brand equity, and develop deeper relationships with our customers. We have a large number of popular sites for EA SPORTS enthusiasts offering game tips, updates and user bulletin boards. These are rapidly becoming well-known destination sites — in total, EA web sites receive more than 1 million unique visitors each month — and we are building a deep database of registered users. This kind of experience

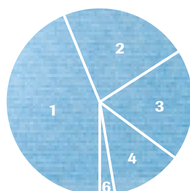
* *For 1999, net income (including one-time charges) per employee was $31 thousand. For 1998, net income (including one-time items) per employee was $36 thousand.*

Revenue Mix
% by Geography



	99	*98*
1 North America	58	57
2 Europe	36	36
3 Asia Pacific	3	5
4 Japan	3	2

Revenue Mix
% by Platform



	99	*98*
1 PlayStation	43	42
2 PC-CD	22	25
3 EA Distribution	20	20
4 N64	12	6
5 Saturn	–	2
6 License, OEM & Other	3	5

is making EA's online marketing steadily more sophisticated and effective. In fact, the launches of both SimCity 3000 and Alpha Centauri were supported by dedicated web sites that allowed consumers to experience the games first-hand. These sites had very heavy traffic and made a significant contribution to the success of both titles.

While interactive entertainment on the Internet is still in its infancy, we believe it has tremendous potential. EA has already established itself as a leader in this segment, and we fully intend to remain at the cutting edge of new developments in this important emerging market.

Strong Global Distribution

EA has been building a strong global presence since its inception and in fiscal 1999 42% of our sales were generated by international territories. We now have direct distribution in 75 countries, including new offices established last year in Korea and – through acquisition of a former distribution partner – in Switzerland and Austria.

The two joint ventures we formed in May 1998 with Square Company, Ltd. of Japan are off to excellent starts. In Japan our products are now reaching a wide retail audience through Square's proprietary distribution channel, and – reflecting new EA management in Japan and more rigorous cost control – we grew revenues by 52% and achieved a profit in this historically challenging territory. We look forward to accelerating local development of original products aimed at Japanese consumers. Our other joint venture, in North America, is also off to an outstanding start with strong sales of Square's Parasite Eve™. We will be distributing the widely anticipated Final Fantasy® 8 – a product that has already sold more than 3 million units in Japan – during fiscal 2000.

EA's broad global presence has also helped us build a roster of high quality affiliated label and co-publishing partners. In addition to Square, these include NovaLogic, Fox Interactive, MGM Interactive, Universal Studios Interactive, and DreamWorks Interactive. In fiscal 1999, affiliated label/co-publishing revenues comprised 20% of total worldwide sales. We anticipate maintaining this approximate mix as our revenues continue to grow.

Growth Drivers

Looking forward, the future is bright for EA. Not only has interactive software become a mainstream form of entertainment, favorable demographic trends will bring millions of new consumers into our target market. The emerging "Generation Y" – coupled with the traditional game players who have made this

activity as much a part of their daily lives as primetime television — will be driving and accelerating demand for interactive software throughout the next decade.

Beyond this demographic impetus, there are other factors that will contribute specifically to EA's future growth, including our strong position in the PlayStation and N64 market segments, our steadily growing share of the PC market, and our commitment to leadership on the next-generation PlayStation 2. EA also enjoys a growing array of high-quality licenses and top development talent that promise to keep our products a cut above the competition. We are pioneering an entirely new, emerging market for online content. Our global distribution system is unsurpassed. Perhaps most important, we have the necessary scale to execute our strategy and build market share in a highly competitive and consolidating industry.

These are compelling advantages. They have helped EA to become the world's leading publisher of interactive entertainment software. We believe they will also enable us to maximize the significant opportunities that lie ahead. As always, we want to thank our employees, development and distribution partners, customers, and stockholders for their continuing support. We look forward with great anticipation to fiscal 2000 as next-generation technologies emerge, and EA positions itself for continued future growth.

Lawrence F. Probst III
Chairman and Chief Executive Officer

This Annual Report, including this "Letter to Stockholders" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" at pages 25-35 contains forward-looking statements regarding EA's future performance that involve risks and uncertainties including those discussed in "Risk Factors" on page 35 of this Annual Report and under the same heading in our Annual Report on Form 10-K for the year ended March 31, 1999. Actual events or our actual future performance may differ materially from any forward-looking statements due to such risks and uncertainties.

ELECTRONIC ARTS AND SUBSIDIARIES

Selected Five-Year Financial Data

(In thousands, except per share data)

Years ended March 31,	1999	1998	1997	1996	1995
INCOME STATEMENT DATA					
Net revenues	$1,221,863	$ 908,852	$ 673,028	$ 587,299	$ 531,493
Cost of goods sold	625,547	480,766	328,943	291,491	277,543
Gross profit	596,316	428,086	344,085	295,808	253,950
Operating expenses:					
Marketing and sales	163,407	128,308	102,072	85,771	70,764
General and administrative	75,556	57,838	48,489	37,711	33,492
Research and development	202,080	146,199	130,755	108,043	79,910
Charge for acquired in-process technology	44,115	1,500	–	2,232	–
Merger costs	–	10,792	–	–	–
Amortization of intangibles	5,880	–	–	–	–
Total operating expenses	491,038	344,637	281,316	233,757	184,166
Operating income	105,278	83,449	62,769	62,051	69,784
Interest and other income, net	13,180	24,811	13,279	7,514	13,476
Income before provision for income taxes and minority interest	118,458	108,260	76,048	69,565	83,260
Provision for income taxes	45,414	35,726	26,003	22,584	26,859
Income before minority interest	73,044	72,534	50,045	46,981	56,401
Minority interest in consolidated joint venture	(172)	28	1,282	(304)	2,620
Income from continuing operations	72,872	72,562	51,327	46,677	59,021
Discontinued operations:					
Gain on disposal of discontinued operations (net of income tax expense of $173 in fiscal 1995)	–	–	–	–	303
Net income	$ 72,872	$ 72,562	$ 51,327	$ 46,677	$ 59,324

(In thousands, except per share data)

Years ended March 31,	1999	1998	1997	1996	1995
Per share amounts:					
Income from continuing operations:					
Basic	$1.20	$1.23	$0.89	$0.84	$1.13
Diluted	$1.15	$1.19	$0.86	$0.80	$1.06
Net income:					
Basic	$1.20	$1.23	$0.89	$0.84	$1.13
Diluted	$1.15	$1.19	$0.86	$0.80	$1.07
Number of shares used in computation:					
Basic	60,748	58,867	57,544	55,685	52,446
Diluted	63,272	60,958	59,557	58,190	55,546
BALANCE SHEET DATA AT FISCAL YEAR END					
Cash, cash equivalents and short-term investments	$ 312,822	$ 374,560	$ 268,141	$ 190,873	$ 182,776
Marketable securities	4,884	3,721	5,548	37,869	10,725
Working capital	333,256	408,098	284,863	247,001	180,714
Long-term investments	18,400	24,200	34,478	30,319	14,200
Total assets	901,873	745,681	584,041	489,496	359,866
Total liabilities	236,209	181,713	136,237	108,668	107,894
Minority interest	2,733	–	28	1,277	1,148
Redeemable preferred stock	–	–	–	–	11,363
Total stockholders' equity	662,931	563,968	447,776	379,551	239,461

ELECTRONIC ARTS AND SUBSIDIARIES

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report, including the "Letter to Stockholders" at pages 17 to 21 and the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward looking statements regarding future events or our future financial performance that involve certain risks and uncertainties including those discussed in "Risk Factors" at page 35 of this Annual Report and under the same heading in our Annual Report on Form 10-K for the year ended March 31, 1999. Actual events or actual future results may differ materially from any forward looking statements due to such risks and uncertainties.

RESULTS OF OPERATIONS

Comparison of Fiscal 1999 to 1998

	1999	1998	% change
Net revenues	$1,221,863,000	$908,852,000	34.4

We derive revenues primarily from shipments of entertainment software, which includes EA Studio CD products for dedicated entertainment systems ("CD-video games"), EA Studio CD personal computer products ("PC-CD"), EA Studio cartridge products and Affiliated Label ("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 ("OEMs") and online subscription revenues.

Our total net revenues increased compared to the prior year due to increased sales of products on PlayStation, Nintendo N64, PC-CD and increased worldwide distribution of AL products. This increase was partially offset by a decrease in sales of Sega Saturn® products and 16-bit video game products.

Sales of PlayStation products in fiscal 1999 increased to $519,830,000, or 43% of total revenue, compared to $380,299,000, or 42% of total revenue in fiscal 1998. We released 21 new PlayStation titles in fiscal 1999 compared to 25 in fiscal 1998. The increase in sales was attributable to the greater installed base of PlayStation game consoles and the releases of key titles for this platform including *FIFA 99, World Cup 98* and *Madden NFL 99*. We expect revenues from PlayStation products to continue to grow in fiscal 2000, but as revenues for these products increase, we do not expect to maintain these growth rates.

Net revenues derived from other 32-bit products, primarily for Saturn, were $749,000 in fiscal 1999 compared to $17,507,000 in fiscal 1998. We released no new Saturn titles in fiscal 1999 compared to eight in fiscal 1998. We do not expect to release any new Saturn titles in fiscal 2000 and revenues from the sales of Saturn products are not expected to be significant in future years.

Net revenues from PC-CD products increased to $270,793,000 in fiscal 1999, representing 22% of total net revenues, from $231,034,000, or 25% of total net revenues in fiscal 1998. We released 29 PC-CD titles in fiscal 1999 compared to 30 PC-CD titles in fiscal 1998. The worldwide increase in sales of PC-CD products was primarily attributable to an increase in sales in Europe and North America due to the related releases of key titles for this platform including *Sim City 3000*.

Net revenues derived from N64 video game cartridge products were $152,349,000, or 12% of total net revenues, compared to $56,677,000, or 6%, in fiscal 1998. The increase in N64 revenues was primarily due to more title releases for this platform compared to last year and a larger N64 market. We released nine titles in fiscal 1999, including *NASCAR 99*, compared to two titles in fiscal 1998. We do not expect significant growth in revenues for N64 products in fiscal 2000.

Net revenues from shipments of AL products in fiscal 1999 increased to $248,105,000, or 20% of total revenue, compared to $185,865,000, or 20% of total revenue in fiscal 1998. The increase was due to higher sales of AL products in North America and Europe. This increase was primarily attributable to the distribution of products published by Square EA in North America and the acquisition of ABC Software in Switzerland. We expect revenues from AL products to continue to grow in fiscal 2000, but as revenues for these products increase, we do not expect to maintain these growth rates.

Net revenues generated by 16-bit video game cartridge-based products were $635,000 in fiscal 1999, compared to $17,314,000, or 2% of net revenues in fiscal 1998. As the 16-bit video game market has been replaced by 32-bit and 64-bit systems, we did not release any new titles in fiscal 1999. We do not expect to release any new titles in fiscal 2000 and revenues from the sales of 16-bit products are not expected to be significant.

Licensing of EA Studio products generated $17,788,000 in fiscal 1999, compared to $15,431,000 in fiscal 1998. The increase was primarily the result of an increase in the revenues generated by the licensing of our products in Europe.

North America net revenues increased by 36% to $704,998,000 in fiscal 1999 as compared to $519,423,000 in fiscal 1998. The increase was mainly attributable to strong growth in N64 and PlayStation systems, the distribution of AL titles and growth in PC-CD sales. Net revenues from PlayStation and N64 revenues increased $148,181,000 due to a larger market and greater installed base for these platforms as well as more title releases for N64 in comparison to the prior year. North America AL sales increased by $39,813,000, compared to the prior year primarily due to the distribution of products published by Square EA. PC-CD revenues increased by $13,439,000 due to key title releases during the year.

International net revenues increased by 33% to $516,865,000, or 42% of consolidated fiscal 1999 net revenues, compared to $389,429,000, or 43% of the fiscal 1998 total. Europe's net revenues increased by $117,999,000 primarily due to an increase in sales of PlayStation and AL products. Japan's net revenues increased by $11,371,000 primarily due to the sales of *FIFA: Road to World Cup 98*. Asia Pacific net revenues decreased by $1,934,000 due to the weakness in Asian currencies. In local currency, in spite of weak economies, net revenues for Asia Pacific increased compared to the prior year.

	1999	1998	% change
Cost of goods sold	$ 625,547,000	$480,766,000	30.1
As a percentage of net revenues	51.2%	52.9%	

Cost of goods sold as a percentage of revenues decreased in fiscal 1999 primarily due to lower artist royalties, including savings related to an acquisition of a software development company during fiscal 1999, partially offset by higher sales of lower margin N64 products.

Operating Expenses	1999	1998	% change
Marketing and sales	$ 163,407,000	$128,308,000	27.4
As a percentage of net revenues	13.4%	14.1%	
General and administrative	$ 75,556,000	$ 57,838,000	30.6
As a percentage of net revenues	6.2%	6.4%	
Research and development	$202,080,000	$146,199,000	38.2
As a percentage of net revenues	16.5%	16.1%	

The increase in marketing and sales expenses was primarily attributable to increased print, Internet and television advertising to support new releases and increased cooperative advertising associated with higher revenues in North America and Europe as compared to the prior year. Increases in marketing and sales expenses were also due to additional headcount related to the continued expansion of our worldwide distribution business and the acquisitions of ABC Software and Westwood Studios.

The increase in general and administrative expenses was primarily due to an increase in headcount and occupancy costs to support the increase in growth in North America and Europe operations, including the opening of additional international offices in Europe and the acquisition of ABC Software.

The increase in research and development expenses was due to additional headcount-related expenses attributable to the acquisition of Westwood Studios, Inc. and certain assets of the Irvine, California–based Virgin Studio (collectively "Westwood") in September 1998 and Tiburon Entertainment, Inc. in April 1998, higher development costs per title, as products are including more content and are more complex and time consuming to develop, and an increase in development costs for *Ultima Online*.

We released a total of 59 new products in fiscal 1999 compared to 71 in fiscal 1998.

Other Operating Expenses	1999	1998	% change
Amortization of intangibles	$ 5,880,000	$ –	N/M
As a percentage of net revenues	0.5%	N/A	
Charge for acquired in-process technology	$ 44,115,000	$ 1,500,000	N/M
As a percentage of net revenues	3.6%	0.2%	
Merger costs	$ –	$ 10,792,000	(100.0)
As a percentage of net revenues	N/A	1.2%	

Amortization of intangibles results from the acquisitions of Westwood and ABC Software in the second quarter of fiscal 1999.

In connection with the purchase of Westwood in September 1998, we allocated and expensed $41,836,000 of the $122,688,000 purchase price to in-process research and development projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete research and development projects. 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. Westwood had three major PC-CD projects in progress at the time of the acquisition including two in the best-selling franchise *Command and Conquer* and one in the critically acclaimed *Lands of Lore* series. As of the acquisition date, costs to complete the Westwood projects acquired were expected to be approximately $9.1 million in fiscal 1999, $10.6 million in fiscal 2000 and $1.0 million in fiscal 2001. We believe there have been no significant changes to these estimates as of March 31, 1999. We currently expect to complete the development of these projects at various dates through fiscal 2001 and to publish the products upon completion.

The nature of the efforts required to develop the acquired in-process technology into commercially viable products principally relate to the completion of all planning, designing and testing activities necessary to establish that the product can be produced to meet our design requirements including functions, features and technical performance requirements.

Though we currently expect that the acquired in-process technology will be successfully developed, there can be no assurance that commercial or technical viability of these products will be achieved. Furthermore, future developments in the entertainment software industry, changes in computer or video game console technology, changes in other product offerings or other developments may cause us to alter or abandon these plans.

The value assigned to purchased in-process technology was determined by estimating the completion percentage of research and development efforts at the acquisition date, forecasting risk adjusted revenues considering the completion percentage, estimating the resulting net cash flows from the projects and discounting the net cash flows to their present values. The completion percentages were estimated based on cost incurred to date, importance of the completed development tasks and the elapsed portion of the total project time. The revenue projection used to value the in-process research and development is based on unit sales forecasts for worldwide sales territories and adjusted to consider only the revenue related to development achievements completed at the acquisition date. Net cash flow estimates include cost of goods sold and sales, marketing and general and administrative expenses and taxes forecasted based on historical operating characteristics. In addition, net cash flow estimates were adjusted to allow for fair return on working capital and fixed assets, charges for franchise and technology leverage and return on other intangibles. Appropriate risk adjusted discount rates ranging from 20% to 22.5% were used to discount the net cash flows back to their present value. The remaining identified intangibles will be amortized on a straight-line basis over two to twelve years based on expected useful lives of franchise tradenames, existing products and technologies, retention of workforce, and other intangible assets. If these projects are not successfully developed, we may not realize the value assigned to the in-process research and development projects. In addition, the value of other acquired intangible assets may also become impaired.

In conjunction with the merger of Westwood, we accrued approximately $1,500,000 related to direct transaction costs and other related accruals. At March 31, 1999, there were $725,000 in accruals remaining related to these items.

Additionally, for fiscal 1999, the charge for in-process research and development also included write-offs of $2,279,000 associated with the acquisition of two software development companies in the first quarter.

For fiscal 1998, we incurred a charge of $1,500,000 for acquired in-process technology in connection with the acquisition of the remaining 35% minority ownership interest in Electronic Arts Victor, Inc. in December 1997. This charge was made after we concluded that the in-process technology had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

On July 25, 1997, we completed a merger with Maxis Inc. ("Maxis"). In conjunction with the merger, we recorded costs of $10,792,000 which included direct transaction fees and costs associated with integrating the operations of the two companies. At March 31, 1999, there were no accruals remaining related to these merger costs.

	1999	1998	% change
Operating income	$ 105,278,000	$ 83,449,000	26.2
As a percentage of net revenues	8.6%	9.2%	

Operating income increased due to higher net revenues and related gross profit partially offset by increased operating expenses including the charges for acquired in-process technology of $44,115,000 in the current fiscal year partially offset by merger costs of $10,792,000 and a charge for acquired in-process technology of $1,500,000 related to the acquisitions in the prior fiscal year.

	1999	1998	% change
Interest and other income, net	$ 13,180,000	$ 24,811,000	(46.9)
As a percentage of net revenues	1.1%	2.7%	

The decrease in interest and other income, net, was primarily attributable to the sale of our 50% ownership interest in Creative Wonders, LLC in December 1997. The sale resulted in a gain in the prior year of $12,625,000.

	1999	1998	% change
Income taxes	$ 45,414,000	$ 35,726,000	27.1
Effective tax rate	38.3%	33.0%	

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 the current fiscal year would have been 32.0% as compared to a 33.0% tax rate in the corresponding prior year periods. The lower rate of 32.0% results primarily from a higher portion of international income subject to a lower foreign tax rate as compared to the prior year and an increase in the federal research and experimental credit.

	1999	1998	% change
Minority interest in consolidated joint venture	$ (172,000)	$ 28,000	N/M
As a percentage of net revenues	0.0%	0.0%	

In the first quarter of fiscal 1999, we formed EA Square KK which is seventy percent owned by us and thirty percent owned by Square Co. Ltd. ("Square"), a leading developer and publisher of entertainment software in Japan. Minority interest for fiscal 1999 represents Square's 30% interest in the net income of EA Square KK.

For fiscal 1998, the minority interest represented the 35% interest in Electronic Arts Victor, Inc. ("EAV") owned by Victor Entertainment Industries, Inc. ("VEI"). We acquired the remaining 35% minority ownership interest in EAV held by VEI in December 1997.

	1999	1998	% change
Net income	$ 72,872,000	$ 72,562,000	0.4
As a percentage of net revenues	6.0%	8.0%	

Reported net income was flat due to the one-time charges related to acquisitions offsetting significantly higher operating income. The increase in net income, excluding one-time charges, was due to higher revenues and gross profits, offset by higher operating expenses. For fiscal 1998, net income included a one-time gain on sale of Creative Wonders, LLC in the amount of $8,459,000, net of taxes, offset by Maxis merger costs and a charge for acquired in-process developments of $8,236,000, net of taxes. For fiscal 1999, net income included one-time charges for acquired in-process technology of $37,506,000, net of taxes. Excluding one-time items in both years, as noted above, net income increased to $110,378,000 from $72,339,000, or 53% over the prior year.

RESULTS OF OPERATIONS

Comparison of Fiscal 1998 to 1997

	1998	1997	% change
Net revenues	$908,852,000	$ 673,028,000	35.0

Our total net revenues increased compared to the prior year due to increased sales of PlayStation products, increased worldwide distribution of AL products, sales of N64 video game cartridge products and sales of PC-CD products. This increase was partially offset by a decrease in sales of 16-bit video game cartridges and License/OEM revenues.

Net revenues from 32-bit CD-video game products, primarily for the PlayStation, were $397,806,000 in fiscal 1998, representing 44% of the total net revenues compared to $225,875,000, or 34% of total net revenues in fiscal 1997. The increase in sales of 32-bit video game products was attributable to the greater installed base of PlayStation game consoles and related releases of key titles for this platform during the year offset by a decline in revenues from sales of products for Saturn.

Sales of PlayStation products in fiscal 1998 increased to $380,299,000, or 42% of total revenue, compared to $187,531,000, or 28% of total revenue in fiscal 1997. We released 25 new PlayStation titles in fiscal 1998 compared to 14 in fiscal 1997.

Net revenues derived from the sales of other 32-bit products, primarily from Saturn, were $17,507,000 in fiscal 1998 compared to $38,344,000 in fiscal 1997. As the installed base of Saturn consoles did not achieve the growth rates of PlayStation consoles, our revenues from sales of Saturn products declined. We released eight new Saturn titles in fiscal 1998 compared to 12 in fiscal 1997.

Net revenues from shipments of AL products in fiscal 1998 increased to $185,865,000, or 20% of total revenue, compared to $96,696,000, or 14% of total revenue in fiscal 1997. This increase was due to higher sales of AL products in North America, Europe and Asia Pacific. This increase was attributable to the product releases under a worldwide exclusive distribution agreement with DreamWorks Interactive, including *The Lost World: Jurassic Park,* and due to continued distribution of products from Accolade, Inc. which began in the fourth quarter of fiscal 1997. AL revenues also increased as a result of our exclusive distribution agreement with Twentieth Century Fox Home Entertainment outside North America.

Net revenues derived from N64 video game cartridge products were $56,677,000, or 6% of total net revenues, compared to $17,804,000 in fiscal 1997. We released two titles in fiscal 1998 compared to one title in fiscal 1997.

Net revenues from PC-CD products increased to $231,034,000 in fiscal 1998, representing 25% of total net revenues, from $216,338,000, or 32% of total net revenues in fiscal 1997. We released 30 PC-CD titles in fiscal 1998 compared to 32 PC-CD titles in fiscal 1997. The increase in sales of PC-CD products was attributable to the worldwide growth in the PC market and the expansion of our direct distribution worldwide. PC-CD sales growth for fiscal 1998 was partially offset by a decline in titles published by Maxis. Maxis' PC-CD revenues for fiscal 1998 decreased by $17,010,000 or 45% compared to fiscal 1997.

Net revenues generated by 16-bit video game cartridge-based products were $17,314,000, or 2% of total revenues in fiscal 1998, compared to $89,160,000, or 13% of net revenues in fiscal 1997.

Licensing of EA Studio products generated $15,431,000 in fiscal 1998, compared to $26,749,000 in fiscal 1997. The decrease was primarily the result of a decrease in the revenues generated by the licensing of our products in Europe and Japan.

North America net revenues increased by 39% to $519,423,000 in fiscal 1998 as compared to $372,616,000 in fiscal 1997. The increase was mainly attributable to strong growth in PlayStation and N64 systems as well as AL product revenues partially offset by the decline in 16-bit cartridge and Saturn product sales. Net revenues from PlayStation and N64 products increased $172,496,000 while sales of 16-bit cartridge and Saturn products decreased $62,671,000 in comparison to the prior year. North America AL sales increased $34,355,000, compared to the prior year.

International net revenues increased by 30% to $389,429,000, or 43% of consolidated fiscal 1998 net revenues, compared to $300,412,000, or 45% of the fiscal 1997 total. The increase in international revenues was due to higher worldwide sales of PlayStation products and increased sales of PC-CD, N64 and AL products in Europe and Asia Pacific. This was partially offset by a decrease in 32-bit product sales in Japan, international 16-bit video game cartridge revenues and licensing of our products.

	1998	1997	% change
Cost of goods sold	$480,766,000	$328,943,000	46.2
As a percentage of net revenues	52.9%	48.9%	

Cost of goods sold as a percentage of revenues in fiscal 1998 reflected increased product costs associated with increased sales of lower margin affiliated label and N64 titles, a decrease in higher margin PC-CD sales as a proportion of total net revenues and higher professional and celebrity royalties on CD-video game and PC-CD titles as well as higher manufacturing royalties on CD-video game titles.

Operating Expenses	1998	1997	% change
Marketing and sales	$128,308,000	$102,072,000	25.7
As a percentage of net revenues	14.1%	15.2%	
General and administrative	$ 57,838,000	$ 48,489,000	19.3
As a percentage of net revenues	6.4%	7.2%	
Research and development	$146,199,000	$130,755,000	11.8
As a percentage of net revenues	16.1%	19.4%	

The increase in marketing and sales expenses was primarily attributable to increased television and print advertising to support new releases and increased cooperative advertising associated with higher revenues as compared to the prior year. Increases in marketing and sales expenses were also due to additional headcount related to the continued expansion of our worldwide distribution business.

The increase in general and administrative expenses was primarily due to an increase in payroll and occupancy costs due to the opening of additional international offices and additional depreciation related to the installation of new management information systems worldwide. This increase was partially offset by lower spending in Japan.

The increase in marketing and sales as well as general and administrative expenses were partially offset by savings attributable to the integration of Maxis in the second quarter of fiscal 1998.

The increase in research and development expenses was due to additional headcount related expenses in North America and Europe attributable to increased in-house development capacity, higher development costs per title and additional depreciation of computer equipment.

We released a total of 71 new products in fiscal 1998 compared to 68 in fiscal 1997.

Other Operating Expenses	1998	1997	% change
Charge for acquired in-process technology	$ 1,500,000	$ –	N/M
As a percentage of net revenues	0.2%	N/A	
Merger costs	$ 10,792,000	$ –	N/M
As a percentage of net revenues	1.2%	N/A	

In connection with the acquisition of the remaining 35% minority ownership interest in EAV in December 1997, we incurred a charge of $1,500,000 for acquired in-process technology. This charge was made after we concluded that the in-process technology had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

On July 25, 1997, we completed a merger with Maxis. In conjunction with the merger, we recorded costs of $10,792,000 which included direct transaction fees and costs associated with integrating the operations of the two companies.

	1998	1997	% change
Operating income	$ 83,449,000	$ 62,769,000	32.9
As a percentage of net revenues	9.2%	9.3%	

Operating income increased due to higher net revenues and related gross profit partially offset by increased operating expenses including the charge for acquired in-process technology as well as merger costs related to the acquisition of Maxis.

	1998	1997	% change
Interest and other income, net	$ 24,811,000	$ 13,279,000	86.8
As a percentage of net revenues	2.7%	2.0%	

The increase in other income is primarily due to higher interest income attributable to higher cash balances as compared to the previous year and the sale of our 50% ownership interest in Creative Wonders, LLC in December 1997. The sale of Creative Wonders resulted in a gain of $12,625,000. This increase was partially offset by lower gains on sales of marketable securities in the amount of $4,098,000 compared to $8,393,000 in the prior year.

	1998	1997	% change
Income taxes	$ 35,726,000	$ 26,003,000	37.4
Effective tax rate	33.0%	34.2%	

Our effective tax rate was lower for the year as a result of a higher proportion of international income subject to a lower foreign tax rate as compared to the prior year and the reinstatement of the federal research and development tax credit for the full fiscal year 1998.

	1998	1997	% change
Minority interest in consolidated joint venture	$ 28,000	$ 1,282,000	(97.8)
As a percentage of net revenues	0.0%	0.2%	

As discussed above, we acquired the remaining minority ownership interest in EAV in December 1997. Prior to the acquisition, EAV was sixty-five percent owned by us and thirty-five percent owned by VEI. Minority interest for the year reflected only a portion of reported losses for EAV as the net equity of EAV fell below zero in the first quarter of fiscal 1998.

	1998	1997	% change
Net income	$ 72,562,000	$ 51,327,000	41.4
As a percentage of net revenues	8.0%	7.6%	

The increase in net income was due to the growth in revenues and gross margins offset by higher operating expenses. The impact of the gain on sale of Creative Wonders, LLC was offset by the charge for acquired in-process technology and merger costs.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 1999, our working capital was $333,256,000 compared to $408,098,000 at March 31, 1998. Cash, cash equivalents and short-term investments decreased by approximately $61,738,000 in fiscal 1999. We generated $150,768,000 of cash from operations in fiscal 1999. In addition, $30,577,000 was provided through the sale of equity securities under our stock plans.

Reserves for bad debts and sales returns increased from $51,575,000 at March 31, 1998 to $72,850,000 at March 31, 1999. 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.

During fiscal 1999, we invested $122,688,000 in cash for the acquisition of Westwood Studios, Inc., $9,466,000 for the acquisition of ABC Software, approximately $7,800,000 for investment in affiliates and approximately $8,000,000 in long-term licenses. In addition, we invested approximately $78,800,000 for new facilities in Europe and Canada and $17,800,000 in computer equipment worldwide. In addition, we repurchased 222,500 shares of our common stock for approximately $9,001,000.

Our principal source of liquidity is $312,822,000 in cash, cash equivalents and short-term investments. 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 for the next twelve months and the foreseeable future.

YEAR 2000 READINESS DISCLOSURE

Background of Year 2000 Issues Many currently installed computer systems and software products are unable to distinguish between twentieth century dates and twenty-first century dates because such systems may have been developed using two digits rather than four to determine the applicable year. For example, computer programs that have date-sensitive software may recognize a date using “00” as the year 1900 rather than the year 2000. This error could result in system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies’ software and computer systems may need to be upgraded or replaced to comply with such “Year 2000” requirements.

State of Readiness Our business is dependent on the operation of numerous systems that could potentially be impacted by Year 2000 related problems. Those systems include, among others: hardware and software systems used to deliver products to our customers; communications networks such as the Internet and private intranets, which we depend on to receive orders for products from our customers; the internal systems of our customers and suppliers; products sold to customers; the hardware and software systems used internally in the management of our business; and non-information technology systems and services used in the management of our business, such as power, telephone systems and building systems.

Based on an analysis of the systems potentially impacted by conducting business in the twenty-first century, we are applying a phased approach to making such systems, and accordingly, our operations, ready for the year 2000. Beyond awareness of the issues and scope of systems involved, the phases of activities in progress include: an assessment of specific underlying computer systems, programs and hardware; renovation, replacement or redeployment of Year 2000 non-compliant technology; validation and testing of technologically compliant Year 2000 solutions; and implementation of the Year 2000 compliant systems.

As a third party providing software products, we are dependent on the hardware and software products used to deliver such products and services. If such products are inoperable due to Year 2000 issues, our business, financial condition and results of operations could be adversely affected. An inventory of our internal business systems has been completed and planned software and hardware upgrades to ensure Year 2000 compliance are in process. The upgrades to these systems are expected to be completed by June 1999.

Costs To date we have not incurred significant costs directly related to Year 2000 issues, even in cases where non-compliant information technology systems were redeployed or replaced.

We believe that future expenditures to upgrade internal systems and applications will not have a material adverse effect on our business, financial condition and results of operations and are primarily included within our ongoing system development plan. In addition, while the potential costs of redeploying personnel and of any delays in implementing other projects are not known, the costs are anticipated to be immaterial.

Risks of the Year 2000 Issues Our financial information systems include an integrated suite of business applications developed and supported by Oracle Corporation. These applications systems are in place and currently support daily operations in the United States and in Europe. Based on representations made by Oracle Corporation and upon our limited tests, we believe these systems to be Year 2000 compliant.

We believe our software products are Year 2000 compliant; however, success of our Year 2000 compliance efforts may depend on the success of our customers dealing with their Year 2000 issues. Customer difficulties with Year 2000 issues might require us to devote additional resources to resolve underlying problems. Failures of our and/or third parties' computer systems could have a material adverse impact on our ability to conduct business. For example, a significant percentage of purchase orders received from our customers are computer generated and electronically transmitted. In addition, the Year 2000 could affect the ability of consumers to use our PC based products. If the computer systems on which the consumers use our products are not Year 2000 compliant, such noncompliance could affect the consumers' ability to use such products.

Contingency Plans We continue to assess certain of our Year 2000 exposure areas in order to determine what additional steps beyond those identified by our internal review in the United States are advisable. We are currently developing a contingency plan for handling Year 2000 problems that are not detected and corrected prior to their occurrence. We expect this plan will be completed by June 30, 1999. We believe that the systems, which represent the principal exposures, have been identified, and to the extent necessary, are in the process of being modified to become Year 2000 compliant. Additionally, we will be conducting tests of our principal business systems to verify that those systems are Year 2000 compliant. Any failure to address any unforeseen Year 2000 issue could adversely affect our business, financial condition and results 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 conversion to the Euro will eliminate currency exchange rate risk between the member countries.

We do not anticipate any material impact from the Euro conversion on our financial information systems which currently accommodate multiple currencies. Computer software changes necessary to comply with the Year 2000 issue are generally compliant to the Euro conversion issue. Due to numerous uncertainties, we cannot reasonably estimate the effect that the Euro conversion issue will have on our pricing or market strategies, and the impact, if any, it will have on our financial condition and results of operations.

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:

- Product development schedules are frequently unreliable and make predicting quarterly results difficult.
- New video game platforms create additional technical and business model uncertainties.
- The business models and technology for e-commerce and online gaming are unproven.
- 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 manufacturing of our video game products.
- We face intense competition for talent from highly valued Internet companies.

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, 1999.

ELECTRONIC ARTS AND SUBSIDIARIES

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, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 1999. 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 did not audit the financial statements of Maxis, Inc., a company acquired by Electronic Arts Inc. in a business combination accounted for as a pooling of interests as described in Note 11 to the consolidated financial statements, which statements reflect total revenues constituting 7% for the year ended March 31, 1997, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Maxis, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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, based on our audits and the report of the other auditors, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Mountain View, California

April 30, 1999

ELECTRONIC ARTS AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

As of March 31,	1999	1998
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	$ 312,822	$ 374,560
Marketable securities	4,884	3,721
Receivables, less allowances of $72,850 and $51,575, respectively	149,468	139,374
Inventories	22,376	19,626
Other current assets	79,915	52,530
Total current assets	569,465	589,811
Property and equipment, net	181,266	105,095
Long-term investments	18,400	24,200
Investment in affiliates	25,864	20,541
Goodwill and other intangibles	90,682	1,585
Other assets	16,196	4,449
	$ 901,873	$ 745,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 63,881	$ 56,233
Accrued liabilities	172,328	125,480
Total current liabilities	236,209	181,713
Minority interest in consolidated joint venture	2,733	–
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares	–	–
Common stock, $0.01 par value. Authorized 104,000,000 shares; issued 61,291,849 and 60,159,601 shares; outstanding 61,169,286 and 60,159,601 shares, respectively	613	602
Paid-in capital	267,699	234,294
Treasury stock, at cost; 122,563 shares in 1999	(4,926)	–
Retained earnings	402,112	330,540
Accumulated other comprehensive loss	(2,567)	(1,468)
Total stockholders' equity	662,931	563,968
	$ 901,873	$ 745,681

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data)

Years ended March 31,	1999	1998	1997
Net revenues	$1,221,863	$ 908,852	$ 673,028
Cost of goods sold	625,547	480,766	328,943
Gross profit	596,316	428,086	344,085
Operating expenses:			
Marketing and sales	163,407	128,308	102,072
General and administrative	75,556	57,838	48,489
Research and development	202,080	146,199	130,755
Charge for acquired in-process technology	44,115	1,500	–
Merger costs	–	10,792	–
Amortization of intangibles	5,880	–	–
Total operating expenses	491,038	344,637	281,316
Operating income	105,278	83,449	62,769
Interest and other income, net	13,180	24,811	13,279
Income before provision for income taxes and minority interest	118,458	108,260	76,048
Provision for income taxes	45,414	35,726	26,003
Income before minority interest	73,044	72,534	50,045
Minority interest in consolidated joint venture	(172)	28	1,282
Net income	$ 72,872	$ 72,562	$ 51,327
Net income per share:			
Basic	$1.20	$1.23	$0.89
Diluted	$1.15	$1.19	$0.86
Number of shares used in computation:			
Basic	60,748	58,867	57,544
Diluted	63,272	60,958	59,557

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

(In thousands) Years ended March 31, 1999, 1998 and 1997	Common Stock	
	Shares	Amount
Balances at March 31, 1996	56,747	$ 567
Net income		
Change in unrealized appreciation of investments, net		
Reclassification adjustment for gains realized in net income, net		
Translation adjustment		
Comprehensive income		
Proceeds from sales of shares through stock plans	1,516	16
Tax benefit related to stock options		
Repayment of notes receivable		
Amortization of deferred compensation		
Balances at March 31, 1997	58,263	583
Net income		
Change in unrealized appreciation of investments, net		
Reclassification adjustment for gains realized in net income, net		
Translation adjustment		
Comprehensive income		
Proceeds from sales of shares through stock plans	1,897	19
Tax benefit related to stock options		
Repayment of notes receivable		
Balances at March 31, 1998	60,160	602
Net income		
Change in unrealized appreciation of investments, net		
Reclassification adjustment for gains realized in net income, net		
Translation adjustment		
Comprehensive income		
Proceeds from sales of shares through stock plans	1,132	11
Purchase of treasury stock		
Tax benefit related to stock options		
Balances at March 31, 1999	61,292	$ 613

See accompanying notes to consolidated financial statements.

Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total
$ 158,144	$ 206,651	$ 14,189	–	$ –	$ 379,551
	51,327				51,327
		(8,176)			(8,176)
		(5,497)			(5,497)
		152			152
					37,806
20,985					21,001
9,210					9,210
101					101
107					107
188,547	257,978	668	–	–	447,776
	72,562				72,562
		1,882			1,882
		(2,745)			(2,745)
		(1,273)			(1,273)
					70,426
37,729					37,748
7,931					7,931
87					87
234,294	330,540	(1,468)	–	–	563,968
	72,872				72,872
		2,533			2,533
		(989)			(989)
		(2,643)			(2,643)
					71,773
27,791	(1,300)		100	4,075	30,577
			(223)	(9,001)	(9,001)
5,614					5,614
$ 267,699	$ 402,112	$ (2,567)	(123)	$ (4,926)	$ 662,931

ELECTRONIC ARTS AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands) Years ended March 31,	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	$ 72,872	$ 72,562	$ 51,327
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in consolidated joint venture	172	(28)	(1,282)
Equity in net loss of affiliates	155	1,162	1,566
Gain on sale of affiliate	–	(12,625)	–
Depreciation and amortization	40,461	26,907	22,986
Loss on sale of fixed assets	729	1,813	164
Loss on disposition of assets related to merger	–	5,607	–
Gain on sale of marketable securities	(1,454)	(4,098)	(8,393)
Provision for doubtful accounts	6,027	4,302	4,840
Charge for acquired in-process technology	44,115	1,500	–
Change in assets and liabilities, net of acquisitions:			
Receivables	(11,702)	(40,432)	(28,018)
Inventories	1,282	(1,753)	(1,626)
Other assets	(24,266)	(5,660)	8,142
Accounts payable	1,622	12,783	4,824
Accrued liabilities	32,797	29,217	24,307
Deferred income taxes	(12,042)	(12,264)	1,165
Net cash provided by operating activities	150,768	78,993	80,002
INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	8,281	25	171
Proceeds from sales of marketable securities	1,818	7,276	21,152
Purchase of marketable securities	–	(2,762)	–
Capital expenditures	(115,820)	(45,238)	(39,124)
Investment in affiliates, net	(5,478)	16,579	(11,271)
Purchase of held-to-maturity securities	–	(1,008)	(23,627)
Proceeds from maturity of securities	17,306	13,338	20,598
Change in short-term investments, net	76,755	(34,504)	(62,132)
Acquisition of Westwood Studios, Inc.	(122,688)	–	–
Acquisition of other subsidiaries, net of cash acquired	(11,805)	(3,225)	–
Net cash used in investing activities	(151,631)	(49,519)	(94,233)

(In thousands) Years ended March 31,	1999	1998	1997
FINANCING ACTIVITIES:			
Proceeds from sales of shares through stock plans	$ 30,577	$ 37,748	$ 21,001
Purchase of treasury shares	(9,001)	–	–
Repayment of notes receivable	–	87	101
Tax benefit from exercise of stock options	5,614	7,931	9,210
Proceeds from minority interest investment in consolidated joint venture	2,109	–	–
Net cash provided by financing activities	29,299	45,766	30,312
Translation adjustment	(2,191)	(1,273)	185
Increase in cash and cash equivalents	26,245	73,967	16,266
Beginning cash and cash equivalents	215,963	141,996	125,730
Ending cash and cash equivalents	242,208	215,963	141,996
Short-term investments	70,614	158,597	126,145
Ending cash, cash equivalents and short-term investments	$ 312,822	$ 374,560	$ 268,141
Supplemental cash flow information:			
Cash paid during the year for income taxes	$ 43,050	$ 32,888	$ 15,323
Non-cash investing activities:			
Change in unrealized appreciation of investments and marketable securities	$ 1,805	$ (1,411)	$ (19,562)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MARCH 31, 1999, 1998 AND 1997

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of Electronic Arts Inc. and its wholly-owned and majority-owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements of the Company follows:

(a) 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 1999, 1998 and 1997 contain 52 weeks. Since the results of an additional week are not material, and for clarity of presentation herein, all fiscal periods are treated as ending on a calendar month end.

(b) 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 98-4 *"Deferral of the Effective Date of a Provision of SOP 97-2,"* 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 period ended March 31, 1999. Total deferred revenue at March 31, 1999 and 1998 was $8,206,000, and $2,797,000, respectively.

Product Sales: Revenue is generally recognized when the product is shipped. 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: Monthly online subscription revenues are recognized over the period in which the services are provided.

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 $17,788,000, $15,431,000, and $26,749,000 for the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

NOTE 1 *(CONTINUED)*

(c) 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 is based on the specific identification method.

(d) 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 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 income 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 $35,057,000 and $20,470,000 at March 31, 1999 and 1998, respectively. The long-term portion of prepaid royalties, included in other assets, was $7,602,000 and $2,289,000 at March 31, 1999 and 1998, respectively.

(e) Software Development Costs

Research and development costs, which consist primarily of software development costs, are expensed as incurred. SFAS No. 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.

(f) Inventories

Inventories are stated at the lower of cost or market. Inventories at March 31, 1999 and 1998 consisted of:

(In thousands)	1999	1998
Raw materials and work in process	$ 2,983	$ 2,392
Finished goods	19,393	17,234
	$ 22,376	$ 19,626

(g) 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, 1999, 1998 and 1997, advertising expenses totaled approximately $72,437,000, $55,090,000 and $36,159,000, respectively.

(h) 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	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

(i) Intangible Assets

Intangible assets net of amortization at March 31, 1999 and 1998, of $90,682,000, and $2,148,000, respectively, include goodwill, costs of obtaining product technology and noncompete 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, 1999, 1998 and 1997 was $5,880,000, $692,000, and $654,000, respectively. The Company assesses the recoverability of goodwill by determining whether the carried value of the assets may be recovered through estimated future cash flows.

(j) Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

(k) 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.

NOTE 1 *(CONTINUED)*

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 income are foreign currency transaction losses of $1,168,000, $517,000 and $1,024,000, for the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

(l) Net Income 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.

(In thousands, except per share amounts)

Years ended March 31,	1999	1998	1997
Net income	$ 72,872	$ 72,562	$ 51,327
Shares used to compute net income per share:			
Weighted-average common shares	60,748	58,867	57,544
Dilutive stock options	2,524	2,091	2,013
Dilutive potential common shares	63,272	60,958	59,557
Net income per share:			
Basic	$ 1.20	$ 1.23	$ 0.89
Diluted	$ 1.15	$ 1.19	$ 0.86

Excluded from the above computation of weighted-average shares for diluted EPS for the fiscal years ended March 31, 1999, 1998 and 1997 were options to purchase 645,000, 137,000 and 623,000 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, 1999, the weighted-average exercise price of the respective options was $47.33.

(m) 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 $2,092,000, $902,000 and $925,000 to the Plan in fiscal 1999, fiscal 1998 and fiscal 1997, respectively.

(n) 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").

(o) 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,"* which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is 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 on its financial statements.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP 98-1, *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."* SOP 98-1 requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. The adoption of SOP 98-1 is not expected to have a material impact on the Company's results of operations.

In December 1998, the Accounting Standards Executive Committee of the AICPA issued SOP 98-9, *"Software Revenue Recognition, with Respect to Certain Arrangements,"* which required recognition of revenue using the "residual method" in a multiple element arrangement when fair value does not exist for one or more of the undelivered elements in the arrangement. SOP 98-9 is effective for transactions entered into after March 15, 1999. Under the "residual method," the total fair value of the undelivered elements is deferred and subsequently recognized in accordance with SOP 97-2. The Company will adopt SOP 98-9 in fiscal year 2000 and does not expect a material change to its accounting for revenues as a result of the provisions of SOP 98-9.

(p) 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.

(q) Reclassifications

Certain amounts have been reclassified to conform to fiscal 1999 presentation.

(r) 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 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.

NOTE 2: FINANCIAL INSTRUMENTS

(a) Cash and Investments

(In thousands)

March 31,	1999	1998
Cash and cash equivalents:		
Cash	$106,641	$ 88,241
Municipal securities	–	16,272
Money market funds	135,567	111,450
Cash and cash equivalents	242,208	215,963
Short-term investments:		
Available-for-sale		
Commercial paper	–	15,452
Municipal securities	21,700	24,601
Money market preferreds	43,114	101,438
Held-to-maturity		
Municipal securities	–	17,106
U.S. Treasury securities	5,800	–
Short-term investments	70,614	158,597
Cash, cash equivalents and short-term investments	$312,822	$374,560
Long-term investments:		
U.S. Treasury securities	$ 18,400	$ 24,200

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, 1999 was $24,353,000 which included gross unrealized gains of $153,000. The fair value of held-to-maturity securities at March 31, 1998 was $41,326,000 which included gross unrealized gains of $27,000 and gross unrealized losses of $7,000.

(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 $585,000 and $1,143,000 at March 31, 1999 and 1998, respectively. At March 31, 1999, marketable securities included gross unrealized gains of $4,299,000. At March 31, 1998 marketable securities included gross unrealized gains of $2,771,000 and gross unrealized losses of $193,000.

For the fiscal years ended March 31, 1999 and 1998, the fair value of marketable securities sold was $1,818,000 and $7,276,000, respectively. The gross realized gains from these sales totaled $1,454,000 and $4,098,000 for fiscal 1999 and 1998, respectively. The gain on sale of investments is based on the specific identification method.

(c) Foreign Currency Forward Exchange Contracts

The Company utilizes foreign currency forward exchange contracts to hedge foreign currency market exposures of underlying assets, liabilities and other obligations, primarily certain intercompany receivables that are denominated in foreign currencies. 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 firm commitments are deferred and recognized in income in the same period that the underlying transactions are settled. 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 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, 1999, the Company had foreign exchange contracts, all with maturities of less than nine months, to purchase and sell approximately $178,178,000 in foreign currencies, primarily in British Pounds, Canadian Dollars, German Deutschmarks, 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, 1999, fair value of these contracts is not significant. 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.

NOTE 3: COMMITMENTS

Lease Obligations

The Company leases certain of its current facilities and certain equipment under non-cancelable 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 land and a building to be constructed 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.

Total future minimum lease commitments as of March 31, 1999 are:

(In thousands)

Year ended March 31:	
2000	$ 18,284
2001	13,758
2002	6,144
2003	4,709
2004	3,770
Thereafter	5,024
	$51,689

Total rent expense for all operating leases was $19,480,000, $13,842,000 and $11,430,000, for the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

NOTE 4: 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.

NOTE 5: 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.

NOTE 6: PREFERRED STOCK

At March 31, 1999 and 1998, the Company had 1,000,000 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.

NOTE 7: 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 year ended March 31, 1999, the Company repurchased 222,500 shares for approximately $9,001,000 under this program. Of these, 99,937 shares were reissued under the Company's Stock Plans as of March 31, 1999.

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

NOTE 8: 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 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 1999, 241,514 shares were purchased by the Company and distributed to employees at prices ranging from $26.19 to $36.60. In fiscal 1998, 199,680 shares were purchased by the Company and distributed to employees at prices ranging from $26.14 to $26.19. In fiscal 1997, 184,596 shares were purchased by the Company and distributed to employees at prices ranging from $21.25 to $25.18 per share. The weighted average fair value of the fiscal 1999, fiscal 1998 and fiscal 1997 awards was $18.27, $9.43, and $10.41, respectively. Under the Employee Stock Purchase Plan 30,928 shares were distributed from reissued treasury stock in fiscal 1999. No shares were distributed from reissued treasury stock in fiscal 1998 or fiscal 1997. At March 1999, the Company had 237,444 shares of its Common Stock reserved for future issuance under the Plan.

Prior to the Maxis merger in July 1997, Maxis employees were eligible to participate in an employee stock purchase plan. In fiscal 1998 and 1997, Maxis purchased 7,684, and 18,220 shares, respectively, under this plan which were distributed to participating employees. Shares were purchased at prices ranging from $27.70 to $27.99 in fiscal 1998, and $28.56 to $46.08 in fiscal 1997.

NOTE 8 *(CONTINUED)*

(b) Stock Option Plans

The Company's 1991 Stock Option Plan, 1993 Stock Option Plan, 1995 Stock Option Plan and Directors' Plan ("Option Plans") provide stock options for employees, officers and independent contractors, and for directors, respectively. 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 celebrities, employees of certain companies in which the Company has an equity investment, and directors, at not less than the fair market value on the date of grant.

Under the Company's stock option plans, 69,009 shares were reissued from treasury stock in fiscal 1999. No shares were distributed from reissued treasury stock in fiscal 1998 or fiscal 1997.

The options generally expire ten years from the date of grant and are generally exercisable in monthly increments over 50 months. Certain options assumed in connection with the Maxis merger in fiscal 1998 expire ten years from the date of grant, and vest and become exercisable at a rate of 25% on the first anniversary of the date of grant and 25% of the shares each year thereafter.

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 and net income per share for fiscal 1999, 1998 and 1997 would have been:

(In thousands, except per share data)	1999	1998	1997
Net income			
As reported	$ 72,872	$ 72,562	$ 51,327
Pro forma	$ 45,886	$ 52,892	$ 37,343
Earnings per share			
As reported—basic	$ 1.20	$ 1.23	$ 0.89
Pro forma—basic	$ 0.77	$ 0.91	$ 0.66
As reported—diluted	$ 1.15	$ 1.19	$ 0.86
Pro forma—diluted	$ 0.74	$ 0.88	$ 0.64

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 1999, 1998 and 1997 under the stock plans: risk-free interest rates of 4.39% to 5.55% in 1999, 5.31% to 6.42% in 1998; and 5.48% to 6.36% in 1997; expected volatility of 59% in fiscal 1999 and 58% in both fiscal 1998 and fiscal 1997; expected lives of 2.27 years in fiscal 1999 and 2.25 years in fiscal 1998 and fiscal 1997 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. The above disclosures include options granted under the former Maxis option plans as if they were initially granted by the Company.

Because SFAS 123 is applicable only to options granted subsequent to March 31, 1995, the impact of non-vested stock options granted prior to this date has been excluded from the pro forma calculation. Accordingly, pro forma adjustments are not indicative of future period pro forma adjustments as the pro forma effect will not be fully reflected until subsequent years.

Additional information regarding options outstanding as of March 31, 1999 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
$ 0.720 – $13.500	1,226,919	3.32	$ 8.41	1,226,919	$ 8.41
$13.625 – $23.500	1,987,338	5.91	20.46	1,434,963	19.36
$23.750 – $27.500	1,133,743	7.59	25.00	555,025	25.18
$ 27.625 – $29.875	1,150,460	7.15	29.73	688,097	29.72
$30.000 – $34.875	1,169,984	7.53	33.30	580,610	32.96
$35.000 – $36.750	1,198,743	8.48	35.44	210,790	35.46
$ 37.000 – $43.125	1,363,386	9.18	40.54	169,835	40.03
$43.625 – $45.063	1,228,737	9.47	43.82	160,660	43.71
$45.500 – $54.250	979,949	9.33	47.53	67,176	47.18
$ 0.720 – $54.250	11,439,259	7.42	$30.65	5,094,075	$22.79

The following summarizes the activity under the Company's stock option plans during the fiscal years ended March 31, 1999, 1998 and 1997:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
Balance at March 31, 1996	7,922,159	$ 17.46
Granted	2,501,965	31.64
Canceled	(779,514)	23.57
Exercised	(1,321,042)	12.19
Balance at March 31, 1997 (3,748,864 shares were exercisable at a weighted average price of $15.20)	8,323,568	21.97
Granted	3,833,539	32.92
Canceled	(616,275)	37.96
Exercised	(1,688,702)	18.92
Balance at March 31, 1998 (3,961,559 shares were exercisable at a weighted average price of $18.83)	9,852,130	25.76
Granted	3,147,216	44.18
Canceled	(568,983)	34.74
Exercised	(991,104)	22.73
Balance at March 31, 1999	11,439,259	$ 30.65
Options available for grant at March 31, 1999	787,427	

NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment at March 31, 1999 and 1998 consisted of:

(In thousands)	1999	1998
Computer equipment	$ 127,330	$ 105,183
Buildings	62,413	31,239
Land	50,570	14,885
Office equipment, furniture and fixtures	21,296	18,670
Leasehold improvements	5,749	12,071
Warehouse equipment and other	3,813	4,414
	271,171	186,462
Less accumulated depreciation and amortization	(89,905)	(81,367)
	$ 181,266	$ 105,095

Depreciation and amortization expenses associated with property and equipment amounted to $34,581,000, $26,215,000 and $22,332,000, for the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

NOTE 10: ACCRUED LIABILITIES

Accrued liabilities at March 31, 1999 and 1998 consisted of:

(In thousands)	1999	1998
Accrued expenses	$ 46,595	$ 25,872
Accrued compensation and benefits	46,541	29,318
Accrued royalties	36,429	36,830
Accrued income taxes	23,724	26,095
Deferred revenue	8,206	2,797
Warranty reserve	7,900	3,462
Deferred income taxes	2,933	1,106
	$ 172,328	$ 125,480

NOTE 11: BUSINESS COMBINATIONS AND DIVESTITURE

(a) 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 Income upon consummation of the acquisition.

The non-recurring charge for in-process research and development reduced diluted earnings per share by approximately $0.59 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, 1999, there were $725,000 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 at the beginning of the fiscal year for each of the periods presented:

(In thousands, except per share data)	1999	1998
Revenues	$1,229,055	$1,011,234
Net income	$ 111,308	$ 64,604
Net income per share—basic	$1.83	$1.10
Net income per share—diluted	$1.76	$1.06
Number of shares used in computation—basic	60,748	58,867
Number of shares used in computation—diluted	63,272	60,958

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.

(b) ABC Software

In July 1998, the Company acquired ABC Software AG and ABC Software GmbH (collectively "ABC"), independent distributors of entertainment, edutainment and application software in Switzerland and Austria, respectively, for approximately $9,466,000 in cash (net of cash acquired of $5,099,000) and $570,000 in other consideration. The transaction has been accounted for under the purchase method. The excess purchase price over the fair value of the net tangible assets acquired of approximately $7,377,000 was allocated to goodwill and is being amortized over 7 years.

NOTE 11 *(CONTINUED)*

(c) 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.

(d) Maxis, Inc.

On July 25, 1997, the Company completed a merger with Maxis, Inc. ("Maxis"), a California-based interactive software developer. Under the transaction, approximately 4.1 million shares of Electronic Arts' stock were exchanged for all outstanding Maxis common stock. The transaction was accounted for as a pooling of interests. The accompanying financial statements, notes and analyses have been restated for all periods presented to reflect this transaction.

In conjunction with the merger of Maxis, the Company recorded costs of $10,792,000. This charge included direct transaction fees for investment bankers, attorneys, accountants, and other related costs of approximately $2,781,000 and costs associated with integrating the operations of the two companies of approximately $8,011,000. Included in the integration costs were redundant facility costs, severance payments, equipment abandonment costs and other asset write downs, contract termination charges and other related expenses. Of the total merger costs, approximately $5,185,000 related to cash expenditures while approximately $5,607,000 related to noncash charges. At March 31, 1999, there were no accruals remaining related to these merger related costs.

Total net revenue and net income (loss) for the individual entities for the fiscal year ended March 31, 1997 is as follows (in thousands):

1997	Electronic Arts	Maxis	Combined
Net revenue	$624,766	$ 48,262	$ 673,028
Net income (loss)	53,002	(1,675)	51,327

(e) Creative Wonders, LLC

In December 1997, the Company completed the sale of its 50% ownership interest in Creative Wonders, LLC, a joint venture company formed with the Walt Disney Company for $16,750,000 in cash. The Company recognized a gain of $12,625,000, which is included in interest and other income. Prior to the sale, the Company distributed children's interactive titles published and sold by the joint venture into the retail channel. The investment was accounted for under the equity method prior to sale.

(f) Other Business Combinations

Additionally, during the quarter ended June 30, 1998, the Company acquired two software development companies. In connection with these acquisitions, the Company incurred a charge of $2,279,000 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.

NOTE 12: INCOME TAXES

The Company's pretax income from operations for the fiscal years ended March 31, 1999, 1998 and 1997 consisted of the following components:

(In thousands)	1999	1998	1997
Domestic	$ 79,789	$ 51,620	$ 27,614
Foreign	38,669	56,640	48,434
Total pretax income	$118,458	$108,260	$ 76,048

Income tax expense (benefit) for the fiscal years ended March 31, 1999, 1998 and 1997 consisted of:

(In thousands)	Current	Deferred	Total
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
1998:			
Federal	$ 14,751	$ (7,585)	$ 7,166
State	1,361	(727)	634
Foreign	18,561	1,434	19,995
Charge in lieu of taxes from employee stock plans	7,931	–	7,931
	$ 42,604	$ (6,878)	$ 35,726
1997:			
Federal	$ 3,145	$ (3,472)	$ (327)
State	804	(674)	130
Foreign	16,543	447	16,990
Charge in lieu of taxes from employee stock plans	9,210	–	9,210
	$ 29,702	$ (3,699)	$ 26,003

NOTE 12 *(CONTINUED)*

The components of the net deferred tax assets as of March 31, 1999 and 1998 consist of:

(In thousands)	1999	1998
Deferred tax assets:		
Accruals, reserves and other expenses	$ 76,015	$ 50,096
Maxis Federal and State loss carryforwards	–	2,088
Foreign loss and credit carryforwards	–	11,514
Total gross deferred tax assets	76,015	63,698
Less: valuation allowance	–	(11,514)
Net deferred tax assets	$ 76,015	$ 52,184
Deferred tax liabilities:		
Undistributed earnings of DISC	(1,784)	(2,081)
Prepaid royalty expenses	(43,681)	(32,422)
Unrealized gains on marketable securities	(1,395)	(848)
Other	(949)	(147)
Total gross deferred tax liabilities	$(47,809)	$(35,498)
Net deferred tax asset	$ 28,206	$ 16,686

At March 31, 1999, deferred tax assets of $25,406,000 were included in other current assets.

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, 1999, 1998 and 1997 were as follows:

	1999	1998	1997
Statutory Federal tax rate	35.0%	35.0%	35.0%
State taxes, net of Federal benefit	1.5	1.0	0.8
Differences between statutory rate and foreign effective tax rate	(2.5)	(2.2)	(1.0)
Foreign loss without tax benefit	–	–	1.7
Research and development credits	(2.1)	(0.6)	–
Nondeductible acquisition costs	7.4	–	–
Other	(1.0)	(0.2)	(2.3)
	38.3%	33.0%	34.2%

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. At March 31, 1999, the undistributed foreign earnings of the foreign subsidiaries amounted to approximately $122,000,000. If these earnings were distributed to the parent company, foreign tax credits available under current law would substantially eliminate the resulting Federal tax liability.

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.

NOTE 13: INTEREST AND OTHER INCOME, NET

Interest and other income, net for the years ended March 31, 1999, 1998 and 1997 consisted of:

(In thousands)	1999	1998	1997
Interest income	$ 12,625	$ 13,649	$ 9,699
Gain on disposition of assets, net	725	14,910	8,229
Foreign currency losses	(1,168)	(517)	(1,024)
Equity in net loss of affiliates	(155)	(1,162)	(1,566)
Other income (expense), net	1,153	(2,069)	(2,059)
	$ 13,180	$ 24,811	$ 13,279

NOTE 14: COMPREHENSIVE INCOME

In fiscal 1999, the Company adopted SFAS No. 130, *"Reporting Comprehensive Income,"* which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in financial statements. 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 accumulated other comprehensive income, net of taxes, is summarized as follows:

(In thousands)	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income
Balance at March 31, 1996	$ (2,077)	$ 16,266	$ 14,189
Other comprehensive income (loss)	152	(13,673)	(13,521)
Balance at March 31, 1997	(1,925)	2,593	668
Other comprehensive income (loss)	(1,273)	(863)	(2,136)
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)

Change in unrealized gains (losses) on investments, net are shown net of taxes of $727,000, $(426,000) and $(7,202,000) in fiscal 1999, 1998 and 1997, respectively.

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

NOTE 15: 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.

NOTE 16: SEGMENT INFORMATION

In 1999, the Company adopted SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information,"* which supersedes SFAS No. 14, *"Financial Reporting for Segments of a Business Enterprise."* SFAS No. 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. The Company has four reportable segments: North America, Europe, Asia Pacific and Japan, which are organized, managed and analyzed geographically and operate in one industry segment: the creation, marketing and distribution of entertainment software. Information about the Company's operations in the North America and foreign areas for the fiscal years ended March 31, 1999, 1998 and 1997 is presented below:

(In thousands)	North America	Europe	Asia Pacific (excluding Japan)	Japan	Eliminations	Total
Fiscal 1999:						
Net revenues from unaffiliated customers	$ 704,998	$ 443,937	$ 39,560	$ 33,368	$ –	$1,221,863
Intersegment sales	32,216	15,062	2,800	12	(50,090)	–
Total net revenues	$ 737,214	$ 458,999	$ 42,360	$ 33,380	$ (50,090)	$1,221,863
Operating income	$ 78,826	$ 21,052	$ 3,208	$ 2,192	$ –	$ 105,278
Interest income	$ 9,931	$ 2,551	$ 143	$ –	$ –	$ 12,625
Depreciation and amortization	$ 29,272	$ 9,399	$ 506	$ 1,284	$ –	$ 40,461
Identifiable assets	$ 596,357	$ 268,152	$ 20,938	$ 16,426	$ –	$ 901,873
Capital expenditures	$ 54,029	$ 58,383	$ 418	$ 2,990	$ –	$ 115,820
Fiscal 1998:						
Net revenues from unaffiliated customers	$ 519,423	$ 325,938	$ 41,494	$ 21,997	$ –	$ 908,852
Intersegment sales	45,913	21,613	513	133	(68,172)	–
Total net revenues	$ 565,336	$ 347,551	$ 42,007	$ 22,130	$ (68,172)	$ 908,852
Operating income (loss)	$ 31,852	$ 51,807	$ 6,995	$ (7,205)	$ –	$ 83,449
Interest income	$ 10,931	$ 2,471	$ 247	$ –	$ –	$ 13,649
Depreciation and amortization	$ 20,826	$ 4,541	$ 661	$ 879	$ –	$ 26,907
Identifiable assets	$ 515,728	$ 201,988	$ 17,347	$ 10,618	$ –	$ 745,681
Capital expenditures	$ 25,423	$ 18,035	$ 669	$ 1,111	$ –	$ 45,238

(In thousands)	North America	Europe	Asia Pacific (excluding Japan)	Japan	Eliminations	Total
Fiscal 1997:						
Net revenues from unaffiliated customers	$ 372,616	$ 233,614	$ 28,072	$ 38,726	$ –	$ 673,028
Intersegment sales	54,530	6,938	603	122	(62,193)	–
Total net revenues	$ 427,146	$ 240,552	$ 28,675	$ 38,848	$ (62,193)	$ 673,028
Operating income (loss)	$ 17,035	$ 43,295	$ 5,652	$ (3,213)	$ –	$ 62,769
Interest Income	$ 7,820	$ 1,662	$ 217	$ –	$ –	$ 9,699
Depreciation and amortization	$ 17,450	$ 4,609	$ 252	$ 675	$ –	$ 22,986
Identifiable assets	$ 430,055	$ 121,673	$ 12,820	$ 19,493	$ –	$ 584,041
Capital expenditures	$ 29,627	$ 7,370	$ 399	$ 1,728	$ –	$ 39,124

For the fiscal year ended March 31, 1999, the Company had sales to one customer which represented 12% of total net revenues. The Company had no sales to any one customer in excess of 10% of total net revenues for fiscal years ended March 31, 1998 and 1997.

Information about the Company's net revenues by product line for the fiscal years ended March 31, 1999, 1998 and 1997 is presented below (in thousands):

	1999	1998	1997
PlayStation	$ 519,830	$ 380,299	$ 187,531
PC-CD	270,793	231,034	216,338
Affiliated Label	248,105	185,865	96,696
N64	152,349	56,677	17,804
Saturn	756	17,543	38,424
License, OEM and Other	30,030	37,434	116,235
	$1,221,863	$ 908,852	$ 673,028

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 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	(25,273)	72,531	21,914	72,872
Net income (loss) per share—basic	$ 0.06	$ (0.42)	$ 1.19	$ 0.36	$ 1.20
Net income (loss) per share—diluted	$ 0.06	$ (0.42)	$ 1.15	$ 0.35	$ 1.15
Common stock price per share					
High	$ 54.81	$ 55.56	$ 56.00	$ 52.19	$ 56.00
Low	$ 41.63	$ 38.13	$ 33.88	$ 38.25	$ 33.88
Fiscal 1998:					
Net revenues	$ 123,712	$ 189,828	$ 391,245	$ 204,067	$ 908,852
Operating income (loss)	(4,807)	(3,080)	70,983	20,353	83,449
Net income (loss)	(1,451)	41	58,620	15,352	72,562
Net income (loss) per share—basic	$ (0.02)	$ –	$ 0.99	$ 0.26	$ 1.23
Net income (loss) per share—diluted	$ (0.02)	$ –	$ 0.96	$ 0.25	$ 1.19
Common stock price per share					
High	$ 35.38	$ 37.50	$ 39.56	$ 46.94	$ 46.94
Low	$ 20.13	$ 30.75	$ 29.94	$ 34.94	$ 20.13
Fiscal 1997:					
Net revenues	$ 88,735	$ 137,271	$ 290,849	$ 156,173	$ 673,028
Operating income (loss)	(9,038)	727	58,641	12,439	62,769
Net income (loss)	(1,381)	3,388	38,703	10,617	51,327
Net income (loss) per share—basic	$ (0.02)	$ 0.06	$ 0.67	$ 0.18	$ 0.89
Net income (loss) per share—diluted	$ (0.02)	$ 0.06	$ 0.65	$ 0.18	$ 0.86
Common stock price per share					
High	$ 34.50	$ 39.13	$ 37.63	$ 36.13	$ 39.13
Low	$ 25.25	$ 24.75	$ 27.88	$ 26.25	$ 24.75

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.

ELECTRONIC ARTS AND SUBSIDIARIES

Board of Directors and Corporate Officers

BOARD OF DIRECTORS

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Consultant
Former President
Polygram Records, Inc.

William J. Byron
Former Owner and President
CMA Sales

Daniel H. Case III
Chairman of the Board and Chief Executive Officer
Hambrecht & Quist LLC

Gary M. Kusin
President and 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

Ruth A. Kennedy
Senior Vice President, General Counsel, and Secretary

J. Russell Rueff, Jr.
Senior Vice President, Human Resources

David L. Carbone
Vice President
Finance

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ELECTRONIC ARTS AND SUBSIDIARIES

Corporate Offices and Subsidiaries

CORPORATE HEADQUARTERS

Electronic Arts Inc.
209 Redwood Shores Parkway
Redwood City, CA 94065
650-628-1500

NORTH AMERICA

Walnut Creek, California
Burnaby, British Columbia
Chicago, Illinois
Maitland, Florida
Louisville, Kentucky
Hunt Valley, Maryland
Las Vegas, Nevada
New York, New York
Santa Isabel, Puerto Rico
Austin, Texas
Dallas, Texas
Bellevue, Washington

INTERNATIONAL

Adelaide, Australia
Brisbane, Australia
Mackay, Australia
Melbourne, Australia
Perth, Australia
Sydney, Australia
Neudorf, Austria
Beijing, China

INTERNATIONAL (continued)

Hong Kong, China
Shanghai, China
Virum, Denmark
Langley, England
Guildford, England
Rushden, England
Turku, Finland
Lyon, France
Aachen, Germany
Milano, Italy
Tokyo, Japan
Kuala Lumpur, Malaysia
Rotterdam, The Netherlands
Auckland, New Zealand
Oslo, Norway
São Paulo, Brazil
Lisbon, Portugal
Singapore
Cape Town, South Africa
Durban, South Africa
Gauteng, South Africa
Madrid, Spain
Barcelona, Spain
Stockholm, Sweden
Sevelen, Switzerland
Taipei, Taiwan
Bangkok, Thailand

AUDITORS

KPMG LLP
Mountain View, California

LEGAL COUNSEL

Fenwick & West
Palo Alto, California

TRANSFER AGENT

Norwest Bank Minnesota
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 July 29, 1999 at 2:00 P.M. at the Company's headquarters:

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

Design: The Leonhardt Group, Seattle, Washington