Electronic Arts
First Quarter Fiscal Year 2010
Earnings Call
Prepared Comments
August 4, 2009

Tricia Gugler:

Welcome to our first quarter fiscal 2010 earnings call.

Today on the call we have

- John Riccitiello, our Chief Executive Officer
- Eric Brown, our Chief Financial Officer and
- Joining us from the UK is Peter Moore, President of our EA SPORTS Label.

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

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

Please see the supplemental information on our website for our trailing twelve month segment shares, additional GAAP to non-GAAP reconciliations, a summary of our FY10 financial guidance, and our Q210 slate.

During the course of this call – we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you that actual events and results may differ materially. We refer you to our most recent Form 10-K for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of August 4, 2009 and disclaim any duty to update them.

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

John Riccitiello:

Thanks Tricia.

Earlier today, we announced our Q1 FY10 results. We slightly exceeded our expectations on the top and bottom line.

Our results were driven by improved execution against our four priorities.

- First – Drive Hits. We are particularly pleased with the quality ratings of our games. Similarly, our plans for providing better marketing and longer lead times for our titles are paying dividends. The marketing campaigns

behind The Sims 3 and EA SPORTS Active were particularly well planned and executed.
- Second – the Wii. We are seeing success in our campaign to improve segment share on the popular Wii platform. We had a number of good launches – most notably EA SPORTS Active, which Peter will discuss shortly. Year-to-date we are the #1 third party publisher on the Wii.
- Third – Manage Costs. Our restructuring is essentially complete. Eric will discuss this in more detail.
- Fourth –Digital Services. We're making significant steps forward in our digital initiatives – during the quarter, non-GAAP revenue was up 38% year-over-year.

Overall Q1 was a good quarter and I'm pleased with our execution. Let me discuss a few points on the balance of the year.

First, our outlook on the industry and retail environment.

This year through June, packaged goods software sales are down 12% in North America and we estimate minus 10% in Europe.

Even though we expected tough compares in the June quarter, overall software sales were softer than expected, due in part to fewer hardware sales. In addition, we saw significant declines in the music category, which was down 52%, with Rock Band having a particularly tough compare.

As a result, for the calendar year, we now expect packaged goods software to be flat year-over-year in North America and Europe combined.

We expect the packaged goods sector to grow in the back half of the year. This growth will be fueled by great titles, hardware catalysts and easier compares.

It's worth noting that the industry overall, inclusive of digital services is up year-to-date and is expected to be up for the full year.

With that context – let me talk about the remainder of our year – the positives as well as the challenges we see today.

On the positives –
- We had a good Q1 driven by strong execution. Titles like The Sims 3 and EA SPORTS Active should continue to do well throughout the year.
- Our title plan is holding together – and we aren't aware of any significant potential slips. Looking into the development organizations, we see continued strength – the teams are hitting their milestones.
- Our quality is tracking well. Calendar year to date we have nine 80+ rated titles – and our major titles are tracking well against our quality assessment metrics.
- Our marketing execution has improved – we have been effectively using our long-lead metrics to manage and monitor our pre-launch progress with

the consumer and have implemented longer lead time marketing around key titles.

- We've planned our launch windows better this year. As you know, we moved The Sims 3 into Q1 to give it the best chance of success. And, we have reduced title count in Q3, adding to Q4, to provide select key franchises better windows. In Q4, we have four major titles launching vs. just one a year ago. We also pulled forward NFS to late September – giving it additional time on the shelf and a cleaner window.
- And finally – given some recent competitor title shifts, we believe the back half of the year is less competitive than originally expected – creating opportunity for EA.

On the challenges –

- The industry is weaker than we originally expected and we remain cautious on the macro environment and its impact on consumers.
- Retail continues to be cautious on opening orders and inventory.
- Lastly, the marketing metrics for a few of our titles are not as strong as we would like to see at this point. In order to improve this trajectory, we've decided to allocate some additional marketing dollars to these titles to better position them. We are making cost cuts in other parts of the business to fund these initiatives.

In summary, we are pleased with our Q1 results and the way our title slate is coming together. We remain cautious due to weaker industry packaged goods sales year to date, retailer conservatism, and some marketing metric flags on a few of our titles. We feel good about our execution and our ability to adjust quickly to changing circumstances.

Based on a balanced assessment of these factors, we are reconfirming our non-GAAP guidance today.

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

Eric Brown:

Good afternoon.

For Q1, we delivered non-GAAP revenue of $816 M, non-GAAP gross profit margin* of 61.2% and non-GAAP diluted loss per share* of $0.02. We came in slightly better than we expected on the top and bottom line, with costs and phasing driving most of the upside.

Our Q1 non-GAAP revenue was driven by The Sims 3, EA SPORTS Active and Fight Night Round 4, also resulting in higher non-GAAP gross profit margins. This performance was offset by lower distribution revenue. We continue to manage expenses, both in absolute terms and timing, yielding a positive impact in Q1.

On a GAAP basis, revenue was $644 M and GAAP diluted loss per share was $0.72.

Key titles in the quarter were –

- The Sims 3 – selling 3.7 M copies, with 59% of sales internationally. We estimate the sell thru at retail of The Sims 3 is outpacing The Sims 2 by over 25%.
- EA SPORTS Active, our new fitness platform – sold over 1.8 M copies on the Wii. It was the #1 third party title on the Wii for the quarter in both North America and Europe.
- Fight Night Round 4 – the winner of the best sports game category at E3 – sold over 1.7 M copies shipping in the last 2 weeks of the quarter. It is our highest rated title so far this year.
- In addition – Tiger Woods PGA TOUR 10, Godfather 2 and Harry Potter: Half Blood Prince each sold over one million copies in the quarter.
- On segment share –
    - We had 19% share in North America and we estimate 18% in Europe – up five and eight points year-over-year, respectively.
    - Excluding distribution in North America, we picked up seven points of share year-over-year.
    - On the Wii – we had record share of 21% in North America and 13% in Europe – up 10 and nine points, respectively, with our revenue more than doubling year-over-year.

In our digital service businesses, we generated $124 M in non-GAAP revenue – up 38% year-over-year, driven by –

- Digital content (full game downloads and micro-transactions) – was $31 M in the quarter, up more than 2x from last year primarily due to our FIFA Ultimate Team service offering.
- Subscription revenue was $36 M – up 33% year-over-year due to Warhammer Online.
- Wireless revenue was $50 M – up 14% from a year ago primarily due to revenue generated on the iPhone. During the quarter we launched 12 games for this platform – including The Sims 3 which quickly became the #1 paid game. EA Mobile continues to be the #1 publisher of wireless games.

We executed on our cost reduction plans and are largely done with our announced restructuring as of the end of Q1. Approximately 92% of the headcount reductions were completed and we ended the quarter with 8,948 employees – vs. 9,106 last quarter. In addition, 20% of our employees are located in low cost locations.

I would now like to discuss Q1 in more detail. Please note that all of the following references to first quarter results are non-GAAP, unless otherwise stated.

Non-GAAP revenue* was $816 M – up 34% from a year ago. At constant currency rates, revenue increased 45%.

- Frontline non-GAAP revenue* was $480 M – up 158% year-over-year – driven by a broader slate and more revenue generated per title.
- This increase was partially offset by declines in distribution.
- During the quarter, catalog non-GAAP revenue* was 18% of total non-GAAP revenue vs. 28% a year ago.

Moving to the rest of the income statement.

Non-GAAP gross profit margin* was 61.2% vs. 52.1% a year ago – up nine points year-over-year. The increase is attributable to a higher mix of revenue from owned IP and less overall distribution revenue.

Operating expenses.

Non-GAAP operating expenses* were $510 M – down $9 M year-over-year as a result of our lower bonus expense and our cost reduction program, partially offset by higher variable marketing for key releases during the quarter and EA Partner R&D advances. As expected, during the quarter, we recorded no bonus expense for FY10 performance vs. approximately $24 M a year ago. Excluding costs like variable marketing that tie to title launches and the timing of bonus and advances for EAP titles, our expenses are down approximately 10% year-over-year.

During the quarter we recorded $14 M of total restructuring expense.

Below the operating income line.

- Non-GAAP other income and expense* was $3 M as compared with $15 M a year ago – due to a decline in interest income as a result of lower interest rates.
- On income taxes –
  - On a GAAP basis, we recorded a tax benefit of $24 M, due primarily to the release of certain tax reserves in connection with an audit settlement. We haven't recorded any net benefits for U.S. deferred tax benefits due to the valuation allowance.
  - On a non-GAAP basis, we reported taxes at 28%.

GAAP diluted loss per share was $0.72 vs. a diluted loss per share of $0.30 a year ago.

Non-GAAP diluted loss per share* was $0.02 vs. a diluted loss per share of $0.42 a year ago.

Our trailing twelve month cash flow used in operations was $25 M vs. cash generated of $239 M for the prior period.

Turning to the Balance Sheet.

Cash and short term investments were approximately $1.8 BN at quarter end – down approximately $300 M from last quarter primarily due to cash used in operations.

Marketable equity securities were $440 M – up $75 M from last quarter.

During the quarter – we recognized a pre-tax loss of $16 M in the P&L related to our investment in The9. At quarter end, we had a net unrealized gain of $282 M on our Ubisoft and Neowiz investments.

Gross accounts receivable were $565 M – up $110 M from last year, or 24%.

Reserves against outstanding receivables totaled $190 M – up $4 M from a year ago. Reserve levels were 13% of trailing six month non-GAAP revenue – up one point from last year. As a percentage of trailing nine month non-GAAP revenue – reserves were 6% – consistent with last year.

Inventory was $215 M – down $8 M from a year ago.

Ending deferred net revenue from packaged goods and digital content was $433 M – up $241 M from a year ago due to the additional deferral for all console and PC on-line enabled games.

Now for our FY10 Guidance.

We are re-confirming our non-GAAP guidance for revenue and EPS.

Revenue

- On a GAAP basis, we expect revenue of $3.7 to $3.85 BN – consistent with our prior guidance.
- On a non-GAAP basis, we are re-confirming $4.3 BN of revenue – up 5% year-over-year.
- From a revenue mix standpoint – we're continuing to plan our frontline and digital services revenue to be up year-over-year and our catalog and distribution revenue to be down year-over-year.
- In FY10, we expect to ship FIFA 10 in Europe and NFS SHIFT at the end of Q2 vs. Q3 in the prior year.

Gross Margins

- We expect GAAP gross profit margins of approximately 51% to 53% and non-GAAP gross profit margins of approximately 58% to 59%.
- We expect our non-GAAP gross profit margins to expand 9 to 10 percentage points year-over-year due to a higher mix of revenue from wholly owned IP, a lower mix of distribution revenue and lower SRA.
- Keep in mind our non-GAAP gross profit margins will fluctuate quarter to quarter depending on the mix of revenue.
    - For Q2 – we expect our non-GAAP gross profit margins to be down year-over-year, due to –

        - A higher percentage of our revenue coming from distribution – most notably The Beatles: Rock Band.
        - In addition, we expect a lower percentage of our revenue to come from owned IP – due to the lack of a frontline PC title to comp the SPORE launch in the prior year period.
    - In the second half of the year we expect non-GAAP gross profit margins to expand by at least 10 percentage points year-over-year due to a higher mix of owned IP and a comparison to a period when SRA was particularly high.

Operating Expenses

- We expect GAAP operating expenses to be approximately $2.4 BN and non-GAAP operating expenses of approximately $2.1 BN.

Below the Line

- We expect GAAP loss per share of $0.85 to $1.35 – adjusted from our previous estimate of $0.85 to $1.45.
- We are reconfirming our non-GAAP EPS guidance of $1.00.
- We expect that non-GAAP other income and expense will be roughly $15 M – down from what we estimated last quarter as a result of declines in interest rates.
- On taxes – we expect our GAAP tax rate to continue to be volatile but on an absolute dollar basis, and subject to changes in the business or the tax laws, we expect a tax benefit of approximately $25 M. Keep in mind, we continue to expect GAAP losses in FY10 – creating additional valuation allowances on US deferred tax assets. On a non-GAAP basis, we expect to report taxes at 28%.
- For share count, please use 323 M shares to compute the GAAP loss per share and 325 M shares to compute non-GAAP EPS.

Foreign Exchange

- As compared to our original guidance assumptions for FX, rates have fluctuated modestly, but not enough to cause us to change our overall guidance.

This concludes our guidance and outlook commentary.

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

Peter Moore:

Thanks Eric.

Good afternoon everyone. I'm happy to join you from the UK to talk about our progress at the EA Sports Label.

We're pleased with our performance in Q1 – in particular, EA SPORTS Active and Fight Night Round 4. Congrats to our teams in Vancouver who developed both of these titles.

Today, I would like to discuss:

- Our focus on the Wii platform
- Titles coming soon on core platforms
- And some groundbreaking digital services initiatives

Let me start with the Wii.

- We have successfully launched a brand new IP for this platform – EA SPORTS Active. We are thrilled with the consumer response to this new interactive fitness product. EA SPORTS Active is EA's best-selling Wii title ever and it continues to perform well week-after-week.
- EA SPORTS Active has captured a whole new segment of consumers – expanding our SPORTS brand beyond our traditional audience. We've done this with an unconventional marketing campaign – Active has been featured on the Ellen Show, on QVC and in other media outlets popular to this consumer. In addition, we expanded our distribution beyond our traditional retail outlets – including Dick's Sporting Goods, Costco, and Sam's Club.
- Given the success of EA SPORTS Active, we've decided to launch an expansion pack this holiday. We are using development resources from our tennis team on our EA SPORTS Active franchise. As a result, we are delaying the 360 and PS3 Tennis SKUs. We believe this is a good swap and expect this decision to yield positive results.
- Also in the quarter, we launched Tiger Woods PGA TOUR and EA SPORTS Grand Slam Tennis bundled with the Wii Motion Plus – both doing well on the Wii charts. Tiger charted at #3 and Tennis at #11 in North America. In Europe, Tennis was #4 and Tiger will be picked up in the July data.
- Later this quarter – we have Madden and FIFA on the Wii. Both titles are designed specifically for the Wii platform, and this is our best effort yet to deliver a unique experience with exclusive controls, modes, presentation and packaging.

Now on to games for the core platforms.

- We came out of the gate strong with Fight Night Round 4, which launched in late June with an 89 Metacritic rating – putting it at the top of the quality charts, thanks to the new fighting engine and jaw-dropping graphics.
- NCAA Football 10 launched in mid-July and is again a strong product, with a Metacritic rating of 83. Our first two weeks of sell thru is weaker than expected. However, as you all know it's still early – college football season has not started yet – and we will continue to monitor the situation. We think our web-based innovation, Team Builder, will drive more engagement in our NCAA title as we approach the start of college football season.
- On NBA Live – last week I was in Vancouver and got my hands on the latest build of the game. The team knew they had to step up the quality – and boy have they delivered.

- And most importantly, we have our two cornerstone products – FIFA and Madden.
    - FIFA streets on October 2 in Europe, which is in our fiscal Q2, and on October 20 in North America. FIFA 10 will feature more realistic shooting, passing and control mechanics, as well as improved goalkeeper intelligence. A new 360 degree dribbling system gives players finer touch on the ball, enabling them to find more space between defenders. FIFA 09 earned 25 international gaming awards, and the talented team at EAC is making all the right moves to build upon that and even further enhance the most complete and intelligent soccer simulation game.
    - Madden NFL 10 will launch on August 14. This year – you will have unprecedented control over the outcome of every play, fighting for fumbles, steering gang-tackles, and driving receivers for first downs with the new Pro-Tak animation technology. Also new this year is a groundbreaking digital service feature – Madden Online Franchise – featuring real NFL scheduling, live drafts, player transactions and real-time NFL stats – all manageable via the console, a web browser, or even an Apple mobile app. Our commitment to core gameplay, online innovation and authentic broadcast presentation make us very confident that Madden will significantly raise the quality bar as we enter the 21st year of this franchise.

Now shifting gears to digital services – we're working on some exciting initiatives, building on the successes we enjoyed last year.

- In March, we launched FIFA Ultimate Team, which has been a big success – generating $12 M from consumers. For those that don't know – it allows you to create your own virtual teams, trade players and compete head to head. This is a feature that is applicable to other games in our portfolio.
- Earlier this year, we took the award-winning NHL game engine and developed NHL 3-on-3 Arcade – it was simple to pick up and play and launch as a fully downloadable game to the console months after NHL 09 had launched. We'll follow this approach with Madden Arcade later this year.
- In Q3 we are launching Tiger Online – taking a whole new approach to our PC sports offering. The game is browser based – and requires no installation, no disc and no additional peripherals and will be monetized by subscriptions and micro-transactions. We've got other franchises in development – more to come on this.
- In Asia – FIFA Online 2 continues to expand. Today, it is running in seven countries with over 10 M registered users. NBA Street is live in Korea and is in beta in China.

All in all – I couldn't be more pleased with how our teams are executing. We came out of the gate fast this year, and we're seeing great momentum in our core games, the Wii and on our digital service initiatives. And I'm especially excited for next week's launch of Madden. Now let me turn it back to John.

John Riccitiello:

Thanks Peter.

A few closing thoughts
- First. I'm very happy with how the EA team has stepped up execution.
- Second. We continue to believe this will be an extended hardware cycle and that we will continue to see robust growth in digital service businesses. Both trends are positive for publishers positioned to exploit them.
- Third. We have the right priorities: drive hits in the core, focus on the Wii, expand our digital services, and control costs. This will allow us to grow margins in FY10 and beyond.

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

***Non-GAAP Financial Measures**

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

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

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

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

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

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

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

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

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

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

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

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

Loss on Lease Termination and Facilities Acquisition. During the second quarter of fiscal 2010, Electronic Arts completed the acquisition of its headquarters facilities in Redwood City, California pursuant to the terms of the loan financing agreements underlying the build-to-suit leases for the facilities. EA exercised its option to purchase the facilities concurrent with the maturity of those financing arrangements, which were extinguished by payment of the purchase price. The aggregate purchase price of the facilities was approximately $247 million in cash, which reflects the amount financed by the lessor under the leases. Electronic Arts expects to recognize in the second quarter of fiscal 2010 a pre-tax loss associated with this acquisition as the estimated fair value of the facilities is less than the $247 million purchase price by approximately $14 million. In addition, Electronic Arts will reduce its income tax valuation allowance by $35 to $40 million as a result of this lease termination and facility acquisition such that on an after-tax basis, Electronic Arts will incur a positive net income effect of $21 to $26 million from this transaction. Electronic Arts' management will exclude the effect of this transaction when evaluating the Company's operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of its management team.

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

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

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

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

In its earnings press release dated August 4, 2009, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP financial measures.

Safe Harbor Statement

Some statements set forth in this document, including the estimates relating to EA's fiscal year 2010 guidance information contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements. Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles during fiscal year 2010; the general health of the U.S. and global economy and the related impact on discretionary consumer spending; fluctuations in foreign exchange rates; consumer spending trends; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the consumer demand for, and the availability of an adequate supply of console hardware units (including the Xbox 360® video game and entertainment system, the PLAYSTATION®3 computer entertainment system and the Wii™); consumer demand for software for the PlayStation 2; the Company's ability to predict consumer preferences among competing hardware platforms; the financial impact of potential future acquisitions by EA; the Company's ability to realize the anticipated benefits of acquisitions; the seasonal and cyclical nature of the interactive game segment; the Company's ability to attract and retain key personnel; changes in the Company's effective tax rates; the performance of strategic investments; the impact of certain accounting requirements, such as the Company's ability to estimate and recognize goodwill impairment charges and make tax valuation allowances; adoption of new accounting regulations and standards; potential regulation of the

Company's products in key territories; developments in the law regarding protection of the Company's products; the Company's ability to secure licenses to valuable entertainment properties on favorable terms; the stability of the Company's key customers, and other factors described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009. These forward-looking statements speak only as of August 4, 2009. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this document are estimates based on information currently available to Electronic Arts. While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2009.