

ELECTRONIC ARTS INC

FORM 10-K (Annual Report)

Filed 6/7/2005 For Period Ending 3/31/2005

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Industry	Software & Programming
Sector	Technology
Fiscal Year	03/31

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-17948

ELECTRONIC ARTS INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2838567

(I.R.S. Employer Identification No.)

**209 Redwood Shores Parkway
Redwood City, California**
(Address of principal executive offices)

94065
(Zip Code)

Registrant's telephone number, including area code:
(650) 628-1500

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$0.01 par value
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the Registrant's common stock, \$0.01 par value, held by non-affiliates of the Registrant as of September 24, 2004, the last business day of the second fiscal quarter, was \$9,497,198,145.

As of June 1, 2005 there were 306,511,866 shares of the Registrant's common stock, \$0.01 par value, outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for its 2005 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

		<u>Page</u>
PART I		
Item 1.	Business	3
Item 2.	Properties	15
Item 3.	Legal Proceedings	17
Item 4.	Submission of Matters to a Vote of Security Holders	17
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	19
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operation	21
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 8.	Financial Statements and Supplementary Data	59
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	100
Item 9A.	Controls and Procedures	100
Item 9B.	Other Information	101
PART III		
Item 10.	Directors and Executive Officers of the Registrant	102
Item 11.	Executive Compensation	102
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
Item 13.	Certain Relationships and Related Transactions	102
Item 14.	Principal Accounting Fees and Services	102
PART IV		
Item 15.	Exhibits, Financial Statement Schedule	102
	Signatures	106
	Exhibit Index	108
	EXHIBIT 10.05	
	EXHIBIT 10.08	
	EXHIBIT 10.35	
	EXHIBIT 21.01	
	EXHIBIT 23.01	
	EXHIBIT 31.1	
	EXHIBIT 31.2	
	EXHIBIT 32.1	
	EXHIBIT 32.2	

PART I

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Report are forward looking. We use words such as “anticipate”, “believe”, “expect”, “intend”, “estimate” (and the negative of any of these terms), “future” and similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk and reflect management’s current expectations, and involve subjects that are inherently uncertain and difficult to predict. Our actual results could differ materially. We will not necessarily update information if any forward-looking statement later turns out to be inaccurate. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed under the heading “Risk Factors”, beginning on page 49.

Item 1: *Business*

Overview

Electronic Arts develops, markets, publishes and distributes interactive software games (we sometimes refer to them as “titles”) that are playable by consumers on the following devices:

- In-home video game players (such as the Sony PlayStation® 2, Microsoft Xbox® and Nintendo GameCube™) — we call these players “consoles”,
- Personal computers (PCs),
- Mobile video game players (such as the PlayStation® Portable “PSP™”, Game Boy® Advance and Nintendo DS™) and cellular handsets — we call these “mobility” and
- Online, over the Internet and other proprietary online networks.

We refer to consoles, PCs, mobility and online collectively as “platforms”.

We were initially incorporated in California in 1982. In September 1991, we reincorporated under the laws of Delaware. Our principal executive offices are located near San Francisco, California at 209 Redwood Shores Parkway, Redwood City, California 94065 and our telephone number is (650) 628-1500.

One of our strengths is our ability to publish interactive software games for multiple platforms. Our products that are designed to play on consoles and mobile platforms are published under license from the manufacturers of these platforms (for example, Sony for the PlayStation 2 and PSP, Microsoft for the Xbox and Nintendo for the Nintendo GameCube, Game Boy Advance and Nintendo DS) and we pay a fee to these platform manufacturers for technology and intellectual property, which enables us to publish products on their platforms. We invest in the creation of software tools to more efficiently develop games for multiple platforms. We also make investments in facilities and equipment that allow us to create and edit video and audio recordings that are used in our games. Since our inception, we have published games for over 45 different platforms.

Our product development methods and organization are modeled on those used in other sectors of the entertainment industry. Employees whom we call “producers” are responsible for overseeing the development of one or more products. The interactive software games that we develop and publish are broken down into three major categories: (1) EA studio products, (2) co-publishing products and (3) distribution products.

EA Studio Products

We develop games internally at our development and production studios located near San Francisco, Los Angeles, Orlando (Florida), Chicago, Vancouver, Montreal, London and Tokyo. We also engage third parties to develop games on our behalf at their own development and production studios. We publish our EA Studio products under three major brands:

- EA SPORTS™ — We publish realistic sports simulation games under our EA SPORTS brand. Some of our recent products published under the EA SPORTS brand include *Madden NFL 2005* (professional football), *NCAA® Football 2005* (collegiate football), *Rugby 2005*, *FIFA Soccer 2005*

Table of Contents

(professional soccer), *NBA Live 2005*, *NCAA ® March Madness™ 2005* (collegiate basketball), *Tiger Woods PGA TOUR ® 2005* (professional golf), *NHL® 2005* (professional hockey) and *NASCAR 2005: Chase for the Cup* (stock car racing),

- EA GAMES™ — We publish a variety of games under our EA GAMES brand. Some of our recent products published under the EA GAMES brand include *Burnout® 3: Takedown™*, *The Lord of the Rings™*, *The Third Age™*, *GoldenEye: Rogue Agent™*, *The Sims™ 2*, *Need for Speed™ Underground 2* and *Medal of Honor™ Pacific Assault*, and
- EA SPORTS BIG™ — We publish arcade-style extreme sports and modified traditional sports games under our EA SPORTS BIG brand. Some of our recent products published under the EA SPORTS BIG brand include *NFL STREET 2: Unleashed* (football), *Def Jam® Fight for NY™* (wrestling), *NBA STREET Vol. 3* (basketball) and *FIFA STREET* (soccer).

Co-publishing and Distribution Products

Through our EA Partners global business unit, we team with other game development companies that develop their own interactive software games with our assistance, which we then publish, market and distribute. An example of one of our recent co-publishing products is *TimeSplitters Future Perfect™*, which was developed by Free Radical Design, a game development company located near London. We also distribute interactive software games that are developed by other companies. An example of one of our recent distribution products is *Star Wars Knights of the Old Republic II: The Sith Lords*, published by LucasArts, which we distributed in Japan.

Another strength of our business is that we develop product families (we call them “franchises”) around many of our products. For example, every year we release new versions of most of our EA SPORTS titles. Likewise, we have been successful in developing, marketing, publishing and distributing sequels to several of our EA GAMES and EA SPORTS BIG products. We also release products called “expansion packs” for PC titles that provide additional content (characters, storylines, settings, missions) for games that we have previously published. For example, we have published an expansion pack *The Sims 2: University*, which expands the characters, settings and gameplay of the original *The Sims 2* game. We consider titles that iterate, sequel or spawn expansion packs to be franchise titles.

Method of Delivery

The console, PC and some mobile games that we publish are made available to consumers on a disk (usually CD, DVD or Universal Media Disc (“UMD”) format) or a cartridge that is packaged and typically sold in retail stores and through online stores (including our own online store). We refer to these as “packaged goods” products. In North America and Europe, our largest markets, these packaged goods products are sold primarily to retailers that may be mass market retailers (such as Wal-Mart), electronics specialty stores (such as Best Buy) or game software specialty stores (such as GameStop). We also maintain a smaller business where we license to manufacturers of products in related industries (for example, makers of personal computers or computer accessories) rights to include certain of our products with the manufacturer’s product or offer our products to consumers who have purchased the manufacturer’s product. We call these combined products “OEM bundles”.

There are three ways in which we publish games that are playable online by consumers: (1) we publish games that are playable only online. One type of these online-only games is called “persistent state worlds” or “massively multiplayer online games”. Players experience these games as interactive virtual worlds where thousands of other players can interact with one another. An example of our persistent state world products is *Ultima Online*. These persistent state world games are often sold to consumers in the form of a CD or DVD that contains much of the software necessary to play the game online. After loading the game disk on their PCs, players are able to log-on to servers that we make available in order to interact with other players; (2) other types of online-only games that we publish are available on the World Wide Web and include card games, puzzle games and word games (marketed under our “pogo™” brand), all of which are made available to consumers on our web site, www.pogo.com, and on certain online services provided by America Online, Inc.; and (3) we include online capability features in certain of our PC, PlayStation 2 and Xbox products, which enable consumers to participate in online communities and play against one another via the Internet.

Intellectual Property

Like other entertainment companies, our business is based on the creation, acquisition, exploitation and protection of intellectual property. Some of this intellectual property is in the form of software code, patented technology, and other technology and trade secrets that we use to develop our games and to make them run properly on the platforms. Other intellectual property is in the form of audio-visual elements that consumers can see, hear and interact with when they are playing our games — we call this form of intellectual property “content”.

Each of our products embodies a number of separate forms of intellectual property protection: the software and the content of our products are copyrighted; our product brands and names may be trademarks of ours or others; our products may contain voices and likenesses of actors, athletes and/or commentators (protected by personal publicity rights) and often contain musical compositions and performances that are also copyrighted. Our products also may contain other content licensed from others, such as trademarks, fictional characters, storylines and software code.

We acquire the rights to include these kinds of intellectual property in our products through license agreements such as those with sports leagues and player associations, movie studios and performing talent, music labels, music publishers and musicians. These licenses are typically limited to use of the licensed rights in products for specific time periods. In addition, our products that play on consoles, such as the Sony PlayStation 2, include technology that is owned by the console manufacturer and licensed non-exclusively to us for use. While we may have renewal rights for some licenses, our business and the justification for the development of many of our products is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights at reasonable rates.

Our products are susceptible to unauthorized copying. We typically distribute our PC products using copy protection technology that we license from other companies. In addition, console manufacturers, such as Sony, typically incorporate security devices in their consoles in an effort to prevent unlicensed use of products. Our primary protection against unauthorized use, duplication and distribution of our products is enforcement of our copyright and trademark interests. We typically own the copyright to the software code as well as the brand or title name trademark under which our products are marketed. We register our copyrights in the United States, and register our significant trademarks in multiple countries including the United States.

Market Segment

Historically, there have been multiple consoles available that play interactive software games like ours, and there has been vigorous competition between console manufacturers. While Sony has for the past several years been the clear business segment leader (with its PlayStation® and PlayStation 2 consoles), Microsoft and Nintendo are large and viable competitors, and PCs continue to be a strong interactive game platform. We develop and publish products for multiple platforms, and this diversification continues to be a cornerstone of our product strategy.

We currently develop or publish products for eleven different hardware platforms. In fiscal 2005, we released games designed to play on the PlayStation 2, Xbox, Nintendo GameCube, PlayStation, PC, Game Boy Advance, Nokia N-Gage™, Sony PSP, Nintendo DS and the Internet. In fiscal 2006, we plan to release games designed for play on the PlayStation 2, Xbox, Xbox 360, Nintendo GameCube, PC, Game Boy Advance, Nokia N-Gage, Sony PSP, Nintendo DS, the Internet and cellular phones (among others).

Table of Contents

Video Game Consoles

The current-generation of systems was initiated by the launch of Sony's PlayStation 2 in fiscal 2001, and continued with the launches of the Nintendo GameCube and Microsoft's Xbox in fiscal 2002. The following table details select information on a sample of the console platforms for which we have published titles:

<u>Manufacturer</u>	<u>Video Game Console/Platform Name</u>	<u>Year Introduced in North America</u>	<u>Medium/Product Base</u>	<u>Technology</u>
Sega	Genesis	1989	Cartridge	16-bit
Nintendo	Super NES™	1991	Cartridge	16-bit
Matsushita	3DO™ Interactive Multiplayer™	1993	Compact Disk	32-bit
Sega	Saturn	1995	Compact Disk	32-bit
Sony	PlayStation	1995	Compact Disk	32-bit
Nintendo	Nintendo 64	1996	Cartridge	64-bit
Sony	PlayStation 2	2000	Digital Versatile Disk	128-bit
Nintendo	Nintendo GameCube	2001	Proprietary Optical Format	128-bit
Microsoft	Xbox	2001	Digital Versatile Disk	128-bit

PlayStation 2. Sony released the PlayStation 2 console in Japan in March 2000, in North America in October 2000 and in Europe in November 2000. The PlayStation 2 console is a 128-bit, DVD-based system that, with a network adaptor, is Internet ready, as well as backward compatible with games published for its predecessor, the PlayStation. We have published and are currently developing numerous products for the Sony PlayStation 2.

Nintendo GameCube. Nintendo launched the Nintendo GameCube console in Japan in September 2001, in North America in November 2001 and in Europe in May 2002. The Nintendo GameCube plays games that are manufactured on a proprietary optical disk. We have published and are currently developing numerous products for the Nintendo GameCube.

Xbox. Microsoft launched the Xbox console in North America in November 2001, in Japan in February 2002 and in Europe in March 2002. The Microsoft Xbox is a 128-bit, DVD-based system that is Internet ready. In May 2004, we began to support the Xbox Live service with features including Quickmatch, Optimatch, gamertags, Xbox Live friends list, voice communication and EA messenger service. We have published and are currently developing numerous products for the Microsoft Xbox.

Mobile Video Game Platforms

While Nintendo has been the leading manufacturer of mobile video game platforms, Sony has recently entered this market with its PSP. The following table details select information on a sample of the mobile platforms for which we have published titles:

<u>Manufacturer</u>	<u>Mobile Game Machine/ Platform Name</u>	<u>Year Introduced in North America</u>
Nintendo	Game Boy	1989
Nintendo	Game Boy Color	1998
Nintendo	Game Boy Advance	2001
Nokia	N-Gage	2003
Nintendo	DS	2004
Sony	PSP	2005

Nintendo DS. Nintendo launched the Nintendo DS in North America in November 2004, in Japan in December 2004 and in Europe in March 2005. We have published several products and are currently developing several more products for the Nintendo DS.

Sony PSP. Sony launched the PSP in Japan in December 2004 and in North America in March 2005. The Sony PSP is a UMD based system. We have published several products and are currently developing and expect to develop numerous products for the Sony PSP.

Online Games

To date, we have had limited success in finding ways of generating revenue and profits from online games, including subscription fees, “pay-to-play fees”, micro transactions and advertising. In addition, we have had limited experience with developing optimal pricing strategies or predicting usage patterns for our online games. In our history, we have launched five persistent state world products with mixed results. While we have achieved success with *Ultima Online*, our other persistent state world products, most notably *The Sims Online*, have not met our expectations.

In fiscal 2004, we launched Club Pogo™, a subscription service for Pogo, offering exclusive games and premium features. We have over 800,000 paying subscribers as of March 31, 2005 up from 308,000 paying subscribers as of March 31, 2004.

Despite our limited success to date, we believe that online capability is integral to our existing and future products. The continued growth of the online sector of our industry will depend on the following key factors:

- Growing interest in multiplayer games,
- Willingness by consumers to pay for online game content,
- Rapid innovation of new online entertainment experiences,
- Mass market adoption of broadband technologies,
- Convergence of online capabilities in next-generation consoles, and
- Ability to create online products that are applicable in diverse global markets.

Next-Generation Consoles

During the next 18 months, we expect the next-generation of consoles to be released by Microsoft, Sony and Nintendo. Our early investment in products designed for play on 32 and 128-bit consoles, such as the PlayStation and PlayStation 2, respectively, has been strategically important in positioning us for the next-generation of consoles. We believe that such investment continues to be important as the next-generation of consoles is expected to introduce new complexities such as Blu-ray Disk-Read Only Memory (“BD-ROM”) and/or High-Definition video technologies. As we move through the life cycle of current-generation consoles, we will continue to devote resources to developing games for these consoles, while at the same time increasing our investment in tools and technologies for the next-generation of consoles.

Competition

We compete in the entertainment industry. At the most fundamental level, our products compete with other forms of entertainment, such as motion pictures, television and music, for the leisure time and discretionary spending of consumers. We believe that the software games segment is best viewed as a segment of the overall entertainment market. We believe that large software companies and media companies are increasing their focus on the software games segment of the entertainment market and as a result, may become more direct competitors. Several large software companies and media companies (e.g., Microsoft and Sony) have been publishing products that compete with ours for a long time, and other diversified media/entertainment companies (e.g., Time Warner and Disney) have announced their intent to significantly expand their software game publishing efforts in the future.

The software games business is highly competitive. It is characterized by the continuous introduction of new titles and the development of new technologies. Our competitors vary in size from very small companies with limited resources to very large, diversified corporations with greater financial and marketing resources than ours. Our business is driven by hit titles, which require ever-increasing budgets for development and marketing. As a result, the availability of significant financial resources has become a major competitive factor in developing and marketing software games. Competition is also based on product quality and features, timing of product releases, brand-name recognition, quality of in-game content, access to distribution channels, effectiveness of marketing and price.

Table of Contents

We currently compete with Sony, Microsoft and Nintendo, each of which develop and publish software for their respective console platforms. We also compete with numerous companies which are, like us, licensed by the console manufacturers to develop and publish software games that operate on their consoles. These competitors include Activision, Atari, Capcom, Eidos, Koei, Konami, LucasArts, Midway, Namco, Sega, Take-Two Interactive, THQ, Ubisoft and Vivendi Universal Games, among others. As discussed above, diversified media companies such as Time Warner and Disney have also indicated their intent to significantly expand their software game publishing efforts in the future.

In addition to competing for product sales, we face heavy competition from other software game companies to obtain license agreements granting us the right to use intellectual property included in our products; and some of these content licenses are controlled by the diversified media companies, which intend to expand their software game publishing divisions.

Finally, the market for our products is characterized by significant price competition and we regularly face pricing pressures from our competitors. These pressures have, from time to time, required us to reduce our prices on certain products. Our experience has been that software game prices tend to decline once a generation of consoles has been in the market for a significant period of time due to the increasing number of software titles competing for acceptance by consumers and the anticipation of the next-generation of consoles.

Significant Relationships

Hardware Platform Companies

Sony. Under the terms of license agreements we entered into with Sony Computer Entertainment of America, Sony Computer Entertainment of Europe and Sony Computer Entertainment Inc. (Japan), we are authorized to develop and distribute DVD-based software products compatible with the PlayStation 2. Pursuant to these agreements, we engage Sony to supply PlayStation 2 DVDs for our products. Many of our PlayStation 2 products are capable of being played online by customers who have an online adaptor, which is manufactured and sold by Sony.

In fiscal 2005, approximately 43 percent of our net revenue was derived from sales of EA Studio games designed for play on the PlayStation 2, compared to 44 percent in fiscal 2004. We released 27 titles worldwide in fiscal 2005 for the PlayStation 2, compared to 24 titles in fiscal 2004. Our top five PlayStation 2 releases for fiscal 2005 were *Need for Speed Underground 2*, *Madden NFL 2005*, *FIFA Soccer 2005*, *Burnout 3: Takedown* and *NBA LIVE 2005*.

Microsoft. Under the terms of a license agreement we entered into with Microsoft, we are authorized to develop and distribute DVD-based software products compatible with the Xbox. We make many of our games capable of being played online via Microsoft's Xbox Live service. Customers are able to play these products online once they have paid an Xbox Live subscription fee to Microsoft.

In fiscal 2005, approximately 16 percent of our net revenue was derived from sales of EA Studio games designed for play on the Xbox, compared to 13 percent in fiscal 2004. We released 26 titles worldwide in fiscal 2005 for the Xbox, compared to 21 titles in fiscal 2004. Our top five Xbox releases for the year were *Need for Speed Underground 2*, *Madden NFL 2005*, *Burnout 3: Takedown*, *FIFA Soccer 2005* and *NCAA Football 2005*.

Nintendo. Under the terms of license agreements we entered into with Nintendo of America and Nintendo Company Ltd. (Japan), we are authorized to develop and distribute proprietary optical format disk products compatible with the Nintendo GameCube. Pursuant to these agreements, we engage Nintendo to supply Nintendo GameCube proprietary optical format disk products for our products.

In fiscal 2005 and 2004, approximately seven percent of our net revenue was derived from sales of EA Studio games designed for play on the Nintendo GameCube. We released 20 titles worldwide in fiscal 2005 for the Nintendo GameCube, compared to 19 titles in fiscal 2004. Our top five Nintendo GameCube releases for the year were *Need for Speed Underground 2*, *Madden NFL 2005*, *Harry Potter and the Prisoner of Azkaban*™, *GoldenEye: Rogue Agent* and *The Lord of the Rings, The Third Age*.

Content Licensors

Many of our products are based on or incorporate intellectual property owned by others. For example, our EA SPORTS products include rights licensed from the major sports leagues and players associations. Similarly, many of our hit EA GAMES franchises, such as James Bond, Harry Potter and Lord of the Rings, are based on key film and literary licenses. In fiscal 2005, we entered into exclusive license agreements with ESPN, the NFL, PLAYERS, Inc. (the NFL players' association), Collegiate Licensing Company (the licensing authority for NCAA football) and the Arena Football League. In addition, we have long-standing, exclusive relationships with various sports organizations and celebrities, including FIFA, UEFA (professional soccer), NASCAR, Tiger Woods and the PGA TOUR, and, in the future, we may enter into other exclusive relationships with other partners.

Products and Product Development

In fiscal 2005, we generated approximately 71 percent of our net revenue from EA Studio-produced products released during the year as compared to approximately 69 percent in fiscal 2004. During fiscal 2005, we introduced 35 EA Studios titles, representing 109 stock keeping units, or SKUs, compared to 32 EA Studios titles, comprising 97 SKUs, in fiscal 2004. In fiscal 2005, we had 31 titles that sold over one million units (aggregated across all platforms). In fiscal 2004, we had 27 titles and in fiscal 2003 we had 22 titles that sold over one million units (aggregated across all platforms). A SKU is a version of a title designed for play on a particular platform and intended for distribution in a particular territory. In fiscal 2005, we had one title, *Need for Speed Underground 2*, published on five different platforms which represented approximately 11 percent of our total net revenue. No title represented more than 10 percent of our total net revenue in fiscal 2004 while in fiscal 2003, we had one title, *Harry Potter and the Chamber of Secrets*™, published on seven different platforms, which represented approximately 10 percent of our total net revenue.

The products produced by EA Studios are designed and created by our employee designers and artists and by non-employee software developers (we call them "independent artists" or "third-party developers"). We typically advance development funds to the independent artists and third-party developers during development of our games, which payments are considered advances against subsequent royalties based on the sales of the products. These terms are typically set forth in written agreements entered into with the independent artists and third-party developers.

The retail selling prices of our newly released products in North America typically range from \$29.99 to \$49.99. Other titles, including re-releases of older titles marketed as "Classics", have retail selling prices that range from \$9.99 to \$29.99. The retail selling prices of our titles outside of North America vary widely depending on factors such as local market conditions.

Our goal is to maintain our position as a leading publisher of games sold for play on the current-generation of 128-bit video game consoles and to extend our success into the next-generation of consoles and mobile platforms. We will continue to invest in tools and technologies designed to facilitate development of our products for current-generation platforms while also investing in tools and technologies for the next-generation of consoles and mobile platforms. These investments are recorded in research and development in our Consolidated Statement of Operations. We had research and development expenditures of \$633 million in fiscal 2005, \$511 million in fiscal 2004 and \$401 million in fiscal 2003.

EA.com Web Site

Free Content. We offer free games on our web site under the following four brands: Pogo, EA GAMES, EA SPORTS and EA SPORTS BIG. The majority of these free games are original games designed solely for play on our web site (and on the games-oriented areas of America Online, our online games partner) while some of the product offerings capitalize on our existing franchises adapted for online play. As of March 31, 2005, the online product offerings within each brand included the following:

- *Pogo.* We offered approximately 73 free online games under the Pogo brand. Pogo provides players a variety of free online games geared towards family entertainment. The offerings include card games, board games, casino games, word games, trivia games and puzzles. This category leverages prizes,

tournaments, community and Pogo's strength and popularity in free, familiar games to significantly increase the appeal of our online games service to the broad consumer market.

- **EA GAMES.** In fiscal 2005, four PC, three PlayStation 2 and three Xbox titles of our EA GAMES brand had online gameplay capability. In addition, we provided 10 free online games on our Pogo web site under the EA GAMES brand. The EA GAMES offering consists of original arcade-style games and other original games designed solely for online play, such as *Highstakes Pool*, *Command & Conquer™: Attack Copter*, *Command & Conquer™: Armored Attack* and *Need for Speed*.
- **EA SPORTS and EA SPORTS BIG.** In fiscal 2005, six PC, 12 PlayStation 2 and 12 Xbox titles of our EA SPORTS and EA SPORTS BIG brands had online gameplay capability. In addition, we provided 18 free online games on our Pogo web site under the EA SPORTS and EA SPORTS BIG brands. In the EA SPORTS BIG category, *SSX Snowdreams* leverages our SSX snowboarding franchise to form a community of sports gamers. The EA SPORTS category consists of original games designed solely for online play such as *Pebble Beach Golf*, *Top Down Baseball*, *All-Star Football*, *All-Star Football Challenge*, *3-Point Showdown* and *It's Outta Here 2!*.

Paid Content. In addition to our free suite of games, we also offer two premium pay-to-play services under the Pogo brand:

- **Club Pogo** — our online game subscription service. To join Club Pogo, players must register and subscribe online. Players have the option of selecting a monthly or annual subscription fee plan. When a player joins Club Pogo, they have access to all of the games and content they had on the free service, plus premium features and benefits, such as additional member-exclusive games, ad-free gameplay, an enhanced prize system and more. Club Pogo also provides a deeper community experience through upgraded player profiles, weekly game challenges and member badges.
- **Pogo-To-Go** — our downloadable games offering. A one-time fee allows users to download and own a version of their favorite Pogo game to play offline. The Pogo-To-Go games include extra features like exclusive game modes, bonus levels, high scores and enhanced graphics & sounds. We currently offer 45 downloadable games under the Pogo-To-Go service including several original games, versions of popular free Pogo games and several licensed titles. In addition, we offer these downloadable game offerings at retail.

Persistent State World Games

We also offer premium pay-to-play persistent state world games, such as *Ultima Online*. In order to access these premium games, the player must purchase a CD through retail stores or through our online store. After an initial free-trial period, the player must pay a subscription fee in order to continue playing. These persistent state world games are designed to appeal to avid gamers: teens and adults looking to participate in massively multiplayer online games made up of fantastic worlds, characters, adventures or activities — big or small, real or imagined.

Our EA.com web site offerings and persistent state world games focus on targeting and serving consumers by:

- Offering engaging and accessible online games,
- Building a community in which consumers can interact with one another via chat, bulletin boards, events and match-making services for multiplayer games and other contests,
- Delivering innovative content that continually entertains, and
- Establishing a direct relationship with each audience member through personalization and customization of user experiences.

Marketing and Distribution

We market the products produced by our EA Studios under the EA GAMES, EA SPORTS and EA SPORTS BIG brands. Products marketed under the EA GAMES brand typically feature challenging games and include franchises such as *Need for Speed*, *The Lord of the Rings* and *Medal of Honor*. Products marketed under the EA SPORTS brand typically simulate professional and collegiate sports and include

Table of Contents

franchises such as Madden NFL, FIFA Soccer and NBA Live. Products marketed under the EA SPORTS BIG brand typically feature extreme sports or modified traditional sports in an arcade-style game and include such titles as *Def Jam Fight for NY*, *FIFA STREET* and *NFL STREET 2: Unleashed*.

Formerly known as Electronic Arts Distribution, our EA Partners global business unit operates under a variety of deal types and structures with the intent of generating, leveraging and/or owning intellectual properties conceived by other developers, publishers or licensors worldwide. Through EA Partners we provide direct development expertise to our partners via an internal production staff, while also making available our publishing resources to provide sales, marketing and distribution services on a global basis. EA Partners currently has relationships with Lionhead, Crytek, Free Radical Design and Eurocom Entertainment Software, among others.

EA Partners also distributes finished goods on behalf of other publishers. These titles are developed and manufactured by other publishers and delivered to us as completed products, for which we provide distribution services. In fiscal 2005, our distribution partners included Capcom and Namco.

The interactive software game business is “hit” driven, requiring significantly greater expenditures for marketing and advertising of our products. There can be no assurance that we will continue to produce “hit” titles, or that advertising for any product will increase sales sufficiently to recoup those advertising expenses.

We generated approximately 95 percent of our North American net revenue from direct sales to retailers. The remaining 5 percent of our North American sales were made through a limited number of specialized and regional distributors and rack jobbers in markets where we believe direct sales would not be economical. We had direct sales to one customer, Wal-Mart Stores, Inc., which represented 14 percent of total net revenue in fiscal 2005, 13 percent in fiscal 2004 and 12 percent in fiscal 2003.

Outside of North America, we derive revenues primarily from direct sales to retailers. Our largest indirect sales relationship is with Pinnacle in Europe. Sales of our products through Pinnacle make up approximately 10 percent of our total net revenue. We use Pinnacle to provide logistical and collection services to our retail customers. Under the terms of our distribution agreement with Pinnacle, product is held by Pinnacle on consignment until shipment to the retailer. In addition, we authorize returns from, or price protection to, retailers and are obliged to give Pinnacle the corresponding credit. In a few of our smaller markets, we sell our products through distributors with whom we have written agreements or informal arrangements, depending on the business customs of the territories.

In North America, we have stock-balancing programs for our PC products, which allow for the exchange of PC products by resellers under certain circumstances. In all of our major geographical markets, we accept product returns on our PC products and we may decide to accept product returns or provide price protection under certain circumstances for our console products after we analyze inventory remaining in the channel, the rate of inventory sell-through in the channel, and our remaining inventory on hand. It is our policy to exchange products or give credits, rather than give cash refunds. We actively monitor and manage the volume of our sales to retailers and distributors and their inventories as substantial overstocking in the distribution channel can result in high returns or the requirement for substantial price protection in subsequent periods.

The distribution channels through which our games are sold have been characterized by change, including consolidations and financial difficulties of certain distributors and retailers. The bankruptcy or other business difficulties of a distributor or retailer could render our accounts receivable from such entity uncollectible, which could have an adverse effect on our operating results and financial condition. In addition, an increasing number of companies are competing for access to our distribution channels. Our arrangements with our distributors and retailers may be terminated by either party at any time without cause. Distributors and retailers often carry products that compete with ours. Retailers of our products typically have a limited amount of shelf space and promotional resources that they are willing to devote to the software games category, and there is intense competition for these resources. There can be no assurance that distributors and retailers will continue to purchase our products or provide our products with adequate levels of shelf space and promotional support.

Inventory and Working Capital

We manage inventories by communicating with our customers prior to the release of our products, and then using our industry experience to forecast demand on a product-by-product and territory-by-territory basis. We then place manufacturing orders for our products that match this forecasted demand. Historically, we have experienced high turnover of our products, and the lead times on re-orders of our products are generally short, approximately two to three weeks. Further, as discussed in “Marketing and Distribution” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, we have practices in place with our customers (such as stock balancing and price protection) that reduce product returns.

International Operations

We conduct business and have wholly-owned subsidiaries throughout the world, including offices in Australia, Austria, Belgium, Brazil, Canada, China, the Czech Republic, Denmark, England, Finland, France, Germany, Greece, Hungary, Italy, Japan, the Netherlands, New Zealand, Norway, Poland, Portugal, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, and Thailand. International net revenue increased by nine percent to \$1.464 billion, or 47 percent of total net revenue in fiscal 2005, compared to \$1.347 billion, or 46 percent of total net revenue in fiscal 2004. Our increase in international net revenue was primarily driven by sales in Europe and Asia Pacific, including the benefit of foreign exchange.

We believe that in order to increase our sales in Asia, we will need to devote significant resources to hire local development talent and expand our infrastructure, most notably, the expansion and creation of studio facilities to develop content locally for each market. In addition, we may establish online game marketing, publishing and distribution functions in China. As part of this strategy, we may seek to partner with established local companies through acquisitions, joint ventures or other similar arrangements.

The amounts of net revenue and identifiable assets attributable to each of our geographic regions for each of the last three fiscal years are set forth in Note 17 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Manufacturing and Suppliers

The suppliers we use to manufacture our games can be characterized in three types:

- Manufacturing entities that press our game disks,
- Entities that print our game instruction booklets, and
- Entities that package the disks and printed game instruction booklets into the jewel cases and boxes for shipping to customers.

In many instances, we are able to acquire materials on a volume-discount basis. We have multiple potential sources of supply for most materials, except for the disk component of our PlayStation 2, PSP and Nintendo GameCube disk products, as discussed in “Significant Relationships”. We also have alternate sources for the manufacture and assembly of most of our products. To date, we have not experienced any material difficulties or delays in production of our software and related documentation and packaging. However, a shortage of components, manufacturing delays by Sony or Nintendo, or other factors beyond our control could impair our ability to manufacture, or have manufactured, our products.

Backlog

We typically ship orders immediately upon receipt. To the extent that any backlog may or may not exist at the end of a reporting period, it would be both coincidental and an unreliable indicator of future results of any period.

Seasonality

Our business is highly seasonal. We typically experience our highest revenue and profits in the holiday season quarter ending in December and a seasonal low in revenue and profits in the quarter ending in June. Our

Table of Contents

results however can vary based on title release dates, consumer demand for our products and shipment schedules, among other factors.

Employees

As of March 31, 2005, we employed approximately 6,100 people, of whom over 3,400 were outside the United States. We believe that our ability to attract and retain qualified employees is a critical factor in the successful development of our products and that our future success will depend, in large measure, on our ability to continue to attract and retain qualified employees. To date, we have been successful in recruiting and retaining sufficient numbers of qualified personnel to conduct our business successfully. We believe that our relationships with our employees are strong. Less than four percent of our employees, each of whom is employed by one of our Swedish subsidiaries, are represented by a union, guild or other collective bargaining organization.

Executive Officers

The following table sets forth information regarding our executive officers, who are appointed by and serve at the discretion of the Board of Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lawrence F. Probst III	55	Chairman and Chief Executive Officer
Don A. Mattrick	41	President, Worldwide Studios
Warren C. Jenson	48	Executive Vice President and Chief Financial and Administrative Officer
V. Paul Lee	40	Executive Vice President and Chief Operating Officer, Worldwide Studios
Joel Linzner	53	Executive Vice President, Business and Legal Affairs
Bruce McMillan	42	Executive Vice President, Group Studio Head, Worldwide Studios
J. Russell (Rusty) Rueff, Jr.	43	Executive Vice President, Human Resources & Facilities
Nancy L. Smith	52	Executive Vice President and General Manager, North American Publishing
Stephen G. Bené	41	Senior Vice President, General Counsel and Corporate Secretary
Gerhard Florin	46	Senior Vice President and General Manager, European Publishing
David P. Gardner	39	Senior Vice President, International Publishing
Kenneth A. Barker	38	Vice President and Chief Accounting Officer

Mr. Probst has been a director of Electronic Arts since January 1991 and currently serves as Chairman and Chief Executive Officer. He was elected as Chairman in July 1994. Mr. Probst has previously served as President of Electronic Arts; as Senior Vice President of EA Distribution, Electronic Arts' distribution division, from January 1987 to January 1991; and from September 1984, when he joined Electronic Arts, until December 1986, served as Vice President of Sales. Mr. Probst holds a B.S. degree from the University of Delaware.

Mr. Mattrick has served as President of Worldwide Studios since September 1997. From October 1996 until September 1997, he served as Executive Vice President, North American Studios. From July 1991 to October 1996, he served as Senior Vice President, North American Studios, Vice President of Electronic Arts and Executive Vice President/ General Manager for EA Canada. Mr. Mattrick was founder and former chairman of Distinctive Software Inc. from 1982 until it was acquired by Electronic Arts in 1991.

Mr. Jenson joined Electronic Arts in June 2002 as Executive Vice President and Chief Financial and Administrative Officer. Before joining Electronic Arts, he was the Senior Vice President and Chief Financial Officer for Amazon.com from 1999 to 2002. From 1998 to 1999, he was the Chief Financial Officer and Executive Vice President for Delta Air Lines. Prior to that, he worked in several positions as part of the

Table of Contents

General Electric Company. Most notably, he served as Chief Financial Officer and Senior Vice President for the National Broadcasting Company, a subsidiary of General Electric. Mr. Jenson earned his Masters of Accountancy-Business Taxation, and B.S. in Accounting from Brigham Young University.

Mr. Lee has served as Executive Vice President and Chief Operating Officer, Worldwide Studios since August 2002. From 1998 to August 2002, he was Senior Vice President and Chief Operating Officer, Worldwide Studios. Prior to this, he served as General Manager of EA Canada, Chief Operating Officer of EA Canada, Chief Financial Officer of EA Sports and Vice President, Finance and Administration of EA Canada. Mr. Lee was a principal of Distinctive Software Inc. until it was acquired by Electronic Arts in 1991. Mr. Lee holds a Bachelor of Commerce degree from the University of British Columbia and is a Chartered Financial Analyst.

Mr. Linzner has served as Executive Vice President of Legal and Business Affairs since March 2005. From April 2004 to March 2005, he served as Senior Vice President of Legal and Business Affairs. From October 2002 to April 2004, Mr. Linzner held the position of Senior Vice President of Worldwide Business Affairs and from July 1999 to October 2002, he held the position of Vice President of Worldwide Business Affairs. Prior to joining Electronic Arts in July 1999, Mr. Linzner served as outside litigation counsel to Electronic Arts and several others in the video game industry. Mr. Linzner earned his J.D. from Boalt Hall at the University of California, Berkeley, after graduating from Brandeis University. He is a member of the Bar of the State of California and is admitted to practice in the United States Supreme Court, the Ninth Circuit Court of Appeals and several United States District Courts.

Mr. McMillan was named Executive Vice President of Electronic Arts' Worldwide Studios in June 2002. From September 1999, he served as Senior Vice President, Worldwide Studios. From 1991 to 1999, he held various senior positions within Electronic Arts studios. Mr. McMillan was an employee of Distinctive Software Inc. until it was acquired by Electronic Arts in 1991. Mr. McMillan holds degrees in Economics and Computer Science from Simon Fraser University.

Mr. Rueff has served as Executive Vice President of Human Resources and Facilities since August 2002. From October 1998 to August 2002, he served as Senior Vice President of Human Resources. Prior to joining Electronic Arts, Mr. Rueff held various positions with the PepsiCo companies for over 10 years, including: Vice President, International Human Resources; Vice President, Staffing and Resourcing at Pepsi-Cola International; Vice President, Restaurant Human Resources for Pizza Hut; and also various other management positions within the Frito-Lay Company. Mr. Rueff holds a M.S. degree in Counseling and a B.A. degree in Radio and Television from Purdue University in Indiana.

Ms. Smith has served as Executive Vice President and General Manager, North American Publishing since March 1998. From October 1996 to March 1998, Ms. Smith served as Executive Vice President, North American Sales. She previously held the position of Senior Vice President of North American Sales and Distribution from July 1993 to October 1996 and as Vice President of Sales from 1988 to 1993. Ms. Smith has also served as Western Regional Sales Manager and National Sales Manager since she joined Electronic Arts in 1984. Ms. Smith holds a B.S. degree in management and organizational behavior from the University of San Francisco.

Mr. Bené has served as Senior Vice President, General Counsel and Corporate Secretary since October 2004. From April 2004 to October 2004, Mr. Bené held the position of Vice President, Acting General Counsel and Corporate Secretary, and from June 2003 to April 2004, he held the position of Vice President and Associate General Counsel. Prior to June 2003, Mr. Bené had served as internal legal counsel since joining the Company in March 1995. Mr. Bené earned his J.D. from Stanford Law School, and received his B.S. in Mechanical Engineering from Rice University. Mr. Bené is a member of the Bar of the State of California.

Dr. Florin has served as Senior Vice President and Managing Director, European Publishing since April 2003. Prior to this, he served as Vice President, Managing Director for European countries since 2001. From the time he joined Electronic Arts in 1996 to 2001, he was the Managing Director for German speaking countries. Prior to joining Electronic Arts, Dr. Florin held various positions at BMG, the global music division of Bertelsmann AG, and worked as a consultant with McKinsey. Dr. Florin holds Masters and Ph.D. degrees in Economics from the University of Augsburg, Germany.

Mr. Gardner has served as Senior Vice President, International Publishing since April 2004. During fiscal 2004, Mr. Gardner took a leave of absence from EA. He previously held the position of Senior Vice President

Table of Contents

and Managing Director, European Publishing from May 1999 to April 2003. Prior to this, he held several positions in EA Europe, which he helped establish in 1987, including Director of European Sales and Marketing and Managing Director of EA Europe. Mr. Gardner has also held various positions at Electronic Arts in the sales, marketing and customer support departments since joining the company in 1983.

Mr. Barker has served as Vice President and Chief Accounting Officer since June 2003. Prior to joining Electronic Arts, Mr. Barker was employed at Sun Microsystems Inc., as Vice President and Corporate Controller from October 2002 to June 2003 and Assistant Corporate Controller from April 2000 to September 2002. Prior to that, he was an audit partner at Deloitte. Mr. Barker graduated from the University of Notre Dame with a B.A. degree in Accounting.

Investor Information

We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge on the Investor Relations section of our web site, <http://investor.ea.com>, as soon as reasonably practicable after we electronically file the reports with, or furnish them to, the SEC.

The charters of our Audit, Compensation, and Nominating and Governance committees of our Board of Directors, as well as our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers), are available in the Investor Relations section of our web site at <http://investor.ea.com>. We will post amendments to our Global Code of Conduct in the Investor Relations section of our web site. Copies of our charters and Global Code of Conduct are available without charge by contacting our Investor Relations department at (650) 628-1500.

Shareholders of record may hold their shares of our common stock in book-entry form. This eliminates costs related to safekeeping or replacing paper stock certificates. In addition, shareholders of record may request electronic movement of book-entry shares between their account with our stock transfer agent and their broker. Stock certificates may be converted to book-entry shares at any time. Questions regarding this service may be directed to our stock transfer agent, Wells Fargo Bank, N.A., at 1-800-468-9716.

Item 2: Properties

The following diagram depicts the locations of the majority of our facilities throughout the world:



We currently own a 207,000 square foot product development studio facility in Burnaby, British Columbia, Canada and a 122,000 square foot administrative, sales and development facility in Chertsey, England. In addition to the properties we own, we lease approximately 2.3 million square feet of facilities, including our

Table of Contents

headquarters in Redwood City, California, our studios in Los Angeles, California and Orlando, Florida, and our distribution center in Louisville, Kentucky. Our leased space is summarized as follows (in square feet):

<u>Purpose</u>	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Total</u>
Distribution	250,000	76,854	—	326,854
Sales & Administrative	736,470	154,561	50,175	941,206
Studio Development	982,404	27,695	23,430	1,033,529
Total Leased Square Footage	<u>1,968,874</u>	<u>259,110</u>	<u>73,605</u>	<u>2,301,589</u>

Redwood City, California Headquarters

In February 1995, we entered into a build-to-suit lease with a third party for our headquarters facility in Redwood City, California, which was refinanced with Keybank National Association in July 2001 and expires in July 2006. We accounted for this arrangement as an operating lease in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 13, “*Accounting for Leases*”, as amended. Existing campus facilities developed in phase one comprise a total of 350,000 square feet and provide space for sales, marketing, administration and research and development functions. We have an option to purchase the property (land and facilities) for a maximum of \$145 million or, at the end of the lease, to arrange for (i) an extension of the lease or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$129 million if the sales price is less than this amount, subject to certain provisions of the lease.

In December 2000, we entered into a second build-to-suit lease with Keybank National Association for a five and one-half year term beginning December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property adding approximately 310,000 square feet to our campus. Construction was completed in June 2002. We accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. The facilities provide space for marketing, sales and research and development. We have an option to purchase the property for a maximum of \$130 million or, at the end of the lease, to arrange for (i) an extension of the lease, or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$119 million if the sales price is less than this amount, subject to certain provisions of the lease.

Los Angeles, California and Orlando, Florida Studios; Louisville, Kentucky Distribution Center

In July 2003, we entered into a lease agreement with an independent third party (the “Landlord”) for a studio facility in Los Angeles, California, which commenced in October 2003 and expires in September 2013 with two five-year options to extend the lease term. Additionally, we have options to purchase the property after five and ten years based on the fair market value of the property at the date of sale, a right of first offer to purchase the property upon terms offered by the Landlord, and a right to share in the profits from a sale of the property. Existing campus facilities comprise a total of 243,000 square feet and provide space for research and development functions. Our rental obligation under this agreement is \$50 million over the initial ten-year term of the lease. This commitment is offset by sublease income of \$6 million for the sublet to an affiliate of the Landlord of 18,000 square feet of the Los Angeles facility, which commenced in October 2003 and expires in September 2013, with options of early termination by the affiliate after five years and by us after four and five years.

In June 2004, we entered into a lease agreement with an independent third party for a studio facility in Orlando, Florida, which commenced in January 2005 and expires in June 2010, with one five-year option to extend the lease term. The campus facilities comprise a total of 117,000 square feet, which we intend to use for research and development functions. Our rental obligation over the initial five-and-a-half year term of the lease is \$13 million.

Our North American distribution is supported by a centralized warehouse facility that we lease in Louisville, Kentucky occupying 250,000 square feet.

Table of Contents

In addition to the properties discussed above, we have other properties under lease which have been included in our restructuring costs as discussed in Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this report. While we continually evaluate our facility requirements, we believe that suitable additional or substitute space will be available as needed to accommodate our future needs.

Item 3: Legal Proceedings

On July 29, 2004, a class action lawsuit, *Kirschenbaum v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Image Production Employees” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. The complaint was first amended on or about November 30, 2004 to add two former employees as named-plaintiffs, and amended again on or about January 5, 2005 to add another former employee as a named-plaintiff. The allegations in the complaint were not materially changed by the amendments.

On February 14, 2005, a second employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Engineers” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. On or about March 16, 2005, we received a first amended complaint, which contains the same material allegations as the original complaint. We answered the first amended complaint on April 20, 2005.

On March 24, 2005, a purported class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional purported class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. We have not yet responded to any of the complaints. In addition, on April 12, 2005, a shareholder derivative action was filed against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. The complaint was filed in San Mateo Superior Court. On April 13, 2005, a second shareholder derivative action was filed in San Mateo Superior Court based on the same claims as the first complaint. On May 16, 2005, a shareholder derivative action based on substantially the same allegations was filed in the United States District Court, Northern District of California. We have not responded to the shareholder derivative complaints.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. Our management considers that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Item 4: Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the quarter ended March 31, 2005.

PART II

Item 5: Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq National Market under the symbol “ERTS”. The following table sets forth the quarterly high and low price per share of our common stock from April 1, 2003 through March 31, 2005. Such prices represent prices between dealers and do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	Prices	
	High	Low
Fiscal Year Ended March 31, 2004:		
First Quarter	\$ 39.70	\$ 28.10
Second Quarter	48.50	36.55
Third Quarter	52.89	40.60
Fourth Quarter	52.18	43.43
Fiscal Year Ended March 31, 2005:		
First Quarter	\$ 55.91	\$ 47.42
Second Quarter	55.01	45.52
Third Quarter	62.86	43.38
Fourth Quarter	71.16	54.52

Holders

There were approximately 1,755 holders of record of our common stock as of June 1, 2005. In addition, we believe that a significant number of beneficial owners of our common stock hold their shares in street name.

Dividends

We have not paid any cash dividends and do not anticipate paying cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. The following table summarizes the number of shares repurchased between January 1, 2005 and March 31, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)
January 1-31, 2005	50,000	\$63.94	50,000	\$716
February 1-28, 2005	100,000	\$65.11	100,000	\$709
March 1-31, 2005	—	—	—	\$709

Table of Contents

Item 6: Selected Financial Data

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

(In millions, except per share data)

STATEMENTS OF OPERATIONS DATA	Year Ended March 31,				
	2005	2004	2003	2002	2001
Net revenue	\$3,129	\$2,957	\$2,482	\$1,725	\$1,322
Cost of goods sold	1,197	1,103	1,073	815	665
Gross profit	1,932	1,854	1,409	910	657
Operating expenses:					
Marketing and sales	391	370	332	241	185
General and administrative	221	185	131	108	104
Research and development	633	511	401	381	376
Amortization of intangibles ⁽¹⁾	3	3	8	25	19
Acquired in-process technology	13	—	—	—	3
Restructuring charges	2	9	15	7	—
Asset impairment charges	—	—	66	13	—
Total operating expenses	1,263	1,078	953	775	687
Operating income (loss)	669	776	456	135	(30)
Interest and other income, net	56	21	5	13	17
Income (loss) before provision for (benefit from) income taxes and minority interest	725	797	461	148	(13)
Provision for (benefit from) income taxes	221	220	143	46	(4)
Income (loss) before minority interest	504	577	318	102	(9)
Minority interest	—	—	(1)	—	(2)
Net income (loss)	\$ 504	\$ 577	\$ 317	\$ 102	\$ (11)
Net income (loss) per share:					
Common stock:					
Net income (loss):					
Basic	\$ 504	\$ 577	\$ 329	\$ 124	\$ 12
Diluted	\$ 504	\$ 577	\$ 317	\$ 102	\$ (11)
Net income (loss) per share:					
Basic	\$ 1.65	\$ 1.95	\$ 1.17	\$ 0.45	\$ 0.05
Diluted	\$ 1.59	\$ 1.87	\$ 1.08	\$ 0.35	\$ (0.04)
Number of shares used in computation:					
Basic	305	295	282	274	263
Diluted	318	308	293	286	264
Class B common stock:					
Net loss, net of retained interest in EA.com	N/A	N/A	\$ (12)	\$ (22)	\$ (23)
Net loss per share:					
Basic	N/A	N/A	\$ (2.77)	\$ (3.77)	\$ (3.83)
Diluted	N/A	N/A	\$ (2.77)	\$ (3.77)	\$ (3.83)
Number of shares used in computation:					
Basic	N/A	N/A	4	6	6
Diluted	N/A	N/A	4	6	6

Table of Contents

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA (Continued)

(In millions)

BALANCE SHEET DATA	Year Ended March 31,				
	2005 ⁽¹⁾	2004 ⁽¹⁾	2003 ⁽¹⁾	2002	2001
Cash and cash equivalents	\$1,270	\$2,150	\$ 950	\$ 553	\$ 420
Short-term investments	1,688	264	638	244	47
Marketable equity securities	140	1	1	7	10
Working capital	2,878	2,185	1,334	700	479
Total assets	4,370	3,464	2,429	1,699	1,379
Total liabilities	861	786	640	453	340
Minority interest	11	—	4	3	5
Total stockholders' equity	3,498	2,678	1,785	1,243	1,034

⁽¹⁾ Results for fiscal 2005, 2004 and 2003 do not include amortization of goodwill as a result of adopting SFAS No. 142 "Goodwill and Other Intangible Assets". See Note 1 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operation

OVERVIEW

The following overview is a top-level discussion of our operating results as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers is important in order to understand our results for fiscal 2005, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-K, including in "Business", the remainder of "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" or the consolidated financial statements and related notes.

About Electronic Arts

We develop, market, publish and distribute interactive software games that are playable by consumers on home video game consoles (such as the Sony PlayStation 2, Microsoft Xbox and Nintendo GameCube consoles), personal computers, mobile platforms — including hand-held game players (such as the Game Boy Advance, Nintendo DS and Sony PSP) and cellular handsets — and online, over the Internet and other proprietary online networks. Some of our games are based on content that we license from others (e.g., Madden NFL Football, Harry Potter and FIFA Soccer), and some of our games are based on our own wholly-owned intellectual property (e.g., The Sims and Need for Speed). Our goal is to develop titles which appeal to the mass markets, which often means translating and localizing them for sale in non-English speaking countries. In addition, we also attempt to create software game "franchises" that allow us to publish new titles on a recurring basis that are based on the same property. Examples of this are the annual iterations of our sports-based franchises (e.g., NCAA Football and FIFA Soccer), titles based on long-lived movie properties (e.g., James Bond and Harry Potter) and wholly-owned properties that can be successfully sequenced (e.g., The Sims and Need for Speed).

Overview of Financial Results

Total net revenue for the fiscal year ended March 31, 2005 was \$3.129 billion, up 5.8 percent, as compared to the fiscal year ended March 31, 2004. Six franchises sold more than five million units in the fiscal year ended March 31, 2005: The Sims, Need for Speed, Madden, FIFA, The Lord of the Rings and Harry Potter. We published three titles each on the Nintendo DS and the Sony PSP, two new platforms released during the year ended March 31, 2005. Net revenue on these platforms increased our net revenue by approximately \$41 million and we expect to continue to develop titles for both platforms in fiscal 2006.

Net income for the fiscal year ended March 31, 2005 was \$504 million, a 12.7 percent decrease as compared to the fiscal year ended March 31, 2004 and diluted earnings per share were \$1.59 as compared with \$1.87 for the prior year.

We generated \$634 million in cash from operations during the year ended March 31, 2005 as compared to \$669 million in the fiscal year ended March 31, 2004. The decrease in cash flow was primarily the result of (1) our overall decline in net income for fiscal 2005, (2) higher accounts receivable balances due to the timing of sales in the fourth quarter of fiscal 2005 and (3) higher cash payments for income taxes. These declines were partially offset by higher balances in our current liabilities.

Management's Overview of Historical and Prospective Business Trends

Transition to Next-Generation Consoles. Our industry is cyclical and we believe it has entered into a transition stage heading into the next cycle. Over the course of the next eighteen months, we expect Sony, Microsoft and Nintendo to introduce new video game consoles into the market. During this transition, we intend to continue developing new titles for the current generation of video game consoles while we also make significant investments as we prepare to introduce products that operate on the next-generation consoles. We have and expect to continue to incur higher costs during this transition to next-generation consoles. We also expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. In addition, sales of video games for current generation consoles may begin to decline and consumers may defer game software purchases until the next-generation consoles become

Table of Contents

available. While we expect our sales and gross profit to increase in fiscal 2006, such increases may not offset the increased costs we have and expect to continue to incur during the transition. As we move through the transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

Increasing Cost of Titles. Titles have become increasingly expensive to produce and market as the platforms on which they are played continue to advance technologically and consumers demand continual improvements in the overall gameplay experience. We expect this trend to continue throughout the transition from current generation to next generation platforms as (1) we require larger production teams to create our titles, (2) the technology needed to develop titles becomes more complex, (3) the number and nature of the platforms for which we develop titles increases and becomes more diverse, (4) the cost of licensing the third-party intellectual property we use in many of our titles increases, and (5) we develop new methods to distribute our content via the Internet and on hand-held and wireless devices.

Software Prices. As current-generation console prices continue to decrease, we expect more value-oriented consumers to purchase consoles and software. We experienced this trend several years ago when prices were reduced on previous-generation consoles (e.g., Sony PlayStation and Nintendo 64). As a result of a more value-oriented consumer base, and a greater number of software titles being published, we expect average software prices to continue to decline on current-generation consoles, which may have a negative impact on our gross margin but not necessarily our gross profit.

Sales of "Hit" Titles. Sales of "hit" titles, several of which were top sellers across a number of international markets, continued to contribute to our revenue growth. Our top five selling titles across all platforms worldwide during the fiscal year ended March 31, 2005 were *Need for Speed Underground 2*, *Madden NFL 2005*, *FIFA Soccer 2005*, *The Sims 2* and *Harry Potter and the Prisoner of Azkaban*. Hit titles are important to our financial performance because they benefit from overall economies of scale. We have developed, and it is our objective to continue to develop, many of our hit titles to become franchise titles that can be regularly iterated.

Increased Console Installed Base. As consumers purchase the current-generation of consoles, either as a first-time buyer or by upgrading from a previous generation, the console installed base increases. As the installed base for a particular console increases, we generally are able to increase our unit volume; however, these unit volumes often begin to decrease as consumers anticipate the release of the next-generation of consoles. In March 2004, Microsoft reduced the retail price of its Xbox console in the U.S. and in May 2004 Sony did the same with its PlayStation 2 console. In August 2004, both companies also reduced their console retail prices in Europe. Although these price reductions drove an increase in console sales in the United States and Europe, hardware shortages during the holiday season limited the growth of the installed base in fiscal 2005. Nonetheless, we believe the significant increase in the installed base for current-generation consoles was a contributing factor to our total net revenue growth during fiscal 2005. Provided that the console manufacturers are able to deliver an adequate supply of consoles, we expect the installed base of current-generation consoles to increase during fiscal 2006 and unit sales of current-generation titles to remain strong.

International Operations and Sales Growth. In fiscal 2005, net revenue from international sales accounted for approximately 47 percent of our total net revenue, up from 46 percent during fiscal 2004. Our increase in international net revenue was primarily driven by sales in Europe and Asia Pacific, including the benefit of foreign exchange. We anticipate that international net revenue will continue to increase during fiscal 2006 as the console installed base continues to expand outside of North America. In particular, we believe that in order to succeed in China and Japan, it is important to develop content locally. As such, we expect to devote resources to hire local development talent and expand our infrastructure in each country, most notably, the expansion and creation of local studio facilities. In addition, we anticipate establishing online game marketing, publishing and distribution functions in China. As part of this strategy, we may seek to partner with established local companies through acquisitions, joint ventures or other similar arrangements.

Foreign Exchange Impact. Given that a significant portion of our business is conducted internationally in foreign currency, fluctuations in currency prices can have a material impact on our results of operations. For example, the average exchange rate for the Euro, as compared to the U.S. dollar, increased from \$1.17 per Euro during the twelve months ended March 31, 2004 to \$1.25 per Euro during the twelve months ended March 31, 2005. As a result of the fluctuations in currency prices, we had a total foreign exchange benefit on

Table of Contents

net revenue of approximately \$95 million during the twelve months ended March 31, 2005. Although we intend to continue to utilize foreign exchange forward and option contracts to either mitigate or hedge against some foreign currency exposures, we cannot predict the effect foreign currency fluctuations will have on us during fiscal 2006.

Expansion of Studio Resources and Technology. In fiscal 2005, we devoted significant resources to the overall expansion of our studio facilities in North America and Europe. We expect to continue to make significant investments in our studio facilities in North America in fiscal 2006. As we move through the life cycle of current-generation consoles, we will continue to devote significant resources to the development of current-generation titles while at the same time we continue to invest heavily in tools and technologies for the next-generation of platforms and technology.

Leader in Interactive Sports Entertainment. We are a leading developer and publisher of interactive sports entertainment. We generate a significant portion of our revenue from sports-related product franchises such as FIFA Soccer, Madden NFL Football, NCAA Football, Tiger Woods Golf, NASCAR, NBA Basketball, and NCAA Basketball. We recently have taken a number of steps to enhance our products in the interactive sports category by entering into exclusive license agreements with ESPN, the NFL, PLAYERS, Inc. (the NFL players' association), Collegiate Licensing Company (NCAA football), and the Arena Football League. In addition, we have long-standing, exclusive relationships with various sports organizations and celebrities, including FIFA (the worldwide soccer governing body and sponsor of the soccer World Cup), UEFA (the European soccer governing body and sponsor of the soccer Euro Cup), NASCAR, Tiger Woods and the PGA TOUR, and, in the future, we may enter into other exclusive relationships with other sports partners. While we expect to generate increased revenue as a result of these agreements, it may not be enough to offset the impact of the associated costs on our gross profit, which could negatively affect our gross margin on these products.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting periods. The policies discussed below are considered by management to be critical because they are not only important to the portrayal of our financial condition and results of operations but also because application and interpretation of these policies requires both judgment and estimates of matters that are inherently uncertain and unknown. As a result, actual results may differ materially from our estimates.

Revenue Recognition, Sales Returns, Allowances and Bad Debt Reserves

We principally derive revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PlayStation 2, Xbox and Nintendo GameCube), PCs and mobile platforms including hand-held game players (such as the Nintendo Game Boy Advance, Nintendo DS and Sony PSP) and cellular handsets. We evaluate the recognition of revenue based on the criteria set forth in Statement of Position ("SOP") 97-2, "Software Revenue Recognition", as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" and Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as revised by SAB No. 104, "Revenue Recognition". We evaluate revenue recognition using the following basic criteria and recognize revenue when all four criteria are met:

- Evidence of an arrangement: We recognize revenue when we have evidence of an agreement with the customer reflecting the terms and conditions to deliver products.
- Delivery: Delivery is considered to occur when the products are shipped and risk of loss has been transferred to the customer. For online games and services, revenue is recognized as the service is provided.
- Fixed or determinable fee: If a portion of the arrangement fee is not fixed or determinable, we recognize that amount as revenue when the amount becomes fixed or determinable.

Table of Contents

- Collection is deemed probable: At the time of the transaction, we conduct a credit review of each customer involved in a significant transaction to determine the creditworthiness of the customer. Collection is deemed probable if we expect the customer to be able to pay amounts under the arrangement as those amounts become due. If we determine that collection is not probable, we recognize revenue when collection becomes probable (generally upon cash collection).

Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements, we must make assumptions and judgments in order to: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine whether vendor-specific objective evidence of fair value (“VSOE”) exists for each undelivered element; and (4) allocate the total price among the various elements we must deliver. Changes to any of these assumptions or judgments, or changes to the elements in a software arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Product revenue, including sales to resellers and distributors (“channel partners”), is recognized when the above criteria are met. We reduce product revenue for estimated future returns, price protection, and other offerings, which may occur with our customers and channel partners. In certain countries, we have stock-balancing programs for our PC products, which allow for the exchange of PC products by resellers under certain circumstances. It is our general practice to exchange products or give credits, rather than give cash refunds.

In certain countries, from time to time, we decide to provide price protection for both our PC and video game system products. In our decision, we analyze historical returns, current sell-through of distributor and retailer inventory of our products, current trends in the video game market and the overall economy, changes in consumer demand and acceptance of our products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, we monitor the volume of our sales to our channel partners and their inventories, as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods. While historically actual returns and price protection have not generally exceeded our reserves, as we have previously publicly stated, in the quarter ended March 31, 2005 we incurred higher actual returns and price protection than we had anticipated. We have reviewed current sell-through information through the date of this filing and do not intend to accept sales returns or provide price protection on unsold product in our distribution channels existing as of March 31, 2005 in amounts in excess of our March 31, 2005 allowances.

In the future, actual returns and price protections may materially exceed our estimates as unsold products in the distribution channels are exposed to rapid changes in consumer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing products. For example, the risk of product returns and/or price protection for our products may increase as the PlayStation 2, Xbox and Nintendo GameCube consoles move through their lifecycles and an increasing number and aggregate amount of competitive products heighten pricing and competitive pressures. While management believes it can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates changed, our returns and price protection reserves would change, which would impact the total net revenue we report. For example, if actual returns and/or price protection were significantly greater than the reserves we have established, our actual results would decrease our reported total net revenue. Conversely, if actual returns and/or price protection were significantly less than our reserves, this would increase our reported total net revenue.

Significant judgment is required to estimate our allowance for doubtful accounts in any accounting period. We determine our allowance for doubtful accounts by evaluating customer creditworthiness in the context of current economic trends. Depending upon the overall economic climate and the financial condition of our customers, the amount and timing of our bad debt expense and cash collection could change significantly.

Royalties and Licenses

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and/or distribution affiliates. License royalties consist of payments made to celebrities,

Table of Contents

professional sports organizations, movie studios and other organizations for our use of their trademark, copyright, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for delivery of product.

Royalty-based payments made to content licensors and distribution affiliates generally are capitalized as prepaid royalties and expensed as cost of goods sold at the greater of the contractual or effective royalty rate based on net product sales. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally in connection with the development of a particular product and, therefore, we are generally subject to development risk prior to the general release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed as research and development as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of goods sold at the higher of the contractual or effective royalty rate based on net product sales.

Minimum guaranteed royalty obligations are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of March 31, 2005 and March 31, 2004, approximately \$51 million and \$63 million, respectively, of minimum guaranteed royalty obligations had been recognized.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties. If actual sales or revised revenue estimates fall below the initial revenue estimate, then the actual charge taken may be greater in any given quarter than anticipated. As of March 31, 2005, we had \$135 million of royalty-related assets and \$1,483 million of unrecognized minimum commitments not yet paid that could be impaired if our revenue estimates change.

Valuation of Long-Lived Assets

We evaluate both purchased intangible assets and other long-lived assets in order to determine if events or changes in circumstances indicate a potential impairment in value exists. This evaluation requires us to estimate, among other things, the remaining useful lives of the assets and future cash flows of the business. These evaluations and estimates require the use of judgment. Our actual results could differ materially from our current estimates.

Under current accounting standards, we make judgments about the recoverability of purchased intangible assets and other long-lived assets whenever events or changes in circumstances indicate a potential impairment in the remaining value of the assets recorded on our consolidated balance sheet. In order to determine if a potential impairment has occurred, management makes various assumptions about the future value of the asset by evaluating future business prospects and estimated cash flows. Our future net cash flows are primarily dependent on the sale of products for play on proprietary video game consoles, hand-held game players and PCs (collectively referred to as "platforms"). The success of our products is affected by our ability to accurately predict which platforms and which products we develop will be successful. Also, our revenue and earnings are dependent on our ability to meet our product release schedules. Due to product sales shortfalls, we may not realize the future net cash flows necessary to recover our long-lived assets, which may result in an impairment charge being recorded in the future. We did not record any asset impairment charges in fiscal 2005. During fiscal 2004 and 2003, we recognized less than \$1 million and \$66 million, respectively, of asset impairment charges.

Income Taxes

In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our current tax exposures in each jurisdiction where we operate. These estimates involve complex issues, require extended periods of time to resolve, and require us to make judgments, such as anticipating the positions that we will take on tax returns prior to our actually preparing the returns and the outcomes of disputes with tax authorities. We are also required to make determinations of the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income in each jurisdiction.

In addition, changes in our business, such as acquisitions, changes in our international structure, changes in the geographic location of business functions or assets, changes in the geographic mix of income, as well as changes in, or termination of, our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate for future fiscal years. For example, in the three months ended March 31, 2004, we resolved certain tax-related matters with the Internal Revenue Service, which lowered our income tax expense by approximately \$20 million and resulted in a 2.5 percent rate reduction for the fiscal year ended March 31, 2004. By contrast, adverse developments in audits or applicable law result in increases in our tax expense. Similarly, we could experience an increase in our tax expense if we take advantage of a new election that we are entitled to make under the U.S. income tax rules regarding the allocation between U.S. and foreign jurisdictions of tax deductions attributable to employee stock option compensation.

RESULTS OF OPERATIONS

Our fiscal year is reported on a 52/53-week period that, historically, has ended on the final Saturday of March in each year. The results of operations for the fiscal years ended March 31, 2005, 2004 and 2003 each contain 52 weeks and ended on March 26, 2005, March 27, 2004 and March 29, 2003, respectively. For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end. Beginning with the fiscal year ending March 31, 2006, we will end our fiscal year on the Saturday nearest March 31. As a result, our fiscal 2006 will be reported as a 53 week year with the first quarter containing 14 weeks. Although certain amounts presented have been rounded to the nearest million, corresponding percentage changes have been calculated on the basis of amounts rounded to the nearest thousand.

Comparison of Fiscal 2005 to Fiscal 2004

Net Revenue

We principally derive net revenue from sales of packaged interactive software games designed for play on video game consoles (such as the PlayStation 2, Xbox and Nintendo GameCube), PCs and mobile platforms which include hand-held game players (such as the Nintendo Game Boy Advance, Nintendo DS and Sony PSP) and cellular handsets. Additionally, in Europe and Asia Pacific, we generate a significant portion of net revenue by marketing and selling third-party interactive software games through our established distribution network. We also derive net revenue from selling subscriptions to some of our online games, programming third-party web sites with our game content, allowing other companies to manufacture and sell our products in conjunction with other products, and selling advertisements on our online web pages.

Table of Contents

From a geographical perspective, our total net revenue for the fiscal years ended March 31, 2005 and 2004 was as follows (in millions):

	Year Ended March 31,				Increase	% Change
	2005		2004			
North America	\$1,665	53.2%	\$1,610	54.4%	\$ 55	3.4%
Europe	1,284	41.0%	1,180	39.9%	104	8.8%
Asia Pacific	180	5.8%	167	5.7%	13	7.6%
International	1,464	46.8%	1,347	45.6%	117	8.6%
Total Net Revenue	<u>\$3,129</u>	<u>100.0%</u>	<u>\$2,957</u>	<u>100.0%</u>	<u>\$ 172</u>	<u>5.8%</u>

North America

For fiscal 2005, net revenue in North America increased by 3.4 percent as compared to fiscal 2004. From a franchise perspective, the net revenue increase was primarily due to higher sales of products in our Need for Speed franchise. The net revenue increase was also driven by sales of titles in our Fight Night and Burnout franchises, neither of which had corresponding titles released in the prior fiscal year. Together, these items resulted in a net revenue increase of \$180 million during the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. This increase was partially offset by lower sales of products in our Medal of Honor, SSX and Lord of the Rings franchises, which reduced net revenue by \$135 million in the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. As part of this overall increase in net revenue, we benefited from the launch of the Nintendo DS and Sony PSP in November 2004 and March 2005, respectively.

Europe

For fiscal 2005, net revenue in Europe increased by 8.8 percent as compared to fiscal 2004. We estimate foreign exchange rates (primarily the Euro and the British pound sterling) strengthened reported European net revenue by approximately \$86 million, or 7 percent, for the fiscal year ended March 31, 2005. Excluding the effect of foreign exchange rates, we estimate that European net revenue increased by approximately \$18 million, or 2 percent, for the year ended March 31, 2005. From a franchise perspective, the net revenue increase was primarily due to (1) higher sales of products in our Need for Speed and The Sims franchises, (2) sales of products in our Burnout franchise which did not have a corresponding title release in the prior fiscal year and (3) sales of *UEFA Euro 2004*, which was released during the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. Together, these items resulted in a net revenue increase of \$241 million during the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004. This increase was partially offset by lower sales of products in our Medal of Honor, Final Fantasy, SSX and Lord of the Rings franchises, which reduced net revenue by \$143 million in the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004.

Asia Pacific

For fiscal 2005, net revenue from sales in Asia Pacific increased by 7.6 percent as compared to fiscal 2004. The increase in net revenue was driven primarily by higher sales of products in our Need for Speed franchise and sales of products in our Burnout franchise, which did not have a corresponding title release in the prior fiscal year, partially offset by declines in our Medal of Honor franchise. We estimate foreign exchange rates strengthened reported Asia Pacific net revenue by approximately \$9 million, or 5 percent, for the fiscal year ended March 31, 2005. Excluding the effect of foreign exchange rates, we estimate that Asia Pacific net revenue increased by approximately \$4 million, or 3 percent, for the fiscal year ended March 31, 2005.

Table of Contents

Our total net revenue by product line for fiscal years 2005 and 2004 was as follows (in millions):

	Year Ended March 31,				Increase/ (Decrease)	% Change
	2005		2004			
Consoles						
PlayStation 2	\$1,330	42.5%	\$1,315	44.4%	\$ 15	1.2%
Xbox	516	16.5%	384	13.0%	132	34.2%
Nintendo GameCube	212	6.8%	200	6.8%	12	5.8%
Other consoles	10	0.3%	30	1.0%	(20)	(66.5%)
Total Consoles	2,068	66.1%	1,929	65.2%	139	7.2%
PC	531	17.0%	470	15.9%	61	13.1%
Mobility						
Game Boy Advance	76	2.4%	77	2.6%	(1)	(1.2%)
Nintendo DS	23	0.8%	—	0.0%	23	N/M
PSP	18	0.6%	—	0.0%	18	N/M
Game Boy Color	1	0.0%	1	0.0%	—	N/M
Total Mobility	118	3.8%	78	2.6%	40	50.5%
Co-publishing and Distribution	283	9.0%	398	13.5%	(115)	(28.9%)
Internet Services, Licensing and Other						
Subscription Services	55	1.7%	49	1.7%	6	11.5%
Licensing, Advertising and Other	74	2.4%	33	1.1%	41	123.8%
Total Internet Services, Licensing and Other	129	4.1%	82	2.8%	47	56.4%
Total Net Revenue	\$3,129	100.0%	\$2,957	100.0%	\$ 172	5.8%

PlayStation 2

Net revenue from PlayStation 2 products increased from \$1,315 million in fiscal 2004 to \$1,330 million in fiscal 2005. As a percentage of total net revenue, sales of PlayStation 2 products decreased by 1.9 percent in fiscal 2005.

Xbox

Net revenue from Xbox products increased from \$384 million in fiscal 2004 to \$516 million in fiscal 2005. As a percentage of total net revenue, sales of Xbox products increased by 3.5 percent in fiscal 2005. The increase in net revenue was primarily due to the continued growth in the Xbox installed base driven by Microsoft's price reductions in the U.S. in March 2004 and in Europe in August 2004, as well as the overall greater demand for our products.

Nintendo GameCube

Net revenue from Nintendo GameCube products increased from \$200 million in fiscal 2004 to \$212 million in fiscal 2005. The increase in net revenue was primarily due to growth in the installed base of the Nintendo GameCube.

PC

Net revenue from PC-based products increased from \$470 million in fiscal 2004 to \$531 million in fiscal 2005. As a percentage of total net revenue, sales of PC products increased by 1.1 percent in fiscal 2005. The increase

Table of Contents

in PC net revenue was primarily due to higher sales of products in The Sims, Lord of the Rings and Need for Speed franchises, partially offset by a decrease in sales of products in our Command and Conquer and SimCity franchises.

Mobility

Net revenue from mobile products increased from \$78 million in fiscal 2004 to \$118 million in fiscal 2005. Mobile products include all mobile devices such as hand-helds and cellular handsets. The increase in mobility net revenue was primarily due to the release of titles in conjunction with the launch of the Nintendo DS and PSP platforms in North America and Japan.

Co-Publishing and Distribution

In fiscal 2005, net revenue from co-publishing and distribution products decreased by \$115 million to \$283 million as compared to fiscal 2004. The decrease was primarily due to a significant decrease in the number of co-publishing and distribution titles we released in fiscal 2005. We released six co-publishing titles in fiscal 2005 as compared to 11 titles in fiscal 2004.

Subscription Services

In fiscal 2005, net revenue from subscription services products increased by \$6 million to \$55 million as compared to fiscal 2004. The increase in net revenue was primarily due to an increase in the number of paying subscribers to Club Pogo, partially offset by a decrease in subscription net revenue from *Earth & Beyond*™ and *The Sims*™ Online subscription services.

Licensing, Advertising and Other

In fiscal 2005, net revenue from licensing, advertising and other products increased by \$41 million to \$74 million as compared to fiscal 2004. The increase was primarily due to licensing revenue related to the Nokia N-Gage platform.

Cost of Goods Sold

Cost of goods sold for our disk-based and cartridge-based products consists of (1) product costs, (2) certain royalty expenses for celebrities, professional sports and other organizations and independent software developers, (3) manufacturing royalties, net of volume discounts, (4) expenses for defective products, (5) write-offs of post-launch prepaid royalty costs, (6) amortization of certain intangible assets, and (7) operations expenses. Cost of goods sold for our online product subscription business consists primarily of data center and bandwidth costs associated with hosting our web sites, credit card fees and royalties for use of third-party properties. Cost of goods sold for our web site advertising business primarily consists of ad-serving costs.

Costs of goods sold for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>% Change</u>
\$1,197	38.2%	\$1,103	37.3%	8.5%

In fiscal 2005, cost of goods sold as a percentage of total net revenue increased 0.9 percent from 37.3 percent to 38.2 percent. As a percentage of total net revenue, the increase was primarily due to a 2.3 percent increase for: (1) pricing actions taken in both North America and Europe due to higher than anticipated channel inventory, (2) inventory-related costs due to non-recurring rebates across several titles, and (3) incremental costs incurred to produce our titles for the Nintendo DS and Sony PSP. In addition, warranty and online costs increased by 0.8 percent.

Table of Contents

Offsetting these increases was a decrease of 2.2 percent, primarily the result of lower co-publishing and distribution royalties due to the lower mix of co-publishing and distribution net revenue during the year ended March 31, 2005 as compared to the year ended March 31, 2004.

We expect cost of goods sold as a percentage of total net revenue to remain flat during fiscal 2006 as compared to fiscal 2005. We expect margin pressure as a result of a decrease in average selling prices as current-generation platforms mature and our industry transitions to next-generation technology and higher license royalty rates. Although there can be no assurance, and our actual results could differ materially, we expect this pressure to be essentially offset by lower manufacturing royalty rates, lower outside development expense and, to some extent, product mix.

Marketing and Sales

Marketing and sales expenses consist of personnel-related costs and advertising, marketing and promotional expenses, net of advertising expense reimbursements from third parties.

Marketing and sales expenses for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$391	12.5%	\$370	12.5%	\$ 21	5.4%

Marketing and sales expenses increased by 5.4 percent, but remained flat as a percentage of net revenue, in fiscal 2005 as compared to fiscal 2004 primarily due to:

- An increase of \$21 million in headcount and facilities-related expenses, both to help support the growth of our marketing and sales functions worldwide.
- An increase of \$12 million in marketing-related costs to support our fiscal 2005 releases.

The increase in marketing and sales expenses was partially offset by the following:

- A decrease of \$9 million in advertising expense as compared to the prior fiscal year.
- A decrease of \$4 million in bonus expense as compared to the prior fiscal year.

Marketing and sales expenses included vendor reimbursements for advertising expenses of \$42 million and \$45 million in fiscal 2005 and fiscal 2004, respectively.

General and Administrative

General and administrative expenses consist of personnel and related expenses of executive and administrative staff, fees for professional services such as legal and accounting, gains (losses) on fixed asset disposals, and allowances for bad debts.

General and administrative expenses for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$221	7.1%	\$185	6.3%	\$ 36	19.8%

General and administrative expenses increased by 19.8 percent, or 0.8 percent of net revenue, in fiscal 2005 compared to fiscal 2004 primarily due to:

- An increase of \$48 million in employee-related costs primarily due to (1) charges taken in connection with certain employee-related litigation matters and (2) an increase in headcount and other personnel-related costs to help support our administrative functions worldwide.
- An increase of \$20 million in professional and contracted services, such as Sarbanes-Oxley compliance costs, business development expenses and legal fees, along with other costs to support our business.

Table of Contents

The increase in general and administrative expenses was partially offset by the following:

- A decrease of \$17 million in facilities-related expenses primarily due to accelerated depreciation on equipment and software that were replaced and due to write-offs of assets that were taken out of service in the prior fiscal year.
- A decrease of \$8 million in bonus expense as compared to the prior fiscal year.
- A decrease of \$8 million in our investment in strategic university relationships.

Research and Development

Research and development expenses consist of expenses incurred by our production studios for personnel-related costs, consulting, equipment depreciation and any impairment of prepaid royalties for pre-launch products. Research and development expenses for our online business include expenses incurred by our studios consisting of direct development costs and related overhead costs in connection with the development and production of our online games. Research and development expenses also include expenses associated with development of web site content, network infrastructure direct expenses, software licenses and maintenance, and network and management overhead.

Research and development expenses for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$633	20.2%	\$511	17.3%	\$122	24.0%

Research and development expenses increased by 24.0 percent, or 2.9 percent of net revenue, in fiscal 2005 as compared to fiscal 2004 primarily due to:

- An increase of \$103 million in personnel-related costs resulting from a 30 percent increase in employee headcount primarily in our Canadian and European studios, which included \$6 million of stock-based employee compensation related to our acquisition of Criterion Software Group Ltd (“Criterion”). These increases were partially offset by a \$20 million reduction in bonus expense as compared to the prior fiscal year.
- An increase of \$19 million in external development expenses due to the development of new products with our co-publishing partners and development costs for Renderware and mobile platforms.
- An increase of \$18 million in facilities-related expenses to help support the growth of our research and development functions worldwide.

We expect research and development spending to continue to increase in total dollars and as a percentage of net revenue in fiscal 2006 as we continue to invest in next-generation tools and technologies, products for new platforms, and, to a lesser extent, as we increase spending on titles for the PC and current-generation console products.

Acquired In-process Technology

Acquired in-process technology charges for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$13	0.4%	\$ —	0.0%	\$ 13	N/M

The acquired in-process technology was the result of our acquisitions of 100 percent of Criterion and an additional 44 percent of Digital Illusions C.E. (“DICE”) during the year ended March 31, 2005. Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have alternative future use. Accordingly, the acquired in-process technology was expensed in the Consolidated Statement of Operations upon consummation of these acquisitions. See Note 4 of the Notes to Consolidated Financial Statements for additional information.

Table of Contents

Interest and Other Income, Net

Interest and other income, net, for fiscal years 2005 and 2004 was (in millions):

<u>March 31, 2005</u>	<u>% of Net Revenue</u>	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$56	1.8%	\$ 21	0.7%	\$ 35	163.8%

Interest and other income, net, in fiscal 2005 increased from fiscal 2004 primarily due to:

- An increase of \$15 million in interest income, net, as a result of higher yields on higher average cash, cash equivalents and short-term investments balances in fiscal 2005.
- An increase of \$10 million due to gains on investments.
- An increase of \$8 million due to a net gain from our foreign currency activities.

Income Taxes

Income taxes for fiscal years 2005 and 2004 were (in millions):

<u>March 31, 2005</u>	<u>Effective Tax Rate</u>	<u>March 31, 2004</u>	<u>Effective Tax Rate</u>	<u>% Change</u>
\$221	30.5%	\$220	27.5%	0.7%

Our effective income tax rate reflects tax benefits derived from significant operations outside the U.S., which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. The effective income tax rate was 30.5 percent for fiscal 2005 and 27.5 percent for fiscal 2004. Our increased effective income tax rate in fiscal 2005 primarily reflects the fact that we resolved certain tax-related matters with the Internal Revenue Service during fiscal 2004, which lowered our fiscal 2004 income tax expense by approximately \$20 million and resulted in a 2.5 percent rate reduction. Additionally, adjustments related to certain tax audit developments, a change in valuation allowance, and non-deductible acquisition-related costs, partially offset by the geographic mix of taxable income subject to lower tax rates for fiscal 2005, increased our effective income tax rate in fiscal 2005.

We currently intend to indefinitely reinvest our accumulated foreign earnings outside the United States, and, accordingly, have not provided for U.S. taxes that would be incurred if such earnings were repatriated back to the U.S. Undistributed earnings of our foreign subsidiaries amounted to approximately \$896 million as of March 31, 2005.

Our effective income tax rates for fiscal 2006 and future periods will depend on a variety of factors. For example, changes in our business, including acquisitions, changes in our international structure, changes in the geographic location of business functions or assets, changes in the geographic mix of income, as well as changes in, or termination of, our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate for future fiscal years. In addition, we may incur additional tax expense to the extent we undertake certain international restructurings that we are considering.

The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted on October 22, 2004, provides for a temporary 85 percent dividends received deduction on certain foreign earnings repatriated in fiscal 2005 or fiscal 2006. The deduction would result in an approximate 5.25 percent federal tax on a portion of the foreign earnings repatriated. State, local and foreign taxes could apply as well. To qualify for this federal tax deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by our chief executive officer and approved by the Board of Directors. Certain other criteria in the Jobs Act must be satisfied as well. The maximum amount of our foreign earnings that we may repatriate subject to the Jobs Act deduction is \$500 million.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. taxes have been provided thereon. As a result of the Jobs Act, we are in the process

Table of Contents

of evaluating whether we will change our intentions regarding a portion of our foreign earnings and take advantage of the repatriation provisions of the Jobs Act, and if so, the amount that we would repatriate. We may not take advantage of the new law at all. In addition to not having made a decision to repatriate any foreign earnings, we are not yet in a position to accurately determine the impact of a qualifying repatriation, should we choose to make one, on our income tax expense for fiscal 2006. If we decide to repatriate a portion of our foreign earnings, we would be required to recognize income tax expense related to the federal, state, local and foreign taxes that we would incur on the repatriated earnings when the decision is made. We estimate that the reasonably possible amount of the income tax expense could be up to \$35 million. We expect to be in a position to finalize our analysis no later than February 2006.

Net Income

Net income for fiscal years 2005 and 2004 was (in millions):

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	\$ Change	% Change
\$504	16.1%	\$577	19.5%	\$(73)	(12.7%)

Reported net income decreased in fiscal 2005 as compared to fiscal 2004 primarily due to growth in our expenses, especially research and development, as we prepared for the adoption of next-generation technology within our industry while at the same time we continued to devote resources to the development of products for current-generation consoles.

Comparison of Fiscal 2004 to Fiscal 2003

Net Revenue

From a geographical perspective, our net revenue for the fiscal years ended March 31, 2004 and 2003 was as follows (in millions):

	Year Ended March 31,				Increase	% Change
	2004		2003			
North America	\$1,610	54.4%	\$1,436	57.8%	\$ 174	12.1%
Europe	1,180	39.9%	879	35.4%	301	34.3%
Asia Pacific	167	5.7%	167	6.8%	—	(0.2%)
International	1,347	45.6%	1,046	42.2%	301	28.8%
Consolidated Net Revenue	\$2,957	100.0%	\$2,482	100.0%	\$ 475	19.1%

North America

For fiscal 2004, net revenue in North America increased by 12.1 percent as compared to fiscal 2003. From a franchise perspective, the net revenue increase was primarily driven by higher sales of products released during the year ended March 31, 2004 in the following eight franchises: Need for Speed, NBA STREET, NFL STREET, Madden NFL, Def Jam, SSX, Tiger Woods/ PGA TOUR and MVP Baseball. Increased sales in these franchises resulted in an increase in net revenue of \$353 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003. Increases in net revenue from these franchises were partially offset by (1) a decrease in our Harry Potter franchise, as the fiscal 2004 title, *Harry Potter™: Quidditch™ World Cup*, had no associated movie release, while our fiscal 2003 product, *Harry Potter and the Chamber of Secrets*, was released in conjunction with the blockbuster movie of the same title, (2) the termination of our Square EA joint venture agreement, and (3) a decrease in net revenue in our Bond franchise as a result of the timing of the release of *James Bond 007: Everything or Nothing* (on all platforms except the Game Boy Advance) in the fourth quarter of fiscal 2004, as compared to the strong sales of *James Bond 007: NIGHTFIRE*, which was released in the third quarter of fiscal 2003. Together, lower sales in these franchises

Table of Contents

reduced net revenue by \$177 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003.

Europe

For fiscal 2004, net revenue in Europe increased by 34.3 percent as compared to fiscal 2003. We estimate foreign exchange rates (primarily the Euro and the British pound sterling) strengthened reported European net revenue by approximately \$136 million or 15 percent for the year ended March 31, 2004. From a franchise perspective, the net revenue increase was primarily driven by higher sales of products released during the year ended March 31, 2004 in the following eleven franchises: Need for Speed, The Sims, FIFA Soccer, Lord of the Rings, Medal of Honor, Final Fantasy, SSX, Football Manager, Freedom Fighters, Tiger Woods/ PGA TOUR and Rugby. Increased sales in these franchises resulted in an increase in net revenue of \$373 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003. The increase was partially offset by (1) a decrease in our Harry Potter franchise, as the fiscal 2004 title, *Harry Potter: Quidditch World Cup*, had no associated movie release, while our fiscal 2003 product, *Harry Potter and the Chamber of Secrets*, was released in conjunction with the blockbuster movie of the same title, and (2) an expected decrease in sales of our World Cup franchise due to strong sales in the year ended March 31, 2003 in conjunction with the World Cup event and no similar event in the year ended March 31, 2004. Together, the two items noted above, reduced net revenue by \$92 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003.

Asia Pacific

For fiscal 2004, net revenue from sales in our Asia Pacific region remained flat as compared to fiscal 2003. Although there were net revenue increases from our Need for Speed, The Sims and other franchises, these increases were offset by declines in the sales of products in our Harry Potter, World Cup and Final Fantasy franchises. We estimate foreign exchange rates strengthened reported Asia Pacific net revenue by approximately \$21 million or 12.4 percent, for the year ended March 31, 2004. Excluding the effect of foreign exchange rates, we estimate that Asia Pacific net revenue decreased by approximately \$21 million or 12.6 percent, for the year ended March 31, 2004.

Table of Contents

Our net revenue by product line for fiscal years 2004 and 2003 is as follows (in millions):

	Year Ended March 31,				Increase/ (Decrease)	% Change
	2004		2003			
Consoles						
PlayStation 2	\$1,315	44.4%	\$ 911	36.7%	\$ 404	44.4%
Xbox	384	13.0%	219	8.8%	165	75.2%
Nintendo GameCube	200	6.8%	177	7.1%	23	13.2%
Other consoles	30	1.0%	100	4.0%	(70)	(70.4%)
Total Consoles	1,929	65.2%	1,407	56.6%	522	37.1%
PC						
	470	15.9%	499	20.2%	(29)	(6.0%)
Mobility						
Game Boy Advance	77	2.6%	79	3.2%	(2)	(2.3%)
Game Boy Color	1	0.0%	26	1.1%	(25)	(96.6%)
Total Mobility	78	2.6%	105	4.3%	(27)	(25.8%)
Co-publishing and Distribution	398	13.5%	376	15.1%	22	6.0%
Internet Services, Licensing and Other						
Subscription Services	49	1.7%	45	1.8%	4	10.9%
Licensing, Advertising and Other	33	1.1%	50	2.0%	(17)	(34.3%)
Total Internet Services, Licensing and Other	82	2.8%	95	3.8%	(13)	(13.0%)
Total Net Revenue	\$2,957	100.0%	\$2,482	100.0%	\$ 475	19.1%

PlayStation 2

Net revenue from PlayStation 2 products increased from \$911 million in fiscal 2003 to \$1,315 million in fiscal 2004. As a percentage of total net revenue, sales of PlayStation 2 products increased by 7.7 percent in fiscal 2004. The increase in net revenue was primarily due to growth in the installed base and greater demand for our products.

Xbox

Net revenue from Xbox products increased from \$219 million in fiscal 2003 to \$384 million in fiscal 2004. As a percentage of total net revenue, sales of Xbox products increased by 4.2 percent in fiscal 2004. The increase in net revenue was primarily due to growth in the installed base and greater demand for our products.

Nintendo GameCube

Net revenue from Nintendo GameCube products increased from \$177 million in fiscal 2003 to \$200 million in fiscal 2004. The increase in net revenue was primarily due to growth in the installed base of the Nintendo GameCube.

Other consoles

In fiscal 2004, net revenue from Other consoles, primarily the PlayStation, decreased by \$70 million to \$30 million as compared to fiscal 2003. We anticipated the decline in net revenue from PlayStation products as we continued to transition away from that platform.

PC

Net revenue from PC-based products decreased from \$499 million in fiscal 2003 to \$470 million in fiscal 2004. As a percentage of total net revenue, sales of PC products decreased by 4.3 percent in fiscal 2004. PC net revenue declined, largely due to declines of sales in the Harry Potter, World Cup and Bond franchises as discussed above, which were partially offset by an increase in sales of the Lord of the Rings franchise.

Mobility

Net revenue from mobile products decreased from \$105 million in fiscal 2003 to \$78 million in fiscal 2004. The decrease in mobility was primarily due to the expected decline in our Game Boy Color net revenue as we transitioned away from that platform.

Co-Publishing and Distribution

In fiscal 2004, net revenue from co-publishing and distribution products increased by \$22 million to \$398 million as compared to fiscal 2003. The increase was due to a \$75 million increase in Europe primarily from increased sales in the Final Fantasy, Freedom Fighters and Battlefield franchises, partially offset by a decline in the Kingdom Hearts franchise in North America. Although co-publishing and distribution net revenue increased, it declined as a percentage of total net revenue.

Subscription Services

In fiscal 2004, net revenue from subscription services products increased by \$4 million to \$49 million as compared to fiscal 2003. The increase in net revenue was primarily due to the number of subscribers to Club Pogo (launched in July 2003) and purchasers of Pogo Downloadables (launched in May 2003), partially offset by a decrease in subscription net revenue from *The Sims*™ *Online*, *Ultima Online*™, and *Earth & Beyond*™ subscription services.

Licensing, Advertising and Other

In fiscal 2004, net revenue from licensing, advertising and other products decreased by \$17 million to \$33 million as compared to fiscal 2003. The decrease was a result of expected declines in our advertising and programming net revenue following our renegotiation of the terms of our relationship with AOL during the three months ended June 30, 2003.

Operations by Segment

In March 2003, we consolidated the operations of the EA.com business segment into our core business because we began to consider online capability and gameplay as integral to our existing and future products. Accordingly, beginning April 1, 2003, we no longer managed our online products and services as a separate business segment, and we consolidated the reporting related to our online products and services into reporting for the overall development and publication of our core products for all reporting periods ending after that date. This change better reflected the way in which our Chief Executive Officer (our chief operating decision maker) reviews and manages our business and reflects the importance of our online products and services relative to the rest of our business. Concurrently, we eliminated separate reporting for our Class B common stock for all reporting periods ending after April 1, 2003. Fiscal 2003 has been restated to conform with fiscal 2004 presentation. See Note 6 of the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Our view and reporting of business segments may change due to changes in underlying business facts and circumstances and the evolution of our reporting to our Chief Executive Officer.

Table of Contents

Cost of Goods Sold

Costs of goods sold for fiscal years 2004 and 2003 were (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>% Change</u>
\$1,103	37.3%	\$1,073	43.2%	2.8%

In fiscal 2004, cost of goods sold as a percentage of net revenue decreased by 5.9 percentage points to 37.3 percent, from 43.2 percent for fiscal 2003, primarily due to a 3.3 percent decrease in product costs and a 2.8 percent decrease in royalty rates.

The 3.3 percent decrease in product costs was primarily a result of:

- Lower co-publishing and distribution product costs, as a percentage of net revenue, due to a higher mix of co-publishing titles relative to distribution titles in fiscal 2004. Co-publishing titles generally have higher gross margins than distribution titles. Lower co-publishing and distribution costs, as a percentage of net revenue, increased total gross margin by 1.6 percent in fiscal 2004.
- Lower average manufacturing costs increased total gross margin by 1.0 percent in fiscal 2004.
- Lower period costs primarily due to improved inventory management in North America. Lower period costs increased total gross margin by 0.5 percent in fiscal 2004.

The 2.8 percent decrease in royalty rates was primarily the result of:

- Decreased third-party development royalties primarily due to a higher mix of titles developed internally rather than externally in fiscal 2004. Significant titles that were developed internally in fiscal 2004 for which a comparable title had been developed externally in fiscal 2003 included *James Bond 007: Everything or Nothing* and *The Lord of the Rings; The Return of the King*. We estimate that lower development royalties increased gross margin by 1.9 percent, which was spread across multiple platforms.
- Lower license royalties, as a percentage of net revenue, as *Need for Speed Underground*, our highest grossing title of fiscal 2004, had a significantly lower license royalty rate than *Harry Potter and the Chamber of Secrets*, our highest grossing title of fiscal 2003. Lower license royalties, as a percentage of net revenue, increased total gross margin by 1.1 percent in fiscal 2004.

Marketing and Sales

In fiscal 2003, marketing and sales expense included the amortization of the carriage fees payable for the distribution of our online games on AOL, which we are no longer required to pay.

Marketing and sales expenses for fiscal years 2004 and 2003 were (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$370	12.5%	\$332	13.4%	\$ 38	11.4%

Marketing and sales expenses increased by 11.4 percent in fiscal 2004 as compared to fiscal 2003 primarily due to:

- An increase in our advertising, contract services and promotional expenses of \$38 million as we incrementally increased our advertising campaigns to support the release of new titles.
- A 13.6 percent increase in average headcount to further support the growth of our marketing and sales functions worldwide, which resulted in an increase to personnel-related costs of approximately \$17 million.

The increase in marketing and sales expenses was partially offset by the discontinuance of carriage fee payments to AOL, which resulted in a decrease of \$18 million.

Table of Contents

As a percentage of net revenue, marketing and sales expenses declined from 13.4 percent in fiscal 2003 to 12.5 percent in fiscal 2004. Marketing and sales expenses included vendor reimbursements for advertising expenses of \$45 million in fiscal 2004 and \$28 million in fiscal 2003.

General and Administrative

General and administrative expenses for fiscal years 2004 and 2003 were (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$185	6.3%	\$131	5.3%	\$ 54	41.2%

General and administrative expenses increased by 41.2 percent, or 1.0 percent of net revenue, in fiscal 2004 compared to fiscal 2003 primarily due to:

- An increase in depreciation expense of approximately \$18 million primarily due to accelerated depreciation on equipment and software that are being replaced and due to write-offs of assets that have been taken out of service in fiscal 2004.
- An increase of approximately 9 percent, or \$15 million, in personnel-related costs to support the continued growth of our business.
- An increase in contributions of \$8 million as we invest in our strategic university relationships.
- An increase of approximately \$11 million in professional services.
- An increase of approximately \$10 million in information technology and facilities expenses.

The increase in general and administrative expenses was partially offset by a decrease in bad debt expense of \$9 million, primarily as a result of collecting on accounts that we had previously deemed uncollectible.

Research and Development

Research and development expenses for fiscal years 2004 and 2003 were (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$511	17.3%	\$401	16.1%	\$110	27.4%

Research and development expenses increased by 27.4 percent, or 1.2 percentage points of net revenue, in fiscal 2004 compared to fiscal 2003 primarily due to:

- Increases in personnel-related costs of \$101 million of which approximately \$64 million resulted from a 22.2 percent increase in average regular full-time employee headcount.
- An overall increase in external development expenses of \$23 million related to development of new products.

The increase in research and development expenses was partially offset by a decrease in depreciation and other operating expenses due to asset impairments recognized in the third and fourth quarters of fiscal 2003.

Amortization of Intangibles

Amortization of intangibles for fiscal years 2004 and 2003 was (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$ 3	0.1%	\$ 8	0.3%	\$(5)	(63.4%)

Amortization of intangibles resulted primarily from our acquisitions of Westwood, Kesmai, DreamWorks Interactive, ABC Software, Pogo and other acquisitions. The decline in amortization was a result of the impairment charges taken in fiscal 2003.

Restructuring and Asset Impairment Charges

Restructuring and asset impairment charges for fiscal years 2004 and 2003 were (in millions):

	<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>% Change</u>
Restructuring Charges	\$ 9	0.3%	\$ 15	0.6%	(35.7%)
Asset Impairment Charges	\$ —	0.0%	\$ 66	2.7%	(100.0%)

Fiscal 2004 Studio Restructuring

During the fourth quarter of fiscal 2004, we closed the majority of our leased studio facility in Walnut Creek, California and our entire owned studio facility in Austin, Texas in order to consolidate local development efforts in Redwood City, California. We recorded total pre-tax charges of \$9 million, consisting of \$7 million for consolidation of facilities (net of expected future sublease income), \$2 million for workforce reductions of approximately 117 personnel and less than \$1 million for the write-off of non-current assets, primarily leasehold improvements.

Fiscal 2003 Studio Restructuring

During the third quarter of fiscal 2003, we closed our office located in San Francisco, California and our studio located in Seattle, Washington in order to consolidate local development efforts in Redwood City, California and Vancouver, British Columbia, Canada. We recorded total pre-tax charges of \$9 million, consisting of \$7 million for consolidation of facilities (net of expected future sublease income), \$1 million for the write-off of non-current assets, primarily leasehold improvements, and \$1 million for workforce reductions of approximately 33 personnel.

Additionally, during the fourth quarter of fiscal 2003, we approved a plan to consolidate the Los Angeles, California, Irvine, California and Las Vegas, Nevada, studios into one major game studio in Los Angeles. We recorded a total pre-tax restructuring charge of \$5 million, including \$2 million for the shutdown of facilities and associated costs, \$2 million for the write-off of non-current assets, primarily leasehold improvements and \$1 million for workforce reductions.

Fiscal 2003 Online Restructuring

In March 2003, we consolidated the operations of EA.com into our core business, and eliminated separate reporting for our Class B common stock for all future reporting periods after fiscal 2003. We recorded restructuring charges, including asset impairment, of \$67 million, consisting of \$2 million for workforce reductions of approximately 50 personnel, \$2 million for consolidation of facilities and \$63 million for the write-off of non-current assets. The consolidation of facilities resulted in the closure of EA.com’s Chicago and Virginia facilities and an adjustment for the closure of EA.com’s San Diego studio in fiscal 2002.

As part of the restructuring efforts, we performed impairment tests under SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, to evaluate the recoverability of our long-lived assets and remaining finite-lived identifiable intangible assets utilized in the EA.com business. This test was performed in the fourth quarter of fiscal 2003 in conjunction with the overall valuation of the EA.com legal entity and its Class B common stock. As of March 31, 2003, the unit sales and the number of subscribers for *The Sims Online*, our flagship EA.com product, and overall EA.com performance were significantly below our expectations, which we considered to be a triggering event under SFAS No. 144. These results caused us to cancel most of our plans to develop similar online products that would have utilized the long-lived assets associated with the EA.com business. Impairment charges on long-lived assets amounted to \$63 million and included \$25 million relating to impaired customized internal-use software systems for the EA.com infrastructure, \$26 million for other long-lived assets and \$12 million of finite-lived intangibles impairment charges relating to EA.com’s acquisitions of Kesmai Corporation and Pogo Corporation.

Table of Contents

Fiscal 2002 Online Restructuring

In October 2001, we announced restructuring initiatives involving EA.com and the closure of EA.com's San Diego studio and consolidation of our San Francisco and Virginia facilities. As a result, we recorded restructuring charges of \$20 million, consisting of \$4 million for workforce reductions, \$3 million for consolidation of facilities and other administrative charges and \$13 million for the write-off of non-current assets and facilities.

All restructuring charges recorded prior to December 31, 2002 were recorded in accordance with Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)", EITF No. 95-03, "Recognition of Liabilities in Connection with a Purchase Business Combination", and SAB No. 100, "Restructuring and Impairment Charges". All restructuring charges recorded subsequent to December 31, 2002, were recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon the then-current events and circumstances.

The following table reflects our unaudited pro forma consolidated basic earnings per share for the fiscal year ended March 31, 2003 as if the consolidation of the operations of our EA.com business segment into our core business had occurred at the beginning of the period (in millions, except per share data):

	<u>Year Ended</u> <u>March 31,</u> <u>2003</u>
Net income:	
As reported	\$ 317
Pro forma	\$ 317
Earnings per share:	
As reported	\$ 1.17
Pro forma	\$ 1.12
Number of shares used in computation:	
As reported	282
Add: conversion of AOL and News Corp Class B	1
Pro forma	283

For further discussion on our restructurings and asset impairment charges, see Note 6 in the Notes to Consolidated Financial Statements, included in Item 8 of this report.

Interest and Other Income, Net

Interest and other income, net for fiscal years 2004 and 2003 was (in millions):

<u>March 31,</u> <u>2004</u>	<u>% of Net</u> <u>Revenue</u>	<u>March 31,</u> <u>2003</u>	<u>% of Net</u> <u>Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$21	0.7%	\$5	0.2%	\$16	N/M

Interest and other income, net, in fiscal 2004 increased from fiscal 2003 primarily due to the following:

- Interest income increased by \$8 million in fiscal 2004 as a result of higher average cash balances in that year.
- During the year ended March 31, 2003, we recorded \$11 million for other-than-temporary impairments of investments in affiliates, offset by income of \$5 million recorded from our equity investment in Square EA, LLC.

Table of Contents

Income Taxes

Income taxes for fiscal years 2004 and 2003 were (in millions):

<u>March 31, 2004</u>	<u>Effective Tax Rate</u>	<u>March 31, 2003</u>	<u>Effective Tax Rate</u>	<u>% Change</u>
\$220	27.5%	\$143	31.0%	53.3%

Our effective income tax rate reflected tax benefits derived from significant operations outside the U.S., which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. The effective income tax rate was 27.5 percent for fiscal 2004 and 31.0 percent for fiscal 2003. The reduced effective income tax rate in fiscal 2004 primarily reflected the resolution of certain tax-related matters with the Internal Revenue Service in the fourth quarter of fiscal 2004, which lowered our income tax expense by \$20 million and resulted in a 2.5 percent rate reduction, and also reflected a change in the geographic mix of taxable income subject to lower tax rates.

Net Income

Net income for fiscal years 2004 and 2003 was (in millions):

<u>March 31, 2004</u>	<u>% of Net Revenue</u>	<u>March 31, 2003</u>	<u>% of Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
\$577	19.5%	\$317	12.8%	\$260	82.1%

Reported net income increased in fiscal 2004 compared to fiscal 2003 primarily due to the reasons discussed above. Although the dollar amount of our expenses increased in fiscal 2004 as compared to fiscal 2003, net income as a percentage of net revenue increased to 19.5 percent as compared to 12.8 percent in fiscal 2003 as expenses, including our cost of goods sold, grew at a slower rate than did our net revenue.

Impact of Recently Issued Accounting Standards

In March 2004, the Financial Accounting Standards Board (“FASB”) ratified the other-than-temporary impairment measurement and recognition guidance and certain disclosure requirements for impaired securities as described in EITF Issue No. 03-1, *“The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”*. In September 2004, the FASB issued a proposed Staff Position (“FSP”) EITF Issue No. 03-1-a, *“Implementation Guidance for the Application of Paragraph 16 of EITF 03-1”*. The proposed FSP will provide measurement and recognition guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads. In October 2004, the FASB delayed the effective date for the other-than-temporary impairment measurement and recognition guidance contained in paragraphs 10-20 of EITF Issue No. 03-1 until FSP Issue No. 03-1-a is issued. However, this delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature; nor does it delay the required disclosures about unrealized losses that have not been recognized as other-than-temporary impairments in paragraphs 21-22 of EITF Issue No. 03-1. See Note 2 of the Notes to Consolidated Financial Statements. Management is unable to determine what impact the adoption of the measurement and recognition guidance in EITF Issue No. 03-1 will have on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, *“Inventory Costs — an amendment of ARB No. 43, Chapter 4”*. SFAS No. 151 amends the guidance in Accounting Research Bulletin (“ARB”) No. 43, Chapter 4, *“Inventory Pricing”*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as current-period charges. SFAS No. 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of SFAS No. 151 will not have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, *“Exchange of Non-monetary Assets — an amendment of APB Opinion No. 29”*. SFAS No. 153 amends Accounting Principles Board (“APB”) No. 29, *“Accounting*

Table of Contents

for *Non-monetary Transactions*”, to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management believes the adoption of SFAS No. 153 will not have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (“SFAS No. 123R”), *Share-Based Payment*. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in financial statements using a fair-value-based method. The statement replaces SFAS No. 123, supersedes APB No. 25, and amends SFAS No. 95, *Statement of Cash Flows*. While the fair value method under SFAS No. 123R is very similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, management is currently evaluating the impact of several of the key differences between the two standards on our consolidated financial statements. For example, SFAS No. 123 permits us to recognize forfeitures as they occur while SFAS No. 123R will require us to estimate future forfeitures and adjust our estimate on a quarterly basis. SFAS No. 123R also will require a classification change in the statement of cash flows, whereby a portion of the tax benefit from stock options will move from operating cash flow activities to financing cash flow activities (total cash flows will remain unchanged).

In March 2005, the Securities and Exchange Commission (“SEC”) released SAB No. 107, *Share-based Payment*, which provides the views of the staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations for public companies. In April 2005, the SEC adopted a rule that amends the compliance dates of SFAS No. 123R. Under the revised compliance dates, we will be required to adopt the provisions of SFAS No. 123R no later than the first interim period of fiscal 2007. While management continues to evaluate the impact of SFAS No. 123R on our consolidated financial statements, we currently believe that the expensing of stock-based compensation will have an impact on our Consolidated Statements of Operations similar to our pro forma disclosure under SFAS No. 123, as amended.

LIQUIDITY AND CAPITAL RESOURCES

	Year Ended		
	March 31, 2005	March 31, 2004	Increase
(In millions)			
Cash, cash equivalents and short-term investments	\$ 2,958	\$ 2,414	\$ 544
Marketable equity securities	140	1	139
Total	<u>\$ 3,098</u>	<u>\$ 2,415</u>	<u>\$ 683</u>
Percentage of total assets	70.9%	69.7%	

	Year Ended		
	March 31, 2005	March 31, 2004	Decrease
(In millions)			
Cash provided by operating activities	\$ 634	\$ 669	\$ (35)
Cash provided by (used in) investing activities	(1,726)	288	(2,014)
Cash provided by financing activities	200	225	(25)
Effect of foreign exchange on cash and cash equivalents	12	18	(6)
Net increase (decrease) in cash and cash equivalents	<u>\$ (880)</u>	<u>\$ 1,200</u>	<u>\$ (2,080)</u>

Changes in Cash Flow

During the year ended March 31, 2005, we generated \$634 million of cash from operating activities as compared to \$669 million for the year ended March 31, 2004. This decline was primarily the result of (1) our

Table of Contents

overall decline in net income for fiscal 2005, (2) higher accounts receivable balances due to the timing of sales in the fourth quarter of fiscal 2005 and (3) higher cash payments for income taxes. These declines were partially offset by higher balances in our current liabilities. We expect to continue to generate significant operating cash flow in fiscal 2006. For the year ended March 31, 2005, our primary use of cash in non-operating activities consisted of net purchases of \$1,446 million in short-term investments, \$126 million in capital expenditures, primarily related to the expansions of our Los Angeles and Vancouver studios as well as upgrades to our worldwide ERP systems, \$90 million for our purchase of a 19.9 percent investment in Ubisoft, \$81 million for our acquisitions of 100 percent of Criterion and an additional 44 percent of DICE, and \$41 million towards the repurchase and retirement of our common stock. These non-operating expenditures were partially offset by \$241 million in proceeds from the sale of our common stock through stock plans and \$16 million in proceeds from the sale of property during the year ended March 31, 2005. We anticipate making continued capital investments in our Vancouver studio during fiscal 2006 as well as completing the remaining \$709 million of our \$750 million share repurchase program by September 30, 2005.

Short-term investments and marketable equity securities

The composition of our portfolio of cash, cash equivalents and short-term investments changed from primarily cash equivalents, which were \$1.991 billion as of March 31, 2004, to primarily short-term investments, which were \$1.688 billion as of March 31, 2005 and, therefore, our portfolio is more susceptible to changes in short-term interest rates. As of March 31, 2005, our short-term investments had gross unrealized losses of approximately \$22 million or 1.3 percent of the total in short-term investments. From time-to-time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions, or stock repurchase programs. Depending on the short-term investments that we liquidate to fund these activities, we could recognize a portion of the gross unrealized losses.

Marketable equity securities increased to \$140 million as of March 31, 2005, from \$1 million as of March 31, 2004, primarily due to our purchase of a 19.9 percent investment in Ubisoft Entertainment.

Receivables, net

Our gross accounts receivable balance was \$458 million and \$367 million as of March 31, 2005 and March 31, 2004, respectively. The increase in our accounts receivable balance was primarily due to an increase in our fourth quarter gross sales (prior to reserve adjustments) versus the prior year and the timing of those sales, which occurred later in the fourth quarter of fiscal 2005 than in the prior year. We expect to collect a substantial portion of these amounts in the three months ended June 30, 2005. Reserves for sales returns, pricing allowances and doubtful accounts increased from \$155 million as of March 31, 2004 to \$162 million as of March 31, 2005. Both the sales return and price protection reserves increased in absolute dollars and as a percentage of trailing six month net revenue and remained relatively flat as a percentage of trailing nine month net revenue as of March 31, 2005. We believe these reserves are adequate based on historical experience and our current estimate of potential returns and allowances.

Inventories

Inventories increased to \$62 million as of March 31, 2005 from \$55 million as of March 31, 2004 primarily due to overall growth in Europe. We typically have a higher inventory balance, as a percentage of net revenue, on hand in Europe than in North America, due to the need to provide multiple language versions of each title in that region. No single title represented more than \$4 million of inventory as of March 31, 2005.

Other current assets

Other current assets increased to \$164 million as of March 31, 2005, from \$163 million as of March 31, 2004, primarily due to the amortization of certain prepaid amounts and collections of advertising credits owed to us by our suppliers offset by higher prepaid royalties as we continue to invest in our product development.

Table of Contents

Accounts payable

Accounts payable increased to \$134 million as of March 31, 2005, from \$114 million as of March 31, 2004, primarily due to higher gross sales volumes and an extension of payment terms with our vendors in fiscal 2005.

Accrued and other liabilities

Our accrued and other liabilities increased to \$694 million as of March 31, 2005 from \$630 million as of March 31, 2004. The increase was due to increases in income taxes payable, accruals for pending litigation and increases to our deferred rent and deferred revenue, offset by a decrease in royalties payable and accrued payroll and related expenses. We anticipate our accrued and other liabilities balance will decline following our bonus payments during the three months ended June 30, 2005.

Financial Condition

We believe that existing cash, cash equivalents, short-term investments, marketable equity securities and cash generated from operations will be sufficient to meet our operating requirements for at least the next twelve months, including working capital requirements, capital expenditures, potential future acquisitions or strategic investments, and funding of our stock repurchase program. We may choose at any time to raise additional capital to strengthen our financial position, facilitate expansion, pursue strategic investments or to take advantage of business opportunities as they arise. There can be no guarantee that such additional capital will be available to us on favorable terms, if at all, or that it will not result in substantial dilution to our existing stockholders.

Our two lease agreements with Keybank National Association, described in the “Off-Balance Sheet Commitments” section below, are scheduled to expire in June 2006 and July 2006. We currently are evaluating whether to extend the leases, purchase the properties under lease, or identify a third party buyer for the properties when the leases expire. Should we choose to renew the leases, we would not expect a material change in our lease payments from the amounts under the current lease agreements. Should we choose to purchase the properties, we could incur a cash outflow of at least \$200 million. We have not yet determined the course of action that we will take.

A portion of our cash that was generated from operations domiciled in foreign tax jurisdictions (approximately \$987 million as of March 31, 2005) is designated as indefinitely reinvested in the respective tax jurisdiction. While we have no plans to repatriate these funds to the United States in the short-term, if we were required to do so in order to fund our operations in the United States, we would accrue and pay additional taxes in connection with their repatriation. We are in the process of evaluating whether we will repatriate foreign earnings under the repatriation provisions of the Jobs Act.

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. During the year ended March 31, 2005, we repurchased and retired 805,500 shares of our common stock for approximately \$41 million.

We have a “shelf” registration statement on Form S-3 on file with the Securities and Exchange Commission. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings up to a total amount of \$2.0 billion. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we will use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, including for working capital, financing capital expenditures, research and development, marketing and distribution efforts and, if opportunities arise, for acquisitions or strategic alliances. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

Our ability to maintain sufficient liquidity could be affected by various risks and uncertainties including, but not limited to, those related to customer demand and acceptance of our titles on new platforms and new

Table of Contents

versions of our titles on existing platforms, our ability to collect our accounts receivable as they become due, successfully achieving our product release schedules and attaining our forecasted sales objectives, the impact of competition, the economic conditions in the domestic and international markets, seasonality in operating results, risks of product returns and the other risks described in the “Risk Factors” section below.

Contractual Obligations and Commercial Commitments

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe. The standby letter of credit guarantees performance of our obligations to pay Nintendo of Europe for trade payables of up to € 18 million. The standby letter of credit expires in July 2005. As of March 31, 2005, we had € 0.5 million payable to Nintendo of Europe covered by this standby letter of credit.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of March 31, 2005, we did not have a payable balance on this standby letter of credit.

Development, Celebrity, League and Content Licenses: Payments and Commitments

The products produced by our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers (“independent artists” or “third-party developers”). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones. Contractually, these payments are considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers. In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that are not dependent on any deliverables. Celebrities and organizations with whom we have contracts include: ESPN (content in EA SPORTS games); FIFA and UEFA (professional soccer); NASCAR (stock car racing); John Madden (professional football); National Basketball Association (professional basketball); PGA TOUR (professional golf); Tiger Woods (professional golf); National Hockey League and NHLPA (professional hockey); Warner Bros. (Harry Potter, Batman and Superman); MGM/ Danjaq (James Bond); New Line Productions (The Lord of the Rings); National Football League, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football and basketball); ISC (stock car racing); Island Def Jam (fighting); and Viacom Consumer Products (The Godfather). These developer and content license commitments represent the sum of (i) the cash payments due under non-royalty-bearing licenses and services agreements, and (ii) the minimum payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

Table of Contents

The following table summarizes our minimum contractual obligations and commercial commitments as of March 31, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

Fiscal Year Ended March 31,	Contractual Obligations			Commercial Commitments		
	Leases ⁽¹⁾	Developer/ Licensor Commitments ⁽²⁾	Marketing	Bank and Other Guarantees	Letters of Credit	Total
2006	\$ 30	\$ 134	\$ 33	\$ 4	\$ 1	\$ 202
2007	24	131	34	—	—	189
2008	20	128	30	—	—	178
2009	15	136	30	—	—	181
2010	12	124	31	—	—	167
Thereafter	35	830	197	—	—	1,062
Total	\$ 136	\$ 1,483	\$ 355	\$ 4	\$ 1	\$ 1,979

- (1) See discussion on operating leases in the “Off-Balance Sheet Commitments” section herein and Note 9 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for additional information.
- (2) Developer/licensor commitments include \$50 million of commitments to developers or licensors that have been included in both current and long-term assets and liabilities in our Consolidated Balance Sheets as of March 31, 2005 because the developer or licensor does not have any performance obligations to us. In addition, our developer/licensor and marketing commitments increased significantly in the latter half of fiscal 2005 primarily as a result of agreements we renewed with the National Football League and PLAYERS Inc., as well as an exclusive, long-term agreement we entered into with ESPN Inc. (“ESPN”) for the development and integrated marketing of ESPN content in EA SPORTS games beginning in calendar 2006. While our commitments with ESPN are not contractually due until fiscal 2011 and beyond and are presented as such in the table above, we anticipate paying these commitments earlier as we publish titles associated with the agreement.

The lease commitments disclosed above exclude commitments included in our restructuring activities for contractual rental commitments of \$23 million under real estate leases for unutilized office space, offset by \$13 million of estimated future sub-lease income. These amounts were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Consolidated Balance Sheets as of March 31, 2005. See Note 6 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for additional information.

Transactions with Related Parties

On June 24, 2002, we hired Warren Jenson as our Chief Financial and Administrative Officer and agreed to loan him \$4,000,000, to be forgiven over four years based on his continuing employment. The loan does not bear interest. On June 24, 2004, pursuant to the terms of the loan agreement, we forgave two million dollars of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. As of March 31, 2005, the remaining outstanding loan balance was \$2,000,000, which will be forgiven on June 24, 2006, provided that Mr. Jenson has not voluntarily resigned his employment with us or been terminated for cause prior to that time. No additional funds will be provided to offset the tax implications of the forgiveness of the remaining two million dollars.

OFF-BALANCE SHEET COMMITMENTS

Lease Commitments

We lease certain of our current facilities and certain equipment under non-cancelable operating lease agreements. We are required to pay property taxes, insurance and normal maintenance costs for certain of our facilities and will be required to pay any increases over the base year of these expenses on the remainder of our facilities.

In February 1995, we entered into a build-to-suit lease with a third party for our headquarters facility in Redwood City, California, which was refinanced with Keybank National Association in July 2001 and expires in July 2006. We accounted for this arrangement as an operating lease in accordance with SFAS No. 13, "Accounting for Leases", as amended. Existing campus facilities developed in phase one comprise a total of 350,000 square feet and provide space for sales, marketing, administration and research and development functions. We have an option to purchase the property (land and facilities) for a maximum of \$145 million or, at the end of the lease, to arrange for (i) an extension of the lease or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$129 million if the sales price is less than this amount, subject to certain provisions of the lease.

In December 2000, we entered into a second build-to-suit lease with Keybank National Association for a five and one-half year term beginning December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property adding approximately 310,000 square feet to our campus. Construction was completed in June 2002. We accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. The facilities provide space for sales, marketing, administration and research and development functions. We have an option to purchase the property for a maximum of \$130 million or, at the end of the lease, to arrange for (i) an extension of the lease, or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$119 million if the sales price is less than this amount, subject to certain provisions of the lease.

We believe the estimated fair values of both properties under these operating leases are in excess of their respective guaranteed residual values as of March 31, 2005.

For the two lease agreements with Keybank National Association, as described above, the lease rates are based upon the Commercial Paper Rate and require us to maintain certain financial covenants as shown below, all of which we were in compliance with as of March 31, 2005.

<u>Financial Covenants</u>	<u>Requirement</u>	<u>Actual as of March 31, 2005</u>
Consolidated Net Worth (in millions)	\$ 2,061	\$ 3,498
Fixed Charge Coverage Ratio	3.00	19.93
Total Consolidated Debt to Capital	60%	6.6%
Quick Ratio — Q1 & Q2	1.00	N/A
Q3 & Q4	1.75	13.07

As our two lease agreements with Keybank National Association are scheduled to expire in June 2006 and July 2006, we currently are evaluating whether to extend the leases, purchase the properties under lease, or identify a third party buyer for the properties when the leases expire. We have not yet determined the course of action that we will take. See the "Liquidity and Capital Resources" section above for additional information.

In July 2003, we entered into a lease agreement with an independent third party (the "Landlord") for a studio facility in Los Angeles, California, which commenced in October 2003 and expires in September 2013 with two five-year options to extend the lease term. Additionally, we have options to purchase the property after five and ten years based on the fair market value of the property at the date of sale, a right of first offer to purchase the property upon terms offered by the Landlord, and a right to share in the profits from a sale of the property.

Table of Contents

We have accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. Existing campus facilities comprise a total of 243,000 square feet and provide space for research and development functions. Our rental obligation under this agreement is \$50 million over the initial ten-year term of the lease. This commitment is offset by sublease income of \$6 million for the sublet to an affiliate of the Landlord of 18,000 square feet of the Los Angeles facility, which commenced in October 2003 and expires in September 2013, with options of early termination by the affiliate after five years and by us after four and five years.

In June 2004, we entered into a lease agreement with an independent third party for a studio facility in Orlando, Florida, which commenced in January 2005 and expires in June 2010, with one five-year option to extend the lease term. The campus facilities comprise a total of 117,000 square feet, which we intend to use for research and development functions. We have accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. Our rental obligation over the initial five-and-a-half year term of the lease is \$13 million.

Litigation

On July 29, 2004, a class action lawsuit, *Kirschenbaum v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified "Image Production Employees" in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys' fees. The complaint was first amended on or about November 30, 2004 to add two former employees as named-plaintiffs, and amended again on or about January 5, 2005 to add another former employee as a named-plaintiff. The allegations in the complaint were not materially changed by the amendments.

On February 14, 2005, a second employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified "Engineers" in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys' fees. On or about March 16, 2005, we received a first amended complaint, which contains the same material allegations as the original complaint. We answered the first amended complaint on April 20, 2005.

On March 24, 2005, a purported class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional purported class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. We have not yet responded to any of the complaints. In addition, on April 12, 2005, a shareholder derivative action was filed against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. The complaint was filed in San Mateo Superior Court. On April 13, 2005, a second shareholder derivative action was filed in San Mateo Superior Court based on the same claims as the first complaint. On May 16, 2005, a shareholder derivative action based on substantially the same allegations was filed in the United States District Court, Northern District of California. We have not responded to the shareholder derivative complaints.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. Our management considers that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Director Indemnity Agreements

We have entered into indemnification agreement with the members of our Board of Directors to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement

Table of Contents

and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued as a result of their service as members of our Board of Directors.

INFLATION

We believe the impact of inflation on our results of operations has not been significant for each of the past three fiscal years.

RISK FACTORS

Our business is subject to many risks and uncertainties, which may affect our future financial performance. If any of the events or circumstances described below occurs, our business and financial performance could be harmed, our actual results could differ materially from our expectations and the market value of our securities could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may harm our business and financial performance.

Our business is highly dependent on the success and timely release of new video game platforms, on the continued availability of existing video game platforms, as well as our ability to develop commercially successful products for these platforms.

We derive most of our revenue from the sale of products for play on video game platforms manufactured by third parties, such as Sony's PlayStation 2 and Microsoft's Xbox. The success of our business is driven in large part by the availability of an adequate supply of current-generation video game platforms, the timely release and success of new video game hardware systems, our ability to accurately predict which platforms will be most successful in the marketplace, and our ability to develop commercially successful products for these platforms. We must make product development decisions and commit significant resources well in advance of the anticipated introduction of a new platform. A new platform for which we are developing products may be delayed, may not succeed or may have a shorter life cycle than anticipated. If the platforms for which we are developing products are not released when anticipated, are not available in adequate amounts to meet consumer demand, or do not attain wide market acceptance, our revenue will suffer, we may be unable to fully recover the resources we have committed, and our financial performance will be harmed.

Our industry is cyclical and has entered a transition period heading into the next cycle. During the transition, we expect our costs to increase, we may experience a decline in sales as consumers anticipate and adopt next-generation products and our operating results may suffer and become more difficult to predict.

Video game platforms have historically had a life cycle of four to six years, which causes the video game software market to be cyclical as well. Sony's PlayStation 2 was introduced in 2000 and Microsoft's Xbox and the Nintendo GameCube were introduced in 2001. Over the course of the next eighteen months, we expect Sony, Microsoft and Nintendo to introduce new video game platforms into the market (so-called "next-generation platforms"). As a result, we believe that the interactive entertainment industry has entered into a transition stage leading into the next cycle. During this transition, we intend to continue developing new titles for the current-generation of video game platforms while we also make significant investments preparing to introduce products upon the launch of the next-generation platforms. We have and expect to continue to incur increased costs during the transition to next-generation platforms, which are not likely to be offset in the near future. We also expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. Further, we expect that, as the current-generation of platforms reaches the end of its cycle and next-generation platforms are introduced into the market, sales of video games for current-generation consoles may begin to decline. Consumers may defer game software purchases until the next-generation platforms become available. This decline may not be offset by increased sales of products for the new platforms. For example, following the launch of Sony's PlayStation 2 platform, we experienced a significant decline in revenue from sales of products for Sony's older PlayStation game console, which was not immediately offset by revenue generated from sales of products for the PlayStation 2

Table of Contents

platform. If the increased costs we have incurred and expect to continue to incur are not offset during the transition, our operating results will suffer and our financial position will be harmed. In addition, during this transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

Our platform licensors set the royalty rates and other fees that we must pay to publish games for their platforms, and therefore have significant influence on our costs. If one or more of the platform licensors adopt a different fee structure for future game consoles or we are unable to obtain such licenses, our profitability will be materially impacted.

In the next eighteen months, we expect our platform licensors to introduce new video game platforms into the market. For example, Microsoft and Sony have indicated that they plan to release next-generation successors to the Xbox and PlayStation 2, respectively, over the course of the next eighteen months. In order to publish products for a new game machine, we must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee structure that we must pay in order to publish games for that platform. Similarly, certain platform licensors have retained the flexibility to change their fee structures for online gameplay and features for their consoles. The control that platform licensors have over the fee structures for their future platforms and online access makes it difficult for us to predict our costs and profitability in the medium to long term. It is also possible that platform licensors will not renew our licenses. Because publishing products for video game consoles is the largest portion of our business, any increase in fee structures or failure to secure a license relationship would significantly harm our ability to generate revenues and/or profits.

If we do not consistently meet our product development schedules, our operating results will be adversely affected.

Our business is highly seasonal, with the highest levels of consumer demand, and a significant percentage of our revenue, occurring in the December quarter. In addition, we seek to release many of our products in conjunction with specific events, such as the release of a related movie or the beginning of a sports season or major sporting event. If we miss these key selling periods, due to product delays or delayed introduction of a new platform for which we have developed products, our sales will suffer disproportionately. Our ability to meet product development schedules is affected by a number of factors, including the creative processes involved, the coordination of large and sometimes geographically dispersed development teams required by the increasing complexity of our products, and the need to refine and tune our products prior to their release. We have in the past experienced development delays for several of our products. Failure to meet anticipated production or “go live” schedules may cause a shortfall in our revenue and profitability and cause our operating results to be materially different from expectations.

If the average price of current-generation titles continues to decline, our operating results will suffer.

As a result of a more value-oriented consumer base caused by price reductions in current-generation platforms by Microsoft, Sony and Nintendo, a greater number of current-generation titles being published, and significant pricing pressure from our competitors, we have experienced a decrease in the average price of our titles for current-generation platforms. Although we believe that a few of the most popular current-generation titles will continue to be launched at premium price points, as the interactive entertainment industry transitions to next-generation video game platforms, we expect there to be fewer current-generation titles able to command premium price points, and we expect that even these titles will be subject to price reductions at an earlier point in their sales cycle than we have seen in prior years. We expect the average price of current-generation titles to continue to decline, which will have a negative effect on our margins and operating results.

Technology changes rapidly in our business, and if we fail to anticipate or successfully implement new technologies, the quality, timeliness and competitiveness of our products and services will suffer.

Rapid technology changes in our industry require us to anticipate, sometimes years in advance, which technologies we must implement and take advantage of in order to make our products and services competitive in the market. Therefore, we usually start our product development with a range of technical

Table of Contents

development goals that we hope to be able to achieve. We may not be able to achieve these goals, or our competition may be able to achieve them more quickly than we can. In either case, our products and services may be technologically inferior to our competitors', less appealing to consumers, or both. If we cannot achieve our technology goals within the original development schedule of our products and services, then we may delay their release until these technology goals can be achieved, which may delay or reduce revenue and increase our development expenses. Alternatively, we may increase the resources employed in research and development in an attempt to accelerate our development of new technologies, either to preserve our product or service launch schedule or to keep up with our competition, which would increase our development expenses.

Our business is intensely competitive and “hit” driven. If we do not continue to deliver “hit” products or if consumers prefer our competitors’ products over our own, our operating results could suffer.

Competition in our industry is intense and we expect new competitors to continue to emerge. While many new products are regularly introduced only a relatively small number of “hit” titles accounts for a significant portion of net revenue. Hit products published by our competitors may take a larger share of consumer spending than we anticipate, which could cause our product sales to fall below our expectations. If our competitors develop more successful products, offer competitive products at lower price points, or if we do not continue to develop consistently high-quality and well-received products, our revenue, margins, and profitability will decline.

If we are unable to maintain or acquire licenses to intellectual property, we will publish fewer hit titles and our revenue, profitability and cash flows will decline. Competition for these licenses may make them more expensive, and increase our costs.

Many of our products are based on or incorporate intellectual property owned by others. For example, our EA SPORTS products include rights licensed from major sports leagues and players' associations. Similarly, many of our hit EA GAMES™ franchises, such as Bond, Harry Potter and Lord of the Rings, are based on key film and literary licenses. Competition for these licenses is intense. If we are unable to maintain these licenses and obtain additional licenses with significant commercial value, our revenues and profitability will decline significantly. Competition for these licenses may also drive up the advances, guarantees and royalties that we must pay to the licensor, which could significantly increase our costs.

If patent claims continue to be asserted against us, we may be unable to sustain our current business models or profits.

Many patents have been issued that may apply to widely-used game technologies. Additionally, infringement claims under many recently issued patents are now being asserted against Internet implementations of existing games. Several such claims have been asserted against us. Such claims can harm our business. We incur substantial expenses in evaluating and defending against such claims, regardless of the merits of the claims. In the event that there is a determination that we have infringed a third-party patent, we could incur significant monetary liability and be prevented from using the rights in the future, which could negatively impact our operating results.

Other intellectual property claims may increase our product costs or require us to cease selling affected products.

Many of our products include extremely realistic graphical images, and we expect that as technology continues to advance, images will become even more realistic. Some of the images and other content are based on real-world examples that may inadvertently infringe upon the intellectual property rights of others. Although we believe that we make reasonable efforts to ensure that our products do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, we receive communications from third parties regarding such claims. Existing or future infringement claims against us, whether valid or not, may be time consuming and expensive to defend. Such claims or litigations could require us to stop selling the affected products, redesign those products to avoid infringement, or obtain a license, all of which would be costly and harm our business.

From time to time we may become involved in other litigation which could adversely affect us.

We are currently, and from time to time in the future may become, subject to other claims and litigation, which could be expensive, lengthy, and disruptive to normal business operations. In addition, the outcome of any claims or litigation may be difficult to predict and could have a material adverse effect on our business, operating results, or financial condition. For further information regarding certain claims and litigation in which we are currently involved, see “Part I — Item 3. Legal Proceedings” above.

Our business, our products and our distribution are subject to increasing regulation of content, consumer privacy and online delivery in the key territories in which we conduct business. If we do not successfully respond to these regulations, our business may suffer.

Legislation is continually being introduced that may affect both the content of our products and their distribution. For example, privacy laws in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory although the Internet recognizes no geographical boundaries. Other countries, such as Germany, have adopted laws regulating content both in packaged goods and those transmitted over the Internet that are stricter than current United States laws. In the United States, the federal and several state governments are considering content restrictions on products such as ours, as well as restrictions on distribution of such products. Any one or more of these factors could harm our business by limiting the products we are able to offer to our customers and by requiring additional differentiation between products for different territories to address varying regulations. This additional product differentiation would be costly.

If we do not continue to attract and retain key personnel, we will be unable to effectively conduct our business. In addition, compensation-related changes in accounting requirements, in addition to evolving legal and operational factors, could have a significant impact on our expenses and operating results.

The market for technical, creative, marketing and other personnel essential to the development and marketing of our products and management of our businesses is extremely competitive. Our leading position within the interactive entertainment industry makes us a prime target for recruiting of executives and key creative talent. If we cannot successfully recruit and retain the employees we need, or replace key employees following their departure, our ability to develop and manage our businesses will be impaired.

We annually review and evaluate with the Compensation Committee of our Board of Directors the compensation and benefits that we offer our employees to ensure that we are able to attract and retain our talent. Within our regular review, we have considered recent changes in the accounting treatment of stock options, the competitive market for technical, creative, marketing and other personnel, and the evolving nature of job functions within our studios, marketing organizations and other areas of the business. Any changes we make to our compensation programs could result in increased expenses and have a significant impact on our operating results.

Our platform licensors are our chief competitors and frequently control the manufacturing of and/or access to our video game products. If they do not approve our products, we will be unable to ship to our customers.

Our agreements with hardware licensors (such as Sony for the PlayStation 2, Microsoft for the Xbox and Nintendo for the Nintendo GameCube) typically give significant control to the licensor over the approval and manufacturing of our products, which could, in certain circumstances, leave us unable to get our products approved, manufactured and shipped to customers. These hardware licensors are also our chief competitors. In most events, control of the approval and manufacturing process by the platform licensors increases both our manufacturing lead times and costs as compared to those we can achieve independently. While we believe that our relationships with our hardware licensors are currently good, the potential for these licensors to delay or refuse to approve or manufacture our products exists. Such occurrences would harm our business and our financial performance.

We also require compatibility code and the consent of Microsoft and Sony in order to include online capabilities in our products for their respective platforms. As online capabilities for video game platforms

Table of Contents

become more significant, Microsoft and Sony could restrict our ability to provide online capabilities for our console platform products. If Microsoft or Sony refused to approve our products with online capabilities or significantly impacted the financial terms on which these services are offered to our customers, our business could be harmed.

Our international net revenue is subject to currency fluctuations.

For the fiscal year ended March 31, 2005, international net revenue comprised 47 percent of our total net revenue. We expect foreign sales to continue to account for a significant portion of our total net revenue. Such sales are subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies, which may fluctuate against the U.S. dollar. While we utilize foreign exchange forward contracts to mitigate some foreign currency risk associated with foreign currency denominated assets and liabilities (primarily certain intercompany receivables and payables) and from time to time, foreign currency option contracts to hedge foreign currency forecasted transactions (primarily related to a portion of the revenue generated by our operational subsidiaries), our results of operations, including our reported net revenue and net income, and financial condition would be adversely affected by unfavorable foreign currency fluctuations, particularly the Euro and Pound Sterling.

Changes in our tax rates or exposure to additional tax liabilities could adversely affect our operating results and financial condition.

We are subject to income taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and, in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are also required to estimate what our taxes will be in the future. Although we believe our tax estimates are reasonable, the estimate process is inherently uncertain, and our estimates are not binding on tax authorities. Our effective tax rate could be adversely affected by changes in our business, including the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in applicable tax laws as well as other factors. Further, our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Should our ultimate tax liability exceed our estimates, our income tax provision and net income could be materially affected.

We are also required to pay taxes other than income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. We are regularly under examination by tax authorities with respect to these non-income taxes. There can be no assurance that the outcomes from these examinations, changes in our business or changes in applicable tax rules will not have an adverse effect on our operating results and financial condition.

Changes in our worldwide operating structure could have adverse tax consequences.

We are in the process of examining our worldwide operating structure in light of changing tax laws, our current and anticipated business operations, and the pending expiration of an offshore advance pricing agreements with a foreign tax authority in December 2005 under which our current business operates. Certain changes that we are considering, or a failure to make certain other changes, to our operating structure would increase our tax expense.

In addition, while our current intention is to invest indefinitely our undistributed foreign earnings offshore, we are in the process of evaluating whether we will change our intentions regarding a portion of our foreign earnings and take advantage of the repatriation provision of the Jobs Act, and if so, the amount that we would intend to repatriate. We may decide not to take advantage of the new law at all. In addition to not having made a decision to repatriate any foreign earnings, we are not yet in a position to determine the impact of a qualifying repatriation, should we choose to make one, on our income tax expense for fiscal 2006.

Our reported financial results could be adversely affected by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

As a result of the enactment of the Sarbanes-Oxley Act and the review of accounting policies by the SEC and national and international accounting standards bodies, the frequency of accounting policy changes may accelerate. For example, the FASB has issued a new standard that will require us to adopt a different method of determining and accounting for the compensation expense of our employee stock options. This and other possible changes to accounting standards, could adversely affect our reported results of operations although not necessarily our cash flows. Further, accounting policies affecting software revenue recognition have been the subject of frequent interpretations, which could significantly affect the way we account for revenue related to our products. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

The majority of our sales are made to a relatively small number of key customers. If these customers reduce their purchases of our products or become unable to pay for them, our business could be harmed.

In the U.S., in fiscal 2005, over 80 percent of our U.S. sales were made to six key customers, two of which have recently announced plans to merge. In Europe, our top ten customers accounted for over 30 percent of our sales in that territory in fiscal 2005. Worldwide, we had direct sales to one customer, Wal-Mart Stores, Inc., which represented 14 percent of total net revenue in fiscal 2005. Though our products are available to consumers through a variety of retailers, the concentration of our sales in one, or a few, large customers could lead to a short-term disruption in our sales if one or more of these customers significantly reduced their purchases or ceased to carry our products, and could make us more vulnerable to collection risk if one or more of these large customers became unable to pay for our products. Additionally, our receivables from these large customers increase significantly in the December quarter as they stock up for the holiday selling season. Also, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

Acquisitions, investments and other strategic transactions could result in operating difficulties, dilution to our investors and other negative consequences.

We have evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions, including (1) acquisitions of companies, businesses, intellectual properties, and other assets, and (2) investments in new interactive entertainment businesses (for example, online and mobile games). Any of these strategic transactions could be material to our financial condition and results of operations. Although we regularly search for opportunities to engage in strategic transactions, we may not be successful in identifying suitable opportunities. We may not be able to consummate potential acquisitions or investments or an acquisition or investment may not enhance our business or may decrease rather than increase our earnings. In addition, the process of integrating an acquired company or business, or successfully exploiting acquired intellectual property or other assets, could divert a significant amount of our management's time and focus and may create unforeseen operating difficulties and expenditures. Additional risks we face include:

- The need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies,
- Cultural challenges associated with integrating employees from an acquired company or business into our organization,
- Retaining key employees from the businesses we acquire,
- The need to integrate an acquired company's accounting, management information, human resource and other administrative systems to permit effective management, and
- To the extent that we engage in strategic transactions outside of the United States, we face additional risks, including risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Table of Contents

Future acquisitions and investments could involve the issuance of our equity securities, potentially diluting our existing stockholders, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Our stockholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments.

Our products are subject to the threat of piracy by a variety of organizations and individuals. If we are not successful in combating and preventing piracy, our sales and profitability could be harmed significantly.

In many countries around the world, more pirated copies of our products are sold than legitimate copies. Though piracy has not had a material impact on our operating results to date, highly organized pirate operations have been expanding globally. In addition, the proliferation of technology designed to circumvent the protection measures we use in our products, the availability of broadband access to the Internet, the ability to download pirated copies of our games from various Internet sites, and the widespread proliferation of Internet cafes using pirated copies of our products, all have contributed to ongoing and expanding piracy. Though we take steps to make the unauthorized copying and distribution of our products more difficult, as do the manufacturers of consoles on which our games are played, neither our efforts nor those of the console manufacturers may be successful in controlling the piracy of our products. This could have a negative effect on our growth and profitability in the future.

Our stock price has been volatile and may continue to fluctuate significantly.

The market price of our common stock historically has been, and we expect will continue to be, subject to significant fluctuations. These fluctuations may be due to factors specific to us (including those discussed in the risk factors above as well as others not currently known to us or that we currently do not believe are material), to changes in securities analysts' earnings estimates, to our results falling below the expectations of analysts and investors, to factors affecting the computer, software, Internet, entertainment, media or electronics industries, or to national or international economic conditions.

Item 7A: *Quantitative and Qualitative Disclosures About Market Risk*

Market Risk

We are exposed to various market risks, including changes in foreign currency exchange rates, interest rates, and market prices. Market risk is the potential loss arising from changes in market rates and market prices. Foreign currency option and foreign exchange forward contracts are used to either hedge anticipated exposures or mitigate some existing exposures subject to market risk. We do not enter into derivatives or other financial instruments for trading or speculative purposes (see Note 3 to the Consolidated Financial Statements). Interest rate risk is the potential loss arising from changes in interest rates and credit ratings. We do not consider our cash and cash equivalents to be exposed to significant interest rate risk because our portfolio consists of highly liquid investments with original maturities of three months or less (see Note 2 to the Consolidated Financial Statements).

Foreign Currency Exchange Rate Risk

From time to time, we hedge some of our foreign currency risk related to anticipated foreign-currency-denominated sales transactions by purchasing option contracts that generally have maturities of 15 months or less. These transactions are designated and qualify as cash flow hedges. The derivative assets associated with our hedging activities are recorded at fair value in other current assets in the Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in fair value is initially reported as a component of accumulated other comprehensive income (loss), net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported in interest and other income, net in the Consolidated Statements of Operations. Our hedging programs reduce, but do not entirely

eliminate, the impact of currency exchange rate movements. The fair value of our foreign currency option contracts purchased and included in other current assets was \$1 million as of both March 31, 2005 and 2004.

We utilize foreign exchange forward contracts to mitigate foreign currency risk associated with foreign currency denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of less than one month and are transacted near month-end. Therefore, the fair value of the forward contracts generally is not significant at each month-end. Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133 and are accounted for as derivatives whereby the fair value of the contracts are reported as other current assets or other current liabilities in the Consolidated Balance Sheets, and gains and losses from changes in fair value are reported in interest and other income, net in the Consolidated Statements of Operations. The gains and losses on these forward contracts generally offset the gains and losses on the underlying foreign-currency-denominated assets and liabilities.

As of March 31, 2005 we had foreign exchange contracts to purchase and sell approximately \$425 million of foreign currencies. Of this amount, \$379 million represents contracts to sell foreign currencies in exchange for U.S. dollars, \$22 million to sell foreign currencies in exchange for British Pounds, and \$24 million to purchase foreign currency in exchange for U.S. dollars. As of March 31, 2004 we had foreign exchange contracts to purchase and sell approximately \$190 million of foreign currencies. Of this amount, \$173 million represented contracts to sell foreign currencies in exchange for U.S. dollars and \$17 million to sell foreign currency for British Pounds. The fair value of our forward contracts was approximately \$0 and \$2 million as of March 31, 2005 and 2004, respectively.

The counterparties to these forward and option contracts are creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material.

Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurances that our mitigating activities will adequately protect us against the risks associated with foreign currency fluctuations. For example, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would not result in a material loss in fair value of our option contracts under either scenario as of March 31, 2005 or 2004. A hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in potential losses on our forward contracts of \$40 million and \$61 million, respectively, as of March 31, 2005, and \$17 million and \$26 million, respectively, as of March 31, 2004. This sensitivity analysis assumes a parallel adverse shift in foreign currency exchange rates, which do not always move in the same direction. Actual results may differ materially.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term investment portfolio. We manage our interest rate risk by maintaining an investment portfolio generally consisting of debt instruments of high credit quality and relatively short average maturities. Additionally, the contractual terms of the securities do not permit the issuer to call, prepay or otherwise settle the securities at prices less than the stated par value of the securities. We also do not use derivative financial instruments in our short-term investment portfolio.

As of March 31, 2005 and 2004, our short-term investments were classified as available-for-sale and, consequently, recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of any tax effects,

Table of Contents

in stockholders' equity. Our portfolio of short-term investments consists of the following investment categories, summarized by fair value as of March 31, 2005 and 2004 (in millions):

	<u>As of March 31,</u>	
	<u>2005</u>	<u>2004</u>
U.S. government agencies	\$ 1,168	\$ 264
U.S. government bonds	298	—
Corporate bonds	180	—
Asset-backed securities	42	—
Total short-term investments	<u>\$ 1,688</u>	<u>\$ 264</u>

Notwithstanding our efforts to manage interest rate risks, there can be no assurances that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp rise in interest rates could have a significant adverse impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of March 31, 2005, arising from selected potential changes in interest rates. The modeling technique measures the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS. Actual results may differ materially.

(In millions)	<u>Valuation of Securities Given an Interest Rate Decrease of X Basis Points</u>			Fair Value as of March 31, 2005	<u>Valuation of Securities Given an Interest Rate Increase of X Basis Points</u>		
	<u>(150 BPS)</u>	<u>(100 BPS)</u>	<u>(50 BPS)</u>		<u>50 BPS</u>	<u>100 BPS</u>	<u>150 BPS</u>
U.S. government agencies	\$ 1,177	\$ 1,175	\$ 1,172	\$ 1,168	\$ 1,162	\$ 1,156	\$ 1,151
U.S. government bonds	306	303	300	298	295	293	290
Corporate bonds	185	184	182	180	178	177	175
Asset-backed securities	44	43	43	42	42	41	41
Total short-term investments	<u>\$ 1,712</u>	<u>\$ 1,705</u>	<u>\$ 1,697</u>	<u>\$ 1,688</u>	<u>\$ 1,677</u>	<u>\$ 1,667</u>	<u>\$ 1,657</u>

During fiscal 2005, the composition of our portfolio of cash, cash equivalents and short-term investments changed significantly from mostly cash equivalents during fiscal 2004 to mostly short-term investments during fiscal 2005, as illustrated above, and is now more susceptible to changes in interest rates. Therefore, we have changed our quantitative disclosures of interest rate risk from the tabular presentation used in prior years to the sensitivity analysis, presented above, as we believe this methodology better illustrates the effects on our portfolio caused by our primary risk of changes in interest rates. We have not presented a similar sensitivity analysis for fiscal 2004 because of the relatively insignificant amount of short-term investments in fiscal 2004 versus fiscal 2005.

Market Price Risk

The values of our equity investments in publicly traded companies are subject to market price volatility. As of March 31, 2005, our marketable equity securities were classified as available-for-sale and, consequently, were recorded in the Consolidated Balance Sheets at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of any tax effects, in stockholders' equity. The fair value of our marketable equity securities was \$140 million and \$1 million as of March 31, 2005 and 2004, respectively.

Table of Contents

At any time, a sharp decrease in market prices in our investments in marketable equity securities could have a significant adverse impact on the fair value of our investments. The following table presents the hypothetical changes in fair value in our marketable equity securities as of March 31, 2005, arising from selected potential changes in market prices. The modeling technique measures the change in fair value from immediate hypothetical parallel shifts in market price plus or minus 25 percent, 50 percent and 75 percent. Hypothetical changes in market prices of the same magnitude would not have resulted in material changes in fair value of our marketable equity securities as of March 31, 2004 and, accordingly, are not presented.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock's Market Price			Fair Value as of March 31, 2005	Valuation of Securities Given an X Percentage Increase in Each Stock's Market Price		
	<u>(75%)</u>	<u>(50%)</u>	<u>(25%)</u>		<u>25%</u>	<u>50%</u>	<u>75%</u>
Marketable Equity Securities	\$ 35	\$ 70	\$ 105	\$ 140	\$ 175	\$ 210	\$ 246

Table of Contents

Item 8: *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements

	<u>Page</u>
Consolidated Financial Statements of Electronic Arts Inc. and Subsidiaries:	
Consolidated Balance Sheets as of March 31, 2005 and 2004	60
Consolidated Statements of Operations for the Years Ended March 31, 2005, 2004 and 2003	61
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended March 31, 2005, 2004 and 2003	62
Consolidated Statements of Cash Flows for the Years Ended March 31, 2005, 2004 and 2003	63
Notes to Consolidated Financial Statements	64
Reports of Independent Registered Public Accounting Firm	98

Financial Statement Schedule:

The following financial statement schedule of Electronic Arts Inc. and Subsidiaries for the years ended March 31, 2005, 2004 and 2003 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Electronic Arts Inc. and Subsidiaries:

Schedule II — Valuation and Qualifying Accounts	107
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Other financial statement schedules are omitted because the information called for is not required or is shown either in the Consolidated Financial Statements or the notes thereto.

Table of Contents

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>
(In millions, except share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,270	\$ 2,150
Short-term investments	1,688	264
Marketable equity securities	140	1
Receivables, net of allowances of \$162 and \$155, respectively	296	212
Inventories	62	55
Deferred income taxes	86	84
Other current assets	164	163
Total current assets	<u>3,706</u>	<u>2,929</u>
Property and equipment, net	353	298
Investments in affiliates	10	14
Goodwill	153	92
Other intangibles, net	36	18
Deferred income taxes	19	41
Other assets	93	72
TOTAL ASSETS	<u><u>\$ 4,370</u></u>	<u><u>\$ 3,464</u></u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 134	\$ 114
Accrued and other liabilities	694	630
Total current liabilities	<u>828</u>	<u>744</u>
Other liabilities	33	42
Total liabilities	<u>861</u>	<u>786</u>
Commitments and contingencies	—	—
Minority interest	11	—
Stockholders' equity:		
Preferred stock, \$0.01 par value. 10,000,000 shares authorized	—	—
Common stock		
Common stock, \$0.01 par value. 1,000,000,000 shares authorized; 310,440,769 and 301,332,458 shares issued and outstanding, respectively	3	3
Class B common stock, \$0.01 par value. No shares authorized; 0 and 200,130 shares issued and outstanding, respectively	—	—
Paid-in capital	1,434	1,154
Retained earnings	2,005	1,501
Accumulated other comprehensive income	56	20
Total stockholders' equity	<u>3,498</u>	<u>2,678</u>
TOTAL LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	<u><u>\$ 4,370</u></u>	<u><u>\$ 3,464</u></u>

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2005	2004	2003
(In millions, except per share data)			
Net revenue	\$ 3,129	\$ 2,957	\$ 2,482
Cost of goods sold	<u>1,197</u>	<u>1,103</u>	<u>1,073</u>
Gross profit	1,932	1,854	1,409
Operating expenses:			
Marketing and sales	391	370	332
General and administrative	221	185	131
Research and development	633	511	401
Amortization of intangibles	3	3	8
Acquired in-process technology	13	—	—
Restructuring charges	2	9	15
Asset impairment charges	<u>—</u>	<u>—</u>	<u>66</u>
Total operating expenses	<u>1,263</u>	<u>1,078</u>	<u>953</u>
Operating income	669	776	456
Interest and other income, net	<u>56</u>	<u>21</u>	<u>5</u>
Income before provision for income taxes and minority interest	725	797	461
Provision for income taxes	<u>221</u>	<u>220</u>	<u>143</u>
Income before minority interest	504	577	318
Minority interest	<u>—</u>	<u>—</u>	<u>(1)</u>
Net income	<u>\$ 504</u>	<u>\$ 577</u>	<u>\$ 317</u>
Net income (loss) per share:			
Common stock:			
Net income:			
Basic	\$ 504	\$ 577	\$ 329
Diluted	\$ 504	\$ 577	\$ 317
Net income per share:			
Basic	\$ 1.65	\$ 1.95	\$ 1.17
Diluted	\$ 1.59	\$ 1.87	\$ 1.08
Number of shares used in computation:			
Basic	305	295	282
Diluted	318	308	293
Class B common stock:			
Net loss, net of retained interest in EA.com	N/A	N/A	\$ (12)
Net loss per share:			
Basic	N/A	N/A	\$ (2.77)
Diluted	N/A	N/A	\$ (2.77)
Number of shares used in computation:			
Basic	N/A	N/A	4
Diluted	N/A	N/A	4

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions, share data in thousands)

	<u>Common Stock</u>		<u>Class B Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balances as of April 1, 2002	<u>276,859</u>	<u>\$ 3</u>	<u>6,233</u>	<u>\$ —</u>	<u>\$ 648</u>	<u>\$ 607</u>	<u>\$ (15)</u>	<u>\$ 1,243</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	317	—	317
Change in unrealized gain (loss) on investments, net	—	—	—	—	—	—	1	1
Reclassification adjustment for losses, realized in net income, net	—	—	—	—	—	—	1	1
Translation adjustment	—	—	—	—	—	—	15	15
Comprehensive income								<u>\$ 334</u>
Proceeds from sales of shares through stock plans	10,036	—	—	—	132	—	—	132
AOL and NewsCorp conversion of Class B for Class A stock	1,368	—	(6,000)	—	—	—	—	—
Tax benefit from exercise of stock options	—	—	—	—	75	—	—	75
Other	4	—	(8)	—	1	—	—	1
Balances as of March 31, 2003	<u>288,267</u>	<u>\$ 3</u>	<u>225</u>	<u>\$ —</u>	<u>\$ 856</u>	<u>\$ 924</u>	<u>\$ 2</u>	<u>\$ 1,785</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	577	—	577
Change in unrealized gain (loss) on investments, net	—	—	—	—	—	—	(1)	(1)
Translation adjustment	—	—	—	—	—	—	19	19
Comprehensive income								<u>\$ 595</u>
Proceeds from sales of shares through stock plans	13,066	—	—	—	228	—	—	228
Repurchase of Class B shares	—	—	(25)	—	—	—	—	—
Stock-based compensation	—	—	—	—	1	—	—	1
Tax benefit from exercise of stock options	—	—	—	—	69	—	—	69
Balances as of March 31, 2004	<u>301,333</u>	<u>\$ 3</u>	<u>200</u>	<u>\$ —</u>	<u>\$1,154</u>	<u>\$ 1,501</u>	<u>\$ 20</u>	<u>\$ 2,678</u>
Components of comprehensive income:								
Net income	—	—	—	—	—	504	—	504
Change in unrealized gain (loss) on investments, net	—	—	—	—	—	—	27	27
Reclassification adjustment for (gains) losses, realized in net income, net	—	—	—	—	—	—	(1)	(1)
Translation adjustment	—	—	—	—	—	—	10	10
Comprehensive income								<u>\$ 540</u>
Proceeds from sales of shares through stock plans	9,914	—	—	—	241	—	—	241
Repurchase and retirement of common stock	(806)	—	—	—	(41)	—	—	(41)
Conversion of Class B shares to common stock	—	—	(200)	—	—	—	—	—
Stock-based compensation	—	—	—	—	5	—	—	5
Tax benefit from exercise of stock options	—	—	—	—	75	—	—	75
Balances as of March 31, 2005	<u>310,441</u>	<u>\$ 3</u>	<u>—</u>	<u>\$ —</u>	<u>\$1,434</u>	<u>\$ 2,005</u>	<u>\$ 56</u>	<u>\$ 3,498</u>

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2005	2004	2003
(In millions)			
OPERATING ACTIVITIES			
Net income	\$ 504	\$ 577	\$ 317
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	75	78	92
Non-cash restructuring and asset impairment charges	—	2	66
Other-than-temporary impairment of investments in affiliates	—	—	11
Realized (gains) losses on investments and sale of property and equipment	(8)	2	1
Stock-based compensation	6	1	1
Tax benefit from exercise of stock options	75	69	75
Acquired in-process technology	13	—	—
Other operating activities	—	(2)	(6)
Change in assets and liabilities:			
Receivables, net	(80)	(194)	110
Inventories	(14)	(23)	(5)
Other assets	(35)	(61)	(75)
Accounts payable	28	23	18
Accrued and other liabilities	46	191	138
Deferred income taxes	24	6	(29)
Net cash provided by operating activities	<u>634</u>	<u>669</u>	<u>714</u>
INVESTING ACTIVITIES			
Capital expenditures	(126)	(90)	(59)
Proceeds from sale of property and equipment	16	1	1
Investments in affiliates, net	(2)	(1)	(9)
Proceeds from sale of investments in affiliates	—	8	—
Purchase of short-term investments	(2,442)	(2,511)	(1,050)
Proceeds from maturities and sales of short-term investments	996	2,883	660
Proceeds from sale of marketable equity securities	4	2	5
Purchase of marketable equity securities	(90)	—	—
Acquisition of subsidiaries, net of cash acquired	(81)	(3)	(13)
Other investing activities	(1)	(1)	2
Net cash (used in) provided by investing activities	<u>(1,726)</u>	<u>288</u>	<u>(463)</u>
FINANCING ACTIVITIES			
Proceeds from sales of common stock through employee stock plans and other plans	241	228	132
Repurchase and retirement of common stock	(41)	—	—
Other financing activities	—	(3)	—
Net cash provided by financing activities	<u>200</u>	<u>225</u>	<u>132</u>
Effect of foreign exchange on cash and cash equivalents	12	18	14
(Decrease) increase in cash and cash equivalents	(880)	1,200	397
Beginning cash and cash equivalents	2,150	950	553
Ending cash and cash equivalents	1,270	2,150	950
Short-term investments	1,688	264	638
Ending cash, cash equivalents and short-term investments	<u>\$ 2,958</u>	<u>\$ 2,414</u>	<u>\$ 1,588</u>
Supplemental cash flow information:			
Cash paid during the year for income taxes	<u>\$ 101</u>	<u>\$ 65</u>	<u>\$ 37</u>
Non-cash investing activities:			
Change in unrealized gain (loss) on investments, net	<u>\$ 26</u>	<u>\$ (1)</u>	<u>\$ 3</u>

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Electronic Arts Inc. develops, markets, publishes and distributes interactive software games that are playable by consumers on home video game consoles (such as the Sony PlayStation® 2, Microsoft Xbox® and Nintendo GameCube™), personal computers, mobile platforms — including hand-held game players (such as the Game Boy® Advance, Nintendo DS™ and Sony PSP®) and cellular telephones, — and online, over the Internet and other proprietary online networks. Some of our games are based on content that we license from others (e.g., Madden NFL Football, Harry Potter and FIFA Soccer), and some of our games are based on intellectual property that is wholly-owned by us (e.g., The Sims™ and Need for Speed™). Our goal is to develop titles which appeal to the mass markets, which often means translating and localizing them for sale in non-English speaking countries. In addition, we also attempt to create software game “franchises” that allow us to publish new titles on a recurring basis that are based on the same property. Examples of this are our annual iterations of our sports-based franchises (e.g., NCAA Football and FIFA Soccer), titles based on long-lived movie properties (e.g., James Bond™) and wholly-owned properties that can be successfully sequeled (e.g., The Sims and Need for Speed).

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

(a) Consolidation

The accompanying Consolidated Financial Statements include the accounts of Electronic Arts Inc. and its domestic and foreign wholly-owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Year

Our fiscal year is reported on a 52/53-week period that, historically, has ended on the final Saturday of March in each year. The results of operations for the fiscal years ended March 31, 2005, 2004 and 2003 each contain 52 weeks and ended on March 26, 2005, March 27, 2004 and March 29, 2003, respectively. For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end. Beginning with the fiscal year ending March 31, 2006, we will end our fiscal year on the Saturday nearest March 31. As a result, our fiscal 2006 will be reported as a 53 week year with the first quarter containing 14 weeks.

(c) Reclassifications

Certain prior-year amounts have been reclassified to conform to the fiscal 2005 presentation.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting period. Such estimates include sales returns and allowances, provisions for doubtful accounts, accrued liabilities, income taxes, and estimates regarding the recoverability of prepaid royalties, inventories, long-lived assets and deferred income taxes. These estimates generally involve complex issues and require us to make judgments, involve analysis of historical and future trends, can require extended periods of time to resolve, and are subject to change from period to period. In all cases, actual results could differ materially from management’s estimates.

(e) Cash, Cash Equivalents, Short-Term Investments, Marketable Equity Securities and Other Investments

Cash equivalents consist of highly liquid investments with insignificant rate risk and original maturities of three months or less.

Short-term investments consist of securities with original maturities of greater than three months and are available for use in current operations or other activities such as capital expenditures, business acquisitions, or stock repurchase programs.

Short-term investments in debt and marketable equity securities are accounted for in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*” . Our policy is to minimize the principal risk of our investment portfolio 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 we have 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, net. Debt securities not classified as held-to-maturity and marketable equity securities are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are included as a separate component of accumulated other comprehensive income or (loss), net of any related tax effect, in stockholders’ equity. Realized gains and losses are calculated based on the specific identification method. We recognize an impairment charge when we determine a decline in the fair value of the securities below its cost basis is other-than-temporary.

Investments in affiliates consist of investments in equity securities accounted for under the equity and cost methods of accounting in accordance with Accounting Principles Board Opinion (“APB”) No. 18, “*The Equity Method Of Accounting For Investments In Common Stock*” . Our share of earnings or losses of investments in affiliates, in which we own at least 20 percent of the voting securities, is included in interest and other income, net in the Consolidated Statement of Operations using the equity method of accounting, except for investments where we are not able to exercise significant influence over the operating and financing decisions of the investee, in which case the cost method of accounting is used. In accordance with APB No. 18, management evaluates these investments to determine if events or changes in circumstances indicate an other-than-temporary impairment in value. We recognize an impairment charge when we determine an other-than-temporary impairment in value exists.

(f) Inventories

Inventories consist of materials and labor and include manufacturing royalties paid to console manufacturers. Inventories are stated at the lower of cost (first-in, first-out method) or market.

(g) Property and Equipment, Net

Property and equipment, net are stated at cost. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings	20 to 25 years
Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 5 years
Leasehold improvements	Lesser of the lease terms or the estimated useful lives of the improvements, generally 1 to 10 years

Under the provisions of American Institute of Certified Public Accountants Statement of Position (“SOP”) 98-1, “*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*” , we capitalize costs associated with customized internal-use software systems that have reached the application development stage and meet recoverability tests. Such capitalized costs include external direct costs utilized in developing

Table of Contents

or obtaining the applications and payroll and payroll-related expenses for employees who are directly associated with the applications. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and ready for its intended purpose. The net book value of capitalized costs associated with internal-use software amounted to \$28 million and \$30 million as of March 31, 2005 and 2004, respectively, and are being depreciated on a straight-line basis over each project's estimated useful life that ranges from three to five years.

(h) Long-Lived Assets

We evaluate long-lived assets and certain identifiable intangibles for impairment, in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. This may include assumptions about future prospects for the business that the asset relates to and typically involves computations of the estimated future cash flows to be generated by these businesses. Based on these judgments and assumptions, we determine whether we need to take an impairment charge to reduce the value of the asset stated on the Consolidated Balance Sheets to reflect its actual fair value. Judgments and assumptions about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including but not limited to, significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or the strategy of our overall business and significant under-performance relative to expected historical or projected future operating results. 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. We did not record any asset impairment charges in fiscal 2005. During fiscal 2004 and 2003, we recognized less than \$1 million and \$66 million, respectively, of asset impairment charges. See Note 6 of the Notes to Consolidated Financial Statements.

(i) Goodwill

SFAS No. 142, "*Goodwill and Other Intangible Assets*" requires that purchased goodwill and indefinite-lived intangibles not be amortized. Rather, goodwill and indefinite-lived intangible assets are subject to at least an annual assessment for impairment by applying a fair-value-based test.

SFAS No. 142 requires a two-step approach to testing goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary), measures the amount of impairment by applying fair value-based tests to individual assets and liabilities within each reporting unit. We completed the first step of transitional goodwill impairment testing during the quarter ended June 30, 2002 and found no indicators of impairment of our recorded goodwill. As a result, we recognized no transitional impairment loss in fiscal 2003 in connection with the adoption of SFAS No. 142.

(j) Concentration of Credit Risk

We extend credit to various companies in the retail and mass merchandising industries. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. Although we generally do not require collateral, we perform ongoing credit evaluations of our customers and maintain reserves for potential credit losses. As of March 31, 2005, we had 13.5 percent and 12.6 percent of our gross accounts receivable outstanding with Pinnacle, a European logistics and collections company, and Wal-Mart Stores, Inc., respectively. As of March 31, 2004, we had 17.3 percent and 11.3 percent of our gross accounts receivable outstanding with Pinnacle and Wal-Mart Stores, Inc., respectively.

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

(k) Revenue Recognition

We evaluate the recognition of revenue based on the criteria set forth in SOP 97-2, “*Software Revenue Recognition*”, as amended by SOP 98-9, “*Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*” and Staff Accounting Bulletin (“SAB”) No. 101, “*Revenue Recognition in Financial Statements*”, as revised by SAB No. 104, “*Revenue Recognition*”. We evaluate revenue recognition using the following basic criteria and recognize revenue when all four criteria are met:

- **Evidence of an arrangement:** We recognize revenue when we have evidence of an agreement with the customer reflecting the terms and conditions to deliver products.
- **Delivery:** Delivery is considered to occur when the products are shipped and risk of loss has been transferred to the customer. For online games and services, revenue is recognized as the service is provided.
- **Fixed or determinable fee:** If a portion of the arrangement fee is not fixed or determinable, we recognize that amount as revenue when the amount becomes fixed or determinable.
- **Collection is deemed probable:** At the time of the transaction, we conduct a credit review of each customer involved in a significant transaction to determine the creditworthiness of the customer. Collection is deemed probable if we expect the customer to be able to pay amounts under the arrangement as those amounts become due. If we determine that collection is not probable, we recognize revenue when collection becomes probable (generally upon cash collection).

Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements, we must make assumptions and judgments in order to: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine whether vendor-specific objective evidence of fair value (“VSOE”) exists for each undelivered element; and (4) allocate the total price among the various elements we must deliver. Changes to any of these assumptions or judgments, or changes to the elements in a software arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Product Revenue: Product revenue, including sales to resellers and distributors (“channel partners”), is recognized when the above criteria are met. We reduce product revenue for estimated future customer returns, price protection, and other offerings, which may occur with our customers and channel partners.

Shipping and Handling: In accordance with Emerging Issues Task Force (“EITF”) Issue No. 00-10, “*Accounting for Shipping and Handling Fees and Costs*”, we recognize amounts billed to customers for shipping and handling as revenue. Additionally, shipping and handling costs incurred by us are included in cost of goods sold.

Online Subscription Revenue: Online subscription revenue is derived principally from subscription revenue collected from customers for online play related to our persistent state world and POGO™ products. These customers generally pay on a month-to-month basis; however, prepaid subscription revenue, including revenue collected from credit card sales as well as sales of *Gametime* subscription cards, are recognized ratably over the period for which the services are provided.

Software Licenses: We license software rights to manufacturers of products in related industries (for example, makers of personal computers or computer accessories) to include certain of our products with the manufacturer’s product, or offer our products to consumers who have purchased the manufacturer’s product. We call these combined products “OEM bundles”. These OEM bundles generally require the customer to pay us an upfront nonrefundable fee, which represents the guaranteed minimum royalty amount. Revenue is generally recognized upon delivery of the product master or the first copy. Per copy royalties on sales that exceed the minimum guarantee are recognized as earned.

(l) Sales Returns and Allowances and Bad Debt Reserves

We estimate potential future product returns, price protection and stock-balancing programs related to current period product revenue. We analyze historical returns, current sell-through of channel partner inventory of our products, current trends in the software games business segment and the overall economy, changes in customer demand and acceptance of our products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, we monitor the volume of sales to our channel partners and monitor their inventories as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods.

Similarly, significant judgment is required to estimate our allowance for doubtful accounts in any accounting period. We analyze customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

(m) Advertising Costs

We generally expense advertising costs as incurred, except for production costs associated with media campaigns which are recognized as prepaid assets (to the extent paid in advance) and expensed at the first run of the advertisement. Cooperative advertising with our channel partners is accrued when revenue is recognized and such amounts are included in marketing and sales expense if there is a separate identifiable benefit for which we can reasonably estimate the fair value of the benefit identified. Otherwise, they are recognized as a reduction of net revenue. We then reimburse the channel partner when qualifying claims are submitted. For the fiscal years ended March 31, 2005, 2004 and 2003, advertising expenses totaled approximately \$174 million, \$183 million and \$152 million, respectively. We sometimes receive vendor reimbursements for advertising costs from our vendors, and such amounts are recognized as a reduction of marketing and sales expense if there is a separate identifiable benefit for which we can reasonably estimate the fair value of the benefit identified. Otherwise, they are recognized as a reduction of cost of goods sold. Included in marketing and sales expense are vendor reimbursements of advertising expenses of \$42 million, \$45 million, and \$28 million for the fiscal years ended March 31, 2005, 2004, and 2003, respectively.

(n) Software Development Costs

Research and development costs, which consist primarily of software development costs, are expensed as incurred. SFAS No. 86, “*Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*”, 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 our 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.

(o) Stock-based Compensation

We account for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, “*Accounting for Stock Issued to Employees*”. We have adopted the disclosure-only provisions of SFAS No. 123, “*Accounting for Stock-Based Compensation*”, as amended.

Had compensation cost for our stock-based compensation plans been measured based on the estimated fair value at the grant dates in accordance with the provisions of SFAS No. 123, we estimate that our reported net income and net income per share would have been the pro forma amounts indicated below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The

Table of Contents

following weighted-average assumptions were used for grants made under our stock-based compensation plans in fiscal 2005, 2004 and 2003:

	Year Ended March 31,		
	2005	2004	2003
Risk-free interest rate	3.5%	2.3%	2.3%
Expected volatility	36%	50%	62%
Expected life of stock options (in years)	3.30	3.09	2.89
Expected life of employee stock purchase plans (in months)	6	6	6
Assumed dividends	None	None	None

Our stock-based compensation calculations are based on a multiple option valuation approach and forfeitures are recognized when they occur.

Consolidated (In millions)	Year Ended March 31,	
	2005	2004
Net income:		
As reported — basic and diluted	\$ 504	\$ 577
Deduct: Total stock-based employee compensation expense determined under fair-value- based method for all awards, net of related tax effects	(83)	(97)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	4	—
Pro forma — basic and diluted	<u>\$ 425</u>	<u>\$ 480</u>

Basic and diluted net income, as reported for fiscal 2003, did not equal due to the allocation for Class B shares.

Common Stock (In millions)	Year Ended March 31, 2003	
	Basic	Diluted
Net income:		
As reported	\$ 329	\$ 317
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(84)	(84)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Pro forma	<u>\$ 245</u>	<u>\$ 233</u>

Net income per share:	Year Ended March 31,		
	2005	2004	2003
As reported — basic	\$ 1.65	\$ 1.95	\$ 1.17
Pro forma — basic	\$ 1.39	\$ 1.63	\$ 0.87
As reported — diluted	\$ 1.59	\$ 1.87	\$ 1.08
Pro forma — diluted	\$ 1.35	\$ 1.58	\$ 0.81

During the years ended March 31, 2005 and 2004, compensation expense for Class B stock option plans, based on the estimated fair value at the grant dates in accordance with the provisions of SFAS No. 123, would not have had a material impact on reported net income and net income per share. Compensation expense for fiscal 2003 would have increased our net loss by \$0.02 to \$(2.79) for both basic and diluted loss per Class B share.

Table of Contents

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004) (“SFAS No. 123R”), “*Share-Based Payment*”. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in financial statements using a fair-value-based method. The statement replaces SFAS No. 123, supersedes APB No. 25, and amends SFAS No. 95, “*Statement of Cash Flows*”. While the fair value method under SFAS No. 123R is very similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, management is currently evaluating the impact of several of the key differences between the two standards on our consolidated financial statements. For example, SFAS No. 123 permits us to recognize forfeitures as they occur while SFAS No. 123R will require us to estimate future forfeitures and adjust our estimate on a quarterly basis. SFAS No. 123R also will require a classification change in the statement of cash flows, whereby a portion of the tax benefit from stock options will move from operating cash flow activities to financing cash flow activities (total cash flows will remain unchanged).

In March 2005, the Securities and Exchange Commission (“SEC”) released SAB No. 107, “*Share-based Payment*”, which provides the views of the staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations for public companies. In April 2005, the SEC adopted a rule that amends the compliance dates of SFAS No. 123R. Under the revised compliance dates, we will be required to adopt the provisions of SFAS No. 123R no later than the first interim period of fiscal 2007. While management continues to evaluate the impact of SFAS No. 123R on our consolidated financial statements, we currently believe that the expensing of stock-based compensation will have an impact on our Consolidated Statements of Operations similar to our pro forma disclosure under SFAS No. 123, as amended.

(p) Foreign Currency Translation

For each of our foreign operating subsidiaries the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using month-end exchange rates, and revenue and expenses are translated into U.S. dollars using average exchange rates. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Included in interest and other income, net in the Consolidated Statements of Operations are foreign currency transaction gains (losses) of \$(23) million, \$44 million and \$22 million for the fiscal years ended March 31, 2005, 2004 and 2003, respectively.

(q) Impact of Recently Issued Accounting Standards

In March 2004, the FASB ratified the other-than-temporary impairment measurement and recognition guidance and certain disclosure requirements for impaired securities as described in EITF Issue No. 03-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*”. In September 2004, the FASB issued a proposed Staff Position (“FSP”) EITF Issue No. 03-1-a, “*Implementation Guidance for the Application of Paragraph 16 of EITF 03-1*”. The proposed FSP will provide measurement and recognition guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads. In October 2004, the FASB delayed the effective date for the other-than-temporary impairment measurement and recognition guidance contained in paragraphs 10-20 of EITF Issue No. 03-1 until FSP Issue No. 03-1-a is issued. However, this delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature; nor does it delay the required disclosures about unrealized losses that have not been recognized as other-than-temporary impairments in paragraphs 21-22 of EITF Issue No. 03-1. See Note 2 of the Notes to Consolidated Financial Statements. Management is unable to determine what impact the adoption of the measurement and recognition guidance in EITF Issue No. 03-1 will have on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, “*Inventory Costs — an amendment of ARB No. 43, Chapter 4*”. SFAS No. 151 amends the guidance in Accounting Research Bulletin (“ARB”) No. 43,

Table of Contents

Chapter 4, “*Inventory Pricing*”, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as current-period charges. SFAS No. 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of SFAS No. 151 will not have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, “*Exchange of Non-monetary Assets — an amendment of APB Opinion No. 29*”. SFAS No. 153 amends APB No. 29, “*Accounting for Non-monetary Transactions*”, to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management believes the adoption of SFAS No. 153 will not have a material impact on our consolidated financial statements.

(2) FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

Cash, cash equivalents, receivables, accounts payable and accrued and other liabilities are valued at their carrying amounts as they approximate their fair value due to the short maturity of these financial instruments.

All of our short-term investments and marketable equity securities were classified as available-for-sale as of March 31, 2005 and 2004. The fair value of these investments is determined using quoted market prices for the securities or similar financial instruments.

(b) Cash, Cash Equivalents and Short-term Investments

Cash, cash equivalents and short-term investments consisted of the following (in millions):

	As of March 31, 2005					Fair Value	Fair Value as of March 31, 2004
	Amortized Cost	Gross Unrealized Losses		Total Gross Unrealized Losses	Fair Value		
		Less than 1 Year	More than 1 Year				
Cash and cash equivalents:							
Cash	\$ 342	\$ —	\$ —	\$ —	\$ 342	\$ 159	
Money market funds	928	—	—	—	928	1,134	
Municipal securities	—	—	—	—	—	274	
U.S. agency securities	—	—	—	—	—	578	
Commercial paper	—	—	—	—	—	5	
Cash and cash equivalents	1,270	—	—	—	1,270	2,150	
Short-term investments:							
U.S. agency securities	700	(8)	—	(8)	692	264	
U.S. agency securities	483	—	(7)	(7)	476	—	
U.S. government bonds	302	(4)	—	(4)	298	—	
Corporate bonds	183	(3)	—	(3)	180	—	
Asset-backed securities	42	—	—	—	42	—	
Short-term investments	1,710	(15)	(7)	(22)	1,688	264	
Cash, cash equivalents and short-term investments	<u>\$ 2,980</u>	<u>\$ (15)</u>	<u>\$ (7)</u>	<u>\$ (22)</u>	<u>\$2,958</u>	<u>\$ 2,414</u>	

Table of Contents

In accordance with EITF No. 03-1, the table above summarizes the fair value and gross unrealized losses of our short-term investments, aggregated by investment category and by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2005. The gross unrealized losses in each of these investment categories were primarily caused by interest rate changes. However, the contractual terms of these securities do not permit the issuer to call, prepay or otherwise settle the securities at prices less than the stated par value of the security. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of March 31, 2005.

Gross unrealized gains in short-term investments were less than \$1 million as of March 31, 2005. Gross unrealized gains and gross unrealized losses in short-term investments were both less than \$1 million as of March 31, 2004. No material gains or losses were recognized from the sale of short-term investments for the years ended March 31, 2005, 2004 and 2003, respectively.

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of March 31, 2005 (in millions):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in 1 year or less	\$ 698	\$ 692
Due in 1-2 years	799	787
Due in 2-3 years	213	209
Short-term investments	<u>\$ 1,710</u>	<u>\$ 1,688</u>

(c) Marketable Equity Securities

Marketable equity securities consisted of the following (in millions):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
As of March 31, 2005	\$ 93	\$ 47	\$ —	\$ 140
As of March 31, 2004	\$ 1	\$ —	\$ —	\$ 1

Our investments in marketable equity securities consist of investments in common stock of publicly traded companies. On February 3, 2005, we purchased approximately 19.9 percent of the outstanding ordinary shares (18.4 percent of the voting rights) of Ubisoft Entertainment for \$90 million. As the fair value of our marketable equity securities exceed the cost basis of those investments as of March 31, 2005, we do not consider these investments to be other-than-temporarily impaired. During fiscal 2004, we recognized a \$1 million other-than-temporary impairment charge to write-down certain investments to their fair market value. During fiscal 2005 and 2003, no other-than-temporary impairment charges were recognized.

The sale of marketable equity securities resulted in gains of \$2 million for both years ended March 31, 2005 and 2003. No material gains or losses were recognized from the sale of marketable equity securities for the year ended March 31, 2004.

(d) Investments in Affiliates

As of March 31, 2005, investments in affiliates included a warrant to acquire 2,327,602 additional shares of Digital Illusions, C.E. ("DICE") common stock. See Note 4 of the Notes to Consolidated Financial Statements. The warrant is accounted for as a derivative instrument and is recorded at fair market value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, with gains and losses resulting from changes in fair market value recorded in interest and other income, net in the Consolidated Statements of Operations. As of March 31, 2005, the fair value of the warrant was \$5 million.

For cost method investments with an aggregate cost of \$3 million, we estimated that the fair value exceeded the cost basis of those investments. For the remaining \$2 million, no adverse events or other impairment

indicators have come to our attention suggesting that the investment is impaired. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of March 31, 2005. During fiscal 2004, no other-than-temporary impairments in investments in affiliates were recognized. However, during fiscal 2003, we determined that some of our cost method investments contained other-than-temporary impairments based on several factors such as the financial performance of the affiliate, our decision to no longer acquire or continue investing in the affiliate, the limited cash flow from future business arrangements and other information available, and a charge of \$11 million was recorded to write-down these investments to their estimated fair market value.

(3) DERIVATIVE FINANCIAL INSTRUMENTS

We account for our derivative and hedging activities under SFAS No. 133. The assets or liabilities associated with our derivative instruments and hedging activities are recorded at fair value in other current assets or other current liabilities, respectively, in the Consolidated Balance Sheets. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

We transact business in various foreign currencies and have significant international sales and purchase transactions denominated in foreign currencies. As a result, we purchase foreign currency option contracts, generally with maturities of 15 months or less, to reduce the volatility of cash flows primarily related to revenue generated by our international subsidiaries. In addition, we utilize foreign exchange forward contracts to mitigate foreign currency exchange rate risk associated with foreign-currency-denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of less than one month and are transacted near month-end. Therefore, the fair value of the forward contracts generally is not significant at each month-end. We do not use foreign currency option or foreign exchange forward contracts for speculative or trading purposes.

Cash Flow Hedging Activities

Our foreign currency option contracts are designated and qualify as cash flow hedges under SFAS No. 133. The effectiveness of the contracts that qualify as cash flow hedges is assessed monthly through an evaluation of critical terms and other criteria required by SFAS No. 133. The effective portion of gains or losses resulting from changes in fair value is initially reported as a component of accumulated other comprehensive income or (loss), net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported in interest and other income, net in the Consolidated Statements of Operations. We expect the effective portion of hedges recognized in accumulated other comprehensive income or (loss) as of March 31, 2005, will be reclassified to net revenue during fiscal 2006. The amount of hedging ineffectiveness recognized in interest and other income, net was a loss of \$1 million and \$2 million for the years ended March 31, 2005 and 2004, respectively.

Balance Sheet Hedging Activities

Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133. Accordingly, any gains or losses resulting from changes in the fair value of the forward contracts are reported in interest and other income, net in the Consolidated Statements of Operations. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying foreign-currency-denominated assets and liabilities.

(4) BUSINESS COMBINATIONS

Criterion

On October 19, 2004, we completed our acquisition of 100 percent of Criterion Software Group Ltd. ("Criterion") for an aggregate accounting purchase price of approximately \$68 million including transaction costs and the assumption of outstanding stock options under certain Criterion stock option plans. Based in

Table of Contents

England, Criterion is a developer of video games and a provider of middleware solutions for the game development and publishing industry. The results of operations of Criterion and the estimated fair market values of the acquired assets and assumed liabilities have been included in the Consolidated Financial Statements since the date of acquisition. Except for acquired in-process technology, which is discussed below, the acquired intangible assets are being amortized on a straight-line basis over estimated lives ranging from two to four years.

Acquired in-process technology includes the value of products in the development stage that are not considered to have reached technological feasibility or have alternative future use. Accordingly, the acquired in-process technology was expensed in the Consolidated Statement of Operations upon consummation of the acquisition. Stock-based employee compensation represents the intrinsic value of certain unvested employee stock options that were assumed as part of the transaction. The stock option awards were considered modified for accounting purposes and were fully amortized over the remaining vesting period in the Consolidated Statement of Operations for the year ended March 31, 2005.

Digital Illusions C.E.

In 2003 we acquired: (1) approximately 1,911,403 shares of Class B common stock representing a 19 percent equity interest in DICE; and (2) a warrant to acquire an additional 2,327,602 shares of to-be-issued Class A common stock at an exercise price of SEK 43.23. Based in Sweden, DICE develops games for personal computers and video game consoles. DICE's products are primarily sold through co-publishing agreements with us. The transactions between DICE and us have been recorded at an arms-length basis. Prior to the fourth quarter of fiscal 2005, we accounted for our Class B common stock investment in DICE under the equity method of accounting, as prescribed by APB No. 18. Separately, the warrants valued at \$5 million as of March 31, 2005 are included in investments in affiliates in the Consolidated Balance Sheets. See Note 2 of the Notes to Consolidated Financial Statements.

On January 27, 2005 we completed a tender offer by acquiring 3,235,053 shares of Class A common stock at a price of SEK 61 per share, representing 32 percent of the outstanding Class A common stock of DICE. During the tender offer period and subsequently, we acquired, through open market purchases at an average price of SEK 60.33, an additional 1,190,658 shares of Class A common stock, representing approximately 12 percent of the outstanding Class A common stock in DICE. Accordingly, on a cumulative basis as of March 31, 2005, we owned approximately 63 percent of DICE on an undiluted basis (excluding the warrants discussed above). As a result, we have included the assets, liabilities and results of operations of DICE in our consolidated financial statements since January 27, 2005. DICE's 37 percent ownership is reflected as minority interest on our Consolidated Balance Sheets as of March 31, 2005 and the Consolidated Statement of Operations for the year ended March 31, 2005. The preliminary purchase price allocation, including the allocation of goodwill, will be updated as additional information becomes available.

Except for acquired-in-process technology, the acquired intangible assets are being amortized on a straight-line basis over estimated lives ranging from one to four years. The acquired in-process technology was expensed in the Consolidated Statement of Operations upon consummation of the acquisition.

Table of Contents

A summary of the Criterion assets acquired and liabilities assumed and the preliminary allocation of the DICE assets acquired and liabilities assumed during the year ended March 31, 2005 is as follows (in millions):

	<u>Criterion</u>	<u>DICE</u>	<u>Total</u>
Current assets	\$ 21	\$ 35	\$ 56
Property and equipment, net	1	1	2
Long-term deferred tax asset	3	—	3
Acquired in-process technology	9	4	13
Stock-based employee compensation	6	—	6
Goodwill	27	31	58
Finite-lived intangibles	21	1	22
Liabilities	(20)	(9)	(29)
Minority interest	—	(11)	(11)
Total consideration	<u>\$ 68</u>	<u>\$ 52</u>	<u>\$ 120</u>

Square Co., Ltd.

In May 1998, we completed the formation of two new joint ventures in North America and Japan with Square Co., Ltd. (“Square”), a leading developer and publisher of entertainment software in Japan. In North America, the companies formed Square Electronic Arts, LLC (“Square EA”), which had exclusive publishing rights in North America for future interactive entertainment titles created by Square. Additionally, we had the exclusive right to distribute in North America products published by this joint venture. We contributed \$3 million and owned a 30 percent minority interest in this joint venture while Square owned 70 percent. This joint venture was accounted for under the equity method. The joint venture agreements with Square expired as of March 31, 2003. Our distribution of Square products in North America terminated on June 30, 2003. On May 30, 2003, Square acquired our 30 percent ownership interest in the joint venture for \$8 million and the investment was removed from our Consolidated Balance Sheets.

In Japan, the companies established Electronic Arts Square K.K. (“EA Square KK”) in 1998, which localized and published in Japan a selection of EA’s properties originally created in North America and Europe, as well as developed and published original video games in Japan. We contributed cash and had a 70 percent majority ownership interest, while Square contributed cash and owned 30 percent. Accordingly, the assets, liabilities and results of operations for EA Square KK were included in our Consolidated Balance Sheets and Consolidated Statements of Operations since June 1, 1998, the date of formation. Square’s 30 percent interest in EA Square KK was reflected as “Minority interest” on our Consolidated Balance Sheets as of March 31, 2003, and Consolidated Statements of Operations for the year ended March 31, 2003.

In May 2003, we acquired Square’s 30 percent ownership interest in EA Square KK for approximately \$3 million in cash. As a result of the acquisition, EA Square KK has become our wholly owned subsidiary and has been renamed Electronic Arts K.K. The acquisition was accounted for as a step acquisition purchase and the excess purchase price over fair value of the net tangible assets acquired, \$1 million, was allocated to goodwill.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill information is as follows (in millions):

	Year Ended March 31,	
	2005	2004
Goodwill — beginning of year	\$ 92	\$ 86
Acquired	58	4
Effects of Foreign Currency Translation	3	2
Goodwill — end of year	<u>\$ 153</u>	<u>\$ 92</u>

We completed our annual impairment test in the fourth quarter of fiscal 2005, 2004 and 2003 with measurement dates of January 1, 2005, January 1, 2004 and January 1, 2003, respectively, and found no indicators of impairment of our recorded goodwill. There can be no assurance that future impairment tests will not result in a charge to earnings and there is a potential for a write down of goodwill in connection with the annual impairment test in future periods.

Finite-lived intangible assets, net of accumulated amortization, as of March 31, 2005 and 2004, were \$36 million and \$18 million, respectively, and include costs for obtaining trade names and developed technologies. Amortization of intangibles for the fiscal years ended March 31, 2005, 2004 and 2003 was \$6 million (of which \$3 million was recognized in cost of goods sold), \$3 million and \$8 million, respectively. Finite-lived intangible assets 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. As of March 31, 2005 and 2004, the weighted-average remaining useful life for finite-lived intangible assets was approximately 4.3 years and 7.5 years, respectively.

When indicators are present and circumstances warrant, we perform impairment tests under SFAS No. 144 to evaluate the recoverability of our long-lived assets and remaining finite-lived identifiable intangibles utilized in our business. This test was performed in the fourth quarter of fiscal 2003 in conjunction with the overall valuation of the EA.com legal entity and our Class B common stock and resulted in an impairment of \$12 million. See Note 6 of the Notes to Consolidated Financial Statements.

Finite-lived intangibles consist of the following (in millions):

	As of March 31, 2005				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed/ Core Technology	\$ 47	\$ (22)	\$ (9)	\$ 1	\$ 17
Trade name	37	(18)	(1)	—	18
Subscribers and Other Intangibles	11	(7)	(2)	(1)	1
Total	<u>\$ 95</u>	<u>\$ (47)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ 36</u>

	As of March 31, 2004				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed/ Core Technology	\$ 28	\$ (19)	\$ (9)	\$ —	\$ —
Trade name	35	(16)	(1)	—	18
Subscribers and Other Intangibles	9	(6)	(2)	(1)	—
Total	<u>\$ 72</u>	<u>\$ (41)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ 18</u>

Table of Contents

As of March 31, 2005, future amortization of finite-lived intangibles that will be recorded in cost of goods sold and operating expenses is estimated as follows (in millions):

Fiscal Year Ended March 31,	
2006	\$ 11
2007	10
2008	6
2009	3
2010	2
Thereafter	4
Total	<u>\$ 36</u>

(6) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Restructuring and asset impairment information as of March 31, 2005 was as follows (in millions):

	Accrual Beginning Balance	Charges to Operations	Charges Utilized in Cash	Charges Utilized Non-cash	Adjustments to Operations	Accrual Ending Balance
Year Ended March 31, 2005						
Workforce	\$ 2	\$ —	\$ (2)	\$ —	\$ —	\$ —
Facilities-related	12	—	(4)	—	2	10
Total	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 10</u>
Year Ended March 31, 2004						
Workforce	\$ 2	\$ 2	\$ (2)	\$ —	\$ —	\$ 2
Facilities-related	9	7	(4)	—	—	12
Total	<u>\$ 11</u>	<u>\$ 9</u>	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14</u>
Year Ended March 31, 2003						
Workforce	\$ 1	\$ 4	\$ (3)	\$ —	\$ —	\$ 2
Facilities-related	2	11	(3)	—	(1)	9
Non-current assets	—	66	—	(66)	—	—
Total	<u>\$ 3</u>	<u>\$ 81</u>	<u>\$ (6)</u>	<u>\$ (66)</u>	<u>\$ (1)</u>	<u>\$ 11</u>
Year Ended March 31, 2002						
Workforce	\$ —	\$ 4	\$ (3)	\$ —	\$ —	\$ 1
Facilities-related	—	3	(1)	—	—	2
Non-current assets	—	13	—	(13)	—	—
Total	<u>\$ —</u>	<u>\$ 20</u>	<u>\$ (4)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ 3</u>

Over the last four fiscal years, we have entered into various restructurings based on management decisions as discussed in more detail below. As of March 31, 2005, an aggregate of \$23 million in cash had been paid out under the fiscal 2004, 2003 and 2002 restructuring plans. In addition, we have made subsequent net adjustments of approximately \$2 million during fiscal 2005 relating to projected future cash outlays under the fiscal 2004 and 2003 restructuring plans. The remaining projected cash outlay of \$10 million is expected to be utilized by January 2009. The facilities-related accrued obligation shown above is net of \$13 million of estimated future sub-lease income. The restructuring accrual is included in other accrued expenses presented in Note 8 of the Notes to Consolidated Financial Statements.

Fiscal 2004 Studio Restructuring

During the fourth quarter of fiscal 2004, we closed the majority of our leased studio facility in Walnut Creek, California and our entire owned studio facility in Austin, Texas in order to consolidate local development efforts in Redwood City, California. We recorded total pre-tax charges of \$9 million, consisting of \$7 million for consolidation of facilities (net of expected future sublease income), \$2 million for workforce reductions of approximately 117 personnel and less than \$1 million for the write-off of non-current assets, primarily leasehold improvements.

Fiscal 2003 Studio Restructuring

During the third quarter of fiscal 2003, we closed our office located in San Francisco, California and our studio located in Seattle, Washington in order to consolidate local development efforts in Redwood City, California and Vancouver, British Columbia, Canada. We recorded total pre-tax charges of \$9 million, consisting of \$7 million for consolidation of facilities (net of expected future sublease income), \$1 million for the write-off of non-current assets, primarily leasehold improvements, and \$1 million for workforce reductions of approximately 33 personnel.

Additionally, during the fourth quarter of fiscal 2003, we approved a plan to consolidate the Los Angeles, California, Irvine, California and Las Vegas, Nevada, studios into one major game studio in Los Angeles. We recorded a total pre-tax restructuring charge of \$5 million, including \$2 million for the shutdown of facilities and associated costs, \$2 million for the write-off of non-current assets, primarily leasehold improvements and \$1 million for workforce reductions.

Fiscal 2003 Online Restructuring

In March 2003, we consolidated the operations of EA.com into our core business, and eliminated separate reporting for our Class B common stock for all future reporting periods after fiscal 2003. We recorded restructuring charges, including asset impairment, of \$67 million, consisting of \$2 million for workforce reductions of approximately 50 personnel, \$2 million for consolidation of facilities and \$63 million for the write-off of non-current assets. The consolidation of facilities resulted in the closure of EA.com's Chicago and Virginia facilities and an adjustment for the closure of EA.com's San Diego studio in fiscal 2002.

As part of the restructuring efforts, we performed impairment tests under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", to evaluate the recoverability of our long-lived assets and remaining finite-lived identifiable intangible assets utilized in the EA.com business. This test was performed in the fourth quarter of fiscal 2003 in conjunction with the overall valuation of the EA.com legal entity and its Class B common stock. As of March 31, 2003, the unit sales and the number of subscribers for *The Sims Online*, our flagship EA.com product, and overall EA.com performance was significantly below our expectations, which we considered to be a triggering event under SFAS No. 144. These results caused us to cancel most of our plans to develop similar online products that would have utilized the long-lived assets associated with the EA.com business. Impairment charges on long-lived assets amounted to \$63 million and included \$25 million relating to impaired customized internal-use software systems for the EA.com infrastructure, \$26 million for other long-lived assets and \$12 million of finite-lived intangibles impairment charges relating to EA.com's acquisitions of Kesmai Corporation and Pogo Corporation.

Fiscal 2002 Online Restructuring

In October 2001, we announced restructuring initiatives involving EA.com and the closure of EA.com's San Diego studio and consolidation of our San Francisco and Virginia facilities. As a result, we recorded restructuring charges of \$20 million, consisting of \$4 million for workforce reductions, \$3 million for consolidation of facilities and other administrative charges and \$13 million for the write-off of non-current assets and facilities.

All restructuring charges recorded prior to December 31, 2002 were recorded in accordance with EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Table of Contents

Activity (Including Certain Costs Incurred in a Restructuring)”, EITF No. 95-03, “Recognition of Liabilities in Connection with a Purchase Business Combination”, and SAB No. 100, “Restructuring and Impairment Charges”. All restructuring charges recorded subsequent to December 31, 2002, were recorded in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon the then-current events and circumstances.

(7) ROYALTIES AND LICENSES

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and/or distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for delivery of product.

Royalty-based payments made to content licensors and distribution affiliates are generally capitalized as prepaid royalties and expensed to cost of goods sold at the greater of the contractual or effective royalty rate based on net product sales. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally made in connection with the development of a particular product and, therefore, we are generally subject to development risk prior to the general release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed as research and development as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of goods sold at the higher of the contractual or effective royalty rate based on net product sales.

Minimum guaranteed royalty obligations are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid and as a liability when incurred rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of March 31, 2005 and 2004, approximately \$51 million and \$63 million, respectively, of minimum guaranteed royalty obligations had been recognized and are included in the tables below.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties. If actual sales or revised revenue estimates fall below the initial revenue estimates, then the actual charge taken may be greater in any given quarter than anticipated.

The current and long-term portions of prepaid royalties and minimum guaranteed royalty-related assets, included in other current assets and other assets, consisted of (in millions):

	As of March 31,	
	2005	2004
Other current assets	\$ 59	\$ 31
Other assets	76	55
Royalty-related assets	<u>\$ 135</u>	<u>\$ 86</u>

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors and/or independent software developers, we recognize unpaid royalty amounts due to these

Table of Contents

parties as either accounts payable or accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other liabilities as well as other liabilities, consisted of (in millions):

	As of March 31,	
	2005	2004
Accrued liabilities	\$ 88	\$ 118
Other liabilities	33	42
Accrued royalties	<u>\$ 121</u>	<u>\$ 160</u>

In addition, as of March 31, 2005, we had approximately \$1,483 million that we were committed to pay co-publishing and/or distribution affiliates and content licensors but that were generally contingent upon performance by the counterparty (i.e., delivery of the product or content or other factors) and were therefore not recorded in our Consolidated Financial Statements. See Note 9 of the Notes to Consolidated Financial Statements.

(8) BALANCE SHEET DETAILS

(a) Inventories

Inventories as of March 31, 2005 and 2004 consisted of (in millions):

	As of March 31,	
	2005	2004
Raw materials and work in process	\$ 2	\$ 2
Finished goods (including manufacturing royalties)	60	53
Inventories	<u>\$ 62</u>	<u>\$ 55</u>

(b) Property and Equipment, Net

Property and equipment, net as of March 31, 2005 and 2004 consisted of (in millions):

	As of March 31,	
	2005	2004
Computer equipment and software	\$ 381	\$ 335
Buildings	106	118
Leasehold improvements	73	30
Land	60	60
Office equipment, furniture and fixtures	53	46
Warehouse equipment and other	12	12
Construction in progress	43	28
	<u>728</u>	<u>629</u>
Less accumulated depreciation and amortization	(375)	(331)
Property and equipment, net	<u>\$ 353</u>	<u>\$ 298</u>

Depreciation and amortization expenses associated with property and equipment amounted to \$69 million, \$75 million and \$66 million for the fiscal years ended March 31, 2005, 2004 and 2003, respectively.

Table of Contents

(c) *Accrued and Other Liabilities*

Accrued and other liabilities as of March 31, 2005 and 2004 consisted of (in millions):

	As of March 31,	
	2005	2004
Accrued income taxes	\$ 267	\$ 226
Other accrued expenses	172	120
Accrued compensation and benefits	132	143
Accrued royalties	88	118
Deferred revenue	35	23
Accrued and other liabilities	<u>\$ 694</u>	<u>\$ 630</u>

(9) COMMITMENTS AND CONTINGENCIES

Lease Commitments and Residual Value Guarantees

We lease certain of our current facilities and certain equipment under non-cancelable operating lease agreements. We are required to pay property taxes, insurance and normal maintenance costs for certain of our facilities and will be required to pay any increases over the base year of these expenses on the remainder of our facilities.

In February 1995, we entered into a build-to-suit lease with a third party for our headquarters facility in Redwood City, California, which was refinanced with Keybank National Association in July 2001 and expires in July 2006. We accounted for this arrangement as an operating lease in accordance with SFAS No. 13, "Accounting for Leases", as amended. Existing campus facilities developed in phase one comprise a total of 350,000 square feet and provide space for sales, marketing, administration and research and development functions. We have an option to purchase the property (land and facilities) for a maximum of \$145 million or, at the end of the lease, to arrange for (i) an extension of the lease or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$129 million if the sales price is less than this amount, subject to certain provisions of the lease.

In December 2000, we entered into a second build-to-suit lease with Keybank National Association for a five and one-half year term beginning December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property adding approximately 310,000 square feet to our campus. Construction was completed in June 2002. We accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. The facilities provide space for sales, marketing, administration and research and development functions. We have an option to purchase the property for a maximum of \$130 million or, at the end of the lease, to arrange for (i) an extension of the lease, or (ii) sale of the property to a third party while we retain an obligation to the owner for approximately 90 percent of the difference between the sale price and the guaranteed residual value of up to \$119 million if the sales price is less than this amount, subject to certain provisions of the lease.

We believe the estimated fair values of both properties under these operating leases are in excess of their respective guaranteed residual values as of March 31, 2005.

Table of Contents

For the two lease agreements with Keybank National Association, as described above, the lease rates are based upon the Commercial Paper Rate and require us to maintain certain financial covenants as shown below, all of which we were in compliance with as of March 31, 2005.

Financial Covenants	Requirement	Actual as of March 31, 2005
Consolidated Net Worth (in millions)	\$ 2,061	\$ 3,498
Fixed Charge Coverage Ratio	3.00	19.93
Total Consolidated Debt to Capital	60%	6.6%
Quick Ratio — Q1 & Q2	1.00	N/A
Q3 & Q4	1.75	13.07

In July 2003, we entered into a lease agreement with an independent third party (the “Landlord”) for a studio facility in Los Angeles, California, which commenced in October 2003 and expires in September 2013 with two five-year options to extend the lease term. Additionally, we have options to purchase the property after five and ten years based on the fair market value of the property at the date of sale, a right of first offer to purchase the property upon terms offered by the Landlord, and a right to share in the profits from a sale of the property. We have accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. Existing campus facilities comprise a total of 243,000 square feet and provide space for research and development functions. Our rental obligation under this agreement is \$50 million over the initial ten-year term of the lease. This commitment is offset by sublease income of \$6 million for the sublet to an affiliate of the Landlord of 18,000 square feet of the Los Angeles facility, which commenced in October 2003 and expires in September 2013, with options of early termination by the affiliate after five years and by us after four and five years.

In June 2004, we entered into a lease agreement with an independent third party for a studio facility in Orlando, Florida, which commenced in January 2005 and expires in June 2010, with one five-year option to extend the lease term. The campus facilities comprise a total of 117,000 square feet, which we intend to use for research and development functions. We have accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. Our rental obligation over the initial five-and-a-half year term of the lease is \$13 million.

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe. The standby letter of credit guarantees performance of our obligations to pay Nintendo of Europe for trade payables of up to € 18 million. The standby letter of credit expires in July 2005. As of March 31, 2005, we had € 0.5 million payable to Nintendo of Europe covered by this standby letter of credit.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of March 31, 2005, we did not have a payable balance on this standby letter of credit.

Development, Celebrity, League and Content Licenses: Payments and Commitments

The products produced by our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers (“independent artists” or “third-party developers”). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones.

Contractually, these payments are considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers. In addition, we have certain celebrity, league and content license contracts that contain

Table of Contents

minimum guarantee payments and marketing commitments that are not dependent on any deliverables. Celebrities and organizations with whom we have contracts include: ESPN (content in EA SPORTS™ games); FIFA and UEFA (professional soccer); NASCAR (stock car racing); John Madden (professional football); National Basketball Association (professional basketball); PGA TOUR (professional golf); Tiger Woods (professional golf); National Hockey League and NHLPA (professional hockey); Warner Bros. (Harry Potter, Batman and Superman); MGM/ Danjaq (James Bond); New Line Productions (The Lord of the Rings); National Football League, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football and basketball); ISC (stock car racing); Island Def Jam (fighting); and Viacom Consumer Products (The Godfather). These developer and content license commitments represent the sum of (i) the cash payments due under non-royalty-bearing licenses and services agreements, and (ii) the minimum payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations and commercial commitments as of March 31, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

Fiscal Year Ended March 31,	Contractual Obligations			Commercial Commitments		
	Leases	Developer/ Licensor Commitments ⁽¹⁾	Marketing	Bank and Other Guarantees	Letters of Credit	Total
2006	\$ 30	\$ 134	\$ 33	\$ 4	\$ 1	\$ 202
2007	24	131	34	—	—	189
2008	20	128	30	—	—	178
2009	15	136	30	—	—	181
2010	12	124	31	—	—	167
Thereafter	35	830	197	—	—	1,062
Total	\$ 136	\$ 1,483	\$ 355	\$ 4	\$ 1	\$ 1,979

⁽¹⁾ Developer/licensor commitments include \$50 million of commitments to developers or licensors that have been included in both current and long-term assets and liabilities in our Consolidated Balance Sheets as of March 31, 2005 because the developer or licensor does not have any performance obligations to us. Our developer/licensor and marketing commitments increased significantly in the latter half of fiscal 2005 primarily as a result of agreements we renewed with the National Football League and PLAYERS Inc., as well as an exclusive, long-term agreement we entered into with ESPN Inc. (“ESPN”) for the development and integrated marketing of ESPN content in EA SPORTS games beginning in calendar 2006. While our commitments with ESPN are not contractually due until fiscal 2011 and beyond and are presented as such in the table above, we anticipate paying these commitments earlier as we publish titles associated with the agreement.

Total rent expense for all operating leases was \$41 million, \$27 million and \$22 million, for the fiscal years ended March 31, 2005, 2004 and 2003, respectively.

The lease commitments disclosed above exclude commitments included in our restructuring activities for contractual rental commitments of \$23 million under real estate leases for unutilized office space, offset by \$13 million of estimated future sub-lease income. These amounts were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Consolidated Balance Sheets as of March 31, 2005. See Note 6 in the Notes to Consolidated Financial Statements.

Litigation

On July 29, 2004, a class action lawsuit, *Kirschenbaum v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Image Production

Table of Contents

Employees” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. The complaint was first amended on or about November 30, 2004 to add two former employees as named-plaintiffs, and amended again on or about January 5, 2005 to add another former employee as a named-plaintiff. The allegations in the complaint were not materially changed by the amendments.

On February 14, 2005, a second employment-related class action lawsuit, *Hasty v. Electronic Arts Inc.*, was filed against us in Superior Court in San Mateo, California. The complaint alleges that we improperly classified “Engineers” in California as exempt employees and seeks injunctive relief, unspecified monetary damages, interest and attorneys’ fees. On or about March 16, 2005, we received a first amended complaint, which contains the same material allegations as the original complaint. We answered the first amended complaint on April 20, 2005.

On March 24, 2005, a purported class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional purported class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. We have not yet responded to any of the complaints. In addition, on April 12, 2005, a shareholder derivative action was filed against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. The complaint was filed in San Mateo Superior Court. On April 13, 2005, a second shareholder derivative action was filed in San Mateo Superior Court based on the same claims as the first complaint. On May 16, 2005, a shareholder derivative action based on substantially the same allegations was filed in the United States District Court, Northern District of California. We have not responded to the shareholder derivative complaints.

In addition, we are subject to other claims and litigation arising in the ordinary course of business. Our management considers that any liability from any reasonably foreseeable disposition of such other claims and litigation, individually or in the aggregate, would not have a material adverse effect on our consolidated financial position or results of operations.

Director Indemnity Agreements

We have entered into indemnification agreements with the members of our Board of Directors to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued as a result of their service as members of our Board of Directors.

(10) INCOME TAXES

Our pretax income from operations for the fiscal years ended March 31, 2005, 2004 and 2003 consisted of the following components (in millions):

	Year Ended March 31,		
	2005	2004	2003
Domestic	\$ 386	\$ 490	\$ 222
Foreign	339	307	239
Income before provision for income taxes and minority interest	<u>\$ 725</u>	<u>\$ 797</u>	<u>\$ 461</u>

Table of Contents

Income tax expense (benefit) for the fiscal years ended March 31, 2005, 2004 and 2003 consisted of (in millions):

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
March 31, 2005			
Federal	\$ 115	\$ 4	\$ 119
State	4	11	15
Foreign	9	3	12
Charge in association with disposition from employee stock plans	75	—	75
	<u>\$ 203</u>	<u>\$ 18</u>	<u>\$ 221</u>
March 31, 2004			
Federal	\$ 121	\$ 28	\$ 149
State	4	(15)	(11)
Foreign	18	(5)	13
Charge in association with disposition from employee stock plans	69	—	69
	<u>\$ 212</u>	<u>\$ 8</u>	<u>\$ 220</u>
March 31, 2003			
Federal	\$ 76	\$ (13)	\$ 63
State	3	(13)	(10)
Foreign	17	(2)	15
Charge in association with disposition from employee stock plans	75	—	75
	<u>\$ 171</u>	<u>\$ (28)</u>	<u>\$ 143</u>

The differences between the statutory income tax rate and our effective tax rate, expressed as a percentage of income before provision for (benefit from) income taxes, for the years ended March 31, 2005, 2004 and 2003 were as follows:

	<u>Year Ended March 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	1.4%	1.8%	1.9%
Differences between statutory rate and foreign effective tax rate	(7.3%)	(6.2%)	(4.5%)
Research and development credits	(0.5%)	(0.6%)	(1.2%)
Resolution of certain tax-related matters with the IRS	—	(2.5%)	—
Non-deductible acquisition related costs	0.8%	—	—
Change in valuation allowance	0.5%	—	—
Other	0.6%	—	(0.2%)
Effective tax rate	<u>30.5%</u>	<u>27.5%</u>	<u>31.0%</u>

Our effective income tax rate reflects the net tax benefit from having significant operations outside the United States that are taxed at rates lower than the U.S. statutory rate of 35 percent.

Undistributed earnings of our foreign subsidiaries amounted to approximately \$896 million as of March 31, 2005. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

Table of Contents

During the fiscal year ended March 31, 2005 we incurred approximately \$6 million in non-deductible acquisition related costs from our acquisitions of 100 percent of Criterion and an additional 44 percent of DICE.

During fiscal 2003, we successfully prevailed in Tax Court proceedings with respect to previously-contested deficiencies issued by the Internal Revenue Service (“IRS”) in conjunction with its audit of our U.S. income tax returns for fiscal 1993 through 1996. In addition, the IRS examined our U.S. income tax returns for fiscal 1997 through 1999 and has proposed certain adjustments. During the fourth quarter of fiscal 2004, we resolved certain of these matters with the IRS, which lowered our income tax expense by approximately \$20 million and resulted in a 2.5 percent rate reduction. However, we have not resolved certain other issues identified by the IRS for these tax years and are planning to contest them. In addition, the IRS has commenced an examination of our U.S. income tax returns for fiscal years 2000 through 2003. While the ultimate resolution of tax audits involves a degree of uncertainty, we believe that adequate tax accruals have been provided for any adjustments that are expected to result for these years.

The components of the net deferred tax assets as of March 31, 2005 and 2004 consisted of (in millions):

	As of March 31,	
	2005	2004
Deferred tax assets:		
Accruals, reserves and other expenses	\$ 78	\$ 57
Tax credit carryforwards	42	78
Amortization	23	25
Unrealized loss on marketable equity securities	8	—
Net operating loss carryforwards	1	1
Total	152	161
Valuation allowance	(11)	—
Deferred tax asset net of valuation allowance	141	161
Deferred tax liabilities:		
Depreciation	(26)	(32)
Other	(10)	(6)
Total	(36)	(38)
Net deferred tax asset	\$ 105	\$ 123

As of March 31, 2005, net deferred tax assets of \$86 million and \$19 million were classified as current assets and long-term assets, respectively. As of March 31, 2004, net deferred tax assets of \$84 million and \$41 million were classified as current assets and long-term assets, respectively. In addition, deferred tax liabilities of \$2 million were classified as accrued and other liabilities as of March 31, 2004.

Of the tax credit carryforwards as of March 31, 2005, we have research and development tax credit carryforwards of approximately \$8 million and \$39 million for federal and California purposes, respectively. The federal tax credit carryforward expires in 2025, while the California tax credit can be carried forward indefinitely. We also have foreign tax credit carryforwards of approximately \$4 million that expire from 2011 to 2012, federal alternative minimum tax credit carryforwards of approximately \$3 million that can be carried forward indefinitely, and California Manufacturers’ Investment Credit carryforwards of approximately \$2 million that expire from 2008 to 2011. The state tax credit carryforwards are valued net of \$14 million in federal benefits.

The American Jobs Creation Act of 2004 (the “Jobs Act”), enacted on October 22, 2004, provides for a temporary 85 percent dividends received deduction on certain foreign earnings repatriated in our fiscal 2005 or

Table of Contents

fiscal 2006. The deduction would result in an approximate 5.25 percent federal tax on a portion of the foreign earnings repatriated. State, local and foreign taxes could apply as well. To qualify for this federal tax deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by our chief executive officer and approved by the Board of Directors. Certain other criteria in the Jobs Act must be satisfied as well. The maximum amount of our foreign earnings that we may repatriate subject to the Jobs Act deduction is \$500 million.

As stated above, we have historically considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. taxes have been provided thereon. As a result of the Jobs Act, we are in the process of evaluating whether we will change our intentions regarding a portion of our foreign earnings and take advantage of the repatriation provisions of the Jobs Act, and if so, the amount that we would repatriate. We may not take advantage of the new law at all. In addition to not having made a decision to repatriate any foreign earnings, we are not yet in a position to accurately determine the impact of a qualifying repatriation, should we choose to make one, on our income tax expense for fiscal 2006. If we decide to repatriate a portion of our foreign earnings, we would be required to recognize income tax expense related to the federal, state, local and foreign taxes that we would incur on the repatriated earnings when the decision is made. We estimate that the reasonably possible amount of the income tax expense could be up to \$35 million. We expect to be in a position to finalize our analysis no later than February 2006.

(11) STOCKHOLDERS' EQUITY

(a) Preferred Stock

As of March 31, 2005 and 2004, we had 10,000,000 shares of preferred stock authorized but unissued. The rights, preferences, and restrictions of the preferred stock may be designated by the Board of Directors without further action by our stockholders.

(b) Tracking Stock

On March 22, 2000, our stockholders authorized the issuance of a new series of common stock, designated as Class B common stock ("Tracking Stock"). The Tracking Stock was intended to reflect the performance of the EA.com business segment. As a result of the approval of the Tracking Stock proposal, our existing common stock was re-classified as Class A common stock and was intended to reflect the performance of the EA Core business segment. With the authorization of the Class B common stock, we transferred a portion of our consolidated assets, liabilities, revenue, expenses and cash flows to EA.com Inc., a wholly-owned subsidiary of Electronic Arts.

In March 2003, we consolidated the operations of EA.com back into our core operations in order to increase efficiency, simplify our reporting structure and more directly integrate our online activities into our core console and PC business. As a result, we eliminated dual class reporting starting in fiscal 2004. The majority of outstanding Class B options and warrants not directly held by us were acquired or converted to common stock and warrants.

At our Annual Meeting of Stockholders, held on July 29, 2004, our stockholders elected to amend and restate our Certificate of Incorporation to consolidate our Class A and Class B common stock into a single class of common stock by reclassifying each outstanding share of Class A common stock as one share of common stock and converting each outstanding share of Class B common stock into 0.001 share of common stock. Our stockholders also elected to further amend and restate our Certificate of Incorporation to increase the authorized common stock from 500 million total shares of Class A and Class B common stock combined to 1 billion shares of the newly consolidated single class of common stock. These amendments were effective on August 2, 2004. Prior year Class A common stock has been reclassified to common stock to reflect these amendments.

(c) Share Repurchase Program

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. During fiscal 2005, we repurchased and retired 805,500 shares of our common stock for approximately \$41 million.

(12) EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

(a) Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (“ESPP”) program, which commenced in September 1991, whereby eligible employees may authorize payroll deductions of up to 10 percent of their compensation to purchase shares at 85 percent 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. A new ESPP program, the 2000 Employee Stock Purchase Plan, was approved by the Board of Directors in May 2000 and commenced in August 2000. In addition, we have a stock purchase plan which was adopted without stockholder approval, the International Employee Stock Purchase Plan, which was terminated by the Board of Directors in connection with the amendment of the stockholder-approved Plan discussed below as of February 2003.

The International Employee Stock Purchase Plan was adopted by the Board of Directors in June 1996 and amended in October 1998, February 1999 and February 2002 and is, in all material respects, identical to the 2000 Employee Stock Purchase Plan approved by the stockholders for U.S. employees. In February 2003, the Board of Directors approved an amendment to the 2000 Employee Stock Purchase Plan to segregate provisions of the Plan for purchases intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”) for participants residing in the U.S., from those that are not intended to qualify under Section 423 of the Code for participants residing outside of the U.S. Accordingly, we no longer issue common stock under the International Employee Stock Purchase Plan.

At our Annual Meeting of Stockholders, held on July 29, 2004, our stockholders approved an amendment to the 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the ESPP by 1.5 million.

Information related to stock issuances under these plans is as follows:

	Year Ended March 31,		
	2005	2004	2003
Number of shares issued (in thousands)	624	867	698
Range of exercise prices for purchase rights	\$38.14 to \$51.35	\$22.44 to \$38.14	\$22.44 to \$22.87
Estimated weighted-average fair value of purchase rights	\$13.96	\$9.53	\$9.78

The fair value above was estimated on the date of grant using the Black-Scholes option-pricing model assumptions described in Note 1(o) of the Notes to Consolidated Financial Statements. As of March 31, 2005, we had approximately 1.4 million shares of common stock reserved for future issuance under the 2000 Employee Stock Purchase Plan.

(b) Stock Option Plans

Our 2000 Equity Incentive Plan (the “Equity Plan”) allows us to grant options to purchase our common stock, restricted stock and restricted stock units to our employees, officers and directors. Pursuant to the Equity Plan, incentive stock options may be granted to employees and officers and non-qualified options may be granted to employees, officers and directors, at not less than 100 percent of the fair market value on the date of grant.

Table of Contents

At our Annual Meeting of Stockholders, held on July 29, 2004, our stockholders approved amendments to the Equity Plan to (a) increase by 11 million the number of shares of common stock reserved for issuance under the Equity Plan, (b) provide for the issuance of awards of restricted stock units, (c) limit the total number of shares underlying awards of restricted stock and restricted stock units to 3 million, (d) provide that the exercise price of nonqualified stock options may not be less than 100% of the fair market value of a share of common stock, (e) reduce the size of initial and annual option grants to directors under the Equity Plan, and (f) authorize the Compensation Committee to determine the vesting provisions of options granted to directors under the Equity Plan.

Our 2000 Class B Equity Incentive Plan (“Class B plan”) allowed for the award of stock options or restricted stock for up to an aggregate of 6 million shares of Class B common stock. The Class B plan included a provision for automatic option grants to our outside directors. In February 2003, the Board of Directors amended the Class B plan to eliminate automatic grants to directors and to preclude any further awards under the Class B plan. See Note 11 of the Notes to Consolidated Financial Statements.

We also have outstanding options to purchase our common stock under the following plans, each of which has expired and pursuant to which no further options may be granted: 1991 Stock Option Plan, Celebrity and Artist Stock Option Plan (“Artist Plan”), 1995 Stock Option Plan, and 1993 Directors’ Stock Option Plan (“Expired Plans”). The Artist Plan was adopted by the Board of Directors in July 1994 without stockholder approval. The terms under the Artist Plan were substantially similar to the terms of the Equity Plan. We also have outstanding options under our 1998 Directors’ Stock Option Plan (“Directors’ Plan”). Although the Directors’ Plan has not yet expired, we intend for all automatic option grants to directors to be made under the Equity Plan. In addition, we have options outstanding that were granted under the Criterion Software Limited Approved Share Option Scheme (the “Criterion Plan”), which we assumed in connection with our 100 percent acquisition of Criterion.

Options granted under the Equity Plan, the Expired Plans, the Directors’ Plan and the Class B plan generally expire ten years from the date of grant and are generally exercisable as to 24 percent of the shares after 12 months, and then the remainder in monthly increments over 38 months. All options granted under the Criterion Plan are exercisable as of March 31, 2005, and expire in January 2012.

At our Annual Meeting of Stockholders, held on July 29, 2004, our stockholders elected to amend and restate our Certificate of Incorporation to consolidate our Class A and Class B common stock into a single class of common stock by reclassifying each outstanding share of Class A common stock as one share of common stock and converting each outstanding share of Class B common stock into 0.001 share of common stock. Similarly each outstanding option to acquire a share of Class B common stock was converted into an option to acquire 0.001 shares of common stock.

Table of Contents

The following summarizes the activity under our common stock option plans during the fiscal years ended March 31, 2005, 2004 and 2003:

(In thousands, except weighted-average exercise price)

	<u>Options Outstanding</u>	
	<u>Number of Shares</u>	<u>Weighted- Average Exercise Price</u>
Balance as of April 1, 2002	45,635	\$ 17.76
Granted	13,792	30.49
Canceled	(2,129)	23.63
Exercised	(9,339)	12.44
Balance as of March 31, 2003	47,959	22.19
(21,563 shares were exercisable at a weighted-average price of \$16.17)		
Granted	9,182	45.38
Canceled	(1,363)	28.71
Exercised	(12,224)	17.10
Balance as of March 31, 2004	43,554	28.31
(18,477 shares were exercisable at a weighted-average price of \$20.26)		
Granted and Assumed ⁽¹⁾	9,091	58.89
Canceled	(2,422)	35.18
Exercised	(9,271)	23.26
Balance as of March 31, 2005	<u>40,952</u>	<u>\$ 35.82</u>
(19,100 shares were exercisable at a weighted-average price of \$24.58)		
Options available for grant as of March 31, 2005	12,747	

⁽¹⁾ We assumed 128,000 stock options as part of our acquisition of 100 percent of Criterion.

Table of Contents

The following summarizes the activity under our Class B plan during the fiscal years ended March 31, 2005, 2004 and 2003:

(In thousands, except weighted-average exercise price)

	Options Outstanding	
	Number of Shares	Weighted-Average Exercise Price
Balance as of April 1, 2002	4,161	\$ 10.09
Granted	15	9.00
Canceled	(2,054)	9.88
Exercised	—	9.00
Balance as of March 31, 2003	2,122	10.30
(1,470,855 shares were exercisable at a weighted-average price of \$10.03)		
Canceled	(2,087)	10.38
Balance as of March 31, 2004	35	9.11
Canceled	(35)	9.11
Balance as of March 31, 2005	—	\$ —
Options available for grant as of March 31, 2005	—	

Additional information regarding options outstanding for common stock as of March 31, 2005 is as follows:

(In thousands, except exercise prices)

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Potential Dilution	Number of Shares	Weighted-Average Exercise Price	Potential Dilution
\$1.61-\$14.94	5,281	3.35	\$ 11.29	1.7%	5,268	\$ 11.29	1.7%
14.95-23.27	4,160	6.16	22.25	1.3%	3,422	22.10	1.1%
23.28-27.19	4,165	6.22	25.34	1.3%	3,355	25.20	1.1%
27.20-30.82	5,012	6.91	29.54	1.6%	2,531	29.29	0.8%
30.83-31.32	5,341	7.53	31.31	1.7%	1,793	31.31	0.6%
31.33-45.59	4,245	8.38	40.68	1.4%	1,406	38.95	0.5%
45.60-48.79	4,342	8.73	48.43	1.4%	1,094	48.62	0.4%
48.80-64.88	3,072	9.43	53.58	1.0%	231	50.47	0.1%
64.89-65.93	5,334	9.93	64.94	1.7%	—	—	0.0%
<u>\$1.61-\$65.93</u>	<u>40,952</u>	<u>7.31</u>	<u>\$ 35.82</u>	<u>13.2%</u>	<u>19,100</u>	<u>\$ 24.58</u>	<u>6.2%</u>

Potential dilution is computed by dividing the options in the related range of exercise prices by the shares of common stock issued and outstanding as of March 31, 2005 (310 million shares). The weighted-average estimated fair value of stock options granted during fiscal years 2005, 2004 and 2003 was \$17.70, \$16.22 and \$13.64, respectively. The fair value was estimated on the date of grant using the Black-Scholes option-pricing model assumptions described in Note 1(o) of the Notes to Consolidated Financial Statements.

Table of Contents

The 40,952 thousand options outstanding have vested or will vest approximately as follows (in thousands):

	<u>2005 and Prior</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
Number of options	19,100	10,475	6,587	4,602	188	40,952

(c) 401(k) Plan

We have a 401(k) Plan covering substantially all of our U.S. employees. The 401(k) Plan permits us to make discretionary contributions to employees' accounts based on our financial performance. We contributed \$4 million, \$5 million and \$5 million to the 401(k) Plan in fiscal 2005, 2004 and 2003, respectively.

(13) INTEREST AND OTHER INCOME, NET

Interest and other income, net for the years ended March 31, 2005, 2004 and 2003 consisted of (in millions):

	<u>Year Ended March 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income, net	\$ 45	\$ 29	\$ 21
Net gain (loss) on foreign currency assets and liabilities	(23)	44	22
Net gain (loss) on foreign currency forward contracts	25	(50)	(30)
Ineffective portion of hedging	(1)	(2)	—
Impairment of investment in affiliates	—	—	(11)
Other income (expense), net	10	—	3
Interest and other income, net	<u>\$ 56</u>	<u>\$ 21</u>	<u>\$ 5</u>

(14) COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income", requires classification of comprehensive income in a financial statement and display of accumulated other comprehensive income separately from retained earnings and additional paid-in capital. Accumulated other comprehensive income (loss) primarily includes foreign currency translation adjustments, and the net of tax amounts for unrealized gains (losses) on investments and unrealized gains (losses) on derivatives. Foreign currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

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

	<u>Foreign Currency Translation Adjustment</u>	<u>Unrealized Gains (Losses) on Investments, Net</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
Balance as of March 31, 2002	\$ (14)	\$ (1)	\$ (15)
Other comprehensive income	15	2	17
Balance as of March 31, 2003	1	1	2
Other comprehensive income (loss)	19	(1)	18
Balance as of March 31, 2004	20	—	20
Other comprehensive income	10	26	36
Balance as of March 31, 2005	<u>\$ 30</u>	<u>\$ 26</u>	<u>\$ 56</u>

Table of Contents

The change in unrealized gains (losses) on investments, net are shown net of taxes of \$1 million in both fiscal years 2005 and 2003. The change in unrealized gains on investments, net for fiscal 2004 was not material. In each of the last three years, activity related to derivatives has not been material.

(15) NET INCOME (LOSS) PER SHARE

The following table summarizes the computations of basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic EPS is computed as net income 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. Effective August 2, 2004, each outstanding share of Class A common stock was reclassified as one share of common stock and prior year Class A common stock has been reclassified to reflect these amendments. See Note 11 in the Notes to Consolidated Financial Statements.

	Year Ended March 31	
	2005	2004
(In millions, except per share amounts)		
Net income	\$ 504	\$ 577
Shares used to compute net income per share:		
Weighted-average common stock outstanding — basic	305	295
Dilutive common stock equivalents	13	13
Weighted-average common stock outstanding — diluted	318	308
Net income per share:		
Basic	\$ 1.65	\$ 1.95
Diluted	\$ 1.59	\$ 1.87

	Year Ended March 31, 2003		
	Common Stock — Basic	Common Stock — Diluted	Class B Common Stock
(In millions, except per share amounts)			
Net income (loss) before retained interest in EA.com	\$ 474	\$ 317	\$ (157)
Net loss related to retained interest in EA.com	(145)	—	145
Net income (loss)	\$ 329	\$ 317	\$ (12)
Shares used to compute net income (loss) per share:			
Weighted-average common stock outstanding — basic	282	282	4
Dilutive common stock equivalents	—	11	—
Weighted-average common shares outstanding — diluted	282	293	4
Net income (loss) per share:			
Basic	\$ 1.17	N/A	\$ (2.77)
Diluted	N/A	\$ 1.08	\$ (2.77)

Excluded from the above computation of weighted-average common stock for Diluted EPS for the fiscal years ended March 31, 2005, 2004 and 2003 were options to purchase 1 million, 3 million and 6 million shares of common stock, respectively, as the options’ exercise price was greater than the average market price of the common stock. For fiscal 2005, 2004 and 2003, the weighted-average exercise price of these options was \$63.63, \$47.19 and \$31.16 per share, respectively.

Table of Contents

Due to our fiscal 2003 restructuring related to EA.com, (see Note 6 of the Notes to Consolidated Financial Statements), Class B net income per share reporting is no longer required. The Diluted EPS calculation for common stock, presented above for 2003, included the potential dilution from the conversion of Class B common stock to common stock in the event that an initial public offering for Class B common stock did not occur. Net income used for the calculation of Diluted EPS for common stock was \$317 million for the fiscal year ended March 31, 2003. This net income included the remaining interest in EA.com (100 percent of EA.com losses) which was directly attributable to outstanding Class B shares owned by third parties, which would have been included in the common stock EPS calculation in the event that an initial public offering for Class B common stock did not occur.

Due to the net loss attributable for the year ended March 31, 2003 on a diluted basis to Class B Stockholders, all stock options have been excluded from the Diluted EPS calculation as their inclusion would have been antidilutive. Had net income been reported for this period, an additional 1 million shares would have been added to diluted potential common stock for Class B common stock for the year ended March 31, 2003.

(16) RELATED PARTY TRANSACTIONS

On June 24, 2002, we hired Warren Jenson as our Chief Financial and Administrative Officer and agreed to loan him \$4,000,000, to be forgiven over four years based on his continuing employment. The loan does not bear interest. On June 24, 2004, pursuant to the terms of the loan agreement, we forgave two million dollars of the loan and provided Mr. Jenson approximately \$1.6 million to offset the tax implications of the forgiveness. As of March 31, 2005, the remaining outstanding loan balance was \$2,000,000, which will be forgiven on June 24, 2006, provided that Mr. Jenson has not voluntarily resigned his employment with us or been terminated for cause prior to that time. No additional funds will be provided to offset the tax implications of the forgiveness of the remaining two million dollars.

In April 2002, we agreed to pay certain taxes incurred by Bruce McMillan, Executive Vice President, Group Studio Head of EA Canada, arising from his temporary employment with us in the United Kingdom. Mr. McMillan agreed to reimburse us for those payments upon receipt of his corresponding tax refund from the Canadian taxing authorities. We subsequently paid approximately \$168,704 and \$32,931 in October 2002 and April 2003, respectively, to the UK Inland Revenue for taxes incurred by Mr. McMillan. In May 2003, Mr. McMillan became an executive officer of Electronic Arts. As of January 22, 2004, Mr. McMillan had repaid us the entire amount of the tax payments we made on his behalf.

(17) SEGMENT INFORMATION

SFAS No. 131, "*Disclosures About Segments of an Enterprise and Related Information*", 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 our operating segments for making operational decisions and assessments of financial performance.

Our chief operating decision maker is considered to be our Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenue by geographic region and by product lines for purposes of making operating decisions and assessing financial performance.

In fiscal 2003, we operated and reviewed our business in two business segments:

- EA Core business segment: creation, marketing and distribution of entertainment software.
- EA.com business segment: creation, marketing and distribution of entertainment software which can be played or sold online, ongoing management of subscriptions of online games and web site advertising.

In March 2003, we consolidated the operations of the EA.com business segment into our core business. We consider online functionality to be integral to our existing and future products. Accordingly, beginning April 1,

Table of Contents

2003, we no longer manage our online products and services as a separate business segment, and have consolidated our reporting related to online products and services into our reporting for the overall development and publication of our core products for all reporting periods ending after that date. We believe that this better reflects the way in which the CEO reviews and manages our business and reflects the importance of the online products and services relative to the rest of our business. Concurrently, we also eliminated separate reporting for Class B common stock for all reporting periods ending after April 1, 2003.

Our view and reporting of business segments may change due to changes in the underlying business facts and circumstances and the evolution of our reporting to our CEO.

Information about our total net revenue by product line for the fiscal years ended March 31, 2005, 2004 and 2003 is presented below (in millions):

	Year Ended March 31,		
	2005	2004	2003
Consoles			
PlayStation 2	\$ 1,330	\$ 1,315	\$ 911
Xbox	516	384	219
Nintendo GameCube	212	200	177
Other consoles	10	30	100
Total Consoles	2,068	1,929	1,407
PC	531	470	499
Mobility			
Game Boy Advance	76	77	79
Nintendo DS	23	—	—
PSP	18	—	—
Game Boy Color	1	1	26
Total Mobility	118	78	105
Co-publishing and Distribution	283	398	376
Internet Services, Licensing and Other			
Subscription Services	55	49	45
Licensing, Advertising and Other	74	33	50
Total Internet Services, Licensing and Other	129	82	95
Total Net Revenue	\$ 3,129	\$ 2,957	\$ 2,482

Table of Contents

Information about our operations in North America, Europe and Asia Pacific for the fiscal years ended March 31, 2005, 2004 and 2003 is presented below (in millions):

	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Total</u>
<u>Year ended March 31, 2005</u>				
Net revenue from unaffiliated customers	\$ 1,665	\$ 1,284	\$ 180	\$ 3,129
Interest income, net	37	8	—	45
Depreciation and amortization	47	25	3	75
Total assets	2,883	1,404	83	4,370
Capital expenditures	107	13	6	126
Long-lived assets	314	218	10	542
<u>Year ended March 31, 2004</u>				
Net revenue from unaffiliated customers	\$ 1,610	\$ 1,180	\$ 167	\$ 2,957
Interest income, net	25	4	—	29
Depreciation and amortization	52	24	2	78
Total assets	2,455	927	82	3,464
Capital expenditures	70	16	4	90
Long-lived assets	259	143	6	408
<u>Year ended March 31, 2003</u>				
Net revenue from unaffiliated customers	\$ 1,436	\$ 879	\$ 167	\$ 2,482
Interest income, net	19	2	—	21
Depreciation and amortization	76	14	2	92
Total assets	1,833	545	51	2,429
Capital expenditures	48	10	1	59
Long-lived assets	231	135	4	370

Our direct sales to Wal-Mart Stores, Inc. represented approximately 14 percent of total net revenue in fiscal 2005, approximately 13 percent of total net revenue in 2004, and approximately 12 percent of total net revenue in fiscal 2003.

(18) QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

	<u>Quarter Ended</u>				<u>Year Ended</u>
	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>March 31</u>	
(In millions, except per share data)					
Fiscal 2005 Consolidated					
Net revenue	\$ 432	\$ 716	\$ 1,428	\$ 553	\$3,129
Gross Profit	255	432	925	320	1,932
Operating income	25	125	519	—	669
Net income	24	97	375 ^(a)	8 ^(b)	504
Common Stock					
Net income per share — basic	\$ 0.08	\$ 0.32	\$ 1.23	\$ 0.02	\$ 1.65
Net income per share — diluted	\$ 0.08	\$ 0.31	\$ 1.18	\$ 0.02	\$ 1.59
Common stock price per share					
High	\$ 55.91	\$ 55.01	\$ 62.86	\$ 71.16	\$71.16
Low	\$ 47.42	\$ 45.52	\$ 43.38	\$ 54.52	\$43.38
Fiscal 2004 Consolidated					
Net revenue	\$ 353	\$ 530	\$ 1,475	\$ 599	\$2,957
Gross Profit	203	316	962	373	1,854
Operating income	22	102	558	94	776
Net income	18	77 ^(c)	392	90 ^(d)	577
Common Stock					
Net income per share — basic	\$ 0.06	\$ 0.26	\$ 1.32	\$ 0.30	\$ 1.95
Net income per share — diluted	\$ 0.06	\$ 0.25	\$ 1.26	\$ 0.29	\$ 1.87
Common stock price per share					
High	\$ 39.70	\$ 48.50	\$ 52.89	\$ 52.18	\$52.89
Low	\$ 28.10	\$ 36.55	\$ 40.60	\$ 43.43	\$28.10

(a) Net income includes amortization of intangibles of \$1 million, acquired in-process technology of \$9 million and employee stock-based compensation of \$3 million, all net of taxes, and \$3 million of non-deductible acquisition related costs from our 100 percent acquisition of Criterion.

(b) Net income includes amortization of intangibles of \$2 million, acquired in-process technology of \$4 million restructuring charges of \$1 million, employee stock-based compensation of \$1 million, \$15 million for certain litigation expenses and a bonus reversal of \$18 million, all net of taxes.

(c) Net income includes amortization of intangibles of \$1 million, net of taxes.

(d) Net income includes restructuring charges of \$6 million, net of taxes and a reversal of previously accrued income taxes of \$20 million.

Our common stock is traded on the Nasdaq National Market under the symbol ERTS. The prices for the common stock in the table above represent the high and low sales prices as reported on the Nasdaq National Market.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have audited the accompanying consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of March 26, 2005 and March 27, 2004, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 26, 2005. In connection with our audits of the consolidated financial statements, we have also audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electronic Arts Inc. and subsidiaries as of March 26, 2005 and March 27, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended March 26, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Electronic Arts Inc.'s internal control over financial reporting as of March 26, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 3, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

San Francisco, California
June 3, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

We have audited management’s assessment, included in the accompanying “Management’s Report on Internal Control over Financial Reporting”, that Electronic Arts Inc. maintained effective internal control over financial reporting as of March 26, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Electronic Arts Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that Electronic Arts Inc. maintained effective internal control over financial reporting as of March 26, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Electronic Arts Inc. maintained, in all material respects, effective internal control over financial reporting as of March 26, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of March 26, 2005 and March 27, 2004, and the related consolidated statements of operations, stockholders equity and other comprehensive income, and cash flows for each of the years in the three-year period ended March 26, 2005, and the financial statement schedule and our report dated June 3, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

San Francisco, California
June 3, 2005

Table of Contents

Item 9: *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A: *Controls and Procedures*

Definition and Limitations of Disclosure Controls

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Executive Vice President, Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluates these controls and procedures on an ongoing basis.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Executive Vice President, Chief Financial and Administrative Officer, after evaluating the effectiveness of our disclosure controls and procedures, believe that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing the requisite reasonable assurance that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Executive Vice President, Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding the required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Our internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with our policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of the end of our most recently completed fiscal year. In making this assessment, our management used the criteria set forth in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management believes that, as of the end of our most recently completed fiscal year, our internal control over financial reporting was effective.

Table of Contents

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on management's assessment of our internal control over financial reporting. That report appears on page 99.

Changes in Internal Controls

In preparation for management's report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. In connection with these efforts, we implemented a number of enhancements to our internal control over financial reporting during the quarter ended March 31, 2005, including increased restrictions on access to our information technology systems and the documentation and augmentation of existing policies and procedures.

Item 9B: *Other Information*

None.

PART III

Item 10: Directors and Executive Officers of the Registrant

The information regarding directors who are nominated for election required by Item 10 is incorporated herein by reference to the information in our definitive Proxy Statement for the 2005 Annual Meeting of Stockholders (the “Proxy Statement”) under the caption “Proposal No. 1 — Election of Directors”. The information regarding executive officers required by Item 10 is included in Item 1 of this report. The information regarding Section 16 compliance is incorporated herein by reference to the information in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance”.

The information required by Item 10 regarding our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers) appears in Item 1 of this Form 10-K under the caption “Investor Information”.

Item 11: Executive Compensation

The information required by Item 11 is incorporated herein by reference to the information in the Proxy Statement under the caption “Compensation of Executive Officers” specifically excluding the “Compensation Committee Report on Executive Compensation”.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference to the information in the Proxy Statement under the captions “Principal Stockholders” and “Equity Compensation Plan Information”.

Item 13: Certain Relationships and Related Transactions

The information required by Item 13 is incorporated herein by reference to the information in the Proxy Statement under the caption “Certain Transactions”.

Item 14: Principal Accounting Fees and Services

The information required by Item 14 is incorporated herein by reference to the information in the Proxy Statement under the caption “Fees of Independent Auditors”.

PART IV

Item 15: Exhibits, Financial Statement Schedule.

(a) Documents filed as part of this report

1. Financial Statements: See Index to Consolidated Financial Statements under Item 8 on Page 59 of this report.
2. Financial Statement Schedule: See Schedule II on Page 107 of this report.
3. Exhibits: The following exhibits (other than exhibits 32.1 and 32.2, which are furnished with this report) are filed as part of, or incorporated by reference into, this report:

<u>Number</u>	<u>Exhibit Title</u>
3.01	Amended and Restated Certificate of Incorporation of Electronic Arts Inc.(1)
3.02	Amended and Restated Bylaws.(2)
4.01	Specimen Certificate of Registrant’s Common Stock.(3)
10.01	Registrant’s Directors Stock Option Plan and related documents.(*)(4)

Table of Contents

<u>Number</u>	<u>Exhibit Title</u>
10.02	Registrant's 1998 Directors' Stock Option Plan and related documents, as amended.(*)(5)
10.03	Registrant's 1991 Stock Option Plan and related documents as amended.(*)(5)
10.04	Registrant's 2000 Equity Incentive Plan as amended, and related documents.(*)(6)
10.05	Registrant's 2000 Employee Stock Purchase Plan as amended, and related documents.(*)
10.06	Criterion Software Group Limited Approved Share Option Scheme and related documents.(*)(7)
10.07	Form of Indemnity Agreement with Directors.(*)(11)
10.08	Description of Registrant's FY 2006 Executive Bonus Plan.(*)
10.09	Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood, Inc. dated February 14, 1995. (8)
10.10	Guarantee from Electronic Arts Inc. to Flatirons Funding, LP dated February 14, 1995.(8)
10.11	Amended and Restated Guaranty from Electronic Arts Inc. to Flatirons Funding, LP dated March 7, 1997.(9)
10.12	Amended and Restated Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood Inc. dated March 7, 1997.(9)
10.13	Amendment No. 1 to Lease Agreement between Electronic Arts Redwood Inc. and Flatirons Funding, LP dated March 7, 1997.(9)
10.14	Lease Agreement by and between Registrant and Louisville Commerce Realty Corporation, dated April 1, 1999. (10)
10.15	Option agreement, agreement of purchase and sale, and escrow instructions for Zones 2 and 4, Electronic Arts Business Park, Redwood Shores California, dated April 5, 1999.(10)
10.16	Master Lease and Deed of Trust by and between Registrant and Selco Service Corporation, dated December 6, 2000.(12)
10.17	Amendment No. 1 to Amended and Restated Credit Agreement by and among Flatirons Funding LP and The Dai-ichi Kangyo Bank, Limited, New York Branch, dated February 21, 2001.(13)
10.18	Amendment No. 2 to Lease Agreement by and between Electronic Arts Redwood, Inc. and Flatirons Funding, LP dated July 16, 2001.(14)
10.19	Participation Agreement among Electronic Arts Redwood, Inc., Electronic Arts Inc., Flatirons Funding, LP, Selco Service Corporation and Selco Redwood, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Tranche Banks and Keybank National Association dated July 16, 2001.(14)
10.20	Offer Letter for Employment at Electronic Arts Inc. to Warren Jenson, dated June 21, 2002.(*)(15)
10.21	Full Recourse Promissory Note between Electronic Arts Inc. and Warren Jenson, dated July 19, 2002.(15)
10.22	Full Recourse Promissory Note between Electronic Arts Inc. and Warren Jenson, dated July 19, 2002.(15)
10.23	Participation Agreement among Electronic Arts Redwood, Inc., Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Keybank National Association, dated December 6, 2000.(16)
10.24	Lease Agreement by and between Registrant and Ontrea, Inc. dated October 7, 2002.(17)
10.25	Lease Agreement by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003. (18)
10.26	Agreement Re: Right of First Offer to Purchase and Option to Purchase by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003.(18)
10.27	Profit Participation Agreement by and between Playa Vista-Waters Edge, LLC and Electronic Arts Inc., dated July 31, 2003.(18)
10.28	Sublease Agreement by and between Electronic Arts Inc. and Playa Capital Company, LLC, dated July 31, 2003. (18)

Table of Contents

<u>Number</u>	<u>Exhibit Title</u>
10.29	Licensed Publisher Agreement by and between EA and Sony Computer Entertainment America Inc. dated as of April 1, 2000.(**)(19)
10.30	Amending Agreement among Ontrea Inc. (the “Landlord”), Electronic Arts (Canada), Inc. (the “Tenant”), and Electronic Arts Inc. (the “Indemnifier”), dated October 30, 2003.(2)
10.31	First Amendment of Lease between Louisville Commerce Realty Corporation and Electronic Arts Inc., dated February 23, 2004.(11)
10.32	Lease agreement between ASP WT, L.L.C. and Tiburon Entertainment, Inc. for space at Summit Park I, dated June 15, 2004.(2)
10.33	First Amendment to lease agreement by and between Playa Vista — Water’s Edge, LLC and Electronic Arts Inc., entered into April 19, 2004.(2)
10.34	Electronic Arts Deferred Compensation Plan.(*)(2)
10.35	Electronic Arts Executive Long-Term Disability Plan.(*)
21.01	Subsidiaries of the Registrant.
23.01	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Additional exhibits furnished with this report:
32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(*) Management contract or compensatory plan or arrangement.

(**) Portions of this exhibit have been redacted pursuant to a confidential treatment request filed with the SEC.

- (1) Incorporated by reference to exhibits filed with Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- (2) Incorporated by reference to exhibits filed with Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- (3) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-4, filed March 3, 1994 (File No. 33-75892).
- (4) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant’s Registration Statement on Form S-8, filed November 6, 1991 (File No. 33-32616).
- (5) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-8, filed July 30, 1999 (File No. 333-84215).
- (6) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-8, filed August 6, 2004 (File No. 333-117990).
- (7) Incorporated by reference to exhibits filed with Registrant’s Registration Statement on Form S-8, filed November 5, 2004 (File No. 333-120256).
- (8) Incorporated by reference to exhibits filed with Registrant’s Annual Report on Form 10-K for the year ended March 31, 1995.
- (9) Incorporated by reference to exhibits filed with Registrant’s Annual Report on Form 10-K for the year ended March 31, 1997.

Table of Contents

- (10) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1999.
- (11) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2004.
- (12) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.
- (13) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2001.
- (14) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2002.
- (15) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (16) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2002.
- (17) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2003.
- (18) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- (19) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant's Registration Statement on Form S-3, filed November 12, 2003 (File No. 333-102797).

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRONIC ARTS INC.

By: /s/ Lawrence F. Probst III

 Lawrence F. Probst III,
 Chairman of the Board and
 Chief Executive Officer

Date: June 7, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the Registrant in the capacities indicated and on the 7th of June 2005.

Name	Title
/s/ Lawrence F. Probst III Lawrence F. Probst III	Chairman of the Board and Chief Executive Officer
/s/ Warren C. Jenson Warren C. Jenson	Executive Vice President, Chief Financial and Administrative Officer
/s/ Kenneth A. Barker Kenneth A. Barker	Vice President and Chief Accounting Officer (Principal Accounting Officer)
Directors:	
/s/ M. Richard Asher M. Richard Asher	Director
/s/ William J. Byron William J. Byron	Director
/s/ Leonard S. Coleman Leonard S. Coleman	Director
/s/ Gary M. Kusin Gary M. Kusin	Director
/s/ Gregory B. Maffei Gregory B. Maffei	Director
/s/ Timothy Mott Timothy Mott	Director
/s/ Robert W. Pittman Robert W. Pittman	Director
/s/ Linda J. Srere Linda J. Srere	Director



ELECTRONIC ARTS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Years Ended March 31, 2005, 2004 and 2003

(In millions)

Allowance for Doubtful Accounts, Price Protection and Returns	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts ⁽¹⁾	Deductions	Balance at End of Period
Year Ended March 31, 2005	\$ 155	\$ 471	\$ 7	\$ 471	\$ 162
Year Ended March 31, 2004	\$ 165	\$ 299	\$ 14	\$ 323	\$ 155
Year Ended March 31, 2003	\$ 116	\$ 319	\$ 10	\$ 280	\$ 165

⁽¹⁾ Primarily the translation effect of using the average exchange rate for expense items and the year-ended exchange rate for the balance sheet item (allowance account) and other reclassification adjustments.

ELECTRONIC ARTS INC.
2005 FORM 10-K ANNUAL REPORT
EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.05	Registrant's 2000 Employee Stock Purchase Plan as amended, and related documents.
10.08	Description of Registrant's FY 2006 Executive Officer Bonus Plan.
10.35	Electronic Arts Executive Long-Term Disability Plan.
21.01	Subsidiaries of the Registrant.
23.01	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
ADDITIONAL EXHIBITS ACCOMPANYING THIS REPORT:	
32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ELECTRONIC ARTS INC.**2000 EMPLOYEE STOCK PURCHASE PLAN****As Adopted by the Board of Directors on May 25, 2000****As Approved by the Stockholders on July 27, 2000****As amended on February 13, 2003, June 26, 2003,****July 31, 2003, July 29, 2004 and October 27, 2004**

1. *Establishment of Plan*. Electronic Arts Inc., (the “Company”) proposes to grant options for purchase of the Company’s Common Stock to eligible employees of the Company and its Subsidiaries (as hereinafter defined) pursuant to this 2000 Employee Stock Purchase Plan (the “Plan”). For purposes of this Plan, “parent corporation” and “Subsidiary” (collectively, “Subsidiaries”) shall have the same meanings as “parent corporation” and “subsidiary corporation” in Sections 424(e) and 424(f), respectively, of the Internal Revenue Code of 1986, as amended (the “Code”). The Company intends that the Plan shall feature two components: (i) an “employee stock purchase plan” under Section 423 of the Code (including any amendments or replacements of such section) for participants residing in the U.S., and (ii) an “employee stock purchase plan” that is intended to grant purchase rights under rules, procedures or sub-plans that are not intended to qualify Section 423 of the Code for participants that are not residing in the U.S. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. A total of 3,800,000 shares of Common Stock are reserved for issuance under the Plan. Such number shall be subject to adjustments effected in accordance with Section 14 of the Plan.

2. *Purposes*. The purpose of the Plan is to provide employees of the Company and its Subsidiaries designated by the Board of Directors as eligible to participate in the Plan with a convenient means to acquire an equity interest in the Company through payroll deductions, to enhance such employees’ sense of participation in the affairs of the Company and its Subsidiaries, and to provide an incentive for continued employment.

3. *Administration*. This Plan may be administered by the Board or a committee appointed by the Board (the “Committee”). The Plan shall be administered by the Board or a committee appointed by the Board consisting of not less than three (3) persons (who are members of the Board), each of whom is a disinterested director. As used in this Plan, references to the “Committee” shall mean either the committee appointed by the Board to administer this Plan or the Board if no committee has been established. Subject to the provisions of the Plan and the limitations of Section 423 of the Code or any successor provision in the Code, if applicable, all questions of interpretation or application of the Plan shall be determined by the Committee and its decisions shall be final and binding upon all participants. Members of the Committee shall receive no compensation for their services in connection with the administration of the Plan, other than standard fees as established from time to time by the Board of Directors of the Company for services rendered by Board members serving on Board committees. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

4. *Eligibility*. Any employee of the Company or the Subsidiaries is eligible to participate in an Offering Period (as hereinafter defined) under the Plan except the following:

(a) employees who are not employed by the Company or its Subsidiaries on the fifteenth (15th) day of the month before the beginning of such Offering Period;

(b) employees who, together with any other person whose stock would be attributed to such employee pursuant to Section 424(d) of the Code, own stock or hold options to purchase stock or who, as a result of being granted an option under the Plan with respect to such Offering Period, would own stock or hold options to purchase stock possessing five (5) percent or more of the total combined voting power or value of all classes of stock of the Company or any of its Subsidiaries; and

(c) employees who would, by virtue of their participation in such Offering Period, be participating simultaneously in more than one Offering Period under the Plan.

For employees of Subsidiaries located in the U.S., the following would not be eligible to participate in an Offering Period:

(a) employees who are customarily employed for less than 20 hours per week, and

(b) employees who are customarily employed for less than five (5) months in a calendar year.

5. *Offering Dates*. The Offering Periods of the Plan (the "Offering Period") shall be of twelve (12) months duration commencing on the first business day of March and September of each year and ending on the last business day of February and August, respectively, hereafter. The first Offering Period shall commence on September 1, 2000. The first day of each Offering Period is referred to as the "Offering Date". Each Offering Period shall consist of two (2) six-month purchase periods (individually, a "Purchase Period"), during which payroll deductions of the participant are accumulated under this Plan. Each such six-month Purchase Period shall commence on the first business day of March and September of an Offering Period and shall end on the last business day of the following August and February, respectively. The last business day of each Purchase Period is hereinafter referred to as the Purchase Date. The Board of Directors of the Company shall have the power to change the duration of Offering Periods or Purchase Periods without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period or Purchase Period, as the case may be, to be affected.

6. *Participation in the Plan*. Eligible employees may become participants in an Offering Period under the Plan on the first Offering Date after satisfying the eligibility requirements by delivering to the Company's or Subsidiary's (whichever employs such employee) payroll department (the "payroll department") not later than the 15th day of the month before such Offering Date unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period a subscription agreement authorizing payroll deductions. An eligible employee who does not deliver a subscription agreement to the payroll department by such date after becoming eligible to participate in such Offering Period under the Plan shall not participate in that Offering Period or any subsequent Offering Period unless such employee enrolls in the Plan by filing the subscription agreement with the payroll department not later than the 15th day of the month preceding a subsequent Offering Date. Once an employee becomes a participant in an Offering Period, such employee will automatically participate in the Offering Period commencing immediately following the last day of the prior Offering Period unless the employee withdraws from the Plan or terminates further participation in the Offering Period as set forth in Section 11 below. Such participant is not required to file any additional subscription agreements in order to continue participation in the Plan. Any participant whose option expires and who has not withdrawn from the Plan pursuant to Section 11 below will automatically be re-enrolled in the Plan and granted a new option on the Offering Date of the next Offering Period. A participant in the Plan may participate in only one Offering Period at any time.

In jurisdictions where payroll deductions are not permitted under local law, the eligible employees may participate in the Plan by making contributions in the form that is acceptable and approved by the Board or Committee.

7. *Grant of Option on Enrollment*. Enrollment by an eligible employee in the Plan with respect to an Offering Period will constitute the grant (as of the Offering Date) by the Company to such employee of an option to purchase on each Purchase Date up to that number of shares of Common Stock of the Company determined by dividing the amount accumulated in such employee's payroll deduction account during such Purchase Period by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Offering Date (the "Entry Price") or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Purchase Date, provided, however, that the number of shares of the Company's Common Stock subject to any option granted pursuant to this Plan shall not exceed the lesser of (a) the maximum number of shares set by the Board pursuant to Section 10(c) below with respect to all Purchase Periods within the applicable Offering Period or Purchase Period, or (b) 200% of the number of shares determined by using 85% of the fair market value of a share of the Company's Common Stock on the Offering Date as the denominator. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 8 hereof.

8. *Purchase Price*. The purchase price per share at which a share of Common Stock will be sold in any Offering Period shall be eighty-five percent (85%) of the lesser of:

- (a) the fair market value on the Offering Date, or
- (b) the fair market value on the Purchase Date.

For purposes of the Plan, the term "fair market value" on a given date shall mean the closing bid from the previous day's trading of a share of the Company's Common Stock as reported on the NASDAQ National Market System.

9. *Payment of Purchase Price; Changes in Payroll Deductions; Issuance of Shares*.

(a) The purchase price of the shares is accumulated by regular payroll deductions made during each Purchase Period. The deductions are made as a percentage of the employee's compensation in one percent (1%) increments not less than two percent (2%) nor greater than ten percent (10%). Compensation shall mean base salary, commissions, overtime, performance bonuses, discretionary bonuses, stay bonuses, referral bonuses, sabbatical cash outs, shift differentials, and such other forms of compensation as the Committee, in the exercise of its discretion under the Plan, may designate as subject to payroll deductions for purposes of the Plan. Notwithstanding the foregoing, Compensation shall not include car benefits/allowances, income derived from stock options, equity-based compensation, or payments made in connection with termination (including, but not limited to, holiday accrual cash outs, severance pay, separation pay, or ex gratia payments). Payroll deductions shall commence with the first pay period following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.

(b) A participant may lower (but not increase) the rate of payroll deductions during a Purchase Period by filing with the payroll department a new authorization for payroll deductions, in which case the new rate shall become effective for the next payroll period commencing more than 15 days after the payroll department's receipt of the authorization and shall continue for the remainder of the Offering Period unless changed as described below. Such change in the rate of payroll deductions may be made at any time during an Offering Period, but

not more than one change may be made effective during any Purchase Period. A participant may increase or lower the rate of payroll deductions for any subsequent Purchase Period by filing with the payroll department a new authorization for payroll deductions not later than the 15th day of the month before the beginning of such Purchase Period.

(c) Subject to the laws of the local jurisdiction, all payroll deductions made for a participant are credited to his or her account under the Plan and are deposited with the general funds of the Company; no interest accrues on the payroll deductions. Subject to the laws of the local jurisdiction, all payroll deductions received or held by the Company may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

(d) On each Purchase Date, as long as the Plan remains in effect and provided that the participant has not submitted a signed and completed withdrawal form before that date which notifies the Company that the participant wishes to withdraw from that Offering Period under the Plan and have all payroll deductions accumulated in the account maintained on behalf of the participant as of that date returned to the participant, the Company shall apply the funds then in the participant's account to the purchase of whole shares of Common Stock reserved under the option granted to such participant with respect to the Offering Period to the extent that such option is exercisable on the Purchase Date. The purchase price per share shall be as specified in Section 8 of the Plan. Any cash remaining in a participant's account after such purchase of shares shall be refunded to such participant in cash; provided, however, that any amount remaining in participant's account on a Purchase Date which is less than the amount necessary to purchase a full share of Common Stock of the Company shall be carried forward, without interest, into the next Purchase Period or Offering Period, as the case may be. In the event that the Plan has been oversubscribed, all funds not used to purchase shares on the Purchase Date shall be returned to the participant. No Common Stock shall be purchased on a Purchase Date on behalf of any employee whose participation in the Plan has terminated prior to such Purchase Date.

(e) As promptly as practicable after the Purchase Date, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his option; provided that the Board may deliver certificates to a broker or brokers that hold such certificates in street name for the benefit of each such participant.

(f) During a participant's lifetime, such participant's option to purchase shares hereunder is exercisable only by him or her. The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised. Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

10. *Limitations on Shares to be Purchased.*

(a) No employee shall be entitled to purchase stock under the Plan at a rate which, when aggregated with his or her rights to purchase stock under all other employee stock purchase plans of the Company or any Subsidiary, exceeds US\$25,000 in fair market value, determined as of the Offering Date (or such other limit as may be imposed by the Code) for each calendar year in which the employee participates in the Plan.

(b) No more than 200% of the number of shares determined by using 85% of the fair market value of a share of the Company's Common Stock on the Offering Date as the denominator may be purchased by a participant on any single Purchase Date.

(c) No employee shall be entitled to purchase more than the Maximum Share Amount (as defined below) on any single Purchase Date. Not less than thirty days prior to the commencement of any Purchase Period, the Board may, in its sole discretion, set a maximum number of shares which may be purchased by any employee at any single Purchase Date (hereinafter the "Maximum Share Amount"). In no event shall the Maximum Share Amount exceed the amounts permitted under Section 10(b) above. If a new Maximum Share Amount is set, then all participants must be notified of such Maximum Share Amount not less than fifteen (15) days prior to the commencement of the next Purchase Period. Once the Maximum Share Amount is set, it shall continue to apply with respect to all succeeding Purchase Dates and Purchase Periods unless revised by the Board as set forth above.

(d) If the number of shares to be purchased on a Purchase Date by all employees participating in the Plan exceeds the number of shares then available for issuance under the Plan, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as the Board shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares to be purchased under a participant's option to each employee affected thereby.

(e) Any payroll deductions accumulated in a participant's account which are not used to purchase stock due to the limitations in this Section 10 shall be returned to the participant as soon as practicable after the end of the Offering Period.

11. Withdrawal.

(a) Each participant may withdraw from an Offering Period under the Plan by signing and delivering to the payroll department notice on a form provided for such purpose. Such withdrawal may be elected at any time at least fifteen (15) days prior to the end of an Offering Period.

(b) Upon withdrawal from the Plan, the accumulated payroll deductions shall be returned to the withdrawn employee and his or her interest in the Plan shall terminate. In the event an employee voluntarily elects to withdraw from the Plan, he or she may not resume his or her participation in the Plan during the same Offering Period, but he or she may participate in any Offering Period under the Plan which commences on a date subsequent to such withdrawal by filing a new authorization for payroll deductions in the same manner as set forth above for initial participation in the Plan. However, if the participant is an "insider" for purposes of Rule 16(b), he or she shall not be eligible to participate in any Offering Period under the Plan which commences less than six (6) months from the date of withdrawal from the Plan.

(c) A participant may participate in the current Purchase Period under an Offering Period (the "Current Offering Period") and enroll in the Offering Period commencing after such Purchase Period (the "New Offering Period") by (i) withdrawing from participating in the Current Offering Period effective as of the last day of a Purchase Period within that Offering Period and (ii) enrolling in the New Offering Period. Such withdrawal and enrollment shall be effected by filing with the payroll department at least fifteen (15) days prior to the end of a Purchase Period such form or forms as are provided for such purposes.

12. Termination of Employment. Termination of a participant's employment for any reason, including retirement or death or the failure of a participant to remain an eligible employee, terminates his or her participation in the Plan immediately. In such event, the payroll deductions credited to the participant's account will be returned to him or her or, in the case of his or her death, to his or her legal representative. For this purpose, an employee will not be deemed to have terminated employment or failed to remain in the continuous employ of the Company in the case of sick leave, military leave, or any other leave of absence approved by the

Board of Directors of the Company; provided that such leave is for a period of not more than ninety (90) days or re employment upon the expiration of such leave is guaranteed by contract or statute.

13. *Return of Payroll Deductions*. In the event an employee's interest in the Plan is terminated by withdrawal, termination of employment or otherwise, or in the event the Plan is terminated by the Board, the Company shall promptly deliver to the employee all payroll deductions credited to his account. No interest shall accrue on the payroll deductions of a participant in the Plan, unless otherwise required by the laws of a local jurisdiction.

14. *Capital Changes*. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that the options under the Plan shall terminate as of a date fixed by the Board and give each participant the right to exercise his or her option as to all of the optioned stock, including shares which would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the participant shall have the right to exercise the option as to all of the optioned stock. If the Board makes an option exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the participant that the option shall be fully exercisable for a period of twenty (20) days from the date of such notice, and the option will terminate upon the expiration of such period.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

15. *Nonassignability*. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws

of descent and distribution or as provided in Section 22 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect.

16. *Reports*. Individual accounts will be maintained for each participant in the Plan. Each participant shall receive promptly after the end of each Purchase Period a report of his account setting forth the total payroll deductions accumulated, the number of shares purchased, the per share price thereof and the remaining cash balance, if any, carried forward to the next Purchase Period or Offering Period, as the case may be.

17. *Notice of Disposition*. Each participant shall notify the Company if the participant disposes of any of the shares purchased in any Offering Period pursuant to this Plan if such disposition occurs within two (2) years from the Offering Date or within twelve (12) months from the Purchase Date on which such shares were purchased (the "Notice Period"). Unless such participant is disposing of any of such shares during the Notice Period, such participant shall keep the certificates representing such shares in his or her name (and not in the name of a nominee) during the Notice Period. The Company may, at any time during the Notice Period, place a legend or legends on any certificate representing shares acquired pursuant to the Plan requesting the Company's transfer agent to notify the Company of any transfer of the shares. The obligation of the participant to provide such notice shall continue notwithstanding the placement of any such legend on certificates.

18. *No Rights to Continued Employment*. Neither this Plan nor the grant of any option hereunder shall confer any right on any employee to remain in the employ of the Company or any Subsidiary or restrict the right of the Company or any Subsidiary to terminate such employee's employment.

19. *Equal Rights and Privileges*. All eligible employees shall have equal rights and privileges with respect to the Plan. The Section 423 component of the Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 or any successor provision of the Code and the related regulations. Any provision of the Section 423 component of the Plan which is inconsistent with Section 423 or any successor provision of the Code shall without further act or amendment by the Company or the Board be reformed to comply with the requirements of Section 423. This Section 19 shall take precedence over all other provisions in the Plan.

20. *Notices*. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. *Stockholder Approval of Amendments*. Any required approval of the stockholders of the Company for an amendment shall be solicited at or prior to the first annual meeting of stockholders held subsequent to the grant of an option under the Plan as then amended to an officer or director of the Company. If such stockholder approval is obtained at a duly held stockholders' meeting, it must be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the company represented and voting at the meeting, or if such stockholder approval is obtained by written consent, it must be obtained by the majority of the outstanding shares of the Company; provided, however, that approval at a meeting or by written consent may be obtained by a lesser degree of stockholder approval if the Board determines, in its discretion after consultation with the Company's legal counsel, that such lesser degree of stockholder approval will comply with all applicable laws and will not adversely affect the qualification of the Section 423 component of the Plan under Section 423 of the Code or Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

22. Designation of Beneficiary

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of a Purchase Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to a Purchase Date.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

23. Conditions Upon Issuance of Shares ; Limitation on Sale of Shares . Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

24. Applicable Law . Except as otherwise expressly required under the laws of a country, the Plan and all rights thereunder shall be governed by and construed in accordance with the laws of the state of California, United States of America. Should any provision of this Plan be determined by a court of competent jurisdiction to be unlawful or unenforceable for a country, such determination shall in no way affect the application of that provision in any other country, or any of the remaining provisions of the Plan.

25. Amendment or Termination of the Plan . This Plan shall be effective on the day after the effective date of the Company's Registration Statement filed with the Securities Exchange Commission under the Securities Act of 1933, as amended, with respect to the shares issuable under the Plan (the "Effective Date"), subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board of Directors of the company and the Plan shall continue until the earlier to occur of termination by the Board, issuance of all of the shares of Common Stock reserved for issuance under the Plan, or ten (10) years from the adoption of the Plan by the Board. The Board of Directors of the Company may at any time amend or terminate the Plan, except that any such termination cannot affect options previously granted under the Plan, nor may any amendment make any change in an option previously granted which would adversely affect the right of any participant, nor may any amendment be made without approval of the stockholders of the Company obtained in accordance with Section 21 hereof within 12 months of the adoption of such amendment (or earlier if required by Section 21) if such amendment would:

(a) Increase the number of shares that may be issued under the Plan;

(b) Change the designation of the employees (or class of employees) eligible for participation in the Plan; or

(c) Constitute an amendment for which stockholder approval is required in order to comply with Rule 16b-3 (or any successor rule) of the Exchange Act.

26. Rules for Foreign Jurisdictions.

(a) The Board or Committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of the law and procedures of foreign jurisdictions. Without limiting the generality of the foregoing, the Board or Committee is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, payment of interest, conversion of local currency, payroll tax, withholding procedures and handling of stock certificates that vary with local requirements.

(b) The Board or Committee may also adopt rules, procedures or sub-plans applicable to particular subsidiaries or locations, which – sub-plans may be designed to be outside the scope of Code Section 423. The rules of such sub-plans may take precedence over other provisions of this Plan, with the exception of Section 3, but unless otherwise superceded by the terms of such sub-plan, the provisions of the Plan shall govern the operation of such sub-plan. To extent inconsistent with the requirements of Code Section 423, such sub-plan shall be considered part of the Non-423 Plan, and options granted thereunder shall not be considered to comply with Code Section 423.

27. Designation of Subsidiaries. The Board or Committee shall designate from among the Subsidiaries, as determined from time to time, the Subsidiary or Subsidiaries whose Employees shall be eligible to participate in the Plan. The Board or Committee may designate a Subsidiary, or terminate the designation of a Subsidiary, without the approval of the shareowners of the Corporation.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

**DESCRIPTION OF REGISTRANT'S FISCAL YEAR 2006
EXECUTIVE OFFICER BONUS PLAN**

Target annual bonuses are set for each executive officer based upon a percentage of base salary. Bonuses for executive officers reporting to the Chief Executive Officer are generally paid in two parts, one of which relates only to the Company's earnings results, and one of which is discretionary and is measured against each individual's contributions. Other executive officers have a third part which relates to a specific business unit's or product's financial performance. Bonuses are paid after the end of the fiscal year. If profits in any period are less than 85 percent of the Company's plan, no bonus based on the Company's performance may be paid for that period. If profits exceed plan during a period, the bonus rate is accelerated for the incremental profits above plan, with a maximum of 200 percent payout of the bonus target.

ELECTRONIC ARTS
EXECUTIVE LONG-TERM DISABILITY PLAN

TABLE OF CONTENTS

		<u>Page</u>
Article 1.	The Plan	1
1.1	Establishment	1
1.2	Purpose	1
1.3	Top-Hat Plan	1
Article 2.	Definitions	1
2.1	"Affiliate"	1
2.2	"Annual Base Salary"	1
2.3	"Annual Bonus"	2
2.4	"Committee"	2
2.5	"Company"	2
2.6	"Disability"	2
2.7	"Eligible Employee"	2
2.8	"Employee"	2
2.9	"ERISA"	2
2.10	"Insurer"	2
2.11	"Participant"	3
2.12	"Payroll"	3
2.13	"Plan Year"	3
2.14	"Policy"	3
2.15	"Premium Termination Date"	3
2.16	"Total Compensation"	3
Article 3.	Benefits Provided Policy Underwriting/Issuance	3
3.1	Benefits	3
3.2	Insurance Policy	4
3.3	Acceptable Underwriting	4
3.4	Rated Underwriting	4
3.5	Decline to Issue	4
3.6	Optional Riders	4
Article 4.	Premium Payments	5
4.1	Premium Payments	5
4.2	Premium Termination Date	5
4.3	Return of Unearned Premiums	5
4.4	Policy Continuation Rights	5
Article 5.	Claims and Review Procedures	5
5.1	Claims for Disability Benefits	5
5.2	All Other Claims	6

		Page
Article 6.	Administration and Finances	10
6.1	Administration	10
6.2	Powers of the Plan Administrator	10
6.3	Actions of the Plan Administrator	11
6.4	Delegation	11
6.5	Reports and Records	11
6.6	Plan Expenses	12
Article 7.	Amendment/Termination	12
Article 8.	Miscellaneous	12
8.1	No Guaranty of Employment	12
8.2	Limitation on Liability	12
8.3	Policy Governs	12
8.4	Non-Alienation	12
8.5	Exclusive Benefit	12
8.6	Transfer to Affiliate	12
8.7	Applicable Law	13

ELECTRONIC ARTS

EXECUTIVE LONG-TERM DISABILITY PLAN

ARTICLE 1. THE PLAN

- 1.1 Establishment. Electronic Arts (the “Company”) hereby establishes this Executive Long-Term Disability Plan (the “Plan”) effective as of July 1, 2003, and as subsequently amended, effective January 1, 2005.
- 1.2 Purpose. The Company has established the Plan to provide designated key Eligible Employees with additional long-term Disability benefits to bring their total benefits to a more competitive level. These benefits under the Plan are provided under individual long-term Disability policies purchased from an Insurer to supplement the Company’s group long-term Disability coverage.
- 1.3 Top-Hat Plan. It is the intention of the Company that the Plan constitute an employee welfare benefit plan maintained primarily for the purpose of providing benefits for a select group of management employees in accordance with Department of Labor Regulation Section 2520.104-24.

ARTICLE 2. DEFINITIONS

Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning. When the defined meaning is intended, the term is capitalized:

- 2.1 “Affiliate” means an entity that is related to the Company through ownership and/or control. If an Affiliate adopts this Plan, the term “Company,” as used in this Plan, shall mean such Affiliate, unless the context clearly indicates otherwise.
- 2.2 “Annual Base Salary” means the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, restricted stock, relocation expenses, unused and unpaid excess vacation days, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a

Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Annual Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of the Company and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by the Company; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Participant.

- 2.3 “Annual Bonus” means any compensation, in addition to Annual Base Salary, relating to services performed during any calendar year, whether or not paid in such year or included on the Federal Income Tax Form W-2 for such year, payable to a Participant as an Employee under the Company's annual or quarterly bonus and/or cash incentive plans, excluding stock options and restricted stock.
- 2.4 “Committee” means the committee, if any, appointed by the Board of Directors to administer the Plan. The Committee shall be comprised of such number of members as the Board of Directors may designate, and who shall serve at the pleasure of, the Board of Directors.
- 2.5 “Company” means Electronic Arts, a Delaware Corporation.
- 2.6 “Disability” means a disability as specified in the Policy.
- 2.7 “Eligible Employee” means an Employee on the U.S. dollar Payroll of the Company who has been designated by the Company in writing as eligible to participate in this Plan.
- 2.8 “Employee” means any individual who is employed as a common law employee of the Company.
- 2.9 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 2.10 “Insurer” means the insurance company or companies selected by the Company, in its sole discretion, to provide long-term Disability insurance coverage under this Plan.

- 2.11 “ Participant ” means an Eligible Employee of the Company who has been specifically designated by the Company as a Participant in this Plan. The Company reserves the right to terminate the participation of any Participant at any time by written notice.
- 2.12 “ Payroll ” means the system used by an entity to pay those individuals it regards as its common law employees for their services and to withhold employment taxes from the compensation it pays to such common law employees. “Payroll” does not include any system an entity uses to pay individuals whom it does not regard as its common law employees and for whom it does not actually withhold employment taxes (including, but not limited to, individuals it regards as independent contractors) for their services.
- 2.13 “ Plan Year ” means each 12-month period beginning January 1 and ending December 31.
- 2.14 “ Policy ” with respect to a Participant means the long-term Disability insurance policy issued by the Insurer for the Participant.
- 2.15 “ Premium Termination Date ” means the date the Company’s premium obligations under this Plan cease, and the Participant ceases to participate in this Plan, as described in Article 4.
- 2.16 “ Total Compensation ” means the Participant’s Annual Base Salary as of July 1 of the Plan Year and most recent three year average Annual Bonus and/or commissions. With respect to a Participant who has been employed by the Company for less than three years, Total Compensation means the Participant’s Annual Base Salary as of July 1 of the Plan Year and average Annual Bonus and/or commissions. With respect to a Participant who has not previously received an Annual Bonus or commissions, Total Compensation means the Participant’s Annual Base Salary as of July 1 of the Plan Year.

ARTICLE 3. BENEFITS PROVIDED

POLICY UNDERWRITING/ISSUANCE

- 3.1 Benefits. The Company shall assist the Participant in applying for issuance of a Policy pursuant to this Article 3. The Policy shall provide additional long-term Disability benefits such that the benefits provided under the Company’s Group Long Term Disability Insurance Program and this Plan combined shall provide 60% of the

Participant's monthly pre-Disability Total Compensation; provided, however that the maximum benefits under the Group Long Term Disability Insurance Program and this Plan combined shall not exceed \$20,000 per month. Notwithstanding the foregoing, the Total Compensation to be taken into account for purposes of this Plan shall be determined by the Committee once each Plan Year. Any adjustments to the benefit amounts to be provided under this Plan as a result of a change in the amount of a Participant's Total Compensation, shall be determined annually at the discretion of the Committee and shall become effective for the next subsequent Plan Year.

- 3.2 Insurance Policy. The Company shall assist the Participant in applying for issuance of a Policy providing long-term Disability coverage and such other provisions as may be determined by the Company, in its sole discretion. No long-term Disability benefits are provided under this Plan other than the benefits, if any, paid by the Insurer under the Policy. The Insurance Policy shall provide a maximum benefit of \$5,000 per month.
- 3.3 Acceptable Underwriting. If the Insurer offers to issue a Policy with standard underwriting, the Company shall instruct the Insurer to issue the Policy with the Participant as the named owner.
- 3.4 Rated Underwriting. If the Insurer offers to issue a Policy with a rating other than standard, the Company, in its sole discretion, shall elect whether to have the Policy issued with such rating. If the Company elects to have the rated Policy issued, the Company shall instruct the Insurer to issue the Policy with the Participant as the named owner. If the Company elects not to have the rated Policy issued, then the Company shall be released of its obligation to provide benefits to the Participant under this Plan.
- 3.5 Decline to Issue. If the Insurer declines to offer to issue a Policy, then the Company shall be released of its obligation to provide benefits to the Participant under this Plan.
- 3.6 Optional Riders. If the Policy is issued, the Company shall, in its sole discretion, choose whether to have the Policy issued with any optional coverages or benefits available under the Policy.

ARTICLE 4. PREMIUM PAYMENTS

- 4.1 Premium Payments. The Company shall pay the premiums due on the Policy each Plan Year until the Participant's Premium Termination Date.
- 4.2 Premium Termination Date. The Participant's Premium Termination Date occurs on the earliest of the following events:
- 4.2.1 Termination of the Participant's employment with the Company for any reason; or
 - 4.2.2. The Company's termination of the Participant's participation in the Plan; or
 - 4.2.3 The Company's termination of the Plan; or
 - 4.2.4 The termination of the Policy prior to termination of the Participant's employment with the Company for any reason.
- 4.3 Return of Unearned Premiums. If the Participant's Premium Termination Date occurs after the Company has paid a premium on the Policy but before the end of the coverage period supported by such premium, the Insurer shall credit the Company for the pro rata portion of such premium representing the unexpired coverage period, calculated from the Participant's Premium Termination Date.
- 4.4 Policy Continuation Rights. Following the Premium Termination Date, the Participant shall cease to participate in this Plan, but shall retain all ownership rights under the Policy, including the right to continue such coverage in force by paying premiums on the Policy directly to the Insurer.

ARTICLE 5. CLAIMS AND REVIEW PROCEDURES

5.1 Claims for Disability Benefits

All claims regarding Disability benefits under the Plan shall be presented to the Insurer pursuant to the Insurer's claims procedures. All claims for Disability benefits under the Plan must be in writing on the forms prescribed by the Insurer must include the required information, documentation and substantiation. The Insurer is the named fiduciary that has the authority to act with respect to any appeal from a denial of Disability benefits under the Plan. Any other claims under this Plan shall be subject to the following claims and review procedures.

5.2 All Other Claims

(a) Claims Procedure

(i) Filing of Claims

All claims for benefits under the Plan, other than claims regarding Disability benefits which shall be submitted to the Insurer pursuant to Section 5.1 above, shall be submitted to the Company according to such procedures as are communicated to Participants.

(ii) Denied Claims

In the event that any claim for a Plan benefit is denied, in whole or in part, the Company shall notify the claimant (or his or her duly authorized representative, if applicable) in writing of such denial within 45 days after the receipt thereof. The period for making such determination may be extended for up to an additional 30 days, for a total determination period of 75 days if, due to circumstances beyond the control of the Plan, the Company cannot reach a decision within the initial 45-day period. The Company will notify the claimant (or his or her duly authorized representative, if applicable) of the reason for the delay prior to expiration of the initial 45-day period and give a date by which the Company expects to render its decision. If, prior to the end of the 30-day extension period, the Company determines that, due to circumstances beyond the control of the Plan, the Company still cannot reach a decision within the 30-day extension period, another extension of up to an additional 30 days may be requested for a total determination period of up to 105 days. The Company will notify the claimant (or his or her duly authorized representative, if applicable) of the reason for the delay before the expiration of the first 30-day extension period and give a date by which the Company expects to render its decision. In the case of any extension described above, the notice of extension will explain the standards on which entitlement to a Plan benefit is based, the unresolved issues that prevent a decision on the claim for a Plan benefit, and the additional information needed to resolve those issues. If the reason the Company

cannot make a decision on the claim is because the claimant failed to provide required information, the claimant will have at least 45 days to provide the specified additional information. A determination will be made within 30 days after the Company receives the additional information requested or, if earlier, within 30 days after the expiration of deadline to furnish the Plan with such additional information.

(iii) Notice of Denied Claims

If the Company denies the claim for a Plan benefit, in whole or in part, the Company will send the claimant (or his or her duly authorized representative, if applicable) a written notice explaining the reason(s) for the denial, including references to the specific Plan and Policy provision(s) upon which the denial was based. If the claim was denied because the claimant did not furnish complete information or documentation, the notice will specify the additional materials or information needed to support the claim and an explanation of why such information or materials are necessary. If the claimant's claim for a Plan benefit is denied based on an internal rule, guideline, protocol, or other similar criterion, the notice will either state the specific rule, guideline, protocol, or other similar criterion; or include a statement that such rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol, or other criterion will be provided to the claimant free of charge upon request. If the claim for a Plan benefit has been denied based on a medical necessity or experimental treatment or a similar exclusion or limit, the notice will also include an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the Member's medical circumstances, or include a statement that such explanation will be provided to the claimant free of charge upon request. The notice will also state that the claimant has a right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination upon review and how and when to request a review of the denied claim.

(b) Review Procedure

(i) Right of Appeal

Any person whose claim for a Plan benefit is denied in whole or in part, or such person's duly authorized representative, may appeal from such denial within 180 days after receiving written notice of the denial from the Company. As part of the review procedure, the claimant may submit written comments, documents, records, and other information relating to the claim for benefits. In addition, the claimant will be entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information (other than legally or medically privileged documents) relevant to such claim for a Plan benefit.

(ii) Request for Review

The request for review must be in writing and shall be addressed to the Company according to such procedures as are communicated to Participants. The request for review shall set forth all of the grounds upon which it is based, all facts in support thereof and any other matters that the claimant deems pertinent. The Company may require the claimant to submit (at the expense of the claimant) such additional facts, documents or other material as the Company may deem necessary or advisable in making its review. The Company will review the claim for benefits, taking into account all comments, documents, records, and other information submitted relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

(iii) Additional Rights on Review

If the claimant appeals a denied claim, the decision on review will not afford deference to the initial adverse benefit determination. The decision on review will not be made by the same individual who denied the initial

claim for benefits, or the subordinate of that individual. In deciding an appeal of an adverse benefit determination based in whole or in part on a medical judgment, including a determination with regard to whether a particular treatment, drug or other item is experimental, investigational or not medically necessary or appropriate, the Company shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The health care professional consulted shall be an individual who is neither an individual who was consulted in connection with the adverse benefit determination that is the subject of the appeal, nor the subordinate of that individual. If requested by the claimant, the Company will provide the identification of the medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the claimant's adverse benefit determination on review, without regard to whether the advice was relied upon in making the decision on review.

(iv) Action on Request for Review

The Company shall act on each request for review within 45 days after receipt thereof, unless special circumstances require an extension of time for review. If such an extension of time for review is required, the review period may be extended for up to an additional 45 days, for a total of 90 days. The Company will notify the claimant of the reasons for the delay prior to the expiration of the first 45 day period and give a date by which the Company expects to render its decision. The notice will also state the special circumstances requiring the extension.

(v) Notice

Within the time prescribed in Section 5.2(b)(iv), the Company shall give written notice of its decision to the claimant. In the event the Company confirms the denial of the claim for a Plan benefit in whole or in part, the notice shall set forth, in a manner calculated to be understood by the claimant, the reason(s) for the denial, including references to specific Plan and Policy provision(s) upon which the denial was based. The notice will

state that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information (other than legally or medically privileged documents) Relevant to the claim for a Plan benefit. If an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, the notice will state the specific rule, guideline, protocol, or other similar criterion; or include a statement that such rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol, or other criterion will be provided to the claimant free of charge upon request. If the claim for a Plan benefit is denied based on a medical necessity or experimental treatment or a similar exclusion or limit, the notice will also include an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the medical circumstances, or include a statement that such explanation will be provided to the claimant free of charge upon request. The notice will also state that the claimant has a right to bring a civil action under Section 502(a) of ERISA.

(vi) Claims and Review Rules and Procedures

The Company shall establish such rules and procedures, consistent with the Plan and with ERISA, as it may deem necessary or appropriate in carrying out its responsibilities under this Section 5.

ARTICLE 6. ADMINISTRATION AND FINANCES

6.1 Administration . The Company is the “plan sponsor” and the “plan administrator” of the Plan as such terms are used in ERISA. The Company’s Board of Directors shall act for the Company under this Plan. The Plan Administrator designated by the Company shall be the named fiduciary that has the discretionary authority to control and manage the administration and operation of the Plan, except as provided in Section 5.1.

6.2 Powers of the Plan Administrator . The Plan Administrator shall have the full, exclusive and discretionary authority to prescribe such forms, make such rules, regulations,

interpretations and computations, construe the terms of the Plan and determine all issues relating to coverage and eligibility for benefits and take such other action to administer the Plan as it may deem appropriate in its sole discretion. In administering the Plan, the Plan Administrator shall at all times discharge its duties with respect to the Plan in accordance with the standards set forth in § 404(a)(1) of ERISA. The Plan Administrator in its sole discretion may engage the services of such persons or organizations to render advice or perform services with respect to its responsibilities under the Plan as it shall determine to be necessary or appropriate. Such persons or organizations may include (without limitation) actuaries, attorneys, accountants and consultants.

- 6.3 Actions of the Plan Administrator . All determinations, rules, regulations, interpretations, computations and decisions of the Plan Administrator shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.
- 6.4 Delegation . The Plan Administrator in its sole discretion shall have the power to delegate specific duties and responsibilities to officers or other Employees of the Company or other individuals or entities. Any delegation may be rescinded by the Plan Administrator at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity. The Plan Administrator in its sole discretion may delegate any of its fiduciary responsibilities under the Plan (excluding any trustee responsibilities as defined in section 405 (c)(3) of ERISA) to another person or persons pursuant to a written instrument that specifies the fiduciary responsibilities so delegated to each such person. To the extent that the Plan Administrator delegates fiduciary functions to other persons or such fiduciary functions are granted to such other persons under the terms of the Plan, such persons shall have the same discretionary power and authority to perform such functions as described in Section 6.2.
- 6.5 Reports and Records . The Plan Administrator and those to whom the Plan Administrator has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

6.6 Plan Expenses. The Company shall pay all expenses of the Plan except as otherwise provided herein.

ARTICLE 7. AMENDMENT/TERMINATION

Although the Company expects to continue the Plan indefinitely, inasmuch as future conditions cannot be foreseen, the Company reserves the right to amend or terminate the Plan at any time by action of its Board of Directors or by action of a committee or individual(s) acting pursuant to a valid delegation of authority of the Board of Directors.

ARTICLE 8. MISCELLANEOUS

- 8.1 No Guaranty of Employment. The adoption of this Plan shall not be deemed to be a contract of employment between the Company and the Participant. Nothing contained herein shall give the Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge the Participant at any time, nor shall it give the Company the right to require the Participant to remain in its employ or to interfere with the Participant's right to terminate employment at any time.
- 8.2 Limitation on Liability. The Company does not guarantee benefits payable under the Policy, and any benefits thereunder shall be the exclusive responsibility of the Insurer.
- 8.3 Policy Governs. If there is any conflict or inconsistency between the description of benefits contained in this Plan and the Policy, the terms of such Policy shall control.
- 8.4 Non-Alienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or encumbrance of any kind and will not be subject to claims of the Participant's creditors by any process whatsoever, and any attempt to cause such right to be so subjected will not be recognized, except to such extent as may be required by law.
- 8.5 Exclusive Benefit. The Plan shall be maintained for the exclusive benefit of the Participants.
- 8.6 Transfer to Affiliate. If a Participant, with the Company's written consent, transfers employment from the Company to an Affiliate, the Participant shall not be deemed to have terminated employment for any purpose under this Plan.

8.7 Applicable Law. The Plan and all rights thereunder shall be governed and construed in accordance with ERISA and, to the extent that state law is not preempted by ERISA, the law of the State of California.

To record the adoption of the Plan to read as set forth herein, the Company has caused its authorized officer to affix the corporate name and seal hereto this 20th day of May, 2005.

ELECTRONIC ARTS

By /s/ J. Russell (Rusty) Rueff, Jr.
Title Executive Vice President, Human Resources & Facilities
Date May 20, 2005

SUBSIDIARIES OF THE REGISTRANT**Exhibit 21.01**

<u>Name in Corporate Articles</u>	<u>Doing Business As</u>	<u>Jurisdiction of Incorporation</u>
Electronic Arts Proprietary Limited	Electronic Arts Pty. Ltd.	Commonwealth of Australia
Electronic Arts (Canada), Inc.	Electronic Arts (Canada), Inc.	British Columbia, Canada
Electronic Arts, Limited	Electronic Arts, Limited	United Kingdom
Electronic Arts GmbH	Electronic Arts GmbH	Germany
EA Kabushiki Kaisha	Electronic Arts K.K.	Japan
Electronic Arts Productions Inc.	Crocodile Productions	Delaware
Electronic Arts Puerto Rico, Inc.	Electronic Arts Puerto Rico, Inc. (Dissolved on 3/11/05)	Delaware
Electronic Arts International Corporation	Electronic Arts International Corporation	California
Electronic Arts Software S.L.	Electronic Arts Software S.L.	Spain
Bullfrog Productions Ltd.	Bullfrog Productions Ltd.	United Kingdom
Electronic Arts Productions Ltd.	Electronic Arts Productions Ltd.	United Kingdom
Electronic Arts Nordic Aktienbolag	Electronic Arts Nordic Aktienbolag	Sweden
Electronic Arts Asia Pacific PTE., LTD	Electronic Arts Asia Pacific PTE., LTD	Singapore
Electronic Arts Seattle Inc.	Electronic Arts Seattle Inc.	Washington
EA Software South Africa Pty. Ltd. (Formerly Vision Software (Pty) Limited)	EA Software South Africa Pty. Ltd. (Formerly Vision Software (Pty) Limited)	South Africa
Electronic Arts V.I., Inc.	Electronic Arts V.I., Inc.	Virgin Islands (U.S.)
Linear Arts Inc.	Linear Arts Inc.	Delaware
Electronic Arts UK Holding Co.	Electronic Arts UK Holding Co.	Delaware
EA Islands Ltd.	EA Islands Ltd.	British Virgin Islands
Electronic Arts Limitada	EA Brazil	Brazil

Name in Corporate Articles	Doing Business As	Jurisdiction of Incorporation
Electronic Arts Nederland B.V. I.o.	Electronic Arts BV	The Netherlands
Electronic Arts Limitada	Electronic Arts Portugal	Portugal
Electronic Arts C.V.	Electronic Arts C.V.	Barbados
Electronic Arts Project Inc.	Electronic Arts Project Inc.	Delaware
Maxis K.K.	Maxis K.K.	Japan
Electronic Arts Redwood LLC	Electronic Arts Redwood LLC (as of 9/15/04)	Delaware
Electronic Arts Handelsges.m.b.H	Electronic Arts Austria	Austria
Electronic Arts Japan K.K. (Formerly Electronic Arts Square K.K.)	Electronic Arts Japan K.K. (Formerly Electronic Arts Square K.K.)	Japan
Electronic Arts Switzerland GmbH	Electronic Arts Switzerland	Switzerland
Tiburon Entertainment, Inc.	Tiburon	Florida
Westwood Studios, Inc.	Westwood (dissolved 12/03/04)	Nevada
Kesmai Aries Ltd	Kesmai Aries Ltd	Virginia
Kesmai Studios Inc.	Kesmai Studios Inc.	Virginia
Kesmai Internet Game Resources Inc.	Gamestorm	Virginia
Pogo Corporation	Pogo.com	Delaware
Parnassus Data Inc.	Parnassus Data Inc.	Delaware
EA.com Inc.	EA.com Inc.	Delaware
ABC Software GmbH	ABC Software GmbH	Switzerland
Electronic Arts World LLC	Electronic Arts World LLC	Delaware
Electronic Arts Studio (UK) Limited	Electronic Arts Studio (UK) Limited	United Kingdom
Electronic Arts Publishing SARL	Electronic Arts Publishing SARL	France
Electronic Arts Studio EURL	Electronic Arts Studio EURL	France
NuFX, Inc.	NuFX, Inc.	Illinois
Electronic Arts (Canada), Inc.	EA Montreal	Quebec

Name in Corporate Articles	Doing Business As	Jurisdiction of Incorporation
Electronic Arts Czech Republic S.R.O.	EA Czech Republic	Czech Republic
Electronic Arts Hungary Trading Kft	EA Hungary	Hungary
Electronic Arts Polska Sp.zo.o	EA Poland	Poland
Electronic Arts Italia SRL	EA Italy	Italy
Studio 33 (UK) Limited	Studio 33 (UK) Limited	United Kingdom
Electronic Arts Denmark Aps	Electronic Arts Denmark Aps	Denmark
Electronic Arts Finland OY	Electronic Arts Finland OY	Finland
Electronic Arts Europe Ltd	Electronic Arts Europe Ltd	United Kingdom
Electronic Arts Norway A/S	Electronic Arts Norway A/S	Norway
Electronic Arts Transfer Company	Electronic Arts Transfer Company	Delaware
Electronic Arts Subsidiary Corporation	Electronic Arts Subsidiary Corporation	Delaware
Electronic Arts Sales and Distribution Inc.	Electronic Arts Sales and Distribution Inc.	Delaware
Electronic Arts Music Publishing Inc.	Electronic Arts Music Publishing Inc.	Delaware
Electronic Arts New Zealand	Electronic Arts New Zealand	New Zealand
Electronic Arts Korea Yuhan Hoesa	Electronic Arts Korea Yuhan Hoesa	Korea
Electronic Arts Hong Kong Ltd.	Electronic Arts Hong Kong Ltd.	Hong Kong
Electronic Arts UK Ltd.	Electronic Arts UK Ltd.	United Kingdom
Criterion Software Group Limited	Criterion Software Group Limited	United Kingdom
Criterion Software Limited	Criterion Software Limited	United Kingdom
Criterion Software International Limited	Criterion Software International Limited	United Kingdom
Criterion Software Inc.	Criterion Software Inc.	Texas
Criterion Software K.K.	Criterion Software K.K.	Japan
Electronic Arts EA Holdings AB	Electronic Arts EA Holdings AB	Sweden

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Electronic Arts Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 33-66836, 33-55212, 33-53302, 33-41955, 33-82166, 33-61781, 33-61783, 333-09683, 333-09893, 333-32239, 333-32771, 333-46937, 333-60513, 333-60517, 333-84215, 333-39430, 333-39432, 333-44222, 333-60256, 333-67430, 333-82888, 333-99525, 333-107710, 333-117990, and 333-120256), and the registration statement on Form S-3 (No. 333-102797), of Electronic Arts Inc. of our reports dated June 3, 2005, with respect to the consolidated balance sheets of Electronic Arts Inc. as of March 26, 2005 and March 27, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 26, 2005, and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of March 26, 2005 and the effectiveness of internal control over financial reporting as of March 26, 2005, which reports appear in the March 26, 2005, annual report on Form 10-K of Electronic Arts Inc.

KPMG LLP
San Francisco, California
June 3, 2005

ELECTRONIC ARTS INC.

**Certification of Chairman and Chief Executive Officer
Pursuant to Rule 13a-14(a) of the Exchange Act
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Lawrence F. Probst III, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2005

By: /s/ Lawrence F. Probst III
Lawrence F. Probst III
Chairman and Chief Executive Officer

ELECTRONIC ARTS INC.**Certification of Executive Vice President, Chief Financial and Administrative Officer
Pursuant to Rule 13a-14(a) of the Exchange Act
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Warren C. Jenson, Executive Vice President, Chief Financial and Administrative Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2005

By: /s/ Warren C. Jenson
Warren C. Jenson
Executive Vice President,
Chief Financial and Administrative Officer

ELECTRONIC ARTS INC.

**Certification of Chairman and Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Electronic Arts Inc. on Form 10-K for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence F. Probst III, Chairman and Chief Executive Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Lawrence F. Probst III

Lawrence F. Probst III
Chairman and Chief Executive Officer
Electronic Arts Inc.

June 7, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.

ELECTRONIC ARTS INC.

**Certification of Executive Vice President, Chief Financial and Administrative Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Electronic Arts Inc. on Form 10-K for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Warren C. Jenson, Executive Vice President and Chief Financial and Administrative Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Warren C. Jenson

Warren C. Jenson
Executive Vice President, Chief Financial and
Administrative Officer
Electronic Arts Inc.

June 7, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.

End of Filing

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