ELECTRONIC ARTS INC

FORM 10-Q
(Quarterly Report)

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Industry	Software & Programming
Sector	Technology
Fiscal Year	03/31

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

FORM 10-Q

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

For the Quarterly Period Ended December 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	**94-2838567**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
209 Redwood Shores Parkway Redwood City, California	**94065**
(Address of principal executive offices)	*(Zip Code)*

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

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerate filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	Par Value	Outstanding as of February 6, 2006
Common Stock	$0.01	303,794,999

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED DECEMBER 31, 2005

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PART I — FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In millions, except par value data)

	December 31, 2005	March 31, 2005 [a]
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,462	$ 1,270
Short-term investments	1,094	1,688
Marketable equity securities	167	140
Receivables, net of allowances of $262 and $162, respectively	567	296
Inventories	76	62
Deferred income taxes	88	86
Other current assets	208	164
Total current assets	3,662	3,706
Property and equipment, net	375	353
Investments in affiliates	11	10
Goodwill	154	153
Other intangibles, net	28	36
Deferred income taxes	15	19
Other assets	86	93
TOTAL ASSETS	$ 4,331	$ 4,370
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 187	$ 134
Accrued and other liabilities	760	694
Total current liabilities	947	828
Other liabilities	30	33
Total liabilities	977	861
Commitments and contingencies	—	—
Minority interest	13	11
Stockholders' equity:		
Preferred stock, $0.01 par value. 10 shares authorized	—	—
Common stock, $0.01 par value. 1,000 shares authorized; 303 and 310 shares issued and outstanding, respectively	3	3
Paid-in capital	994	1,434
Retained earnings	2,257	2,005
Accumulated other comprehensive income	87	56
Total stockholders' equity	3,341	3,498
TOTAL LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	$ 4,331	$ 4,370

See accompanying Notes to Condensed Consolidated Financial Statements.

[a] Derived from audited financial statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited) (In millions, except per share data)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Net revenue	$ 1,270	$ 1,428	$ 2,310	$ 2,575
Cost of goods sold	502	503	937	963
Gross profit	768	925	1,373	1,612
Operating expenses:				
Marketing and sales	147	133	329	304
General and administrative	58	78	160	155
Research and development	206	185	571	473
Amortization of intangibles	1	1	3	2
Acquired in-process technology	—	9	—	9
Restructuring charges	9	—	9	—
Total operating expenses	421	406	1,072	943
Operating income	347	519	301	669
Interest and other income, net	20	23	49	44
Income before provision for income taxes and minority interest	367	542	350	713
Provision for income taxes	106	167	93	216
Income before minority interest	261	375	257	497
Minority interest	(2)	—	(5)	—
Net income	$ 259	$ 375	$ 252	$ 497
Net income per share:				
Basic	$ 0.86	$ 1.23	$ 0.83	$ 1.63
Diluted	$ 0.83	$ 1.18	$ 0.80	$ 1.57
Number of shares used in computation:				
Basic	301	306	304	304
Diluted	311	317	315	316

See accompanying Notes to Condensed Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In millions)	Nine Months Ended December 31, 2005	2004
OPERATING ACTIVITIES		
Net income	$ 252	$ 497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68	53
Minority interest	5	—
Equity in net income of investment in affiliate	—	(1)
Realized (gains) losses on investments and sale of property and equipment	—	(10)
Stock-based compensation	1	4
Tax benefit from exercise of stock options	117	35
Acquired in-process technology	—	9
Change in assets and liabilities:		
Receivables, net	(243)	(687)
Inventories	(11)	(31)
Other assets	(35)	(14)
Accounts payable	50	84
Accrued and other liabilities	55	221
Net cash provided by operating activities	259	160
INVESTING ACTIVITIES		
Capital expenditures	(87)	(82)
Proceeds from sale of property and equipment	—	16
Proceeds from sale of marketable equity securities	4	3
Purchase of investment in affiliates	(2)	(2)
Proceeds from sale of investment in affiliate	2	—
Purchase of short-term investments	(347)	(2,248)
Proceeds from maturities and sales of short-term investments	948	897
Acquisition of subsidiary, net of cash acquired	(3)	(60)
Other investing activities	(2)	—
Net cash provided by (used in) investing activities	513	(1,476)
FINANCING ACTIVITIES		
Proceeds from sales of common stock through employee stock plans and other plans	151	147
Repurchase and retirement of common stock	(709)	(31)
Net cash provided by (used in) financing activities	(558)	116
Effect of foreign exchange on cash and cash equivalents	(22)	13
Increase (decrease) in cash and cash equivalents	192	(1,187)
Beginning cash and cash equivalents	1,270	2,150
Ending cash and cash equivalents	1,462	963
Short-term investments	1,094	1,602
Ending cash, cash equivalents and short-term investments	$ 2,556	$ 2,565
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 23	$ 50
Non-cash investing activities:		
Change in unrealized gains (losses) on investments, net	$ 37	$ (13)

See accompanying Notes to Condensed Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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 Xbox 360 ™, and Nintendo GameCube ™), personal computers, mobile platforms — including hand-held game players (such as the Game Boy ® Advance, Nintendo DS ™ and PlayStation ® Portable "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 intellectual property that is wholly-owned by us (e.g., The Sims ™ and Need for Speed ™). Our goal is to develop titles that 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 include 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 Harry Potter) and wholly-owned properties that can be successfully sequeled (e.g., The Sims and Need for Speed).

The Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in these Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates. The results of operations for the current interim periods are not necessarily indicative of results to be expected for the current year or any other period.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005, as filed with the Securities and Exchange Commission on June 7, 2005.

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of $750 million of our common stock. Pursuant to the authorization, we were able to 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. Our common stock repurchase program was completed in September 2005. We repurchased and retired the following (in millions):

	Number of Shares Repurchased and Retired	Approximate Amount
Six months ended September 30, 2005	12.6	$709
From the inception of the program through September 30, 2005	13.4	$750

(2) FISCAL YEAR AND FISCAL QUARTER

Our fiscal year is reported on a 52/53-week period that, historically, has ended on the final Saturday of March in each year. Beginning with the current fiscal year ending March 31, 2006, we will end our fiscal year on the Saturday nearest March 31. Our results of operations for the fiscal years ended March 31, 2006 and 2005 contain the following number of weeks:

Fiscal Years Ended	Number of Weeks	Fiscal Period End Date
March 31, 2006	53 weeks	April 1, 2006
March 31, 2005	52 weeks	March 26, 2005

Our results of operations for the three and nine months ended December 31, 2005 and 2004 contain the following number of weeks:

Fiscal Period	Number of Weeks	Fiscal Period End Date
Three months ended December 31, 2005	13 weeks	December 31, 2005
Nine months ended December 31, 2005	40 weeks	December 31, 2005
Three months ended December 31, 2004	13 weeks	December 25, 2004
Nine months ended December 31, 2004	39 weeks	December 25, 2004

For the three months ended June 30, 2005, there was one additional week included in our results of operations as compared to the three months ended June 30, 2004.

For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end.

(3) EMPLOYEE STOCK-BASED COMPENSATION

We account for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, *"Accounting for Stock Issued to Employees"* . We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("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, as amended, 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 following weighted-average assumptions were used for grants made under our stock-based compensation plan during the three and nine months ended December 31, 2005 and 2004:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Risk-free interest rate	4.3%	3.1%	4.0%	3.0%
Expected volatility	32.4%	35.5%	33.7%	37.0%
Expected life of stock options (in years)	3.20	3.09	3.31	3.06
Expected life of employee stock purchase plans (in months)	6	6	6	6
Assumed dividends	None	None	None	None

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

(In millions, except per share data)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2004
Net income:				
As reported	$ 259	$ 375	$ 252	$ 497
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(20)	(20)	(71)	(63)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	3	1	3
Pro forma	$ 239	$ 358	$ 182	$ 437
Net income per share:				
As reported — basic	$ 0.86	$ 1.23	$ 0.83	$ 1.63
Pro forma — basic	$ 0.79	$ 1.17	$ 0.60	$ 1.44
As reported — diluted	$ 0.83	$ 1.18	$ 0.80	$ 1.57
Pro forma — diluted	$ 0.77	$ 1.14	$ 0.58	$ 1.39

At our Annual Meeting of Stockholders, held on July 28, 2005, our stockholders approved an amendment to our 2000 Equity Incentive Plan to (a) increase the number of shares authorized by 10 million, (b) authorize the issuance of awards of stock appreciation rights, (c) increase by 1 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units that may be granted under the Equity Plan — from 3 million to 4 million shares, (d) modify the payment alternatives under the Equity Plan, (e) add flexibility to grant performance-based stock options and stock appreciation rights and modify the permissible performance factors currently contained in the Equity Plan, and (f) revise the share-counting methodology used in the Equity Plan. Our stockholders also approved an amendment the 2000 Employee Stock Purchase Plan ("the "ESPP") to increase by 1,500,000 the number of shares of common stock reserved for issuance under the ESPP.

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 the financial statements using a fair-value-based method. The statement replaces SFAS No. 123, *"Accounting for Stock-Based Compensation"* , supersedes APB No. 25, *"Accounting for Stock Issued to Employees"* , and amends SFAS No. 95, *"Statement of Cash Flows"* . While the fair value method under SFAS No. 123R is similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, we are 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 will also require a classification change in the statement of cash flows, whereby a portion of the income 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 Staff Accounting Bulletin 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 our first quarter of fiscal 2007. While we continue 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 Condensed Consolidated Statements of Operations similar to our pro forma disclosure under SFAS No. 123, as amended.

In October 2005, the FASB issued FASB Staff Position ("FSP") Financial Accounting Standard ("FAS") No. 123(R)-2, *"Practical Accommodation to the Application of Grant Date As Defined in FASB Statement No. 123(R)"* . The FASB provides companies with a "practical accommodation" when determining the grant date of an award subject to SFAS 123R. If (1) the award is a unilateral grant, that is, the recipient does not have the ability to negotiate the key terms and conditions of the award with the employer, (2) the key terms and conditions of the award are expected to be communicated to an individual recipient

within a relatively short time period, and (3) as long as all other criteria in the grant date definition have been met, then a mutual understanding of the key terms and conditions of an award is presumed to exist at the date the award is approved.

In November 2005, the FASB issued FSP FAS No. 123(R)-3, " *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* ". The FASB allows for a practical exception in calculating the additional paid-in capital pool of excess tax benefits upon adoption that is available to absorb tax deficiencies recognized subsequent to adoption SFAS No. 123R. Accordingly, we may adopt either the method prescribed under SFAS No. 123R or the one prescribed under FSP FAS No. 123(R)-3. We have not yet determined which method to adopt.

(4) GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill information is as follows (in millions):

	As of March 31, 2005	Goodwill Acquired	Effects of Foreign Currency Translation	As of December 31, 2005
Goodwill	$ 153	$ 3	$ (2)	$ 154

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

	As of December 31, 2005				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed/Core Technology	$ 47	$ (27)	$ (9)	$ —	$ 11
Tradename	37	(20)	(1)	(1)	15
Subscribers and Other Intangibles	12	(8)	(2)	—	2
Total	$ 96	$ (55)	$ (12)	$ (1)	$ 28

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

Amortization of intangibles for the three and nine months ended December 31, 2005 was $3 million (of which $2 million was recognized as cost of goods sold) and $8 million (of which $5 million was recognized as cost of goods sold), respectively. Amortization of intangibles for the three and nine months ended December 31, 2004 was $2 million (of which $1 million was recognized as cost of goods sold) and $3 million (of which $1 million was recognized as cost of goods sold), 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 December 31, 2005 and March 31, 2005, the weighted-average remaining useful life for finite-lived intangible assets was approximately 3.8 years and 4.3 years, respectively.

As of December 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 Ending March 31,	
2006 (remaining three months)	$ 3
2007	10
2008	6
2009	3
2010	2
Thereafter	4
Total	$ 28

(5) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

The following table summarizes the restructuring activity related to our international publishing reorganization and our fiscal 2004, 2003 and 2002 restructurings:

	International Publishing Reorganization		Fiscal 2004, 2003 and 2002 Restructurings		
	Facilities-related	Other	Facilities-related	Workforce	Total
Balance as of March 31, 2004	$ —	$ —	$ 12	$ 2	$ 14
Adjustments to operations	—	—	2	—	2
Charges utilized in cash	—	—	(4)	(2)	(6)
Balance as of March 31, 2005	$ —	$ —	$ 10	$ —	$ 10
Charges to operations	7	1	—	—	8
Adjustments to operations	—	—	1	—	1
Charges utilized in cash	—	(1)	(4)	—	(5)
Balance as of December 31, 2005	$ 7	$ —	$ 7	$ —	$ 14

International Publishing Reorganization

In connection with our intention to establish an international publishing headquarters in Geneva, Switzerland, during the next nine months, we expect to open a new facility in Geneva, relocate certain current employees to Geneva, hire new employees in Geneva, close certain facilities in the UK, and make other related changes in our international publishing business. We intend to treat certain costs that are directly associated with our international publishing reorganization as “restructuring costs” (as defined by SFAS No. 146, “ *Accounting for Costs Associated with Exit or Disposal Activities* ”). Other costs that are not properly categorized as restructuring costs will generally be treated as normal operating expenses in our Condensed Consolidated Statements of Operations. In accordance with SFAS No. 146, we will generally expense the restructuring costs as they are incurred and accrue costs associated with certain facility closures at the time we exit the facility.

We expect to incur between $55 million and $65 million in total restructuring costs, substantially all of which will result in cash expenditures. These restructuring costs will consist primarily of employee-related relocation assistance (approximately $43 million), facility exit costs (approximately $10 million), as well as other reorganization costs (approximately $8 million). While we may incur severance costs paid to terminating employees in connection with the reorganization, we do not expect these costs to be significant.

Approximately $15 million of these charges will be incurred during fiscal 2006, of which $7 million for the closure of certain UK facilities and $1 million in other costs in connection with our international publishing reorganization were incurred during the three months ended December 31, 2005 and included in restructuring charges in our Condensed Consolidated Statements of Operations. The restructuring accrual of $7 million as of December 31, 2005 is expected to be utilized by March 2017. This accrual is included in other accrued expenses presented in Note 7 of the Notes to Condensed Consolidated Financial Statements.

Fiscal 2004, 2003 and 2002 Restructurings

In fiscal 2004, 2003 and 2002, we entered into various restructurings based on management decisions. As of December 31, 2005, an aggregate of $27 million in cash had been paid out under the restructuring plans. In addition, we have made subsequent net adjustments of approximately $1 million during the three months ended December 31, 2005 relating to projected future cash outlays under the fiscal 2004, 2003 and 2002 restructuring plans. The remaining projected net cash outlay of $7 million is expected to be utilized by January 2009. The facilities-related accrued obligation shown above is net of $9 million of estimated future sub-lease income. The restructuring accrual is included in other accrued expenses presented in Note 7 of the Notes to Condensed Consolidated Financial Statements.

(6) 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 obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are expensed to cost of goods sold at the greater of the contractual or effective royalty rate based on expected 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 expected net product sales.

Minimum guaranteed royalty obligations are initially recorded as an asset and as a liability at the contractual amount when payment is not contingent upon performance by the licensor. When payment is contingent upon performance by 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 December 31, 2005 and March 31, 2005, approximately $34 million and $51 million, respectively, of minimum guaranteed current and long-term royalty obligations had been recognized and are included in the royalty-related asset and accrual 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 and commitments. 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. We had no impairments during the three and nine months ended December 31, 2005. Impairments for the three and nine months ended December 31, 2004 were $1 million and $3 million, respectively.

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 December 31, 2005	As of March 31, 2005
Other current assets	$ 70	$ 59
Other assets	67	76
Royalty-related assets	$ 137	$ 135

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 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 December 31, 2005	As of March 31, 2005
Accrued and other liabilities	$ 107	$ 88
Other liabilities	30	33
Accrued royalties	$ 137	$ 121

In addition, as of December 31, 2005, we had approximately $1,429 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 Condensed Consolidated Financial Statements. See Note 8 of the Notes to Condensed Consolidated Financial Statements.

(7) BALANCE SHEET DETAILS

Inventories

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

	As of December 31, 2005	As of March 31, 2005
Raw materials and work in process	$ 1	$ 2
Finished goods (including manufacturing royalties)	75	60
Inventories	$ 76	$ 62

Property and Equipment, Net

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

	As of December 31, 2005	As of March 31, 2005
Computer equipment and software	$ 429	$ 381
Buildings	127	106
Leasehold improvements	77	73
Land	57	60
Office equipment, furniture and fixtures	56	53
Warehouse equipment and other	12	12
Construction in progress	45	43
	803	728
Less: Accumulated depreciation	(428)	(375)
Property and equipment, net	$ 375	$ 353

Depreciation expense associated with property and equipment amounted to $20 million and $60 million for the three and nine months ended December 31, 2005, respectively. Depreciation expense associated with property and equipment amounted to $18 million and $50 million for the three and nine months ended December 31, 2004, respectively.

Accrued and Other Liabilities

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

	As of December 31, 2005	As of March 31, 2005
Accrued income taxes	$ 215	$ 267
Other accrued expenses	184	161
Accrued compensation and benefits	150	132
Accrued royalties	107	88
Deferred revenue	58	35
Accrued value added taxes	46	11
Accrued and other liabilities	$ 760	$ 694

Income taxes

Change in Effective Income Tax Rate

During the three months ended December 31, 2005, we adjusted our projected annual effective income tax rate from our previous projection of 28 percent to 29 percent (in each case, excluding discrete adjustments). As a result, we recognized $4 million (or $0.01 per basic and diluted share) more income tax expense for both the three and nine months ended December 31, 2005 than we would have recognized had this projected annual effective income tax rate remained at 28 percent.

During the nine months ended December 31, 2005, our effective income tax rate was 27 percent. This rate included various adjustments recorded in the three months ended September 30, 2005 for the resolution of certain tax-related matters with foreign tax authorities, offset by additional income tax provisions resulting from certain intercompany transactions during the three months ended September 30, 2005. The net impact of these adjustments was that we recognized $9 million (or $0.03 per basic and diluted share) less income tax expense for the nine months ended December 31, 2005 than we would have recognized had our projected annual effective income tax rate remained at 29 percent.

During the three months ended December 31, 2004, our effective income tax rate was 31 percent. This differed from our previously projected annual effective income tax rate of 29 percent for fiscal 2005 due to an adjustment recorded in the three months ended December 31, 2004 related to certain tax audit developments and tax charges related to the Criterion acquisition. As a result, we recognized $10 million (or $0.03 per basic and diluted share) more income tax expense during the three months ended December 31, 2004 than we would have recognized had our projected effective income tax rate remained at 29 percent.

(8) COMMITMENTS AND CONTINGENCIES

Lease Commitments and Residual Value Guarantees

We lease certain of our current facilities and 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 December 31, 2005.

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

Financial Covenants		Requirement		Actual as of December 31, 2005
Consolidated Net Worth (in millions)		equal to or greater than	$ 2,293	$ 3,341
Fixed Charge Coverage Ratio		equal to or greater than	3.00	9.34
Total Consolidated Debt to Capital		equal to or less than	60%	6.9%
Quick Ratio —	Q1 & Q2	equal to or greater than	1.00	N/A
	Q3 & Q4	equal to or greater than	1.75	12.65

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. The original letter of credit guaranteed our trade payable obligations to Nintendo of Europe of up to € 18 million. In April 2005, we reduced the guarantee to € 8 million and in September 2005 we increased the guarantee to € 15 million. This standby letter of credit expired in July 2005 and was renewed through July 2006. As of December 31, 2005, we had € 2 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 December 31, 2005, we did not have a payable balance covered by this standby letter of credit.

Development, Celebrity, League and Content Licenses: 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: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR (stock car racing); 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 (James Bond); New Line Productions (The Lord of the Rings); Saul Zaentz Company (The Lord of the Rings); Marvel Enterprises (fighting); John Madden (professional football); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); ISC (stock car racing); Simcoh (Def Jam); Viacom Consumer

Products (The Godfather); Valve Corporation (Half-Life and Counter-Strike); ESPN (content in EA SPORTS ™ games); and Twentieth Century Fox Licensing and Merchandising (The Simpsons). 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 December 31, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

	Contractual Obligations			Commercial Commitments		
Fiscal Year Ending March 31,	Leases	Developer/ Licensor Commitments [1]	Marketing	Bank and Other Guarantees	Letters of Credit	Total
2006 (remaining three months)	$ 21	$ 27	$ 6	$ 2	$ 3	$ 59
2007	34	151	33	—	—	218
2008	25	138	30	—	—	193
2009	19	145	30	—	—	194
2010	14	127	31	—	—	172
Thereafter	33	841	197	—	—	1,071
Total	$ 146	$ 1,429	$ 327	$ 2	$ 3	$ 1,907

(1) Developer/licensor commitments include $34 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Condensed Consolidated Balance Sheets as of December 31, 2005 because the developer or licensor does not have any performance obligations to us.

The lease commitments disclosed above include contractual rental commitments of $23 million under real estate leases for unutilized office space due to our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Condensed Consolidated Balance Sheets as of December 31, 2005. See Note 5 in the Notes to Condensed Consolidated Financial Statements.

The commitments disclosed above do not include our JAMDAT acquisition commitment. See below.

Acquisition of JAMDAT

In December 2005, we entered into a definitive merger agreement to acquire JAMDAT Mobile Inc., a global publisher of wireless games and other wireless entertainment applications. We will pay $27 per share in cash in exchange for each share of JAMDAT common stock and assume outstanding stock options for a total purchase price of approximately $680 million, plus transaction costs. This acquisition is subject to customary closing conditions, including approval by JAMDAT's stockholders and regulatory approvals, and is expected to close during our fourth quarter of fiscal 2006.

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, alleging that we improperly classified "Image Production Employees" in California as exempt employees. On October 17, 2005, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of $15.6 million, which we paid to a third-party administrator during the three months ended December 31, 2005, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs' attorneys' fees, not to exceed 25% of the total settlement amount, (c) plaintiffs' costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. On January 27, 2006, the court granted its final approval of the settlement.

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 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 class action lawsuits were filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on January 26, 2006, the court dismissed the consolidated complaint with prejudice. Separately, there are two shareholder derivative actions pending in the Superior Court, San Mateo County, and one shareholder derivative action pending in the United States District Court, Northern District of California, all of which assert claims based on substantially the same factual allegations as set forth in the federal securities class action. We have not yet responded to any of the derivative action 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 at the time they join the Board 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.

(9) COMPREHENSIVE INCOME

SFAS No. 130, *"Reporting Comprehensive Income"* , requires classifying items of other comprehensive income (loss) by their nature in a financial statement and displaying the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. Accumulated other comprehensive income primarily includes foreign currency translation adjustments, and the net-of-tax amounts for unrealized gains (losses) on investments and unrealized gains (losses) on derivatives designated as cash flow hedges.

The components of comprehensive income for the three and nine months ended December 31, 2005 and 2004 are summarized as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Net income	$ 259	$ 375	$ 252	$ 497
Other comprehensive income (loss):				
Change in unrealized gains (losses) on investments, net of tax expense (benefit) of $0, $(2) and $5, $(4), respectively	(16)	(3)	38	(6)
Reclassification adjustment for (gains) realized on investments in net income, net of tax (expense) of $0, $0 and $0, $(1), respectively	—	—	—	(1)
Change in unrealized gains on derivative instruments, net of tax expense of $0, $0 and $1, $0, respectively	—	—	4	—
Reclassification adjustment for (gains) realized on derivative instruments in net income, net of tax (expense) of $(2), $0 and $(2), $0, respectively	(4)	—	(4)	—
Foreign currency translation adjustments	1	10	(7)	10
Total other comprehensive income (loss)	$ (19)	$ 7	$ 31	$ 3
Total comprehensive income	$ 240	$ 382	$ 283	$ 500

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

(10) NET INCOME 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 unit awards, warrants and other convertible securities using the treasury stock method.

(In millions, except per share data)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Net income	$ 259	$ 375	$ 252	$ 497
Shares used to compute net income per share:				
Weighted-average common stock outstanding — basic	301	306	304	304
Dilutive potential common shares	10	11	11	12
Weighted-average common stock outstanding — diluted	311	317	315	316
Net income per share:				
Basic	$ 0.86	$ 1.23	$ 0.83	$ 1.63
Diluted	$ 0.83	$ 1.18	$ 0.80	$ 1.57

Excluded from the above computation of weighted-average common stock for Diluted EPS for the three and nine months ended December 31, 2005 were options to purchase 8 million and 7 million shares of common stock, respectively, as the options’

exercise price was greater than the average market price of the common shares. The weighted-average exercise price of these options was $62.88 and $63.68 per share, respectively.

Excluded from the above computation of weighted-average common stock for Diluted EPS for the three and nine months ended December 31, 2004 were options to purchase 1 million shares of common stock in each period, as the options' exercise price was greater than the average market price of the common shares for each period. The weighted-average exercise price of these options was $51.05 and $52.18 per share, respectively.

(11) 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 line for purposes of making operating decisions and assessing financial performance. 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 three and nine months ended December 31, 2005 and 2004 is presented below (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Consoles				
PlayStation 2	$ 495	$ 661	$ 916	$ 1,135
Xbox	152	233	332	432
Nintendo GameCube	69	109	118	174
Xbox 360	76	—	76	—
Other Consoles	1	6	1	9
Total Consoles	793	1,009	1,443	1,750
PC	148	239	313	446
Mobility				
PSP	120	—	197	—
Nintendo DS	36	16	56	16
Game Boy Advance	35	39	48	67
Cellular Handsets	1	—	4	—
Total Mobility	192	55	305	83
Co-publishing and Distribution	99	79	161	195
Internet Services, Licensing and Other				
Subscription Services	16	14	45	39
Licensing, Advertising and Other	22	32	43	62
Total Internet Services, Licensing and Other	38	46	88	101
Total Net Revenue	$ 1,270	$ 1,428	$ 2,310	$ 2,575

Information about our operations in North America, Europe and Asia as of and for the three and nine months ended December 31, 2005 and 2004 is presented below (in millions):

	North America	Europe	Asia	Total
Three months ended December 31, 2005				
Net revenue from unaffiliated customers	$ 618	$ 577	$ 75	$ 1,270
Interest income, net	12	5	—	17
Depreciation and amortization	14	7	1	22
Total assets	2,760	1,460	111	4,331
Capital expenditures	26	5	—	31
Long-lived assets	347	201	9	557
Three months ended December 31, 2004				
Net revenue from unaffiliated customers	$ 692	$ 666	$ 70	$ 1,428
Interest income, net	10	2	—	12
Depreciation and amortization	12	7	1	20
Total assets	2,987	1,332	117	4,436
Capital expenditures	30	3	4	37
Long-lived assets	284	195	10	489
Nine months ended December 31, 2005				
Net revenue from unaffiliated customers	$ 1,245	$ 912	$ 153	$ 2,310
Interest income, net	37	15	—	52
Depreciation and amortization	43	22	3	68
Capital expenditures	69	15	3	87
Nine months ended December 31, 2004				
Net revenue from unaffiliated customers	$ 1,376	$ 1,066	$ 133	$ 2,575
Interest income, net	24	5	—	29
Depreciation and amortization	33	18	2	53
Capital expenditures	65	12	5	82

Our direct sales to Wal-Mart Stores, Inc. represented approximately 12 and 13 percent of total net revenue for the three and nine months ended December 31, 2005, respectively, and approximately 13 and 14 percent of total net revenue for the three and nine months ended December 31, 2004, respectively. Our direct sales to GameStop Corp. represented approximately 11 percent of total net revenue for the three months ended December 31, 2005.

(12) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2004, the FASB ratified the measurement and recognition guidance and certain disclosure requirements for impaired securities as described in Emerging Issues Task Force (“EITF”) Issue No. 03-1, “ *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ”. In June 2005, the FASB directed its staff to issue proposed FSP EITF 03-1-a, “ *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1* ,” as final. The FASB retitled this FSP as FSP FAS 115-1, “ *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ”. The final FSP supersedes EITF Issue No. 03-1 and EITF Topic D-44, “ *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value* ”. The final FSP replaces the guidance set forth in paragraphs 10 through 18 of EITF Issue No. 03-1 with references to existing other-than-temporary

impairment guidance. In September 2005, the FASB decided to retain the paragraph in the proposed FSP on how to account for debt securities subsequent to an other-than-temporary impairment. The FASB also decided to add a footnote to clarify that the proposed FSP does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security. The FASB decided that transition would be applied prospectively and the effective date would be reporting periods beginning after December 15, 2005. In November 2005, the FASB issued FSP FAS 115-1. We believe the adoption of the measurement and recognition guidance in FSP FAS 115-1 will not have a material impact 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. We believe the adoption of SFAS No. 151 will not have a material impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, " *Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FASB Statement No. 3 "*. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. Under previous guidance, changes in accounting principle were recognized as a cumulative affect in the net income of the period of the change. The new statement requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a "restatement". SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. We do not believe that, upon adoption, SFAS No. 154 will have a material impact on our consolidated financial statements, however, after adoption, if a change in accounting principle is made, SFAS No. 154 could have a material impact on our consolidated financial statements.

In October 2005, the FASB issued FSP FAS No. 13-1, " *Accounting for Rental Costs Incurred during a Construction Period "*, which provides that rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. FSP FAS No. 13-1 is required to be applied to the first reporting period beginning after December 15, 2005. We do not believe the adoption of FSP FAS No. 13-1 will have a material impact on our consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Electronic Arts Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Electronic Arts Inc. and subsidiaries (the Company) as of December 31, 2005, the related condensed consolidated statements of operations for the three-month and nine-month periods ended December 31, 2005 and December 25, 2004, and the related condensed consolidated statement of cash flows for the nine-month periods ended December 31, 2005 and December 25, 2004. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity U.S. generally accepted accounting principles.

We have previously audited in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Electronic Arts Inc. and subsidiaries as of March 26, 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated June 3, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 26, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP
Mountain View, California
February 7, 2006

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q are forward looking. We use words such as "anticipate", "believe", "expect", "intend" (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 in this report below under the heading "Risk Factors", as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 as filed with the Securities and Exchange Commission ("SEC") on June 7, 2005 and in other documents we have filed with the SEC.

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 the three and nine months ended December 31, 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-Q, including in the remainder of "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" or the Condensed Consolidated Financial Statements and related notes. Additional information can be found within the "Business" section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 as filed with the SEC on June 7, 2005 and in other documents we have filed with the SEC.

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 Xbox 360 ™, and Nintendo GameCube ™ consoles), personal computers, mobile platforms — including hand-held game players (such as the Game Boy ® Advance, Nintendo DS ™ and PlayStation ® Portable "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 sequeled (e.g., The Sims and Need for Speed).

Overview of Financial Results

Total net revenue for the three months ended December 31, 2005 was $1,270 million, down 11 percent as compared to the three months ended December 31, 2004. Net revenue for the three months ended December 31, 2005 was driven by sales of *Need for Speed™ Most Wanted, FIFA 06, Harry Potter and the Goblet of Fire™, the Sims™ 2* and *Madden NFL 06* , each selling over two million copies in the quarter. *NBA Live 06, SSX™ On Tour, Tiger PGA Tour® 06, From Russia with Love™* and *Battlefield 2: Modern Combat™* also had strong sales, each selling over one million copies in the quarter.

Net income for the three months ended December 31, 2005 was $259 million as compared to $375 million for the three months ended December 31, 2004. Diluted net income per share for the three months ended December 31, 2005 was $0.83 as compared to $1.18 for the three months ended December 31, 2004.

We generated $259 million in cash from operating activities during the nine months ended December 31, 2005 as compared to generating $160 million for the nine months ended December 31, 2004. The increase in cash generated from operating activities was primarily due to a higher percentage of net revenue recognized in the first two months of our third quarter of fiscal 2006 as compared to the third quarter of fiscal 2005, which allowed us to collect a higher percentage of our net revenue during the quarter.

Management's Overview of Historical and Prospective Business Trends

Transition to Next-Generation Consoles. Our industry is cyclical and has entered into a transition stage heading into the next cycle. In November 2005, Microsoft launched the Xbox 360, and over the course of the next twelve months, we expect Sony and Nintendo to introduce new video game consoles, as well. During this transition, we intend to continue developing new titles for the current generation of video game consoles while we also continue to make significant investments in the development of products that operate on the next-generation consoles. We have incurred, and expect to continue to incur, higher costs during this transition to next-generation consoles. Moreover, we expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. We also expect that, as the current generation of consoles reach the end of their cycle and next-generation consoles are introduced into the market, sales of video games for current-generation consoles will continue to decline as consumers replace their current-generation consoles with next-generation consoles, or defer game software purchases until they are able to purchase a next-generation platform. We also expect our operating expenses to increase for the fiscal year ending March 31, 2006 as compared to prior fiscal years, primarily as a result of the transition. In addition, we expect our net revenue, gross profit and net income to decrease in our fiscal year ending March 31, 2006 as compared to the prior fiscal year. Throughout the remainder of this transition, we expect our operating results to continue to be volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

Expansion of Mobile Platforms . The introduction of the PSP and Nintendo DS has resulted in increased sales of titles for mobile platforms. During the three months ended December 31, 2005, our net revenue from sales of our titles for mobile platforms increased to $192 million from $55 million for the three months ended December 31, 2004. Similarly, during the nine months ended December 31, 2005, our net revenue from sales of our titles for mobile platforms increased to $305 million from $83 million for the nine months ended December 31, 2004. As the mobile platform installed base continues to grow, we expect that sales of our titles for these platforms may become an increasingly important part of our business, particularly during the transition from current-generation to next-generation consoles.

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 consoles as (1) we become more familiar with, and gain expertise in, developing titles for next-generation consoles, (2) we require larger production teams to create our titles, (3) the technology needed to develop titles becomes more complex, (4) the number and nature of the platforms for which we develop titles increases and becomes more diverse, (5) the cost of licensing the third-party intellectual property we use in many of our titles increases, and (6) we develop new methods to distribute our content via the Internet and on hand-held and wireless devices.

Software Prices. We expect the average prices of our titles for current-generation consoles to continue to decline as (1) more value-oriented consumers purchase current-generation consoles, (2) a greater number of competitive titles are published, and (3) consumers defer purchases in anticipation of next-generation consoles. As a result, we expect our gross margins to be negatively impacted.

Sales of "Hit" Titles. Sales of "hit" titles, several of which were top sellers across a number of international markets, contributed significantly to our net revenue. Our top-selling titles across all platforms worldwide during the three months ended December 31, 2005 were *Need for Speed Most Wanted* , *FIFA 06* , *Harry Potter and the Goblet of Fire* , *The Sims 2* and *Madden NFL 06.* 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.

International Operations and Sales and Foreign Exchange Impact. Net revenue from international sales accounted for approximately 46 percent of our total net revenue during the first nine months of fiscal 2006 and approximately 47 percent of our total net revenue during the first nine months of fiscal 2005. Our international net revenue was primarily driven by sales in Europe and, to a lesser extent, in Asia. Foreign exchange rates had an unfavorable impact on our net revenue of $12 million, or less than 1 percent, for the nine months ended December 31, 2005 as compared to the nine months ended December 31, 2004. Foreign exchange rates had an unfavorable impact on our net revenue of $21 million, or 1 percent, for the three months ended December 31, 2005 as compared to the three months ended December 31, 2004. We expect foreign currency movements to negatively impact our revenue for the remaining three months of fiscal 2006. We anticipate that international net revenue will increase as a percentage of net revenue during the remainder of fiscal 2006 as the console installed base continues to expand

outside of North America. In particular, we believe that in order to succeed in Asia, it is important to develop content locally. As such, we expect to continue to devote resources to hiring local development talent and expanding our infrastructure outside of North America, most notably, through the expansion and creation of local studio facilities in Asia. 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. Our international business has also grown through acquisitions and investments such as our acquisition of Criterion Software Group Ltd. and our tender offer for Digital Illusions C.E. ("DICE") in fiscal 2005.

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. 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 continuing to invest heavily in tools, technologies and titles for the next-generation of platforms and technology.

Increasing Licensing Costs. We generate a significant portion of our net revenue and operating income from games based on licensed content such as Madden NFL Football, FIFA, James Bond and Harry Potter. We have recently entered into new licenses and renewed older licenses, some of which contain higher royalty rates than similar license agreements we have entered into in the past. As a result, we expect our gross margins to continue to be negatively impacted.

Acquisition of JAMDAT . In December 2005, we entered into a definitive merger agreement to acquire JAMDAT Mobile Inc., a global publisher of wireless games and other wireless entertainment applications. We will pay $27 per share in cash in exchange for each share of JAMDAT common stock and assume outstanding stock options for a total purchase price of approximately $680 million, plus transaction costs. This acquisition is subject to customary closing conditions, including approval by JAMDAT's stockholders and regulatory approvals, and is expected to close during our fourth quarter of fiscal 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Condensed 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, Xbox 360 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 of the following criteria are met:

- Evidence of an arrangement: Evidence of an agreement with the customer that reflects the terms and conditions to deliver products must be present in order to recognize revenue.
- Delivery: Delivery is considered to occur when the products are shipped and risk of loss and reward have 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, 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.

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 continue to 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 and historical experience. 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, 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 obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are expensed to cost of goods sold at the greater of the contractual or effective royalty rate based on expected net product sales. Significant judgment is required to estimate the effective royalty rate for a particular contract. Because the computation of effective royalty rates requires us to

project future revenue, it is inherently subjective as our future revenue projections must anticipate (1) the total number of titles subject to the contract, (2) the timing of the release of these titles, (3) the number of software units we expect to sell, and (4) future pricing. Determining the effective royalty rate for hit-based titles is particularly difficult due to the inherent risk of such titles. Accordingly, if our future revenue projections change, our effective royalty rates would change, which could impact the royalty expense we recognize. 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 expected 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 December 31, 2005 and March 31, 2005, approximately $34 million and $51 million, respectively, of minimum guaranteed current and long-term 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 and commitments. 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. We had no impairments during the three and nine months ended December 31, 2005. Impairments for the three and nine months ended December 31, 2004 were $1 million and $3 million, respectively.

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 condensed consolidated balance sheets. 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. There were no impairment charges recorded in the three and nine months ended December 31, 2005 and 2004.

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 Condensed 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, including acquisitions, changes in our international structure, changes in the geographic location of business functions, changes in the geographic mix and amount of income, as well as changes in 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 and result in a variance between the projected effective tax rate for any quarter and the final effective tax rate for the fiscal year. For example, during the three months ended September 30, 2005, we resolved various tax-related matters with foreign tax authorities which decreased our tax expense and engaged in certain intercompany transactions which increased our income tax expense. Collectively, these items resulted in a net decrease in tax expense for the quarter of approximately $9 million. Conversely, we expect our acquisition of JAMDAT Mobile Inc. to adversely impact our effective tax rate.

With respect to our projected effective income tax rate each quarter prior to the end of a fiscal year, we are required to make a projection of several items, including our projected mix of full-year income in each jurisdiction in which we operate and the related income tax expense in each jurisdiction. The projected annual effective income tax rate is also adjusted for taxes related to certain anticipated changes in how we do business. Significant non-recurring charges are taken in the quarter incurred. The actual results could vary from those projected, and as such, the overall effective income tax rate for a fiscal year could be different from that previously projected for the full year.

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. Beginning with the current fiscal year ending March 31, 2006, we will end our fiscal year on the Saturday nearest March 31. Our results of operations for the fiscal years ended March 31, 2006 and 2005 contain the following number of weeks:

Fiscal Years Ended	Number of Weeks	Fiscal Period End Date
March 31, 2006	53 weeks	April 1, 2006
March 31, 2005	52 weeks	March 26, 2005

Our results of operations for the three and nine months ended December 31, 2005 and 2004 contain the following number of weeks:

Fiscal Period	Number of Weeks	Fiscal Period End Date
Three months ended December 31, 2005	13 weeks	December 31, 2005
Nine months ended December 31, 2005	40 weeks	December 31, 2005
Three months ended December 31, 2004	13 weeks	December 25, 2004
Nine months ended December 31, 2004	39 weeks	December 25, 2004

For the three months ended June 30, 2005, there was one additional week included in our results of operations as compared to the three months ended June 30, 2004.

For simplicity of presentation, all fiscal periods are treated as ending on a calendar month end.

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, Xbox 360 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, 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.

From a geographical perspective, our total net revenue for the three and nine months ended December 31, 2005 and 2004 was as follows (in millions):

	Three Months Ended December 31,				Increase / (Decrease)	% Change
	2005		2004			
North America	$ 618	49%	$ 692	48%	$ (74)	(11%)
Europe	577	45%	666	47%	(89)	(13%)
Asia	75	6%	70	5%	5	7%
International	652	51%	736	52%	(84)	(11%)
Total Net Revenue	$1,270	100%	$ 1,428	100%	$ (158)	(11%)

	Nine Months Ended December 31,				Increase / (Decrease)	% Change
	2005		2004			
North America	$1,245	54%	$ 1,376	53%	$ (131)	(10%)
Europe	912	39%	1,066	42%	(154)	(14%)
Asia	153	7%	133	5%	20	15%
International	1,065	46%	1,199	47%	(134)	(11%)
Total Net Revenue	$2,310	100%	$ 2,575	100%	$ (265)	(10%)

North America

For the three months ended December 31, 2005, net revenue in North America was $618 million, driven primarily by sales of *Need for Speed Most Wanted*, *Madden NFL 06, Harry Potter and the Goblet of Fire* and *The Sims 2* as well as sales of titles for the PSP, which was launched in North America during the three months ended March 31, 2005, and sales of titles for the Xbox 360 launched during the three months ended December 31, 2005. Overall, net revenue decreased $74 million, or 11 percent, as compared to the three months ended December 31, 2004. The decrease in current-year net revenue was primarily due to (1) lower sales from our NFL Street franchise and the release of *The Urbz ™ : Sims in the City ™* during the three months ended December 31, 2004 as there were no corresponding titles released during the three months ended December 31, 2005, (2) lower sales from our Lord of the Rings franchise which was released on multiple platforms during the three months ended December 31, 2004 as compared to the release of the current-year title on one platform, the PSP, during the three months ended December 31, 2005, and (3) lower sales from our Need for Speed franchise. The overall decrease in net revenue was mitigated by (1) the release of *Harry Potter and the Goblet of Fire* and *Battlefield 2: Modern Combat* during the third quarter of fiscal 2006, as well as (2) higher revenue from our Madden franchise primarily resulting from the release of *Madden NFL 06* on the Xbox 360 and PSP in the current year.

For the nine months ended December 31, 2005, net revenue in North America was $1,245 million, driven primarily by sales of *Madden NFL 06* , *Need for Speed Most Wanted*, *NBA LIVE 06* and *NCAA Football 06* , as well as sales of titles for the PSP and Xbox 360 . Overall, net revenue was down $131 million, or 10 percent, as compared to the nine months ended December 31, 2004. This decrease was primarily due to (1) lower sales from our NFL Street, Fight Night and Def Jam franchises and the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there were no corresponding titles released during the nine months ended December 31, 2005, (2) lower sales from our Lord of the Rings franchise which was released on multiple platforms during the three months ended December 31, 2004 as compared to the release of the current-year title on one platform, the PSP, during the three months ended December 31, 2005, and (3) lower sales from our Need for Speed franchise. The overall decrease in net revenue was mitigated by current-year sales from (1) the release of *Battlefield 2: Modern Combat* during the third quarter of fiscal 2006, (2) higher revenue from our Madden franchise primarily resulting from the release of *Madden NFL 06* on the Xbox 360 and PSP in the current year, as well as (3) the current-year release of *Marvel Nemesis ™ : Rise of the Imperfects ™* .

Europe

For the three months ended December 31, 2005, net revenue in Europe was $577 million, driven primarily by sales of *Need for Speed Most Wanted, FIFA 06 , Harry Potter and the Goblet of Fire* and *The Sims 2* , as well as sales of titles for the PSP which was launched in Europe during the three months ended September 30, 2005 and sales of titles for the Xbox 360 launched during

the three months ended December 31, 2005. Overall, net revenue declined $89 million, or 13 percent, as compared to the three months ended December 30, 2004. We estimate that foreign exchange rates (primarily the Euro and the British pound sterling) decreased reported European net revenue by approximately $20 million, or 3 percent, net of realized gains from hedging activities, for the three months ended December 31, 2005 as compared to the three months ended December 31, 2004. The decrease in net revenue was primarily due to (1) lower sales from our Lord of the Rings franchise, (2) lower sales from our FIFA franchise resulting from the release of *FIFA 06* in Europe during the second quarter of fiscal 2006 as compared to *FIFA Soccer 2005* , which was released in the third quarter of fiscal 2005, and (3) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the three months ended December 31, 2005. The overall decline in net revenue was mitigated by the release of *Harry Potter and the Goblet of Fire* during the third quarter of fiscal 2006.

For the nine months ended December 31, 2005, net revenue in Europe was $912 million, driven primarily by sales of *FIFA 06*, *Need for Speed Most Wanted*, *Harry Potter and the Goblet of Fire* and *The Sims 2* , as well as sales of titles for the PSP and Xbox 360. Overall, net revenue declined $154 million, or 14 percent, as compared to the nine months ended December 31, 2004. We estimate that foreign exchange rates (primarily the Euro and the British pound sterling) decreased reported European net revenue by approximately $14 million, or 1 percent, net of realized gains from hedging activities, for the nine months ended December 31, 2005 as compared to the nine months ended December 31, 2004. Excluding the effect of foreign exchange rates, we estimate that European net revenue decreased by approximately $140 million, or 13 percent, for the nine months ended December 31, 2005. The overall decrease in net revenue was primarily due to (1) lower sales from our Lord of the Rings and The Sims franchises, (2) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the nine months ended December 31, 2005, and (3) higher prior year sales of *UEFA Euro 2004* ™ , which was released in the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. The overall decrease in net revenue was mitigated by the release of multiple titles from our Battlefield franchise during fiscal 2006.

Asia

For the three months ended December 31, 2005, net revenue in Asia increased by $5 million, or 7 percent, as compared to the three months ended December 31, 2004. We estimate that foreign exchange rates decreased reported Asia net revenue by approximately $1 million, or 2 percent, for the three months ended December 31, 2005 as compared to the three months ended December 31, 2004. The increase in net revenue for the three months ended December 31, 2005 was driven primarily by sales of titles for the PSP.

For the nine months ended December 31, 2005, net revenue in Asia increased by $20 million, or 15 percent, as compared to the nine months ended December 31, 2004. We estimate that foreign exchange rates increased reported Asia net revenue by approximately $2 million, or 1 percent, for the nine months ended December 31, 2005 as compared to the nine months ended December 31, 2004. The increase in net revenue for the nine months ended December 31, 2005 was driven primarily by sales of titles for the PSP.

Our total net revenue by product line for the three and nine months ended December 31, 2005 and 2004 was as follows (in millions):

	Three Months Ended December 31,				Increase/ (Decrease)	% Change
	2005		2004			
Consoles						
PlayStation 2	$ 495	39%	$ 661	46%	$ (166)	(25%)
Xbox	152	12%	233	16%	(81)	(35%)
Nintendo GameCube	69	5%	109	8%	(40)	(37%)
Xbox 360	76	6%	—	0%	76	n/a
Other Consoles	1	0%	6	1%	(5)	(83%)
Total Consoles	793	62%	1,009	71%	(216)	(21%)
PC	148	12%	239	17%	(91)	(38%)
Mobility						
PSP	120	9%	—	0%	120	n/a
Nintendo DS	36	3%	16	1%	20	125%
Game Boy Advance	35	3%	39	3%	(4)	(10%)
Cellular Handsets	1	0%	—	0%	1	n/a
Total Mobility	192	15%	55	4%	137	249%
Co-publishing and Distribution	99	8%	79	5%	20	25%
Internet Services, Licensing and Other						
Subscription Services	16	1%	14	1%	2	14%
Licensing, Advertising and Other	22	2%	32	2%	(10)	(31%)
Total Internet Services, Licensing and Other	38	3%	46	3%	(8)	(17%)
Total Net Revenue	$ 1,270	100%	$ 1,428	100%	$ (158)	(11%)

	Nine Months Ended December 31,				Increase/ (Decrease)	% Change
	2005		2004			
Consoles						
PlayStation 2	$ 916	40%	$ 1,135	44%	$ (219)	(19%)
Xbox	332	14%	432	17%	(100)	(23%)
Nintendo GameCube	118	5%	174	7%	(56)	(32%)
Xbox 360	76	3%	—	0%	76	n/a
Other Consoles	1	0%	9	0%	(8)	(89%)
Total Consoles	1,443	62%	1,750	68%	(307)	(18%)
PC	313	14%	446	17%	(133)	(30%)
Mobility						
PSP	197	9%	—	0%	197	n/a
Nintendo DS	56	2%	16	1%	40	250%
Game Boy Advance	48	2%	67	2%	(19)	(28%)
Cellular Handsets	4	0%	—	0%	4	n/a
Total Mobility	305	13%	83	3%	222	267%
Co-publishing and Distribution	161	7%	195	8%	(34)	(17%)
Internet Services, Licensing and Other						
Subscription Services	45	2%	39	2%	6	15%
Licensing, Advertising and Other	43	2%	62	2%	(19)	(31%)
Total Internet Services, Licensing and Other	88	4%	101	4%	(13)	(13%)
Total Net Revenue	$ 2,310	100%	$ 2,575	100%	$ (265)	(10%)

PlayStation 2

For the three months ended December 31, 2005, net revenue from sales of titles for the PlayStation 2 was $495 million, driven primarily by sales of *Need for Speed Most Wanted*, *FIFA 06* and *Harry Potter and the Goblet of Fire.* We released eight titles for the Play Station 2 during the three months ended December 31, 2005, as compared to nine titles in the three months ended December 31, 2004. Overall, PlayStation 2 net revenue decreased $166 million, or 25 percent, as compared to the three months ended December 31, 2004. The decrease in current-year net revenue was primarily due to (1) lower sales of current-year releases from our Need for Speed franchise, (2) lower sales from our NBA Live franchise resulting from the release of *NBA LIVE 06* during the second quarter of fiscal 2006 as compared to *NBA LIVE 2005* , which was released in the third quarter of fiscal 2005, (3) lower sales from our Lord of the Rings franchise, which did not have a current-year release, (4) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the three months ended December 31, 2005, and (5) lower sales from our FIFA franchise as *FIFA 06* was released in Europe during the three months ended September 30, 2005, as compared to *FIFA Soccer 2005* , which was released during the three months ended December 31, 2004. The overall decrease in net revenue was mitigated by the release of *Harry Potter and the Goblet of Fire* during the three months ended December 31, 2005.

For the nine months ended December 31, 2005, net revenue from sales of titles for the PlayStation 2 was $916 million, driven primarily by sales of *Madden NFL 06, Need for Speed Most Wanted* and *FIFA 06* . We released 20 titles for the PlayStation 2 during the nine months ended December 31, 2005, as compared to 21 titles in the nine months ended December 31, 2004. Overall, PlayStation 2 net revenue decreased $219 million, or 19 percent, as compared to the nine months ended December 31, 2004. The decrease was primarily due to (1) lower sales from our Lord of the Rings, Fight Night and Def Jam franchises, none of which had current-year releases, (2) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the nine months ended December 31, 2005, and (3) lower sales of current-year releases from our Need for Speed and Bond franchises. The overall decrease in net revenue was mitigated by the release of *Medal of Honor European Assault™,* which did not have a corresponding release in the nine months ended December 31, 2004.

Xbox

For the three months ended December 31, 2005, net revenue from sales of titles for the Xbox was $152 million, driven primarily by sales of *Need for Speed Most Wanted* and *Battlefield 2: Modern Combat.* We released eight titles for the Xbox during the three months ended December 31, 2005, as compared to nine titles in the three months ended December 31, 2004. Overall, Xbox net revenue decreased $81 million, or 35 percent, as compared to the three months ended December 31, 2004. The decrease was primarily due to (1) lower sales of current-year releases from our Need for Speed and FIFA franchises, (2) lower sales from our NBA Live franchise resulting from the release of *NBA LIVE 06* during the second quarter of fiscal 2006 as compared to *NBA LIVE 2005* , which was released in the third quarter of fiscal 2005, (3) lower sales from our Lord of the Rings and NFL Street franchises, neither of which had a current-year release, and (4) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004, as there was no corresponding title released during the three months ended December 31, 2005.

For the nine months ended December 31, 2005, net revenue from sales of titles for the Xbox was $332 million, driven primarily by sales of *Madden NFL 06* and *Need for Speed Most Wanted.* We released 20 titles for the Xbox during each of the nine-month periods ended December 31, 2005 and December 31, 2004. Overall, Xbox net revenue decreased $100 million, or 23 percent, as compared to the nine months ended December 31, 2004. The decrease was primarily due to (1) lower sales from our Lord of the Rings, Fight Night and Def Jam franchises, none of which had current-year releases, (2) the release of *The Urbz: Sims in the City* , during the three months ended December 31, 2004 as there was no corresponding title released during the nine months ended December 31, 2005, and (3) lower sales of current-year releases from our Need for Speed and Bond franchises. The overall decrease in net revenue was mitigated by the release of *Battlefield 2: Modern Combat,* which did not have a corresponding release in the nine months ended December 31, 2004.

Xbox 360

The Xbox 360 was launched in limited quantities in North America, Europe and Japan, during the three months ended December 31, 2005. Net revenue from sales of titles for the Xbox 360, was $76 million for the three and nine months ended December 31, 2005, driven by sales of *Need for Speed Most Wanted* , *Madden NFL 06* and three other titles released for the Xbox 360 during the three months ended December 31, 2005.

Nintendo GameCube

For the three months ended December 31, 2005, net revenue from sales of titles for the Nintendo GameCube was $69 million, driven primarily by sales of *Need for Speed Most Wanted* and *Harry Potter and the Goblet of Fire.* We released five titles for the Nintendo GameCube during the three months ended December 31, 2005, as compared to seven titles in the three months ended December 31, 2004. Overall, Nintendo GameCube net revenue decreased $40 million, or 37 percent, as compared to three months ended December 31, 2004. The decrease was primarily due to (1) lower sales from our Lord of the Rings and NFL Street franchises, neither of which had current-year releases, (2) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the three months ended December 31, 2005, and (3) lower sales of current-year releases from our Need for Speed, Bond and FIFA franchises. The overall decrease in net revenue was mitigated by the release of *Harry Potter and the Goblet of Fire* during the three months ended December 31, 2005.

For the nine months ended December 31, 2005, net revenue from sales of titles for the Nintendo GameCube was $118 million, driven primarily by sales of *Need for Speed Most Wanted, Harry Potter and the Goblet of Fire* and *Madden NFL 06.* We released 13 titles for the Nintendo GameCube during the nine months ended December 31, 2005, as compared to 15 titles in the nine months ended December 31, 2004. Overall, Nintendo GameCube net revenue decreased $56 million, or 32 percent, as compared to the nine months ended December 31, 2004. The decrease was primarily due to (1) lower sales from our Lord of the Rings, NFL Street and Def Jam franchises, none of which had current-year releases, (2) the release of *The Urbz: Sims in the City* during the three months ended December 31, 2004 as there was no corresponding title released during the nine months ended December 31, 2005, and (3) lower sales of current-year releases from our Need for Speed and Bond franchises.

PC

For the three months ended December 31, 2005, net revenue from sales of titles for the PC was $148 million, driven primarily by sales of titles from our Sims franchise, *Need for Speed Most Wanted* and *Harry Potter and the Goblet of Fire.* We released seven titles for the PC during each of the three-month periods ended December 31, 2005 and December 31, 2004. Overall, PC net revenue decreased $91 million, or 38 percent, as compared to three months ended December 31, 2004. The decrease was primarily due to (1) lower sales from our Lord of the Rings and Medal of Honor franchises, neither of which had titles released during the three months ended December 31, 2005, and (2) significantly higher prior year sales of *The Sims 2* . The overall decrease in net revenue was mitigated by the current-year release of *Battlefield 2: Special Forces*™ . Starting on January 27, 2005, we consolidated DICE's financial results into our financial statements, and, therefore, have characterized *Battlefield 2* PC-based revenue as part of our PC product line. Prior to consolidating DICE's financial results, we classified revenue from the Battlefield franchise as co-publishing and distribution revenue.

For the nine months ended December 31, 2005, net revenue from sales of titles for the PC was $313 million, driven primarily by sales of titles from our Sims franchise and *Battlefield 2* . We released 15 titles for the PC during the nine months ended December 31, 2005, as compared to 16 titles in the nine months ended December 31, 2004. Overall, PC net revenue decreased $133 million, or 30 percent, as compared to the nine months ended December 31, 2004. The decrease was primarily due to (1) significantly higher prior year sales of *The Sims 2* , and (2) lower sales from our Medal of Honor and Lord of the Rings franchises, neither of which had titles released during the nine months ended December 31, 2005. The overall decrease in net revenue was mitigated by current-year sales of products from our Battlefield franchise.

Mobility

Net revenue from mobile products increased from $55 million in the three months ended December 31, 2004 to $192 million in the three months ended December 31, 2005. Mobile products include games for all mobile devices such as hand-helds and cellular handsets. The increase in mobility net revenue for the three months ended December 31, 2005 was primarily due to sales of titles for the PSP and the Nintendo DS that were released in certain regions during the six months ended March 31, 2005.

Net revenue from mobile products increased from $83 million in the nine months ended December 31, 2004 to $305 million in the nine months ended December 31, 2005. The increase in mobility net revenue was primarily due to sales of titles for the PSP and Nintendo DS. The increase was partially offset by lower sales of titles for the Game Boy Advance.

Co-Publishing and Distribution

Net revenue from co-publishing and distribution products increased from $79 million in the three months ended December 31, 2004 to $99 million in the three months ended December 31, 2005. The increase was primarily due to revenue from *Half-Life ® 2* and the release of *Black & White™ 2* during the three months ended December 31, 2005.

Net revenue from co-publishing and distribution products decreased from $195 million in the nine months ended December 31, 2004 to $161 million in the nine months ended December 31, 2005. The decrease was primarily due to (1) the change in our classification of sales of products from our Battlefield franchise, which, as discussed above, we no longer classify as co-publishing and distribution revenue, and (2) higher prior-year sales of various co-publishing and distribution titles.

Subscription Services

Net revenue from subscription services increased from $39 million in the nine months ended December 31, 2004 to $45 million in the nine months ended December 31, 2005. 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 net revenue from *Ultima Online* ™ and *The Sims Online* ™.

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 and other vendor reimbursements, (4) expenses for defective products, (5) write-offs of post-launch prepaid royalty costs, (6) amortization of certain intangible assets, and (7) operations expenses. Volume discounts are generally recognized upon achievement of milestones and vendor reimbursements are generally recognized as the related revenue is recognized. 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 intellectual properties. Cost of goods sold for our web site advertising business primarily consists of ad-serving costs.

Cost of goods sold for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	% Change
Three months ended	$ 502	39.5%	$ 503	35.2%	(0.2%)
Nine months ended	$ 937	40.6%	$ 963	37.4%	(2.7%)

In the three and nine months ended December 31, 2005, cost of goods sold as a percentage of total net revenue increased by 4.3 and 3.2 percentage points, respectively. These increases were driven by:

- Higher average product costs as a percentage of total net revenue in North America and Europe during the three months ended December 31, 2005 as compared to the three months ended December 31, 2004 driven by lower average revenue per unit resulting from pricing actions taken or expected to be taken;
- Higher costs as a percentage of total net revenue associated with our co-publishing and distribution agreements as *Half Life 2* , *Black & White 2* and *Resident Evil ® 4* were released; and
- Higher license royalties as a percentage of total net revenue due to our new license agreements with the NFL, Players Inc. and Collegiate Licensing Company.

Offsetting the increases in both the three and nine months ended December 31, 2005 as compared to the three and nine months ended December 31, 2004 were lower net manufacturing royalties and lower third-party development royalties as a percentage of total net revenue due to the internal development of *Burnout™ Revenge* in the current year as compared to the external development of *Burnout™ 3:Takedown™* in the prior year.

We expect cost of goods sold to increase as a percentage of total net revenue during fiscal 2006 as compared to fiscal 2005. We have experienced and expect to continue to see margin pressure as a result of decreases in average selling prices as current-generation platforms mature and our industry transitions to next-generation technology. In addition, we have experienced higher

license royalty rates as a percentage of revenue and expect this trend to continue. Although there can be no assurance, and our actual results could differ materially, we expect this pressure to be partially offset by lower net manufacturing royalty rates and lower third-party development royalties.

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 the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ 147	12%	$ 133	9%	$ 14	11%
Nine months ended	$ 329	14%	$ 304	12%	$ 25	8%

For the three and nine months ended December 31, 2005, marketing and sales expenses increased by $14 million, or 11 percent, and $25 million, or 8 percent, respectively, as compared to the three and nine months ended December 31, 2004. These increases were primarily due to (1) our marketing and advertising, promotional and related contracted service expenses as a result of increased advertising to support our titles, and (2) an increase in facility-related expenses in support of our marketing and sales functions worldwide.

We expect marketing and sales expense as a percentage of net revenue to increase for the twelve months ending March 31, 2006 as compared to the prior fiscal year.

General and Administrative

General and administrative expenses consist of personnel and related expenses of executive and administrative staff, fees for professional services such as legal and accounting, and allowances for doubtful accounts.

General and administrative expenses for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ 58	5%	$ 78	5%	$ (20)	(26%)
Nine months ended	$ 160	7%	$ 155	6%	$ 5	3%

For the three months ended December 31, 2005, general and administrative expenses decreased by $20 million, or 26 percent, as compared to the three months ended December 31, 2004 primarily due to higher personnel-related litigation expenses and other employee-related costs in the prior year.

For the nine months ended December 31, 2005, general and administrative expenses increased by $5 million, or 3 percent, as compared to the nine months ended December 31, 2004 primarily due to higher wages resulting from an increase in headcount as well as an increase in professional and contracted services to support our business. These increases were partially offset by higher personnel-related litigation expenses in the prior year.

We expect general and administrative expense as a percentage of net revenue to remain relatively unchanged for the twelve months ending March 31, 2006 as compared to the prior year.

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 and related overhead costs in connection with the development and production of our online games. Research and development expenses also include expenses associated with the development of web site content, network infrastructure direct expenses, software licenses and maintenance, and network and management overhead.

Research and development expenses for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ 206	16%	$ 185	13%	$ 21	11%
Nine months ended	$ 571	25%	$ 473	18%	$ 98	21%

For the three and nine months ended December 31, 2005, research and development expenses increased by $21 million, or 11 percent, and $98 million, or 21 percent, respectively, as compared to the three and nine months ended December 31, 2004. These increases were primarily due to an increase in personnel-related costs resulting from an increase in employee headcount in our Canadian and European studios as we increased our internal development efforts and invested in next-generation tools, technologies and titles, as well as our recent consolidation of DICE. To a lesser extent, these increases were also due to higher facilities-related costs offset by lower third-party development costs.

We expect research and development expense as a percentage of net revenue to increase for the twelve months ending March 31, 2006 as compared to the prior year.

Acquired In-process Technology

Acquired in-process technology charges for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ —	0%	$ 9	1%	$ (9)	(100%)
Nine months ended	$ —	0%	$ 9	0%	$ (9)	(100%)

The acquired in-process technology was the result of our acquisition of Criterion Software during the three and nine months ended December 31, 2004. 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 Statements of Operations upon consummation of this acquisition.

Should our acquisition of JAMDAT Mobile Inc. close as expected during our fourth quarter of fiscal 2006, we would expect to incur expenses related to acquired in-process technology at that time.

Restructuring Charges

Restructuring charges for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ 9	1%	$ —	0%	$ 9	n/a
Nine months ended	$ 9	0%	$ —	0%	$ 9	n/a

In connection with our intention to establish an international publishing headquarters in Geneva, Switzerland, during the next nine months, we expect to open a new facility in Geneva, relocate certain current employees to Geneva, hire new employees in Geneva, close certain facilities in the UK, and make other related changes in our international publishing business. We intend to treat certain costs that are directly associated with our international publishing reorganization as "restructuring costs" (as defined by SFAS No. 146, " *Accounting for Costs Associated with Exit or Disposal Activities* "). Other costs that are not properly categorized as restructuring costs will generally be treated as normal operating expenses in our Condensed Consolidated Statements of Operations. In accordance with SFAS No. 146, we will generally expense the restructuring costs as they are incurred and accrue costs associated with certain facility closures at the time we exit the facility.

We expect to incur between $55 million and $65 million in total restructuring costs, substantially all of which will result in cash expenditures. These restructuring costs will consist primarily of employee-related relocation assistance (approximately $43 million), facility exit costs (approximately $10 million), as well as other reorganization costs (approximately $8 million). While we may incur severance costs paid to terminating employees in connection with the reorganization, we do not expect these costs to be significant. Approximately $15 million of these charges will be incurred during fiscal 2006, of which $7 million for the closure of certain UK facilities and $1 million in other costs in connection with our international publishing reorganization were incurred during the three months ended December 31, 2005 and included in restructuring charges in our Condensed Consolidated Statements of Operations.

Interest and Other Income, Net

Interest and other income, net, for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	% of Net Revenue	December 31, 2004	% of Net Revenue	$ Change	% Change
Three months ended	$ 20	2%	$ 23	2%	$ (3)	(13%)
Nine months ended	$ 49	2%	$ 44	2%	$ 5	11%

For the three months ended December 31, 2005, interest and other income, net, decreased by $3 million, or 13 percent, as compared to the three months ended December 31, 2004 primarily due to a decrease of $8 million from gains on investments and net gains on our foreign currency activities. This decrease was partially offset by an increase of $5 million in interest income as a result of higher yields on our cash, cash equivalent and short-term investment balances.

For the nine months ended December 31, 2005, interest and other income, net, increased by $5 million, or 11 percent, as compared to the nine months ended December 31, 2004 primarily due to an increase of $23 million in interest income as a result of higher yields on our cash, cash equivalent and short-term investment balances, partially offset by a decrease of $11 million in gains on investments and a decrease of $6 million in net gains on our foreign currency activities.

Income Taxes

Income taxes for the three and nine months ended December 31, 2005 and 2004 were as follows (in millions):

	December 31, 2005	Effective Tax Rate	December 31, 2004	Effective Tax Rate	% Change
Three months ended	$ 106	29%	$ 167	31%	(37%)
Nine months ended	$ 93	27%	$ 216	30%	(57%)

Our effective income tax rate reflects our significant operations outside the U.S., which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. Our effective income tax rates were 29 percent and 27 percent for the three and nine months ended December 31, 2005, respectively. The nine month rate reflected the impact of certain adjustments recorded in the three months ended September 30, 2005 as a result of the resolution of various tax-related matters with foreign tax authorities, offset by additional income taxes resulting from certain intercompany transactions during the three months ended September 30, 2005. The net impact of these adjustments was that we recognized $9 million (or $0.03 per basic and diluted share) less income tax expense for the nine months ended December 31, 2005 than we would have recognized had our projected annual effective income tax rate remained at 29 percent

During the three months ended December 31, 2004, our effective income tax rate was 31 percent which differed from our previously projected annual effective income tax rate of 29 percent for fiscal 2005 due to an adjustment recorded in the three months ended December 31, 2004 related to certain tax audit developments and tax charges related to the Criterion acquisition. As a result, we recognized $10 million (or $0.03 per basic and diluted share) more income tax expense during the three months ended December 31, 2004 than we would have recognized had our projected effective income tax rate remained at 29 percent.

Should our acquisition of JAMDAT Mobile Inc. close as expected during our fourth quarter of fiscal 2006, we expect acquisition-related charges to adversely impact our effective tax rate for the three months and fiscal year ended March 31, 2006.

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 of evaluating whether we will make a decision during the fourth quarter of fiscal 2006 to 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 in the forth quarter of fiscal 2006. We estimate that the reasonably possible amount of the income tax expense could be up to $27 million if we were to repatriate the maximum amount eligible for the favorable treatment under the Jobs Act.

In July 2005, the Financial Accounting Standards Board (“FASB”) issued an exposure draft of a proposed interpretation of Statement of Financial Accounting Standards (“SFAS”) No. 109, “ *Accounting for Income Taxes* ” which addresses the accounting for uncertain tax positions. The proposed interpretation provides that the best estimate of the impact of a tax position would be recognized in an entity’s financial statements only if it is probable that the position will be sustained on audit based solely on its technical merits. This proposed interpretation also would provide guidance on disclosure, accrual of interest and penalties, accounting in interim periods and transition. We cannot predict what actions the FASB will take or how any such actions might ultimately affect our financial position or results of operations. In January 2006, the FASB announced that companies would not have to apply the proposed interpretation until fiscal years beginning after December 31, 2006.

Impact of Recently Issued Accounting Standards

In March 2004, the FASB ratified the measurement and recognition guidance and certain disclosure requirements for impaired securities as described in Emerging Issues Task Force ("EITF") Issue No. 03-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ". In June 2005, the FASB directed its staff to issue proposed FASB Staff Position ("FSP") EITF 03-1-a, " *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1* ," as final. The FASB retitled this FSP as FSP Financial Accounting Standard ("FAS") 115-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ". The final FSP supersedes EITF Issue No. 03-1 and EITF Topic D-44, " *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value* ". The final FSP replaces the guidance set forth in paragraphs 10 through 18 of EITF Issue No. 03-1 with references to existing other-than-temporary impairment guidance. In September 2005, the FASB decided to retain the paragraph in the proposed FSP on how to account for debt securities subsequent to an other-than-temporary impairment. The FASB also decided to add a footnote to clarify that the proposed FSP does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security. The FASB decided that transition would be applied prospectively and the effective date would be reporting periods beginning after December 15, 2005. In November 2005, the FASB issued FSP FAS 115-1. We are currently evaluating what impact the adoption of the measurement and recognition guidance in FSP FAS 115-1 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. We believe 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. 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, *"Accounting for Stock-Based Compensation"* , supersedes Accounting Principles Board ("APB") No. 25, *"Accounting for Stock Issued to Employees"* , and amends SFAS No. 95, *"Statement of Cash Flows"* . While the fair value method under SFAS No. 123R is similar to the fair value method under SFAS No. 123 with regards to measurement and recognition of stock-based compensation, we are 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 October 2005, the FASB issued FSP FAS No. 123(R)-2, " *Practical Accommodation to the Application of Grant Date As Defined in FASB Statement No. 123(R)* ". The FASB provides companies with a "practical accommodation" when determining the grant date of an award subject to SFAS 123R. If (1) the award is a unilateral grant, that is, the recipient does not have the ability to negotiate the key terms and conditions of the award with the employer, (2) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period, and (3) all other criteria in the grant date definition have been met, then a mutual understanding of the key terms and conditions of an award is presumed to exist at the date the award is approved. In November 2005, the FASB issued FSP FAS No. 123(R)-3, " *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* ". The FASB allows for a practical exception in calculating the additional paid-in capital pool of excess tax benefits upon adoption that is available to absorb tax deficiencies recognized subsequent to adoption SFAS No. 123R. Accordingly, we may adopt either the method prescribed under SFAS No. 123R or the one prescribed under FSP FAS No. 123(R)-3. We have not yet determined which method to adopt.

In March 2005, the 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 our first quarter of fiscal 2007. While we continue 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 Condensed Consolidated Statements of Operations similar to our pro forma disclosure under SFAS No. 123, as amended.

In May 2005, the FASB issued SFAS No. 154, " *Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FASB Statement No. 3* ". SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. Under previous guidance, changes in accounting principle were recognized as a cumulative affect in the net income of the period of the change. The new Statement requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a "restatement". SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. We do not believe that upon adoption of SFAS No. 154 will have a material impact on our consolidated financial statements, however, after adoption, if a change in accounting principle is made, SFAS No. 154 could have a material impact on our consolidated financial statements.

In October 2005, the FASB issued FSP FAS No. 13-1, " *Accounting for Rental Costs Incurred during a Construction Period* ", which provides that rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. FSP FAS No. 13-1 is required to be applied to the first reporting period beginning after December 15, 2005. We do not believe the adoption of FSP FAS No. 13-1 will have a material impact on our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of December 31, 2005	2004	Increase / (Decrease)
Cash, cash equivalents and short-term investments	$ 2,556	$ 2,565	$ (9)
Marketable equity securities	167	4	163
Total	$ 2,723	$ 2,569	$ 154
Percentage of total assets	63%	58%	

(In millions)	Nine Months Ended December 31, 2005	2004	Increase / (Decrease)
Cash provided by operating activities	$ 259	$ 160	$ 99
Cash provided by (used in) investing activities	513	(1,476)	1,989
Cash provided by (used in) financing activities	(558)	116	(674)
Effect of foreign exchange on cash and cash equivalents	(22)	13	(35)
Net increase (decrease) in cash and cash equivalents	$ 192	$ (1,187)	$ 1,379

Changes in Cash Flow

During the nine months ended December 31, 2005, we generated $259 million of cash from operating activities as compared to $160 million of cash generated for the nine months ended December 31, 2004. The increase in cash generated from operating activities was primarily due to a higher percentage of revenue recognized in the first two months of our third quarter of fiscal 2006 as compared to the third quarter of fiscal 2005, which allowed us to collect a higher percentage of our net revenue during the quarter. As compared to fiscal 2005, we expect lower operating cash flows during the remainder of fiscal 2006.

For the nine months ended December 31, 2005, our primary use of cash in non-operating activities consisted of $709 million used to repurchase and retire a portion of our common stock, $347 million used to purchase short-term investments, and $87 million in capital expenditures primarily related to the expansion of our Vancouver studio and investments in our worldwide development tools, technologies and equipment. These non-operating expenditures were offset by $948 million in proceeds from maturities and sales of short-term investments and $151 million in proceeds from sales of common stock through our stock plans. We anticipate making continued capital investments in our Vancouver studio during fiscal 2006.

In December 2005, we entered into a definitive merger agreement to acquire JAMDAT Mobile Inc., a global publisher of wireless games and other wireless entertainment applications. We will pay $27 per share in cash in

exchange for each share of JAMDAT common stock and assume outstanding stock options for a total purchase price of approximately $680 million, plus transaction costs. This acquisition is subject to customary closing conditions, including approval by JAMDAT's stockholders and regulatory approvals, and is expected to close during our fourth quarter of fiscal 2006.

Short-term investments and marketable equity securities
As of December 31, 2005, our portfolio of cash, cash equivalents and short-term investments was comprised of 57 percent cash and cash equivalents and 43 percent short-term investments. As of March 31, 2005, 43 percent of our portfolio consisted of cash and cash equivalents and 57 percent of our portfolio consisted of short-term investments. In absolute dollars, our cash and equivalents increased from $1,270 million as of March 31, 2005 to $1,462 million as of December 31, 2005. This increase was primarily due to $948 million in proceeds received from maturities and sales of short-term investments partially offset by $709 million of cash used for our common stock repurchase program during the first six months of fiscal 2006. Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of December 31, 2005, our short-term investments included gross unrealized losses of approximately $14 million, or 1 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 which short-term investments we liquidate to fund these activities, we could recognize a portion of the gross unrealized losses.

Marketable equity securities increased to $167 million as of December 31, 2005, from $140 million as of March 31, 2005, primarily due to an increase in the unrealized gain on our investment in Ubisoft Entertainment.

Receivables, net
Our gross accounts receivable balances were $829 million and $458 million as of December 31, 2005 and March 31, 2005, respectively. The increase in our accounts receivable balance was expected due to our higher sales volume in the third quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005. We expect our accounts receivable balance to decrease during the three months ending March 31, 2006 based on our seasonal product release schedule. Reserves for sales returns, pricing allowances and doubtful accounts increased from $162 million as of March 31, 2005 to $262 million as of December 31, 2005. Reserves for sales returns, pricing allowances and doubtful accounts increased in absolute dollars and as a percentage of trailing six and nine month net revenue as of December 31, 2005 as compared to March 31, 2005 primarily as a result of the seasonality in our business. Reserves for sales returns, pricing allowances and doubtful accounts increased in both absolute dollars from $206 million as of December 31, 2004 to $262 million as of December 31, 2005, and as a percentage of trailing six and nine month net revenue from 10 percent and 8 percent, respectively, as of December 31, 2004, to 13 percent and 11 percent, respectively, as of December 31, 2005 as a result of lower anticipated demand for our products and the continued decline in the average prices of our titles for current-generation consoles due to the competitive retail environment. We believe these reserves are adequate based on historical experience and our current estimate of potential returns, pricing allowances and doubtful accounts.

Inventories
Inventories increased to $76 million as of December 31, 2005, from $62 million as of March 31, 2005, primarily due to the seasonality of our business. Other than *Need for Speed Most Wanted* , no single title represented more than $4 million of inventory as of December 31, 2005.

Other current assets
Other current assets increased to $208 million as of December 31, 2005, from $164 million as of March 31, 2005, primarily due to an increase in advertising credits owed to us by our suppliers and an increase in prepaid royalties as we continue to invest in our product development and content.

Accounts payable
Accounts payable increased to $187 million as of December 31, 2005, from $134 million as of March 31, 2005, primarily due to higher sales volumes and higher expenditures to support the seasonality of our business worldwide in the third quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005.

Accrued and other liabilities
Our accrued and other liabilities increased to $760 million as of December 31, 2005 from $694 million as of March 31, 2005. The increase was primarily due to an increase in accrued value added taxes, royalties payable and deferred revenue. This increase was partially offset by a decrease in income taxes payable primarily due to a $73 million reduction we recorded during

the nine months ended December 31, 2005 following a recent U.S. Tax Court ruling regarding the proper allocation of the tax deduction for stock options between U.S. and foreign entities. Although the Tax Court ruling remains subject to appeal, as a precedent, it is relevant to our situation. Accordingly, we released a reserve of $73 million during the nine months ended December 31, 2005, whereby, we recorded a reduction to our income tax payable and an increase to additional paid-in capital. This had no impact on our statement of operations or on our net operating cash flow.

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, our JAMDAT acquisition and potential future acquisitions or strategic investments. We may choose at any time to raise additional capital to strengthen our financial position, facilitate expansion, pursue strategic acquisitions and 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, our lease payments may change from the amounts under the current lease agreements. Should we choose to purchase the properties, we could incur a cash outflow of approximately $200 million. We have not yet determined the course of action that we will take.

A portion of our cash, cash equivalents and short-term investments that was generated from operations domiciled in foreign tax jurisdictions (approximately $847 million as of December 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 (other than possibly pursuant to the American Jobs Creation Act of 2004, as described below), 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 American Jobs Creation Act of 2004. We estimate that the reasonably possible amount of the income tax expense could be up to $27 million in the fourth quarter of fiscal 2006.

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of $750 million of our common stock. Pursuant to the authorization, we were able to 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. Our common stock repurchase program was completed in September 2005. We repurchased and retired the following (in millions):

	Number of Shares Repurchased and Retired	Approximate Amount
Six months ended September 30, 2005	12.6	$709
From the inception of the program through September 30, 2005	13.4	$750

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 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. The original letter of credit guaranteed our trade payable obligations to Nintendo of Europe of up to € 18 million. In April 2005, we reduced the guarantee to € 8 million and in September 2005 we increased the guarantee to € 15 million. This standby letter of credit expired in July 2005 and was renewed through July 2006. As of December 31, 2005, we had € 2 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 December 31, 2005, we did not have a payable balance covered by 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: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR (stock car racing); 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 (James Bond); New Line Productions (The Lord of the Rings); Saul Zaentz Company (The Lord of the Rings); Marvel Enterprises (fighting); John Madden (professional football); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); ISC (stock car racing); Simcoh (Def Jam); Viacom Consumer Products (The Godfather); Valve Corporation (Half-Life and Counter-Strike); ESPN (content in EA SPORTS ™ games); and Twentieth Century Fox Licensing and Merchandising (The Simpsons). 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 December 31, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

	Contractual Obligations			Commercial Commitments		
Fiscal Year Ending March 31,	Leases [1]	Developer/ Licensor Commitments [2]	Marketing	Bank and Other Guarantees	Letters of Credit	Total
2006 (remaining three months)	$ 21	$ 27	$ 6	$ 2	$ 3	$ 59
2007	34	151	33	—	—	218
2008	25	138	30	—	—	193
2009	19	145	30	—	—	194
2010	14	127	31	—	—	172
Thereafter	33	841	197	—	—	1,071
Total	$ 146	$ 1,429	$ 327	$ 2	$ 3	$ 1,907

(1) See discussion on operating leases in the "Off-Balance Sheet Commitments" section below for additional information.

(2) Developer/licensor commitments include $34 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Condensed Consolidated Balance Sheets as of December 31, 2005 because the developer or licensor does not have any performance obligations to us.

The lease commitments disclosed above include contractual rental commitments of $23 million under real estate leases for unutilized office space due to our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Condensed Consolidated Balance Sheets as of December 31, 2005. See Note 5 in the Notes to Condensed Consolidated Financial Statements.

The commitments disclosed above do not include our JAMDAT acquisition commitment. See below.

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 December 31, 2005.

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

Financial Covenants	Requirement		Actual as of December 31, 2005
Consolidated Net Worth (in millions)	equal to or greater than	$2,293	$3,341
Fixed Charge Coverage Ratio	equal to or greater than	3.00	9.34
Total Consolidated Debt to Capital	equal to or less than	60%	6.9%
Quick Ratio — Q1 & Q2	equal to or greater than	1.00	N/A
Q3 & Q4	equal to or greater than	1.75	12.65

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 we will take. See the "Liquidity and Capital Resources" section above for additional information.

Acquisition of JAMDAT

In December 2005, we entered into a definitive merger agreement to acquire JAMDAT Mobile Inc., a global publisher of wireless games and other wireless entertainment applications. We will pay $27 per share in cash in exchange for each share of JAMDAT common stock and assume outstanding stock options for a total purchase price of approximately $680 million, plus transaction costs. This acquisition is subject to customary closing conditions, including approval by JAMDAT's stockholders and regulatory approvals, and is expected to close during our fourth quarter of fiscal 2006.

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, alleging that we improperly classified "Image Production Employees" in California as exempt employees. On October 17, 2005, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of $15.6 million, which we paid to a third-party administrator during the three months ended December 31, 2005, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs' attorneys' fees, not to exceed 25% of the total settlement amount, (c) plaintiffs' costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. On January 27, 2006, the court granted its final approval of the settlement.

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 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 class action lawsuits were filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on January 26, 2006, the court dismissed the consolidated complaint with prejudice. Separately, there are two shareholder derivative actions pending in the Superior Court, San Mateo County, and one shareholder derivative action pending in the United States District Court, Northern District of California, all of which assert claims based on substantially the same factual allegations as set forth in the federal securities class action. We have not yet responded to any of the derivative action 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 at the time they join the Board 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.

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 stock 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, timely release and availability 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, adequate supply, 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. Microsoft released the Xbox360 in November 2005, and over the course of the next twelve months, we expect Sony and Nintendo to introduce new video game players into the market as well (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 and marketing new titles for current-generation video game platforms while we also make significant investments developing products for the next-generation platforms. We have incurred 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. Moreover, we expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games.

We also 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 platforms will decline as consumers replace their current-generation platforms with next-generation platforms, or defer game software purchases until they are able to purchase a next-generation platform. This decline in current-generation product sales 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. 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 the 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 November 2005, Microsoft released the Xbox 360 and, over the course of the next twelve months, we expect Sony and Nintendo to introduce new video game players into the market in various parts of the world. In order to publish products for a

new video game player, 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 may choose not to 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 for any reason, including 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.

Our business is subject to risks generally associated with the entertainment industry, any of which could significantly harm our operating results.

Our business is subject to risks that are generally associated with the entertainment industry, many of which are beyond our control. These risks could negatively impact our operating results and include: the popularity, price and timing of our games and the platforms on which they are played; economic conditions that adversely affect discretionary consumer spending; changes in consumer demographics; the availability and popularity of other forms of entertainment; and critical reviews and public tastes and preferences, which may change rapidly and cannot necessarily be predicted.

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, 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 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 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 total net revenue in our industry. 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 other hit franchises, such as James 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 or 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 II — Item 1. Legal Proceedings" below.

Our business, our products and our distribution are subject to increasing regulation of content, consumer privacy, distribution 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 continually considering content restrictions on products such as ours, as well as restrictions on distribution of such products. For example, recent legislation has been adopted in several states, and could be proposed at the federal level, that prohibits the sale of certain games (e.g., violent games or those with "M" or "AO" ratings) to minors. Any one or more of these factors could harm our business by limiting the products we are able to offer to our customers, by limiting the size of the potential market for our products, and by requiring additional differentiation between products for different territories to address varying regulations. This additional product differentiation could be costly.

If one or more of our titles were found to contain hidden, objectionable content, our business could suffer.

Throughout the history of our industry, many video games have been designed to include certain hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. However, in several cases, the hidden content or feature was included in the game by an employee who was not authorized to do so or by an outside developer without the knowledge of the publisher. From time to time, some hidden content and features have contained profanity, graphic violence and sexually explicit or other objectionable material. In a few cases, the Entertainment Software Ratings Board ("ESRB") has reacted to discoveries of hidden content and features by reviewing the rating that was originally assigned to the product, requiring the publisher to change the game packaging and/or fining the publisher. Retailers have on occasion reacted to the discovery of such hidden content by pulling these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, consumers have reacted to the revelation of hidden content by refusing to purchase such games, demanding refunds for games they've already purchased, and refraining from buying other games published by the company whose game contained the objectionable material.

We have implemented preventative measures designed to reduce the possibility of hidden, objectionable content from appearing in the video games we publish. Nonetheless, these preventative measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If a video game we published were found to contain hidden, objectionable content, the ESRB could demand that we recall a game and change its packaging to reflect a revised rating, retailers could refuse to sell it and demand we accept the return of any unsold copies or returns from customers, and consumers could refuse to buy it or demand that we refund their money. This could have a material negative impact on our operating results and financial condition. In addition, our reputation could be harmed, which could impact sales of other video games we sell. If any of these consequences were to occur, our business and financial performance could be significantly harmed.

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, as well as 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 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 nine months ended December 31, 2005, international net revenue comprised 46 percent of our total net revenue. 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.

As we expand our international operations and implement changes to our operating structure or undertake intercompany transactions in response to changing tax laws, expiring rulings, and our current and anticipated business and operational requirements, our tax expense could increase. For example, in the second quarter of fiscal 2006, we incurred additional income taxes resulting from certain intercompany transactions.

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 quarter ended December 31, 2005, over 70 percent of our U.S. sales were made to five key customers. In Europe, our top ten customers accounted for approximately 32 percent of our sales in that territory during the nine months ended December 31, 2005. Worldwide, we had direct sales to one customer, Wal-Mart Stores, Inc., which represented approximately 13 percent of total net revenue in the nine months ended December 31, 2005. In addition, we believe it likely that, had GameStop Corp.'s acquisition of Electronics Boutique Holdings Corp. occurred on April 1, 2005, the combined company would have represented greater than 10 percent of total net revenue for the nine months ended December 31, 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 engaged in, 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.

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 we believe 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 3. 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. We employ established policies and practices to manage these risks. 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. Interest rate risk is the potential loss arising from changes in interest rates. 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.

Foreign Currency Exchange Rate Risk

From time to time, we hedge some of our foreign currency risk related to forecasted foreign-currency-denominated sales and expense 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 Condensed 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, net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue or operating expenses in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported each period in interest and other income, net in the Condensed Consolidated Statements of Operations. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements in revenue and operating expenses. The fair value of our foreign currency option contracts purchased and included in other current assets was $1 million as of December 31, 2005.

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 approximately 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 Condensed Consolidated Balance Sheets, and gains and losses from changes in fair value are reported in interest and other income, net, in the Condensed 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 December 31, 2005, we had foreign exchange contracts to purchase and sell approximately $659 million in foreign currencies. Of this amount, $630 million represents contracts to sell foreign currencies in exchange for U.S. dollars, $19 million to sell foreign currencies in exchange for British Pounds, and $10 million to purchase foreign currency in exchange for U.S. dollars. The fair value of our forward contracts was immaterial as of December 31, 2005.

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 result in a potential loss in fair value of our option contracts of $1 million in either scenario, as of December 31, 2005. In addition, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in potential losses on our forward contracts of $65 million and $97 million, respectively, as of December 31, 2005. 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 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. Our investments are held for purposes other than trading. Also, we do not use derivative financial instruments or leverage in our short-term investment portfolio.

As of December 31, 2005 and March 31, 2005, 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, net of any tax effects, in stockholders' equity. Our portfolio of short-term investments consisted of the following investment categories, summarized by fair value as of December 31, 2005 and March 31, 2005 (in millions):

	As of December 31, 2005	As of March 31, 2005
U.S. government agencies	$ 556	$ 1,168
U.S. government bonds	349	298
Corporate bonds	179	180
Asset-backed securities	10	42
Total short-term investments	$ 1,094	$ 1,688

Notwithstanding our efforts to manage interest rate risks, there can be no assurance 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. We may suffer losses of principal if we sell securities that have experienced a decline in market value. The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of December 31, 2005, arising from selected potential changes in interest rates. The modeling technique estimates 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)	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of December 31, 2005	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
U.S. government agencies	$ 561	$ 559	$ 558	$ 556	$ 553	$ 552	$ 550
U.S. government bonds	358	355	352	349	347	344	341
Corporate bonds	183	182	180	179	178	176	175
Asset-backed securities	10	10	10	10	10	10	10
Total short-term investments	$ 1,112	$ 1,106	$ 1,100	$ 1,094	$ 1,088	$ 1,082	$ 1,076

Market Price Risk

The values of our equity investments in publicly traded companies are subject to market price volatility. As of December 31, 2005, our marketable equity securities were classified as available-for-sale and, consequently, were recorded in the Condensed Consolidated Balance Sheet at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity. The fair value of our marketable equity securities was $167 million and $140 million as of December 31, 2005 and March 31, 2005, respectively.

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 the fair value of our marketable equity securities as of December 31, 2005, arising from changes in market prices of plus or minus 25 percent, 50 percent and 75 percent.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock's Market Price			Fair Value as of December 31, 2005	Valuation of Securities Given an X Percentage Increase in Each Stock's Market Price		
	(75%)	(50%)	(25%)		25%	50%	75%
Marketable Equity Securities	$ 42	$ 84	$ 126	$ 167	$ 209	$ 251	$ 293

Item 4. 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 Securities Exchange Act of 1934, as amended (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 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 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 Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding the required disclosure.

Changes in internal controls. During our last fiscal quarter, no changes occurred in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. 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, alleging that we improperly classified "Image Production Employees" in California as exempt employees. On October 17, 2005, the court granted its preliminary approval of a settlement pursuant to which we agreed to make a lump sum payment of $15.6 million, which we paid to a third-party administrator during the three months ended December 31, 2005, to cover (a) all claims allegedly suffered by the class members, (b) plaintiffs' attorneys' fees, not to exceed 25% of the total settlement amount, (c) plaintiffs' costs and expenses, (d) any incentive payments to the named plaintiffs that may be authorized by the court, and (e) all costs of administration of the settlement. On January 27, 2006, the court granted its final approval of the settlement.

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 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 class action lawsuits were filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on January 26, 2006, the court dismissed the consolidated complaint with prejudice. Separately, there are two shareholder derivative actions pending in the Superior Court, San Mateo County, and one shareholder derivative action pending in the United States District Court, Northern District of California, all of which assert claims based on substantially the same factual allegations as set forth in the federal securities class action. We have not yet responded to any of the derivative action 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 5. Other Information

On February 7, 2006, we entered into an Agreement for Underlease with The Standard Life Assurance Company, pursuant to which we agreed to lease 94,782 square feet of facilities space in Guildford, United Kingdom, subject to the completion of certain renovations to the property by The Standard Life Assurance Company. Upon completion of the renovations, which we anticipate will be on or about June 1, 2006, we will enter into a 10-year lease and take possession of the facilities. We will not be obligated to pay any rent during the first 24 months of the lease. Thereafter, we will be obligated to pay rent at a rate of £2,193,252 per year during the third, fourth and fifth years of the lease. Beginning in the sixth year, and continuing through the end of the lease, we will pay rent at a rate of £2,512,211 per year. We intend to use the facilities primarily as studio space for the development of our games.

Item 6. Exhibits

The following exhibits (other than exhibits 32.1 and 32.2, which are furnished with this report) are filed as part of this report:

Exhibit Number	Title
2.1	Agreement and Plan of Merger by and among Electronic Arts Inc., EArts(Delaware), Inc. and JAMDAT Mobile Inc. dated December 8, 2005.*(1)
10.1	First amendment to lease, dated December 13, 2005, by and between Liberty Property Limited Partnership, a Pennsylvania limited partnership and Electronic Arts — Tiburon, a Florida corporation f/k/a Tiburon Entertainment, Inc.
10.2	Agreement for Underlease relating to Onslow House, Guildford, Surrey, dated 7 February 2006, by and between The Standard Life Assurance Company and Electronic Arts Limited and Electronic Arts Inc.
15.1	Awareness Letter 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.

* Certain schedules have been omitted and the Company agrees to furnish to the Commission supplementally a copy of any omitted schedules upon request.

(1) Incorporated by reference to exhibits filed with Registrant’s Current Report on Form 8-K/A, filed December 12, 2005.

SIGNATURE

Pursuant to the requirements 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.
(Registrant)

/s/ Warren C. Jenson
WARREN C. JENSON
Executive Vice President, Chief Financial and Administrative Officer

DATED:
February 7, 2006

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED December 31, 2005

EXHIBIT INDEX

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* Certain schedules have been omitted and the Company agrees to furnish to the Commission supplementally a copy of any omitted schedules upon request.

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Exhibit 10.1

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (the "Amendment") is made this 13th day of December, 2005, by and between **LIBERTY PROPERTY LIMITED PARTNERSHIP** , a Pennsylvania limited partnership ("Landlord") and **ELECTRONIC ARTS-TIBURON** , a Florida corporation f/k/a Tiburon Entertainment, Inc. ("Tenant").

BACKGROUND :

A. Landlord's predecessor in title, ASP WT, L.L.C., and Tenant entered into a Lease dated June 15, 2004 (the "Lease"), with a Lease Commencement Date of January 1, 2005, and an expiration date of June 30, 2010, for 117,201 square feet (the "Original Premises") in the office building known as Maitland Summit Park I located at 1950 Summit Park Drive, Orlando, Florida 32810 ("Building I").

B. Landlord also is the owner of the office building known as Maitland Summit Park II located at 1958 Summit Park Drive, Orlando, Florida 32810 ("Building II").

C. Tenant desires to lease 23,163 square feet on the 6th floor of Building II (the "Expansion Premises"), which Expansion Premises are more particularly described and depicted on Exhibit "A" attached hereto.

D. Both parties desire to amend the Lease to incorporate the Expansion Premises and to provide for certain other matters related thereto.

NOW, THEREFORE, the parties hereto, in consideration of the mutual promises and covenants contained herein and in the Lease, and intending to be legally bound hereby, hereby agree as follows:

1. Recitals . The foregoing recitals and all exhibits attached hereto are true and correct and are incorporated herein by this reference.

2. Definitions and Schedules . Sections 1.1 and 1.2 of the Lease are hereby deleted in their entirety and the following new Sections 1.1 and 1.2 are inserted in place and in lieu thereof:

1.1 DEFINITIONS :

a. **Leased Premises** shall mean those suites/floors within both the Original Premises (defined in Section 1.1(b) below) and the Expansion Premises as described in Schedule 1.

b. **Original Premises** shall mean those suites/floors within Building I as described in Schedule 1.

c. **Expansion Premises** shall mean those suites/floors in Building II as described in Schedule 1.

d. **Building** shall mean both Building I and Building II.

e. **Building I** shall mean Maitland Summit Park I located at 1950 Summit Park Drive, Orlando, Florida 32810.

f. **Building II** shall mean Maitland Summit Park II located at 1958 Summit Park Drive, Orlando, Florida 32810.

g. **Project** shall mean both Building I and Building II, and the parking facilities and the lots on which the said buildings are located.

h. **Tenant's Building I Square Footage** shall mean 117,201 rentable square feet; **Total Building I Square Footage** of Building I shall mean 128,240 rentable square feet.

i. **Tenant's Building II Square Footage** shall mean 23,163 rentable square feet; **Total Building II Square Footage** of Building II shall mean 128,934 rentable square feet.

j. **Lease Commencement Date** shall mean January 1, 2005, which may be adjusted pursuant to Section 4.2 of this Lease; **Lease Expiration Date** shall mean June 30, 2010, which may be adjusted pursuant to Section 4.2 of this Lease; **Lease Term** shall mean the period between Lease Commencement Date and Lease Expiration Date. The term "Lease Commencement Date" shall mean the Expansion Commencement Date (as defined in Section 3 below) wherever in this Lease the context shall require.

k. **Building I Base Rent** shall mean those amounts as set forth in Section 12 hereof, plus applicable sales tax, if any; unless the options described under Sections 12.3 or 12.4 are exercised.

l. **Building II Base Rent** shall mean those amounts as set forth in Section 12 hereof, plus applicable sales tax, if any, unless the options described under Sections 12.4 or 12.5 are exercised. In addition to the amounts owed under Section 12, Tenant shall pay to Landlord the cost of electric power serving the Expansion Premises (which shall include but not be limited to the electric power operating the HVAC system serving the Expansion Premises).

m. **Base Rent** shall mean Building I Base Rent and Building II Base Rent combined.

n. **Tenant's Building I Pro Rata Share** shall mean 91.4%.

o. **Tenant's Building II Pro Rata Share** shall mean 17.97%.

p. **Tenant's Pro Rata Share** shall mean Tenant's Building I Pro Rata Share and Tenant's Building II Pro Rata Share combined.

q. **Base Year** shall mean: (i) the calendar year 2005 with respect to the Original Premises, and (ii) the calendar year 2006 with respect to the Expansion Premises.

r. **Deposit** shall mean $-0-; **Prepaid Rent** shall mean $-0-, of which $-0- represents the first monthly installment of Base Rent, and $-0- represents the last monthly installment of Base Rent.

s. **Permitted Purpose** shall mean general office use.

t. **Authorized Number of Parking Spaces** shall mean: (i) with respect to Building I and the Original Premises, a minimum of 484 unreserved spaces at a rate of $-0- per space per month, and (ii) with respect to Building II and the Expansion Premises, 4.5 parking spaces per 1,000 rentable square feet unreserved parking spaces in the Building II parking structure (i.e., 103 spaces), at a rate of $-0- per space per month, provided however, of the 103 Building II parking spaces, Landlord shall provide 4 reserved parking spaces, at no charge, at locations to be determined by Landlord in the Building II parking structure. In addition, Tenant may use additional parking spaces in the Building II parking structure in excess of the foregoing ratio without any additional consideration, provided that Tenant's use of the same does not interfere with the use of such parking by other tenants of Building II. Once Landlord substantially completes construction of its next phase of development at Maitland Summit Park, the foregoing right of the Tenant to use additional parking within the Building II parking structure beyond the 4.5 parking spaces per 1,000 rentable square feet shall terminate and expire (provided, however, that during the construction period, Landlord may reduce such additional parking, if necessary, to accommodate the construction) .

u. **Managing Agent** shall mean the Landlord.

v. **Broker of Record** shall mean Liberty Property Trust, for Landlord.

w. **Cooperating Broker** shall mean Advantis Real Estate Services, for Tenant.

x. **Landlord's Mailing Address** : 500 Chesterfield Parkway, Malvern, PA 19355

Copy to: 2400 Lake Orange Drive, Suite 110, Orlando, Florida 32738, telephone: 407-447-1776, and fax: 407-888-3242.

y. **Tenant's Mailing Address** : 1950 Summit Park Drive, Orlando, Florida 32810, telephone: 407-386-4000, and fax: 407-386-4555, with copy to 209

Redwood Shores Parkway, Redwood City, CA 94065, attn: Senior Director of Facilities.

z. **Market Base Rent** : shall mean market rents, Tenant improvements, rent concessions for renewing tenants in similar Class A office space in Maitland, Florida

1.2 SCHEDULES AND ADDENDA : The schedules and addenda listed below are incorporated into this Lease by reference unless lined out. The terms of schedules, exhibits and typewritten addenda, if any, attached or added hereto shall control over any inconsistent provisions in the paragraphs of this Lease.

a. Schedule 1: Description of Leased Premises and/or Floor Plans

b. Schedule 2: Rules and Regulations

c. Schedule 3: Utility Services

d. Schedule 4: Maintenance Services

e. Schedule 5: Parking for Building I and Original Premises

f. Schedule 6: Work Letter Agreement for Original Premises

g. Schedule 7: Certificate of Acceptance

h. Schedule 8: Guaranty

i. Schedule 9: Approved Tenant's General Contract, Architect and Engineer

3. Expansion Premises Commencement Date; Expansion Premises Termination Date . The commencement date for Tenant's occupancy of the Expansion Premises and for the payment of Building II Base Rent shall be that date which is the earlier of (i) the issuance of the certificate of occupancy by the applicable governmental authority for the Tenant's Work described in Section 5 below, or (ii) subject to Section 5(a) below, 120 days after the Effective Date hereof (the "Expansion Commencement Date"). The Expansion Premises termination date ("Expansion Termination Date") shall be fifty-four (54) full calendar months following the Expansion Commencement Date.

4. Operating Costs . Landlord and Tenant hereby acknowledge and agree that the term "Operating Costs" as used in this Lease shall mean those defined Operating Costs for Building I and Building II, respectively. For purposes of calculating Tenant's Pro Rata Share of any Excess Operating Costs for each of Building I and Building II, the defined Operating Costs for Building I and the defined Operating Costs for Building II shall be calculated, treated, allocated and assessed separately, such that Tenant is obligated to pay Tenant's Building I Pro Rata Share of any Excess Operating Costs for Building I and Tenant's Building II Pro Rata Share of any Excess Operating Costs for Building II. For the purposes of the calculation, assessment and payment of any Excess Operating Costs pursuant to Section 3.3 of the Lease, the term "Building" as used therein shall mean either Building I or Building II, as the case may be.

5. Construction and Commencement of Possession for Expansion Premises . The parties acknowledge and agree that Sections 4.1 and 4.2 of the Lease relate to and apply to the Original Premises only. The following terms and conditions relate to the construction of improvements and commencement of possession for the Expansion Premises:

(a) Within fourteen (14) days of the Effective Date hereof, Landlord shall deliver full control of the Expansion Premises to Tenant, to enable Tenant to perform the Tenant's Work (as hereinafter defined). For each day later than fourteen (14) days after the Effective Date until the delivery of full control of the Expansion Premises to Tenant as provided above, the 120 day time period referenced in Section 3(ii) above shall be extended on a day-for-day basis. Subject to the provisions hereof, Tenant shall cause the construction and installation of all improvements to the Expansion Premises in accordance with the Plans and Specifications, as hereinafter defined, and as necessary to permit Tenant to occupy same and conduct normal business operations (such improvements being referred to herein as "Tenant's Work"). In connection with Tenant's Work, Tenant will have a construction manager (the "Construction Manager") who will serve as Tenant's representative in communicating and dealing with Landlord in the implementation, progress and completion of Tenant's Work. Landlord agrees to work cooperatively with the Construction Manager, and all rights and obligations of the Tenant under this Section 5 may be performed, exercised and/or satisfied by or on behalf of Tenant by the Construction Manager.

(b) Within five **(** 5 **)** days of the Effective Date of this Amendment, the parties shall have mutually approved a space plan for the Expansion Premises. The space plan shall be acknowledged by the parties in writing. Tenant shall then prepare detailed set of plans and specifications (the "Plans and Specifications"), which shall be based on the mutually approved space plan. The Plans and Specifications shall be prepared by Tenant's architect and engineer **.** Attached hereto as Schedule 9 and by this reference made a part hereof are the names of Tenant's general contractor **,** architect and engineer for the Tenant's Work; Landlord hereby approves the general contractor, architect and engineer described on Schedule 9 attached hereto.

(c) Landlord has made no representations or warranties relating to the Expansion Premises; Tenant accepts the Expansion Premises in its "as is" condition. Landlord assumes no responsibility whatsoever, and shall not be liable, for the manufacturer's, architect's, or engineer's design or performance of any structural, mechanical, electrical, or plumbing systems or equipment or any other matter set forth in the Plans and Specifications or otherwise.

(d) The Plans and Specifications shall be subject to Landlord's review and approval. Landlord shall accept or notify Tenant of its objections to the Plans and Specifications within five (5) business days after receipt thereof. In the event Landlord fails to either accept the Plans and Specifications or notify Tenant of its objections to such Plans and Specifications within the forgoing five (5) business days, then the Plans and Specifications shall be deemed approved by Landlord. If the Plans and Specifications are not acceptable, Landlord shall notify Tenant in writing of the reasons for such disapproval and required revisions and amendments thereto, and Tenant shall have five (5) days after receipt of Landlord's notice thereafter to correct and revise and submit amended Plans and Specifications to Landlord for consideration. In the event Landlord and Tenant are unable, after discussing and negotiating in good faith, to agree on the Plans and Specifications within thirty (30) days after the Effective Date hereof, then this Amendment shall terminate and neither Landlord nor Tenant shall have any further obligations hereunder whatsoever. Once Landlord approves the Plans and Specifications, Tenant shall, within five (5) days, provide Landlord with one (1) set of the Plans and Specifications which shall be signed and dated by both parties (and any changes to the Plans and Specifications shall be made only by written addendum signed by both parties).

(e) All inspections and approvals necessary and appropriate to complete Tenant's Work in accordance with the Plans and Specifications and as necessary to obtain a certificate of use and occupancy as hereinafter provided are the responsibility of Tenant and its general contractor. Tenant shall arrange a meeting prior to the commencement of construction between Landlord, Tenant and Tenant's contractors for the purpose of organizing and coordinating the completion of Tenant's Work.

(f) All of Tenant's Work shall be completed in a good and workmanlike manner and shall be in conformity with the applicable building codes. Upon substantial completion of Tenant's Work, Tenant shall furnish to Landlord:

(i) a certificate of use and/or occupancy issued by the appropriate governmental authority and other evidence satisfactory to Landlord that Tenant has obtained the governmental approvals necessary to permit occupancy; and

(ii) a notarized affidavit from Tenant's contractor(s) listing the amounts paid and stating that all amounts due for work done and materials furnished in completing Tenant's Work have been paid; and

(iii) releases of lien from any subcontractor or material supplier that has given Landlord a Notice to Owner pursuant to Florida law; and

(iv) "as built" drawings of the Expansion Premises, with a list and description of all work performed by the contractors, subcontractors, and material suppliers.

(g) Subject to Tenant's compliance with Section 5 above, Landlord will provide Tenant with an allowance (the "Tenant Improvement Allowance") against the cost of the improvements to the Expansion Premises and against the fees and costs incurred by Tenant with respect to preparation of the Plans and Specifications for the Expansion Premises and all permit fees. The Tenant Improvement Allowance shall be Thirteen Dollars ($13.00) per rentable square foot of the Expansion Premises (i.e., a total of $301,119.00). Tenant shall be obligated to pay, when due, the cost of Tenant's Work to the extent that the same exceeds the Tenant Improvement Allowance Landlord shall pay and reimburse the Tenant the Tenant Improvement Allowance within thirty (30) days of Tenant's satisfaction of and compliance with Section 5(f) above.

(h) In connection with the Tenant's Work, Tenant hereby specifically acknowledges and agrees that any improvements or modifications to the Expansion Premises and/or Building II required to bring the same into compliance with current applicable laws, rules, regulations and building codes, shall be at the sole cost of the Tenant and shall be included within the costs described in Section 5(g) above or in the approved budget for Tenant's Work constituting part of the Plans and Specifications. For example, but not by way of limitation of the foregoing, Tenant shall be solely responsible at its cost for: any alterations or improvements required to bring the Expansion Premises into compliance with the Americans with Disabilities Act (ADA) or other laws, rules and regulations relating to accessibility; updating the electrical infrastructure configuration; all demolition above existing ceilings within the Expansion Premises; correcting deficiencies in core walls and above the existing ceiling within the

Expansion Premises; modifying egress lighting and adding battery pack lights; and additional wire supports for existing light fixtures.

6. Project Services . Landlord shall install a separate submeter for the electric power serving the Expansion Premises (including but not limited to the HVAC system serving the Expansion Premises). Landlord shall initially pay for the electricity used as shown on the submeter(s) and Tenant shall thereafter reimburse Landlord on a monthly basis for said costs pursuant to invoice.

7. Casualty and Untenantability . Section 8.1 of the Lease is hereby deleted in its entirety, and the following new Section 8.1 is hereby inserted in place and in lieu thereof:

8.1 CASUALTY AND UNTENANTABILITY : If either Building I or Building II is made substantially untenable or if Tenant's use and occupancy of either the Original Premises or the Expansion Premises are substantially interfered with due to damage to the common areas of either Building I or Building II or if either the Original Premises or the Expansion Premises is made wholly or partially untenable by fire or other casualty, Landlord may, by notice to within 45 days after the damage, terminate this Lease with respect to the space/building so damaged (e.g., if Building II and/or the Expansion Premises is so damaged, Landlord may terminate this Lease with respect to the Expansion Premises). Such termination shall become effective as of the date of such casualty.

If either the Original Premises or the Expansion Premises is made partially or wholly untenable by fire or other casualty and this Lease is not terminated as provided above, Landlord shall restore the Original Premises or the Expansion Premises, as applicable, to the condition they were in on the Lease Commencement Date, not including any personal property of Tenant or alterations performed by Tenant.

If the Landlord does not terminate this Lease as provided above, and Landlord fails within 120 days from the date of such casualty to restore the damaged common areas thereby eliminating substantial interference with Tenant's use and occupancy of either the Original Premises or the Expansion Premises, or fails to restore the Leased Premises to the condition they were in on the Lease Commencement Date, not including any personal property or alterations performed by Tenant, Tenant may terminate this Lease as of the end of such 120 day period.

In the event of termination of this Lease pursuant to this paragraph, Rent shall be prorated on a per diem basis and paid to the date of the casualty, unless either the Original Premises or the Expansion Premises shall be tenantable, in which case Rent shall be payable to the date of the lease termination. If either the Original Premises or the Expansion Premises are untenable and this Lease is not terminated, Rent shall abate on a per diem basis from the date of the casualty until either the Original Premises or the Expansion Premises are ready for occupancy by Tenant. If part of either the Original Premises or the Expansion Premises is

untenable, Rent shall be prorated on a per diem basis and apportioned in accordance with the part of either the Original Premises or the Expansion Premises which is usable by Tenant until the damaged part is ready for Tenant's occupancy. Notwithstanding the foregoing, if any damage was proximately caused by an act or omission of Tenant, its employees, agents, contractors, licensees or invitees, then, in such event, Tenant agrees that Rent shall not abate or be diminished during the term of this Lease.

8. Condemnation . Section 9.1 of the Lease is hereby deleted in its entirety and the following new Section 9.1 is hereby inserted in place and in lieu thereof:

9.1 CONDEMNATION : If all or any part of the Original Premises shall be taken under power of eminent domain or sold under imminent threat to any public authority or private entity having such power, this Lease shall terminate as to the part of the Original Premises so taken or sold, effective as of the date possession is required to be delivered to such authority. In such event, Building I Base Rent shall abate in the ratio that the portion of Tenant's Building I Square Footage taken or sold bears to Tenant's Building I Square Footage. If a partial taking or sale of the Original Premises, Building I or the Project (i) substantially reduces Tenant's Square Footage resulting in a substantial inability of Tenant to use the Original Premises for the Permitted Purpose, or (ii) renders Building I or the Project not commercially viable to Landlord in Landlord's sole opinion, either Tenant in the case of (i), or Landlord in the case of (ii), may terminate this Lease by notice to the other party within 30 days after the terminating party receives written notice of the portion to be taken or sold. Such termination shall be effective 180 days after notice thereof, or when the portion is taken or sold, whichever is sooner. All condemnation awards and similar payments shall be paid and belong to Landlord, except any amounts awarded or paid specifically to Tenant for removal and reinstallation of Tenant's trade fixtures, personal property or Tenant's moving costs. To the extent permitted by law, Tenant shall, however, be entitled to seek business damages from any condemning authority.

If all or any part of the Expansion Premises shall be taken under power of eminent domain or sold under imminent threat to any public authority or private entity having such power, this Lease shall terminate as to the part of the Expansion Premises so taken or sold, effective as of the date possession is required to be delivered to such authority. In such event, Building II Base Rent shall abate in the ratio that the portion of Tenant's Building II Square Footage taken or sold bears to Tenant's Building II Square Footage. If a partial taking or sale of the Expansion Premises, Building II or the Project (i) substantially reduces Tenant's Building II Square Footage resulting in a substantial inability of Tenant to use the Expansion Premises for the Permitted Purpose, or (ii) renders Building II or the Project not commercially viable to Landlord in Landlord's sole opinion, either Tenant in the case of (i), or Landlord in the case of (ii), may terminate this Lease by notice to the other party within 30 days after the terminating party receives written notice of the portion to be taken or sold. Such termination shall be effective 180 days after notice thereof, or when the portion is taken or sold,

whichever is sooner. All condemnation awards and similar payments shall be paid and belong to Landlord, except any amounts awarded or paid specifically to Tenant for removal and reinstallation of Tenant's trade fixtures, personal property or Tenant's moving costs. To the extent permitted by law, Tenant shall, however, be entitled to seek business damages from any condemning authority.

9. Termination Option . Section 12.3 of the Lease is hereby deleted in its entirety and the following new Section 12.3 is hereby inserted in lieu and in place thereof:

12.3 DOWNSIZING OPTION (Building I) : Tenant shall have a one-time option to terminate a portion of the Original Premises only in the event that Tenant intends to expand its office facilities to a premises in excess of the available space in Building I, and Tenant is moving into a building in which it will occupy no less than 130,000 Rentable Square Feet ("RSF"). By written notice to Landlord, Tenant may elect to vacate up to 47,067 RSF of contiguous space within Building I, the location of which Landlord and Tenant shall mutually agree upon in writing. This option only remains open for partial termination of the respective portion of the Original Premises between the end of the FORTY-EIGHTH (48th) month and FIFTY-SEVENTH (57th) month of the Lease Term, and Tenant shall provide no less than TWELVE (12) months prior written notice to Landlord. In the event that Tenant elects to vacate a portion of the Original Premises as provided in this paragraph, Tenant shall pay to Landlord an early termination fee of SIXTY THOUSAND and NO/100 dollars ($60,000.00). Further, in the event that Tenant exercises the downsizing option set forth in this paragraph, Tenant agrees to give Landlord an opportunity to submit a proposal to provide Tenant's new occupancy need in another building owned or managed by Landlord, or to be constructed by Landlord.

TERMINATION OPTION (Building II): Provided that there then exists no event of default by Tenant under this Lease nor any event that with the giving of notice and/or the passage of time would constitute a default, and that Tenant is the sole occupant of the Expansion Premises, Tenant shall have a one-time option to terminate this Lease with respect to the Expansion Premises only, effective on any date that is between the thirty-sixth (36th) month and the forty-fifth (45th) month after the Expansion Commencement Date, by providing not less than nine (9) months' prior written notice to the Landlord and paying to Landlord a termination fee equal to one (1) month's Building II Base Rent as of the effective date of such termination, together with the unamortized costs of the tenant improvements within the Expansion Premises and all leasing commissions paid by Landlord in connection with the lease of the Expansion Premises hereunder. This right of termination is a one-time right, is personal to Tenant and its Affiliates (defined below), and is non-transferable to any assignee or sublessee (regardless of whether any such assignment or sublease was made with or without Landlord's consent) or other party. Notwithstanding the foregoing, however, in the event Tenant exercises the termination option for the Expansion Premises pursuant to this paragraph as part of entering into an agreement with Landlord to expand and consolidate Tenant's space and facilities into any other project owned by the

Landlord, then the foregoing termination fee applicable to the Expansion Premises shall not be due and payable by Tenant. "Affiliate" means (i) any entity controlling, controlled by, or under common control of, Tenant, (ii) any successor to Tenant by merger, consolidation or reorganization, and (iii) any purchaser of all or substantially all of the assets of Tenant as a going concern.

10. Right of First Offer . Subject to the rights of Charles Schwab & Co., Inc. ("Schwab"), in the event that all or any portion of the 25,000 rentable square feet of space which are contiguous to the Expansion Premises (in each case, the "Additional Space") first becomes available for rental during the term of this Lease and provided that Landlord has not given Tenant notice of default more than two (2) times during the immediately preceding twelve (12) months, that there then exists no event of default by Tenant under this Lease nor any event that with the giving of notice and/or the passage of time would constitute a default, and that Tenant is the sole occupant of the Expansion Premises, Tenant shall have the right of first offer to lease all of the Additional Space, subject to the following:

(a) Landlord shall notify Tenant when the Additional Space first becomes available for rental and Tenant shall have seven (7) days following receipt of such notice within which to notify Landlord in writing that Tenant is interested in negotiating terms for leasing such Additional Space and to have its offer considered by Landlord prior to the leasing by Landlord of the Additional Space to a third party. If Tenant notifies Landlord within such time period that Tenant is so interested, then Landlord and Tenant shall have thirty (30) days following Landlord's receipt of such notice from Tenant within which to negotiate, in good faith, mutually satisfactory terms for the leasing of the Additional Space by Tenant and to execute an amendment to this Lease incorporating such terms or a new lease for the Additional Space.

(b) If Tenant does not notify Landlord within such 7 days of its interest in leasing the Additional Space, or if Tenant does not execute such Lease amendment within such 30 days, if applicable, then this right of first offer to lease the Additional Space will lapse and be of no further force or effect and Landlord shall have the right to lease the Additional Space to any other party on any terms and conditions acceptable to Landlord.

(c) This right of first offer to lease the Additional Space is a one-time right if and when each Additional Space first becomes available, is personal to Tenant and is non-transferable to any assignee or sublessee (regardless of whether any such assignment or sublease was made with or without Landlord's consent) or other party.

11. Lobby/Courtyard Use . Section 13.14 of the Lease is hereby deleted in its entirety and the following new Section 13.14 is hereby inserted in place and in lieu thereof:

13.14 LOBBY/COURTYARD USE : Tenant shall, upon Landlord's prior written authority, have the right to use the Building I lobby for display purposes including plasma screens and kiosks, provided such use and display is deemed by Landlord to be in good taste, at Landlord's discretion, and such use or displays do not interfere with any other tenant's rights and does not constitute a nuisance. As long as Tenant occupies the entire FIRST (1st) Floor of Building I, Tenant will have the exclusive use of (at no additional cost) the courtyard area on the east side

of Building I and may make improvements to suit its needs subject to Landlord's reasonable approval. Tenant shall install and maintain any such items at Tenant's sole cost and expense, and Tenant shall, at Tenant's sole cost and expense, remove any such items and restore the Building I lobby to its original condition.

12. Base Rent Adjustment . Section 13.17 of the Lease is hereby deleted in its entirety, and the following new Section 13.17 is hereby inserted in place and in lieu thereof:

13.17 BASE RENT ADJUSTMENT : Building I Base Rent shall be adjusted on the following dates (with Month 1 being January 1, 2005):

Period	Monthly Base Rent	Total Base Rent For Period
Months 1-6.5	$ free -	$ free -
Months 6.5-12	$195,335.00	$1,074,342.50
Months 13-24	$214,868.50	$2,578,422.00
Months 25-36	$220,240.21	$2,642,882.55
Months 37-48	$225,709.59	$2,708,515.11
Months 49-60	$231,374.31	$2,776,491.69
Months 61-66	$237,136.70	$1,422,820.14

Building II Base Rent shall be adjusted on the following dates (with Month 1 below being the month of the Expansion Commencement Date):

Period	Monthly Base Rent	Total Base Rent For Period
Months 1-12	$30,401.44	$364,817.25
Months 13-24	$41,548.63	$498,583.56
Months 25-36	$42,587.35	$511,048.20
Months 37-48	$43,652.03	$523,824.36
Months 49-54	$44,743.33	$268,459.98

If the Expansion Commencement Date is not the first day of the month, the Base Rent, Operating Costs and other amounts due under the Lease for that partial month shall be apportioned on a per diem basis and shall be paid on or before the Expansion Commencement Date.

13. Signage . Section 13.19 of the Lease is hereby deleted in its entirety and the following new Section 13.19 is hereby inserted in place and in lieu thereof:

13.19 SIGNAGE : Landlord will allow Tenant, at Tenant's expense, to display its company name on the Building I facia. Specifications for any such signage must be approved by Landlord in writing prior to Tenant's seeking applicable permits

from governmental authorities and installation. Landlord reserves the right in its sole discretion, to specify details of such signage. In the event that Tenant elects to exercise its downsizing option pursuant to Section 12.3, Landlord shall have the right to require Tenant, at Tenant's sole cost, to remove its sign from the Building I facia and restore the Building I facia to its original condition, original wear and tear excepted. Tenant, at Tenant's sole cost and expense, shall be required to remove all Building I signage and restore the Building I facia to its original condition, original wear and tear excepted, upon expiration of the Lease.

Landlord will allow Tenant, at Tenant's expense, to display its company name on the Landlord's illuminated monument sign at the entrance of Summit Park on Summit Boulevard, which monument sign serves both Building I and Building II, and such company name shall be similar and comparable in size, copy area, quality and visibility as the signage/logo for Schwab currently located on such monument sign. Such monument signage shall be installed by Tenant no later than December 31, 2005.

All signage will conform to applicable governing authority requirements and Tenant shall obtain any permits or authorizations necessary for signage it installs hereunder.

Landlord shall arrange for Tenant's suite identification sign(s) and lobby directory strip(s) at Tenant's expense. Tenant may incorporate its logo graphics, without color, on the suite identification sign(s).

14. Right of First Refusal . Landlord hereby specifically acknowledges and agrees that the addition of the Expansion Premises to the Lease, and the Tenant's use and occupancy thereof as provided herein, shall not constitute or qualify as the one-time Right of First Refusal with respect to space that becomes available in the Project as provided in Section 13.20 of the Lease. Tenant's ROFR as provided in Section 13.20 shall not be affected by the execution of this Amendment or the Tenant's lease and occupancy of the Expansion Premises.

15. Tenant Improvement Allowance . Section 10 of Schedule 6 of the Lease is hereby deleted in its entirety and the following new Section 10 is hereby inserted in place and in lieu thereof:

(10) Landlord will provide Tenant with an allowance (the "Tenant Improvement Allowance") against the cost of the improvements to the Premises and against the fees and costs incurred with respect to preparation of the Plans and Specifications for the Premises and all permit fees. The Tenant Improvement Allowance shall be One Million Five Hundred Sixty-Five Thousand Five Hundred Ten Dollars and Ninety-Seven Cents ($1,565,510.97). Upon expiration or written waiver of the Downsizing Option, Landlord shall pay an additional $4.09 per square foot of Tenant Improvement Allowance for the space not vacated up to 47,067 RSF ($192,504.03) **.** In the event that Tenant retains possession of the Premises subject to the Downsizing Option after the FORTY-EIGHTH (48) month, but exercises the Downsizing Option before the FIFTY-SEVENTH (57 th) month, Tenant shall receive a proportionate share of the additional Tenant Improvement

Allowance which shall be determined as follows: The total of this retained RSF multiplied by $4.09. plus the total RSF to be vacated (but retained during Downsizing Option Period) multiplied by that number of months Tenant remains in possession divided by that proportion of the remaining Lease Term that the total number of months after the FORTY EIGHTH (48 th) month that Tenant remains in possession of the portion of the Premises subject to the Downsizing Option of the remaining months of the Lease Term (18 months). [Example: If Tenant vacates the 10,000 RSF on the 50 th month of the Lease, Tenant shall receive $151,604.03 [37,067 RSF x $4.09=$151,604.03] plus $4,544.44 [(10,000 x $4.09) x (2÷18) = $4,544.44]. The Tenant Improvement Allowance shall be paid by Landlord by joint check to Tenant or Tenant's designated agent and its general contractor in monthly installments, based upon requests for payment submitted by Tenant and its general contractor not more than monthly **.** Additionally, TWENTY FIVE percent (25%) of the additional Tenant Improvement Allowance may be applied, at Tenant's request, toward Rent **.** Each request for payment shall be accompanied by a certification by the architect that all work up to the date of the request for payment has been substantially completed, along with the items required under subsection (7), above (except for a certificate of occupancy), for work done or materials furnished up to the date of Tenant's request for payment. Upon receipt thereof, Landlord shall pay to Tenant and its general contractor (by joint check), within TWENTY (20) days after submission of such items to Landlord, an amount equal to Landlord's pro-rata share of such request for payment. Landlord's pro-rata share shall mean the percentage that the Tenant Improvement Allowance bears to the total cost of the Tenant's Work (plus the architectural and engineering fees incurred with respect to the Plans and Specifications and permit fees) (less TEN percent (10%) of each payment to be retained by Landlord pending final completion). Upon final completion of the Tenant's Work and receipt by Landlord of the items required under subsection (7), above, plus reasonable evidence indicating that all of Tenant's Costs have been paid, Landlord shall pay to Tenant and its general contractor (by joint check) within THIRTY (30) days the remaining Tenant Improvement Allowance, plus the retainage (provided, however, that the retainage will not be released by Landlord until all punchlist items have been completed). Any and all costs for the construction of the Premises above the Tenant Improvement Allowance ("Tenant's Costs") shall be paid by Tenant to the applicable contractors, subcontractors, and material suppliers. Tenant shall receive no credit or payment for any unused portion of the Tenant Improvement Allowance. Tenant shall be able to recapture up to TWENTY-FIVE percent (25%) of any Tenant Improvement dollars via an offset in base rental.

16. Relocating Suite 300 Tenant . Landlord and Tenant acknowledge and agree that the relocation terms and conditions contained in Section 13.21 of the Lease apply and relate to Suite 300 of Building I.

17. Effect of Termination of Lease for Original Premises . If this Lease is terminated with respect to the Original Premises due to condemnation or casualty of the Original Premises, or due to the default of Landlord with respect to the Lease and the Original Premises to the extent that the Lease and Tenant's obligations thereunder is terminated by a court of law and Tenant has vacated the Original Premises, then notwithstanding any other terms and conditions of the Lease to the contrary, Tenant shall have the right to terminate this Lease with respect to the

Expansion Premises simultaneously with the termination of this Lease with respect to the Original Premises. In the event Tenant elects to exercise its right to terminate the Lease with respect to the Expansion Premises as provided in this Section 16, Tenant shall notify Landlord of such election in writing and such termination shall be effective simultaneously with the termination of the Lease with respect to the Original Premises.

18. Effect of Amendment; Conflicts; Capitalized Terms . Except as expressly modified or amended herein, the Lease remains unchanged and in full force and effect in accordance with its terms. In the event of a conflict between the terms and provisions of this Amendment and the Lease, the terms and provisions of this Amendment shall control and be given effect. All capitalized terms not otherwise defined herein shall have the meanings and definitions ascribed to such terms in the Lease. This Amendment shall be binding upon and inure to the benefit of the Landlord and the Tenant and their respective successors and assigns.

19. Counterparts; Facsimile Copies . This Amendment may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. To facilitate execution, the parties agree that this Amendment may be executed and telecopied to the other party and that an executed telecopy shall be as binding and enforceable as an original.

20. Effective Date . The “Effective Date” of this Amendment shall be date on which the last of the Landlord or the Tenant executes this Amendment.

[Signatures appear on following page]

IN WITNESS WHEREOF , Landlord and Tenant have executed this Amendment as of the day and year first above written.

LANDLORD:

LIBERTY PROPERTY LIMITED PARTNERSHIP

By: Liberty Property Trust, Sole General Partner

By: /s/ Robert Goldschmidt
Name: Robert Goldschmidt
Title: Sr. Vice President

Witness: /s/ Stephanie Garcia
Name: Stephanie Garcia

Witness: /s/ Xiomara Santos
Name: Xiomara Santos

TENANT:

ELECTRONIC ARTS-TIBURON , a Florida corporation

By: /s/ Bryan Neider
Name: Bryan Neider
Title: CFO, WW Studios

Witness: _____
Name: _____

Witness: _____
Name: _____

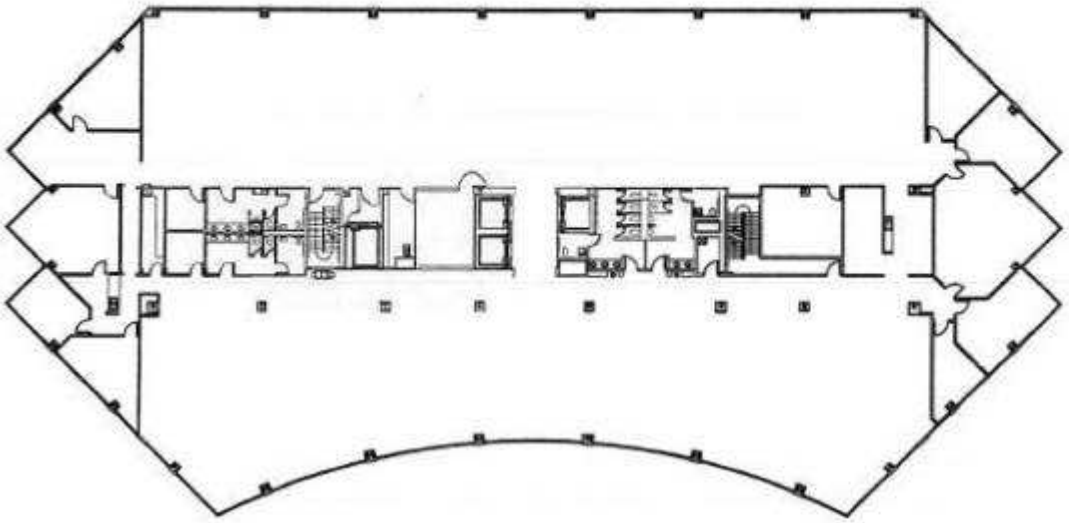

Exhibit "A"

Expansion Premises

A1	**SIXTH FLOOR**
NTS	

Baker Barrios Architects

300 South Orange Avenue
Suite 900
Orlando, Florida 32801
407.926.3060 Tel
407.926.3390 Fax

BOMA CALCULATIONS
SUMMIT BUILDING 2

1950 SUMMIT PARK DRIVE, BUILDING 2
MAITLAND, FL 32751

DATE: 05/05/05
PROJECT: 050210.00
DRAWN : AL
CHECKED: JL

Flr. 6

Schedule 1

Description of Leased Premises and/or Floor Plans

Original Premises (All within Building I)

First Floor (excluding commons areas)
Second Floor
Third Floor (excluding Suite 300, existing of 11,039 RSF)
Fourth Floor
Fifth Floor
Sixth Floor

Expansion Premises (All within Building II)

Sixth Floor

Schedule 9

Approved Tenant's General Contractor, Architect and Engineer

General Contractor : Brasfield and Gorrie, LLC

Architect : Baker Barrios Architects

Engineer : Sims Wilkerson Engineering, Inc.

Exhibit 10.2

7 February 2006

THE STANDARD LIFE ASSURANCE COMPANY

and

ELECTRONIC ARTS LIMITED

and

ELECTRONIC ARTS INC

AGREEMENT FOR UNDERLEASE

relating to

Onslow House, Guildford, Surrey

Herbert Smith LLP

TABLE OF CONTENTS

Annexure J : Landlord’s cladding works

Annexure K : Outstanding documents

Annexure L : Form of Opinion Letter

Annexure M : Forms of warranties from the professional advisors and subcontractors described in Annexure N

Annexure N : List of professional advisors and subcontractors to give warranties to the Tenant

Annexure O: External Works Contractor’s Warranty

Annexure P: Outstanding Works

Annexure Q: Security Package

Annexure R: Brise Soleil Method Statement

THIS AGREEMENT is made on the 7 th day of February 2006

BETWEEN :

(1) THE STANDARD LIFE ASSURANCE COMPANY whose head office is at 30 Lothian Road, Edinburgh EH1 2PH (Co. Regn. No: SZ000004) (the **"Landlord"**) and

(2) ELECTRONIC ARTS LIMITED whose registered office is at 2000 Hillswood Drive, Chertsey, Surrey KT16 0EV (Co. Regn. No: 02057591) (the **"Tenant"**) and

(3) ELECTRONIC ARTS INC whose registered office is at 209 Redwood Shares Parkway, Redwood City, California 94065 (a corporation incorporated in the State of Delaware) **(the "Guarantor")**

WHEREBY IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this agreement the following words and expressions have the following meanings unless the context otherwise requires:

"Brise Soleil Method Statement" means the method statement set out at Annexure R;

"Building Contract" means the building contract dated 27 th April 2001 made between Tilebox Limited (1) and the Contractor (2) as amended and varied;

"CDM Regulations" means the Construction (Design and Management) Regulations 1994 together with the current Approved Code of Practice relating to the same;

"Contractor" means Alfred McAlpine Capital Projects Limited (which changed its name from Alfred McAlpine Construction Limited on 7 th October 2003) (Co. Regn. No. 00247624);

"Contractor's Warranty" means a warranty in favour of the Tenant in the form of the agreed draft at Annexure H;

"Date of Permitted Entry" means the date defined in clause 14.1;

"Default Event" means any or all of the following to occur:

(a) the Tenant or the Guarantor shall have an order made or resolution passed for its winding-up which is not removed within a period of fourteen days thereafter;

(b) the Tenant or the Guarantor enters into voluntary winding-up other than for the purposes of re-organisation whilst solvent;

(c) the appointment of a provisional liquidator to the Tenant or the Guarantor;

(d) presentation of a petition in respect of the Tenant or the Guarantor which is not contested within fourteen days of presentation or a meeting is convened for the purpose of considering a resolution for winding-up;

(e) dissolution of the Tenant or the Guarantor (whether or not after winding-up);

(f) if in respect of the Tenant or of the Guarantor a resolution is passed or any other step is taken by the company or its directors for the appointment of an administrator, or an administrator is appointed, or a petition or application for an administration order is presented in relation to the company;

(g) if a receiver (which expression shall without prejudice to the generality thereof include an administrative receiver) is appointed over all or any of the assets or of the income arising from all or any of the assets of the Tenant or of the Guarantor;

(h) the Tenant or the Guarantor is unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986; or

(i) if any meeting of the Tenant or the Guarantor is convened pursuant to Section 123 of the Insolvency Act 1986 to consider a proposal for a voluntary arrangement under Part 1 of such Act;

"Defects Period" means the period of 12 months from Practical Completion;

"Documents" means the plans elevations sections and drawings and outline specification in respect of the Landlord's Works and Security Package works including mechanical electrical lift and other services and drainage and engineers drawings and manuals of all materials and supplies used in and all other technical data necessary for the carrying out and completion of the Landlord's Works and, in relation to the Landlord's Works only, and in respect of which copyright is vested in Tilebox Limited or Tilebox Limited has the benefit of a copyright licence capable of grant of sub-licences;

"Employer's Agent" means Mercer and Miller of 39 Praed Street, London W2 1NR;

"External Works" means the works to the area surrounding the Podium to include the landscaping for the South and West elevations (particularly for the elevation fronting the pedestrian bridge link) and the residential square all as further detailed at Annexure E as amended and/or enhanced at the Tenant's suggestion provided there are no cost or programme implications;

"External Works Contract" means the contract with the External Works Contractor for carrying out the External Works;

"External Works Contractor" means the contractor employed to carry out the External Works;

"External Works Contractor's Warranty" means a warranty from the External Works Contractor in respect of the External Works in favour of the Tenant in the form set out at Annexure O mutatis mutandis;

"Head Lease" means the lease under which the Landlord holds the Premises dated 16 March 2001 made between The Council of the Borough of Guildford (1) and the Landlord (2);

"Health and Safety File" means the health and safety file required to be maintained in relation to the Premises including without limitation the Landlord's Works, the Snagging Works, the External Works and/or any component of them or in relation to the Tenant's Works or any component of them, as the context requires, pursuant to the CDM Regulations;

"Landlord's Cladding Deed" means a deed in the form of the agreed draft at Annexure G;

"Landlord's Works" means the works briefly described in Annexure B being the works carried out and/or to be carried out pursuant to the Building Contract (together with the works described in Annexure J);

"Lease" means an underlease of the Premises in the form of the agreed draft at Annexure A;

"Licence to Carry Out Works" means a Licence to carry out the Tenant's Works in the form of the agreed draft at Annexure I

"Measurement Surveyors" means On Centre Surveys Ltd;

"Method Statement" means a statement prepared by or on behalf of the Tenant setting out the methods by which the Tenant intends to commence and execute the Tenant's Works;

"Net Internal Area" means Net Internal Area as defined in the Royal Institution of Chartered Surveyors Code of Measuring Practice 5th edition (2001);

"Opinion Letter" means a letter in respect of the Guarantor in the form of the agreed draft at Annexure L;

"Outstanding Works" means the works described in Annexure P;

"Planning Permission" means the planning permission dated 8 th September 2000 issued by Guildford Borough Council under reference 99/P/01052;

"Practical Completion" means, in relation to the Landlord's Works and the External Works, practical completion in accordance with the Building Contract or External Works Contract, as the context requires, and with this agreement;

"Premises" means the premises known as Onslow House, Guildford and more particularly described in the Lease;

"Programme" means the Landlord's programme for the carrying out of the Landlord's Works, the Snagging Works and the External Works a copy of which is at Annexure D (as revised from time to time by the Landlord);

"Rent Commencement Date" means the later of 1 st June 2008 and 24 months after the Date of Permitted Entry;

"Requisite Permissions" means the Planning Permission and all requisite building regulation requirements, relevant British Standards and Codes of Practice, approvals, consents, licences, permissions and certificates required from any person and all other statutory consents necessary to commence carry out and complete the Landlord's Works, the Snagging Works, the Outstanding Works, the Security Package works and the External Works or, as appropriate, the Tenant's Works (including the works described in clause 9.8 but excluding any consent of the superior landlord required pursuant to the Head Lease);

"Section 106 Agreement" means an agreement dated 8 th September 2000 and made between (1) The Council of the Borough of Guildford (2) Tilebox Limited (3) The Council of the Borough of Guildford and (4) Surrey County Council;

"Security Package" means the works described in Annexure Q;

"Snagging Works" the works described in Annexure C;

"Target Date" means 1 June 2006;

"Tenant's Representative" means Buro Four Project Services Limited of 300 St John Street, London EC1V 4PP or such other firm or company as may be appointed by the Tenant as such for the purposes of this agreement and notified in writing to the Landlord;

"Tenant's Mortgagee" means a mortgagee or chargee to whom the Tenant may have charged the benefit of this agreement with the Landlord's consent pursuant to Clause 20.2;

"Tenant's Works" means the works to be carried out by the Tenant for the purpose of the initial fitting out of the Premises;

"working day" means any day from Monday to Friday (inclusive) other than Christmas Day Good Friday and any statutory bank holiday in England.

1.2 **Interpretation**

1.2.1 Any expressions common to this agreement and the Lease shall have the same meaning ascribed to them in the Lease unless this agreement otherwise prescribes.

1.2.2 Words in the singular shall include the plural and vice versa and words of one gender shall include the other two genders.

1.2.3 If a party comprises two or more persons their obligations and liabilities are joint and several.

1.2.4 Reference to a party agreeing not to do or omit any act or thing shall include references to that party not permitting or suffering it to be done or omitted.

1.2.5 Any reference to a Clause or Schedule is a reference to a Clause or Schedule of this agreement and any heading in this agreement shall not affect the construction of this agreement or any document referred to in it.

1.2.6 In Clauses 2, 3, 4, 5, 6, 7, 10, 11, 12 and 13 "Landlord" shall only mean the party of the first part of this agreement and the obligations on the part of the Landlord contained in these Clauses shall be personal to the Landlord.

1.2.7 Any reference to any statute or section of a statute shall include all subordinate legislation deriving validity from that statute or section of a statute and shall extend to any statutory amendment modification consolidation and re-enactment of it or such subordinate legislation for the time being in force.

2. THE LANDLORD'S WORKS

2.1 **Execution of Works**

The Landlord has procured and shall procure the design, execution and completion of the Landlord's Works, the External Works, the Outstanding Works, the Security Package works and the Snagging Works:

2.1.1 at its own expense;

2.1.2 with due diligence and expedition;

2.1.3 in compliance with all Requisite Permissions;

2.1.4 in a good and workmanlike manner using sound materials of good quality;

2.1.5 in accordance with all statutes, statutory orders and regulations made under or deriving validity from them and which affect such works and any enforceable codes of practice of the local authority which shall affect the execution and completion of the Landlord's Works, the Snagging Works and/or the External Works, once completed;

2.1.6 in accordance with the Programme, the Brise Soleil Method Statement and this Agreement.

2.2 **Delays to the Programme**

2.2.1 The Landlord shall procure that the Landlord's Works have achieved Practical Completion by the Target Date. The Landlord shall use all reasonable endeavours to procure that the External Works have achieved Practical Completion and the Snagging Works and the Outstanding Works are complete by the Target Date.

2.2.2 The Landlord shall forthwith advise the Tenant in the event that the Landlord's Works and/or the External Works and/or the Snagging Works are not proceeding substantially in accordance with the Programme.

2.2.3 Without prejudice to clauses 2.1.2, 2.2.1, 15.4 and 15.5 if the Landlord is of the opinion that the Landlord's Works and/or the External Works and/or the Snagging Works will not be completed or are not likely to be completed by the anticipated dates as specified in the Programme then the Landlord shall prepare a revised Programme identifying the new anticipated dates and shall supply the Tenant with a copy of the revised Programme.

2.2.4 For the purposes of clause 2.2 the Target Date shall be extended by reference to any impediment, prevention or default, whether by act or omission, by the Tenant or any person for whom the Tenant is responsible except to the extent that it was caused or contributed to by any default, whether by act or omission, of the Landlord or any person for whom it is responsible.

2.2.5 The Landlord shall start the Security Package works immediately following Practical Completion and will use all reasonable endeavours to complete them prior to the Target Date.

2.3 **Extent of Landlord's Obligations**

2.3.1 Subject to clause 2.3.2 to the extent permitted by law the Landlord's liability pursuant to this agreement in respect of the Landlord's Works the External Works and the Snagging Works shall following the later of the date of Practical Completion, completion of the Snagging Works, the Target Date and provision of the Contractor's Warranty and the Landlord's Cladding Deed pursuant to clause 5 of this agreement, be confined to the obligations expressly set out in clause 7 of

this agreement and in clause 5.4 of the Lease and in the Landlord's Cladding Deed.

2.3.2 The Landlord shall not be relieved of its obligations pursuant to clause 6.2 of this agreement unless and until the collateral warranty from the Employer's Agent to be provided pursuant to clause 5 has been delivered to the Tenant.

2.4 **Requisite Permissions**

The Landlord shall obtain all of the Requisite Permissions so as to enable the Landlord's Works, the External Works, the Outstanding Works, the Security Package works and the Snagging Works to be designed, carried out and completed as expeditiously as possible and in any event by the Target Date.

3. MEASUREMENT OF THE PREMISES AND THE CALCULATION OF THE INITIAL RENT

3.1 The Net Internal Area of the Premises has been measured by the Measurement Surveyors as follows:-

Floor	Measured Area (square feet)
Fourth Floor Offices	6,615
Third Floor Offices	17,714
Second Floor Offices	20,446
Second Floor Terrace	789
First Floor Offices	21,313
First Floor Terrace	687
Podium Offices	20,725
Ground Floor Offices	2,181
Podium Reception	3,307
Ground Floor Entrance Hall	1,005
Total	**94,782**

3.2 On or before grant of the Lease, the Landlord will procure that the Measurement Surveyors issue to the Tenant a letter in the form annexed (Annexure F).

3.3 The Measurement Surveyors have acted as experts and their determination as to the Net Internal Area of the Premises is (except in the case of obvious error) final and binding upon the Parties.

4. SITE VISITS AND MEETINGS AND SUPPLY OF INFORMATION

4.1 **Entry onto the Premises to view Works**

The Landlord shall permit the Tenant, the Tenant's Representative and their respective advisers at all reasonable times to enter onto the Premises (accompanied by a representative of the Landlord if the Landlord shall so require) to inspect and record the progress of the Landlord's Works and/or the External Works and/or the Snagging Works and/or the Outstanding Works and/or the Security Package works and to prepare plans drawings specifications and tenders for the Tenant's Works subject nevertheless to:

4.1.1 reasonable prior notice being given to the Landlord;

4.1.2 compliance with the proper and reasonable safety requirements imposed by the Landlord or the Contractor from time to time for the Premises and notified (insofar as practicable in writing) to the Tenant; and

4.1.3 the Tenant, the Tenant's Representative and their respective advisers not materially impeding the progress of the Landlord's Works and/or the External Works and/or the Snagging Works and/or the Outstanding Works and/or the Security Package works (as the case may be)

and the Landlord shall provide personal protective equipment for the use of the Tenant, the Tenant's Representative and their advisors during such visits.

4.2 **Progress meetings**

The Tenant, the Tenant's Representative and their advisers shall be entitled to attend progress meetings with the Landlord, the Contractor and the External Works Contractor which the Landlord shall procure shall take place no less frequently than monthly. The Landlord shall provide the Tenant with reasonable prior written notice of the date, time and place of each such meeting together with a copy of any proposed agenda.

4.3 **Representations by Tenant**

The Landlord shall take proper account of (but shall not be bound by) any representations made by or on behalf of the Tenant in connection with the Landlord's Works and/or the External Works and/or the Snagging Works and/or the Outstanding Works and/or the Security Package works and the progress thereof Provided that:

4.3.1 nothing in this Clause shall interfere in any way with the rights of the Landlord under the Building Contract or the External Works Contract; and

4.3.2 any representations made by or on behalf of the Tenant shall be made at progress meetings pursuant to clause 4.2 and/or confirmed or made in writing direct to the Landlord and shall not be made to any other party involved in the carrying out or construction of the Landlord's Works or the External Works or the Snagging Works or the Outstanding Works or the Security Package works.

4.4 **Liability**

The liability of the Landlord under this Agreement shall not be reduced or excluded by any approval, comment, representation, consent, enquiry or inspection into any relevant matter

which may be made or carried out by or on behalf of the Tenant or by any failure to make or give any such approval, comment, representation, consent, enquiry or inspection.

4.5 **Provision of Documents**

The Landlord shall provide the Tenant with [a copy of the outstanding documents listed in Annexure K prior to 31 January 2006 and] the following documents as and when the same are prepared, executed or issued (insofar as they have not previously been provided):

4.5.1 The Programme;

4.5.2 Instructions issued to the Contractor and the External Works Contractor after the date of this agreement;

4.5.3 Minutes of site meetings which take place after the date of this agreement;

4.5.4 Any Requisite Permissions;

4.5.5 Test certificates and commissioning reports.

4.6 **Copyright**

4.6.1 The Landlord will, as soon as reasonably practicable, procure a copyright licence from Tilebox Limited in favour of the Landlord in relation to the Documents in such form which will enable it to grant to the Tenant the copyright sub-licence in clause 4.6.2 and shall provide a copy of such copyright licence to the Tenant within 2 working days of its receipt.

4.6.2 With effect from the date of the licence referred to in clause 4.6.1, the Landlord hereby grants to the Tenant with full title guarantee an irrevocable, royalty-free and non-exclusive licence to copy reissue and use the Documents for any and all purposes connected with the Premises. Such licence shall carry the right to grant sub-licences and shall be transferable to third parties. The Landlord will not be liable for any use of the Documents which is not permitted by the terms of this licence.

5. WARRANTIES

5.1 On or before grant of the Lease the Landlord shall procure the proper execution and unconditional delivery to the Tenant of the Contractor's Warranty and the External Works Contractor's Warranty.

5.2 The Landlord shall use all reasonable endeavours to procure the proper execution (as deeds) and unconditional delivery to the Tenant, before the grant of the Lease, of deeds of warranty:

5.2.1 from each of the professional advisers named at Annexure N in the form of the relevant draft at Annexure M; and

5.2.2 from each of the sub-contractors named at Annexure N substantially in the form of the relevant draft at Annexure M.

5.3 Contemporaneously with the grant of the Lease the Landlord and the Tenant shall properly execute and unconditionally deliver the Landlord's Cladding Deed and the Tenant shall not

be obliged to complete the Lease unless the Landlord so executes and delivers the Landlord's Cladding Deed.

5.4 The Landlord agrees that the Tenant may waive its right not to complete the Lease in the circumstances described in clauses 5.1 and 5.3 in whole or in part and at any time by written notice to that effect.

5.5 During the period from the date five (5) years after the Date of Permitted Entry to the date ten (10) years thereafter (or the earlier determination of the Lease) and if reasonably requested to do so by the Tenant or any lawful assignee of the Lease, the Landlord shall enforce the benefit of any obligation to the Landlord or the occupier of the Premises in connection with any and all guarantees from suppliers and sub-contractors in relation to the Premises, the Landlord's Works, the Snagging Works, the Outstanding Works, the Security Package works and the External Works and pay the proceeds of such enforcement (if any) to the Tenant on receipt.

6. PRACTICAL COMPLETION

6.1 The Landlord shall procure that the Tenant and the Tenant's Representative are given not less than ten working days' written notice of any inspection and as much notice as reasonably practicable of any re-inspection of the Landlord's Works and/or External Works with a view to the issue of any certificate or statement of practical completion pursuant to the Building Contract or the External Works Contract and the Tenant and/or any of the Tenant's advisers shall be entitled to inspect the Landlord's Works and the External Works and shall be entitled prior to the actual issue of such certificates or statements (as the case may be) to make representations to the Landlord. The Landlord shall ensure that the Employer's Agent has due regard to such representations but the Employer's Agent's independent discretion in the issue of the certificate or statement of practical completion shall not be fettered by such representations.

6.2 Without prejudice to clause 6.1, the Landlord shall procure that no certificate or statement of Practical Completion is issued until

6.2.1 The Landlord's Works or the External Works as the case may be have achieved Practical Completion;

6.2.2 (in respect of the Landlord's Works) the external envelope and weathershield of the Premises including all glazing is completed;

6.2.3 (in respect of the Landlord's Works) the lifts (if any) serving the Premises are fully operational, in accordance with the Building Contract and the Requisite Permissions and all testing and commissioning has been carried out and all necessary keys have been provided to the Tenant;

6.2.4 the Premises are clean and free of all rubbish and any presence of the Contractor and the External Works Contractor as the case may be, their representatives, materials and equipment;

6.2.5 all Requisite Permissions have been obtained and all testing and commissioning in relation to the Premises has been carried out, witnessed and completed.

6.3 The Landlord shall forthwith following the issue of any certificate or statement of practical completion pursuant to the Building Contract or the External Works Contract serve a copy on the Tenant.

6.4 Not later than ten working days' prior to the anticipated completion of the Snagging Works, the Outstanding Works and/or the Security Package works (as the case may be) the Landlord shall procure that the Tenant and the Tenant's Representative are given written notice of the anticipated date of completion of the relevant works.

6.5 On or before such anticipated date of completion notified pursuant to clause 6.4, the Tenant and/or any of the Tenant's advisers shall be entitled to inspect the Snagging Works, the Outstanding Works and/or the Security Package works, as the case may be. The Tenant and the Tenant's advisers shall be entitled to make representations in relation to such Snagging Works, Outstanding Works and/or the Security Package works to which the Landlord shall ensure the person responsible for accepting completion of such works has due regard (but shall not be bound by).

6.6 Following Practical Completion of the Landlord's Works the Landlord will:

6.6.1 perform and observe clause 5.4 of the Lease as if it were set out in full in this agreement (mutatis mutandis); and

6.6.2 allow Guildford Borough Council access to the Premises to carry out the works described in the notices by letter served on the Landlord and dated the 6 th and 14 th September 2005.

7. DEFECTS

7.1 **Making good defects at Practical Completion**

Following the date of Practical Completion, the Landlord shall procure the completion or remedying of any defects, omissions and snagging items identified in any snagging list attached to or issued with the certificate or statement of Practical Completion. The Landlord shall use all reasonable endeavours to procure that such completion or remedying is completed as soon as reasonably practicable following the date of Practical Completion.

7.2 **Making good defects during the Defects Period**

Without prejudice to any other obligation of the Landlord (whether under this Agreement or otherwise) the Landlord shall procure that any defects, shrinkages or other faults appearing in the Landlord's Works, the Snagging Works, the Outstanding Works, the Security Package works and/or the External Works within the Defects Period and which are notified by the Tenant to the Landlord not less than 5 working days prior to the expiry of the Defects Period are made good at no cost to the Tenant and as soon as reasonably practicable in accordance with this Agreement and to the Tenant's reasonable satisfaction.

7.3 **Making good defects at final completion**

The Landlord shall procure that the Employer's Agent prepares a schedule listing any omissions defects shrinkages or other faults (save for any caused by any act neglect or default on the part of the Tenant) appearing in the Landlord's Works, the Snagging Works, the Outstanding Works, the Security Package works and the External Works and any part thereof ("the Defects List") and supply a copy thereof to the Tenant's Representative not

later than twenty working days before the expiry of the relevant Defects Period and the Tenant shall procure that not later than ten working days after the receipt of such schedule the Tenant's Representative makes representations to the Employer's Agent or the Landlord by listing any omissions defects shrinkages or other faults which they have observed and the Landlord shall procure that the Employer's Agent shall have due regard to such list in finalising its Defects List. The Landlord shall procure that all items included in the Defects List are completed or made good to the reasonable satisfaction of the Tenant.

7.4 **Access by Landlord to make good defects**

7.4.1 The Tenant shall permit the Landlord, the Employer's Agent and the Contractor and/or the External Works Contractor (as the case may be) and all persons reasonably authorised by them on giving reasonable prior written notice and at reasonable times to have access to such parts of the Premises as are necessary in order to remedy any such defects pursuant to clause 7.

7.4.2 Such access will be in accordance with a programme submitted by the Landlord and approved by the Tenant (such approval not to be unreasonably withheld or delayed).

7.4.3 The Landlord shall procure that all persons given access to the Premises in order to comply with its obligations pursuant to clause 7:

(A) are supervised by a representative of the Contractor at all times;

(B) comply with the proper and reasonable safety requirements imposed by the Tenant or the Tenant's contractor from time to time for the Premises and notified to the Landlord in writing;

(C) comply with the programme agreed by the Tenant pursuant to clause 7.4.2 so as to cause the minimum disruption to the Tenant's business; and

(D) do not materially impede the progress of the Tenant's Works and/ or the Tenant's use and enjoyment of the Premises.

7.4.4 Without prejudice to clause 7.4.3(D), for so long as the Contractor shall require access to the Premises to make good defects during the execution of the Tenant's Works the Landlord and the Tenant shall co-ordinate the execution of the Tenant's Works and the remedying of defects and shall procure that there shall be full liaison between each other's respective contractors and workmen so as to minimise the length of any delays and the possibility of interference with each other's works.

7.4.5 The Landlord shall procure that any damage caused in complying with its obligations under clause 7 is made good forthwith and to the reasonable satisfaction of the Tenant.

8. HEALTH & SAFETY AND AS BUILT INFORMATION

As soon as reasonably practicable after Practical Completion the Landlord shall at its own cost supply the Tenant with a complete set of the "As-Built" scale drawings and the Health and Safety File (in the format specified in the Building Contract) which the Landlord shall procure is prepared in accordance with the CDM Regulations.

9. TENANT'S WORKS

9.1 Approval of Detailed Works and Method Statement

9.1.1 The Tenant shall as soon as reasonably practicable (and in any event before 1 st May 2006) submit to the Landlord in writing for its written approval (such approval not to be unreasonably withheld or delayed) full particulars of its proposals for the Tenant's Works and which shall be deemed granted if no response to the Tenant's application is received by the Tenant within 10 working days of receipt of the application by the Landlord.

9.1.2 Prior to commencement of the Tenant's Works, the Tenant shall provide a copy of its Method Statement to the Landlord. The Method Statement shall include the details of contact names for the consultants and contractors proposed for the design and carrying out of the Tenant's Works.

9.2 Access

From the later of:

9.2.1 the Landlord's approval of the Tenant's Works in accordance with clause 9.1.1;

9.2.2 Practical Completion of the Landlord's Works; and

9.2.3 the Target Date,

("the Access Date") the Tenant shall be permitted access to the Premises in accordance with clause 14 of this agreement for the purpose of carrying out of the Tenant's Works.

9.3 Carrying out of Tenant's Works

The Tenant's Works shall be carried out and completed:

9.3.1 at its own expense;

9.3.2 without avoidable delay;

9.3.3 in a good and workmanlike manner using sound materials of good quality;

9.3.4 by reputable contractors;

9.3.5 in accordance with all Requisite Permissions relating to the Tenant's Works; and

9.3.6 in accordance with the Method Statement.

9.4 Co-ordination with the External Works

The Tenant shall during the carrying out of the Tenant's Works:

9.4.1 take such precautions at all times and at its own cost as the Landlord and its insurers or either of them may reasonably require for the protection of the Premises and the External Works from the effect of the Tenant's Works;

9.4.2 procure, at no cost to the Landlord, that its fitting-out contractors shall maintain public liability insurance;

9.4.3 not cause any material delay to or interference with the External Works nor give any instruction to the contractors engaged on them and shall make good all or any damage to the Landlord and its property caused by the carrying out of the Tenant's Works

provided always that the Landlord shall ensure that those carrying out the External Works during the carrying out of the Tenant's Works shall be properly supervised and do not cause any material delay or interference with the Tenant's Works nor give any instructions to the contractors engaged on the Tenant's Works and shall make good all and any damage to the Tenant, its property and the Tenant's Works caused by the carrying out of the External Works.

9.5 **CDM Regulations**

In so far as the Tenant's Works and/or any works carried out under clause 9.8 are works to which the Regulations apply the Tenant shall:

9.5.1 act as the client in relation to such works for the purposes of the CDM Regulations and shall issue a declaration to that effect under regulation 4 of the CDM Regulations and send a copy forthwith to the Landlord and the Tenant warrants that it will not derogate in any manner from such declaration or its acceptance of responsibilities as a client under the CDM Regulations;

9.5.2 comply in all respects with the CDM Regulations and require that any person involved in carrying out such works complies with the CDM Regulations.

9.6 **Health and Safety File**

Subject to clause 9.9.1, following completion of the Tenant's Works the Tenant shall liaise with the planning supervisor (if any) employed by the Landlord for inter alia the Tenant's Works as to any necessary updating of the Health and Safety File and supply to such planning supervisor all information, drawings and details of the Tenant's Works as reasonably required by such planning supervisor and use all reasonable endeavours to ensure that such updating is completed within four weeks of completion of the Tenant's Works.

9.7 **Link Road**

The Landlord will use reasonable endeavours to ensure that the link road passing beneath the building between the main entrance and ground floor areas remains closed to public traffic during the carrying out of the Tenant's Works.

9.8 **Mezzanine Floor**

The Landlord consents in principle (but subject to the following provisions of this clause) to the construction by the Tenant of a mezzanine floor or part floor above the ground floor office ("the mezzanine works") and, if required under the terms of the Head Lease, will use all reasonable endeavours to procure consent of the superior landlord thereto:-

9.8.1 the Tenant shall provide detailed drawings and specifications of the mezzanine works for the approval of the Landlord (such approval not to be unreasonably withheld) and, if required under the terms of the Head Lease, the superior landlord;

9.8.2 the Tenant shall following such approval obtain all Requisite Permissions for the mezzanine works;

9.8.3 the Tenant shall not commence the mezzanine works until clauses 9.8.1 and 9.8.2 (in so far as such Requisite Permissions are capable of being obtained and/or complied with prior to carrying out the mezzanine works) have been complied with;

9.8.4 the Tenant shall carry out and complete the work in accordance with clause 9.3 (mutatis mutandis);

9.8.5 the Tenant shall procure a collateral warranty in favour of the Landlord from each of the building contractor and structural engineer engaged by the Tenant in relation to the mezzanine works. Such collateral warranties shall be in a form no less onerous that those published by the Joint Contracts Tribunal and Construction Industry Council at the time of engagement, subject to such amendments as may be required by the professional indemnity insurers of the contractor and/or the structural engineer, as the case may be and shall be executed as a deed.

9.9 **Licence to Carry-Out Works**

9.9.1 No later than 20 working days after the completion of the Tenant's Works and (if applicable) the mezzanine works the Tenant shall at its own cost supply the Landlord with a complete set of the "As-Built" drawings relating to the Tenant's Works and (if applicable) the mezzanine works;

9.9.2 The Landlord will grant and the Tenant will take up and execute the Licence to Carry Out Works as soon as reasonably practicable and in any event within three weeks of the date of delivery of the "As-Built" drawings pursuant to clause 9.9.1.

9.10 **Co-Ordination with the Security Package works**

The Landlord shall during the carrying out of the Security Package works:

9.10.1 take such precautions at all times and at its own cost as the Tenant and its insurers or either of them may reasonably require for the protection of the Premises and the Tenant's Works from the effect of the Security Package works;

9.10.2 procure, at no cost to the Tenant, that the contractors engaged in relation to the Security Package works shall maintain public liability insurance;

9.10.3 not cause any material delay to or interference with the Tenant's Works nor give any instruction to the contractors engaged on them and shall make good all or any damage to the Tenant, its property and the Premises caused by the carrying out of the Security Package works

provided always that the Tenant shall ensure that those carrying out the Tenant's Works during the carrying out of the Security Package works shall be properly supervised and do not cause any material delay or interference with the Security Package works nor give any instructions to the contractors engaged on the Security Package works and shall make good all and any damage to the Landlord, its property and the Security Package works caused by the carrying out of the Tenant's Works.

10. LANDLORD'S CONTRIBUTIONS

10.1 The Landlord shall on the grant of the Lease pay to the Tenant in cleared funds (subject to the receipt of invoices addressed to the Landlord):-

10.1.1 the amount of £75,000 (exclusive of VAT) as a contribution to the cost of purchasing and installing floor boxes provided that the Tenant may use this sum as a contribution to their overall cabling of the Premises and possible installation of grommets rather than floor boxes;

10.1.2 the amount of £210,125 (exclusive of VAT) as a contribution to the cost of the Tenant of removing and disposing of the existing carpet tiles and purchasing and laying new carpet tiles;

10.1.3 the amount of £82,540 (exclusive of VAT) as a contribution to the cost of fitting out the ground floor office area to Category A Standard;

10.1.4 the amount of £43,000 (exclusive of VAT) as a contribution to the additional cost of fitting out and in lieu of the provision of an external hoist and removal and replacement of glazing panels for the purpose of carrying out the Tenant's Works.

10.2 The Landlord shall on the Date of Permitted Entry pay to the Tenant in cleared funds the amount of £5,000 towards the cost of insuring the Tenant's Works.

11. CAR PARKING

11.1 The Landlord will co-operate with the Tenant in making reasonable representations to Guildford Borough Council to seek agreement that the 100 car spaces which, under the terms of the Head Lease, are to be available for public use at weekends and public holidays may be exclusively used by the Tenant (here meaning Electronic Arts Limited and/or any Group Company (as defined in the Lease) of Electronic Arts Limited in occupation of the Premises or any part of them in accordance with the Lease) during the term of the Lease or any renewal of it.

11.2 The Landlord and Tenant shall act in good faith and use all reasonable endeavours to obtain the Council's agreement PROVIDED THAT neither the making of such representations nor their outcome (successful or otherwise) shall be a pre-condition to completion of the Lease.

11.3 Subject only to the Council's agreement, if so requested by the Tenant, the Landlord will, without delay, enter in to a deed of variation of or supplemental to the Head Lease to give effect to the change described in clause 11.1.

11.4 The Landlord and Tenant will be equally responsible for the Council's reasonable and proper costs, disbursements and VAT in relation to such deed and will otherwise each be responsible for their own costs.

11.5 The Landlord agrees not to serve notice pursuant to paragraph 1.3 of Schedule D of the Head Lease before the date immediately prior to the expiry of three months from and including the date of Practical Completion of the Landlord's Works without the Tenant's prior consent (such consent not to be unreasonably withheld or delayed).

12. SECTION 106 AGREEMENT

12.1 In this clause 12 and clause 15 of this Agreement the following words and expressions have the following meanings unless the context otherwise requires:

"Art Works" means the ornamental features and/or works of art as defined in the Section 106 Agreement; and

"Staircase Works" means the refurbishment and improvement of the south western car park staircase leading to Guildford Railway Station.

12.2 In relation to the Art Works:

12.2.1 the Tenant will observe and perform paragraph 1 of the First Schedule to the Section 106 Agreement and on the date of completion of the Lease the Landlord will reimburse the Tenant (in cleared funds) in respect of the proper cost thereof up to a maximum of forty thousand pounds (£40,000); and

12.2.2 if reasonably required by the Tenant, the Landlord will use all reasonable endeavours to procure that The Council of the Borough of Guildford complies with its obligations in paragraph 1 of the First Schedule to the Section 106 Agreement.

12.3 In relation to the Staircase Works, the Landlord will:

12.3.1 observe and perform paragraph 3 of the First Schedule to the Section 106 Agreement; or

12.3.2 secure The Council of the Borough of Guildford's agreement by:

(A) formal deed of variation to the Section 106 Agreement (if required by The Council of the Borough of Guildford); or

(B) otherwise (and evidenced in a manner acceptable to the Tenant acting reasonably)

to carry out the Staircase Works at the Landlord's cost

and in either case by the Target Date.

12.4 The Landlord will forthwith make any payments under the Section 106 Agreement that have not been made (in particular the balance of twenty five thousand pounds (£25,000) due to The Council of the Borough of Guildford pursuant to paragraph 2.3 of the First Schedule) and indemnify the Tenant against all actions, claims, demands and proceedings made against the Tenant and all costs, expenses, liabilities and losses incurred directly or indirectly by the Tenant as a result of any breach of the Section 106 Agreement (other than any breach due to the non observance or non performance of paragraph 1 of the First Schedule to the Section 106 Agreement and/or the provisions relating to green travel plan

referred to in clause 13) and/or the Section 278 Agreement dated the 3 rd November 2000 between Surrey County Council (1) and Tilebox Limited (2).

13. GREEN TRAVEL PLAN

13.1 The Landlord shall (to the extent it has not already done so) supply full details of the draft Green Travel Plan which it has caused to be prepared and will afford all reasonable assistance to the Tenant (including providing details of contributions made to highway improvements) in this regard to facilitate the agreement of the plan in accordance with paragraph (a) of the third schedule to the Section 106 Agreement.

13.2 Subject to clause 13.1, the Tenant shall agree and implement a Green Travel Plan prior to the Date of Permitted Entry in accordance with paragraph (a) of the third schedule to the Section 106 Agreement.

14. OCCUPATION

14.1 With effect from the later of:

14.1.1 the Target Date; and

14.1.2 Practical Completion of the Landlord's Works;

(the **"Date of Permitted Entry"**) and until the grant of the Lease the Tenant may occupy the Premises.

14.2 The Tenant's occupation of the Premises shall be as licensee and (whether or not it is in occupation of the Premises) the Tenant shall pay the Landlord immediately after and with effect from the Date of Permitted Entry a licence fee equivalent in all respects (relating to amount and the timing manner method and apportionment of payment) to the several rents expressed to be payable from time to time in the Lease together with Value Added Tax thereon as if the Lease had actually been granted for a term commencing on the Date of Permitted Entry **PROVIDED ALWAYS THAT** the Tenant shall not be obliged to pay a licence fee equivalent to the rent first reserved by the Lease for any period prior to the Rent Commencement Date.

14.3 The parties shall otherwise perform and observe all the covenants and conditions on their respective parts to be contained in the Lease.

14.4 This agreement shall not operate as a demise nor confer any proprietary right in the Premises (other than one to occupy as licensee) on the Tenant.

14.5 Prior to the Date of Permitted Entry the Landlord will procure that Elite Security's contract is determined insofar as it relates to the Premises.

15. LEASE GRANT

15.1 **Engrossment of the Lease**

The Landlord's solicitors shall prepare the engrossments of the Lease and a counterpart of it.

15.2 **Completion of the Lease**

The Tenant and (in consideration of the Landlord having entered into this agreement at the Guarantor's request) the Guarantor shall execute and deliver the counterpart and the Landlord shall execute and grant the Lease on the tenth working day next after the later of:

15.2.1 the Date of Permitted Entry; and

15.2.2 completion of the Snagging Works;

(whether or not the Tenant shall take access under this agreement).

15.3 **Terms of the Lease**

The following provisions shall apply in relation to the grant of the Lease:

15.3.1 the Term shall be computed from the Date of Permitted Entry;

15.3.2 the rent first reserved under the Lease shall be due and commence to be payable on the Rent Commencement Date;

15.3.3 the Insurance Rent under the Lease shall be payable from the Date of Permitted Entry

provided that credit shall be given for all payments made by the Tenant pursuant to clause 14 in relation to the same period(s) of time.

15.4 **Determination**

If Practical Completion of the Landlord's Works has not occurred on or before the 1 st September 2006 the Tenant may determine this agreement by written notice to the Landlord to that effect at any time thereafter and if Practical Completion of the Landlord's Works has not occurred by 31 st December 2006 either the Landlord or the Tenant may determine this agreement by written notice to the other to that effect and clause 18.2 and 18.3 of this agreement shall apply.

15.5 **Compensation for delay**

If Practical Completion of the Landlord's Works occurs after the Target Date as extended pursuant to clause 2.2.4 the Landlord will pay the Tenant liquidated damages in the sum of £8,219 (exclusive of VAT) per day for each day from and including the 2 nd June 2006 to and excluding the later of the Access Date and the date on which this agreement is determined in accordance with clause 15.4 of this agreement.

15.6 **Opinion Letter**

The Guarantor shall deliver the duly signed Opinion Letter to the Landlord on exchange of this agreement.

16. LOCAL LAND CHARGES ETC.

The Lease will be granted subject to:

16.1 all local land charges whether registered or not before or after the date hereof and all matters capable of registration as local land charges whether or not actually so registered;

16.2 all notices orders resolutions restrictions agreements directions and proposals therefor made by any local or other competent authority before or after the date hereof;

16.3

16.3.1 any matters which are unregistered interests which override registered dispositions under Schedule 3 to the Land Registration Act 2002 **;**

16.3.2 such unregistered interests as may affect the Premises to the extent and so long as they are preserved by the transitional provisions of Schedule 12 of the Land Registration Act 2002; and

16.4 all matters contained in or referred to in schedule 2 to the Lease.

17. TITLE

The Landlord's title to grant the Lease having been deduced the Tenant shall not raise any objection to that title and the Landlord shall not be required to reply to any requisitions on that title except in relation to any matters not previously disclosed which are revealed by the Tenant's solicitors pre-completion searches at HM Land Registry.

18. DETERMINATION

18.1 **Prior Notice**

The Landlord or the Tenant may determine this agreement by written notice to the other to that effect in the event that:-

18.1.1 there shall be any material breach of their obligations to the other under this agreement and such breach (if capable of remedy) shall continue for and not be remedied to the reasonable satisfaction of the party not in breach within twenty working days after service of a notice specifying the breach; or

18.1.2 a Default Event occurs and within fourteen working days thereof the relevant party shall not have set aside or rectified the Default Event

and in such event the Landlord shall be entitled to re-enter upon and take possession of the Premises and this agreement shall cease.

18.2 **Saving Clause**

The determination of this agreement shall be without prejudice to any other rights or remedies of the parties for the breach non-observance or non-performance of any of the other's obligations under this agreement.

18.3 **Cancellation of Land Registry Notice**

In the event of such determination the Tenant shall forthwith cancel or procure the cancellation of any notice or other entry registered at the Land Registry relating to the interest of the Tenant in this agreement or the Premises.

19. REPRESENTATIONS

The Tenant and the Guarantor severally acknowledge that they have not relied on any representation by or on behalf of the Landlord in entering into this agreement apart from the Landlord's solicitors' written replies to the Tenant's written enquiries before contract.

20. ALIENATION

20.1 The Tenant shall not assign or otherwise deal with the benefit of this agreement in whole or in part nor prior to the grant of the Lease make any disposition of the Premises save by way of charge permitted by clause 20.2.

20.2 The Tenant may with the prior consent of the Landlord (such approval not to be unreasonably withheld or delayed) charge this agreement to secure building finance in respect of the Tenant's Works from any institution pension fund bank or similar body.

20.3 The Landlord shall not assign or otherwise deal with the benefit of this agreement in whole or in part nor prior to the grant of the Lease make any disposition of the Premises save as permitted by clause 20.4.

20.4 In the event of the demutalisation of the Standard Life Assurance Company the Landlord may without the consent of the Tenant assign this agreement to the entity which assumes the assets, liabilities and obligations of the Standard Life Assurance Company.

21. INSURANCE

21.1 **Insurance of Landlord's Works by Landlord**

Until Practical Completion the Landlord shall insure or cause to be insured with insurers of good repute the existing structure of the Premises, the Landlord's Works, the External Works, the Outstanding Works and the Snagging Works and all unfixed goods and materials against all risks usually covered by a contractors comprehensive all risks insurance policy including but not limited to the risks of fire storm earthquake tempest flood lightning explosion aircraft and aerial devices and articles dropped therefrom heave subsidence riot or civil commotion malicious damage impact bursting and overflowing of water tanks apparatus or pipes in an amount equal to the full cost of reinstating the Premises, the Landlord's Works, the External Works, the Outstanding Works and the Snagging Works in the event of their damage or destruction together with the cost of debris removal demolition site clearance and architects' surveyors' and other professional fees including Value Added Tax on all such costs goods and materials fees and expenses subject to all exclusions and limitations reasonably imposed by the insurers or underwriters.

21.2 **Insurance of Tenant's Works by the Tenant**

From commencement of the Tenant's Works until practical completion of the Tenant's Works the Tenant shall insure or cause to be insured with insurers of good repute the Tenant's Works and all unfixed goods and materials against risks required to be covered by the all risks insurance required by and defined in the Standard Form of Building Contract Private with Quantities 1998 Edition (for the purposes of clause 21 "JCT98") in an amount equal to the full cost of reinstating the Tenant's Works in the event of their damage or destruction together with the cost of debris removal demolition site clearance and architects' surveyors' and other professional fees including Value Added tax on all such costs goods and materials fees and expenses subject to all exclusions and limitations reasonably imposed by the insurers or underwriters.

21.3 **Insurance from Practical Completion**

With effect from the Date of Practical Completion the Landlord's insurance obligations pursuant to Clause 21.1 shall cease and thereafter the Landlord shall comply with its insurance covenants contained in the Lease and shall notify its insurers that works are still being carried out by or on behalf of the Landlord and the value of such works, provided that the Landlord shall procure that such insurance shall cover the Tenant's obligation to insure the existing structure of the Premises pursuant to and in accordance with clause 22C.1 of JCT98 including, without limitation, including the Tenant as joint insured.

21.4 **Waiver of subrogation rights and basic terms of insurance**

The Landlord in relation to the policy(ies) of insurance to be effected by it pursuant to respectively Clause 21.1 and 21.3 shall procure that the insurers shall waive all rights of subrogation against the Tenant.

21.5 **Production and inspection of policies**

The Landlord and the Tenant shall on demand each produce to the other for inspection the policy or policies of insurance maintained in accordance with the requirements of Clause 21 and the receipt for the last premium due or other sufficient evidence of payment thereof.

21.6 **Destruction of Landlord's Works**

The Landlord shall notify the Tenant promptly upon the occurrence of any material damage to or material destruction of the Landlord's Works (whether or not caused by any of the risks insured against) occurring before Practical Completion and in any such case (subject to receipt of all necessary Requisite Permissions and compliance with this agreement) shall rebuild repair and otherwise reinstate the Landlord's Works as soon as practicable.

22. CONFIDENTIALITY

None of the parties (including their agents employees or representatives) shall disclose or permit or suffer to be disclosed any of the contents or the existence of this agreement except and to the extent that such disclosure may be required by law by its reporting requirements or by the requirements of the UK Listing Authority or the London Stock Exchange PLC.

23. CAPITAL ALLOWANCES

The Landlord shall use all reasonable endeavours at the request and reasonable cost of the Tenant to assist the Tenant in obtaining the benefit of any capital allowances which may be available to the Tenant in respect of the Tenant's Works and any qualifying plant and machinery purchased by the Tenant with the sums described in clause 10 of this agreement and the Landlord at the request and reasonable cost of the Tenant will execute any election which may be required to enable the Tenant to claim and receive the benefit of such capital allowances.

24. NOTICES

24.1 Any notice served under this agreement shall be validly served if:

24.1.1 it is sent by facsimile transmission or by recorded delivery post or personally delivered to the registered office of the party being served or to such alternative address as it shall nominate in writing for that purpose; or

24.1.2 it is served in accordance with Section 196 of the Law of Property Act 1925 (as amended by the Recorded Delivery Act 1962).

24.2 If the Tenant or the Guarantor comprises more than one person it shall be sufficient service on the Tenant or the Guarantor if notice is served on one of them.

24.3 The Landlord need not serve on the Guarantor a notice which is duly served on the Tenant and the Guarantor shall not be relieved of any obligation or liability under this agreement because it has not received any such notice.

25. VALUE ADDED TAX ("VAT")

25.1 All sums payable under this agreement by the Tenant to the Landlord or by the Landlord to the Tenant shall be deemed to be exclusive of VAT.

25.2 Subject to the Landlord having made an election for the purposes of paragraphs 2 and 3 of Schedule 10 to the Value Added Tax Act 1994 in relation to the Premises and subject to the Landlord having supplied to the Tenant a copy of such election and subject further to HM Revenue & Customs not having refused to accept such election where pursuant to the terms of this agreement the Landlord makes a supply to the Tenant or vice versa and VAT is payable in respect of such supply the party receiving such supply shall pay to the party making the supply on delivery of a valid VAT invoice in respect thereof a sum equal to the amount of VAT so payable and shall make such payment:

25.2.1 on the date of such supply; or

25.2.2 if later, on the date on which a valid VAT invoice in respect of the relevant amount addressed to the receiving party is issued to that party if such VAT invoice is legally required to enable the said party to obtain a credit from H.M. Revenue & Customs for such amount.

25.3 Where the party receiving the supply fails to pay any such amount in full on the relevant date specified in Clause 25.2 that receiving party shall also pay to the party making the supply interest on such amount at the base rate from time to time of Barclays Bank plc from the date on which the supplier was liable to account to HM Revenue & Customs for the VAT in respect of such supply until the date payment is made by the recipient of the supply to the person making the supply PROVIDED THAT where the due date for payment by either party of any amount in respect of VAT is determined by reference to the issue of a VAT invoice as mentioned in Clause 25.2 above, that party shall not be liable to make any payment under this Clause 25.3 provided that any amount in respect of VAT payable by it is paid by it within twenty working days after the issue of such invoice.

26. NON-MERGER

This Agreement shall continue in full force and effect notwithstanding the grant of the Lease to the extent that any provisions are still to be observed and performed.

27. GUARANTEE

In consideration of the Landlord having entered into this agreement at the Guarantor's request the Guarantor as primary obligor guarantees and agrees with the Landlord that:

27.1 the Tenant will perform its obligations in this agreement; and

27.2 it will make good to and indemnify the Landlord against all losses damages costs and expenses caused by any default by the Tenant; and

27.3 no time or indulgence granted to the Tenant by the Landlord nor any variation of the terms of this agreement nor any other thing by virtue of which but for this provision the Guarantor would have been released will in any way release the obligations of the Guarantor hereunder to the Landlord under this Clause; and

27.4 it will execute the counterpart Lease as Guarantor for the Tenant when called upon to do so by the Landlord; and

27.5 if at any time before the completion of the Lease any Default Event occurs in relation to the Tenant or where the Tenant comprises one or more persons occurs in relation to any one of those persons then the Landlord may at any time before completion of the Lease invoke the provisions of Clause 27.6 by written notice served on the Tenant unless a party has previously served notice pursuant to Clause 18.1 in respect of that or any other event or either party has served notice pursuant to clause 15.4; and

27.6 immediately on service of a notice pursuant to Clause 27.5 but without prejudice to any pre-existing right of action of any party in respect of any breach by any other party of its obligations under this agreement the rights of the Tenant under this agreement shall cease and determine and this agreement shall have effect from the date of the notice as if the obligation to accept the Lease and the other obligations of the Tenant contained in this agreement were the primary obligations of the Guarantor and the Guarantor will when requisite execute and deliver a counterpart of the Lease in lieu of the Tenant on the terms of this agreement and will take up the Lease on its grant.

28. JURISDICTION

This agreement shall be governed by and construed in accordance with the law of England and the Guarantor submits to the exclusive jurisdiction of the English Courts and irrevocably agrees that any process may be served on it by leaving a copy of the relevant documents at the Premises and each party undertakes to notify the other of any change from time to time of such address for service and to maintain an appropriate address at all times.

29. EXCLUSION OF THIRD PARTY RIGHTS

Each party confirms that no term of this agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this agreement.

30. PROTECTING AGREEMENT AGAINST LANDLORD'S TITLE

The Tenant shall not be entitled to note this Agreement any rights granted in the Lease against the Landlord's registered title other than by a unilateral notice.

IN WITNESS whereof the parties have respectively executed this agreement as a deed and delivered it on the date hereof.

On one part

SIGNED and DELIVERED as a deed by

as the Attorney of **THE STANDARD LIFE ASSURANCE COMPANY**
(in exercise of a Power of Attorney
under its Seal dated
in the presence of:

On other part

EXECUTED as a deed by)
ELECTRONIC ARTS LIMITED)
acting by two directors or a)
director and its secretary)

EXECUTED as a deed by)
ELECTRONIC ARTS INC)
acting by two directors or a)
director and its secretary)

DATED 2006

THE STANDARD LIFE ASSURANCE COMPANY

and

ELECTRONIC ARTS LIMITED

and

ELECTRONIC ARTS INC.

UNDERLEASE
of
Onslow House, Guildford, Surrey
affecting title numbers SY702491 and SY706210

Herbert Smith LLP

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PARTICULARS

DATE	2006

PART 1

"Landlord"	THE STANDARD LIFE ASSURANCE COMPANY whose head office is at Standard Life House 30 Lothian Road Edinburgh EH1 2DH (Co. Regn. No. SZ000004)
"Tenant"	ELECTRONIC ARTS LIMITED whose registered office is at 2000 Hillswood Drive Chertsey Surrey KT16 OEU (Co. Regn. No. 02057591
"Guarantor"	Any person who, for the time being, guarantees performance of the Tenant's obligations that person currently being ELECTRONIC ARTS INC. whose registered office is at 209 Redwood Shares Parkway, Redwood City, California 94065 (a corporation incorporated in the State of Delaware)
"Premises"	Onslow House Guildford being the premises described in schedule 1
"Term Commencement Date"	[As per the Agreement for Lease]
"Term"	10 years from and including the Term Commencement Date
"Yearly Rent"	£2,193,252 per annum (and increased as per clause 3.1)
"Rent Commencement Date"	[As per the Agreement for Lease]
"Review Date"	5 years from and including the Term Commencement Date
"Review Rent"	£2,512,211 per annum
"Permitted Use"	Use as good quality offices for any purpose within Class B1(a) (but not for any other purpose within that Use Class) of the schedule to the Town and Country Planning (Use (Class) Order 1987.

PART 2

Term Expiry Date	10 years from and including the Term Commencement Date
Landlord and Tenant Act 1954	Not excluded
Interest on late payments	3% above base rate

THIS UNDERLEASE made on the date and between the parties specified in the Particulars

WITNESSES as follows:

1. DEFINITIONS

The following expressions and those defined in Part 1 of the Particulars have the respective specified meanings:

"1954 Act" means the Landlord and Tenant Act 1954 as amended;

"Development" has the meaning given by Planning Law;

"Enactment" means every Act of Parliament, directive and regulation and all subordinate legislation which, at any relevant time during the Term, has legal effect in England and Wales;

"Group Company" means any company which is either the holding company of the Tenant or a wholly-owned subsidiary of the Tenant or of the Tenant's holding company, as those expressions are defined in section 736 Companies Act 1985 and, for the purposes of clause 4.15.5(C)(2)(b)(ii), any company which has the same relationship with the relevant underlessee;

"Head Lease" means the lease under which the Landlord holds the Premises dated 16 March 2001 made between The Council of the Borough of Guildford (1) and the Landlord (2) and **"Superior Landlord"** means the person for the time being entitled to the reversion immediately expectant on the term granted by the Head Lease and every other person having an interest in reversion to that term;

"Insurance Cost" means all the money which the Landlord properly spends on:

(A) effecting and maintaining insurance against the Insured Risks in relation to the Premises for whatever amount the Landlord reasonably considers represents the Premises' full replacement cost with such allowance as the Landlord reasonably considers appropriate for related liabilities and expenses (including, without limitation, liability to pay proper fees or charges on the submission of an application for planning permission and proper costs which might be incurred in complying with any Enactment, in carrying out any replacement work and sums for proper professional fees and incidental expenses which might be incurred on any debris removal and replacement, and all VAT);

(B) effecting and maintaining any insurance relating to the Landlord's property owner's and employer's liability in relation to the Premises and anything done in them; and

(C) reasonable and proper professional fees relating to insurance, including fees for insurance valuations carried out at reasonable intervals not more frequently than once in every three years from the last valuation;

"Insurance Rent" means, for any relevant period, all of:

(A) the Insurance Cost for the relevant period;

(B) the amount which the Landlord properly spends on effecting and maintaining insurance against not less than five years' loss of the rent first reserved by this lease and with any addition to the amount insured as the Landlord may reasonably decide in respect of VAT;

(C) (without prejudice to all other provisions of this lease relating to the use of the Premises and the vitiation of any policy of insurance) any amount which the Landlord properly spends on all additional premiums and loadings on any policy of insurance required as a result of anything done or omitted by the Tenant; and

(D) an amount equal to the total of all excess sums which the insurers are not liable to pay out on any insurance claim in respect of the Premises and which the Landlord has paid in replacing the damaged or destroyed parts of the Premises;

"Insured Risks" means any loss caused by fire, lightning, explosion, riot, civil commotion, strikes, labour and political disturbances and malicious damage, aircraft and aerial devices, (other than hostile aircraft and devices) and articles accidentally dropped from them, storm, tempest, flood, bursting or overflowing of water tanks and pipes, impact, earthquake and accidental damage to underground water, oil and gas pipes, or electricity wires and cables, subsidence, ground slip and heave, breakdown and sudden and unforeseen damage to engineering plant and equipment, damage caused to the Premises by theft and terrorism if cover is available at reasonable cost and such other risks or perils against which the Landlord may insure, subject to such exclusions and limitations as are imposed by the insurers;

"Order" means the Regulatory Reform (Business Tenancies) (England and Wales) Order 2003;

"Particulars" means the particulars set out at the beginning of this lease;

"Permitted Part" means any part of the Premises comprising the whole of one or more complete floor levels or the whole of one or more wings which are shown hatched red, blue and yellow on the Plans, excluding the ground floor entrance lobby area shown cross hatched black on the Plans, all load bearing parts and all circulation areas and plant equipment which are common to that part of the Premises and the remainder of them;

"Planning Law" means every Enactment and, to the extent they relate to the Premises, every planning permission, statutory consent and agreement, made pursuant to any Enactment relating to the use, development and occupation of land and buildings;

"Plans" means the plans annexed to this lease;

"Public Authority" means any government department, public, local, regulatory, fire and any other authority, any institution having functions which extend to the Premises or their use or occupation, any court of law, any company or authority responsible for the supply of utilities, and any of their duly authorised officers;

"Section 106 Agreement" means an agreement dated 8th September 2000 and made between (1) The Council of the Borough of Guildford (2) Tilebox Limited (3) The Council of the Borough of Guildford and (4) Surrey County Council;

"Stipulated Rate" means a yearly rate of interest, calculated on a daily basis, three per cent above the base rate of the Bank of Scotland or of such other U.K. bank as the Landlord may reasonably nominate at any time; and

"VAT" means Value Added Tax as referred to in the Value Added Tax Act 1994 (or any tax of a similar nature which may be substituted for, or levied in addition to, it).

2. INTERPRETATION

2.1 Where a party is more than one person, their obligations are joint and several.

2.2 A Tenant's obligation not to do or omit anything also operates as an obligation not to permit or suffer it to be done or omitted by any person deriving title from the Tenant or by their respective servants or agents and to prevent or, as the case may be, to require it being done.

2.3 References to:

(A) any clause or schedule are references to the relevant clause or schedule of this lease and any reference to a sub-clause or paragraph is a reference to that sub-clause or paragraph of the clause or schedule in which the reference appears;

(B) any right of or obligation to permit the Landlord to enter the Premises shall also be construed, subject as provided in clause 4.9, as entitling the Landlord to remain on the Premises with or without equipment and permitting such right to be exercised by all persons authorised by the Landlord;

(C) any consent of the Landlord, or words to similar effect including references to approvals, mean a written consent signed by or on behalf of the Landlord and given before the act requiring consent and any such reference which states that the consent will not be unreasonably withheld also means that it will not be unreasonably delayed;

(D) the Premises (except in the definition of Premises and of Permitted Part and in clauses 4.15 and 6.5) extend, where the context permits, to any part of the Premises;

(E) a specific Enactment include every modification, consolidation and re-enactment and extension of it for the time being in force, except in relation to the Town and Country Planning (Use Classes) Order 1987, which shall be interpreted exclusively by reference to the original provisions of Statutory Instrument 1987 No 764 whether or not it may have been revoked or modified;

(F) the expiry of this lease mean the date when the tenancy constituted by it terminates either at the end or sooner determination of the Term or pursuant to any applicable Enactment and references to the last year of this lease mean the year ending on the expiry of this lease;

(G) rents or other sums being due from the Tenant to the Landlord mean that they are exclusive of any VAT;

(H) the Tenant's obligations mean the Tenant's obligations under this lease and under every agreement which is supplemental or collateral to it; and

(I) The Royal Institution of Chartered Surveyors extend to its President or acting President for the time being.

2.4 Clause and paragraph headings shall not affect the construction of this lease.

2.5 (A) When the Landlord's consent is required under this lease, the relevant provision shall be construed as also requiring (and any consent by the Landlord shall be deemed to be given subject to the need for) any necessary consent of the Superior Landlord, for which the Landlord shall apply at the Tenant's reasonable and proper cost, and nothing in this lease, or in any consent by the Landlord, shall imply that the Superior Landlord's consent will not be unreasonably withheld or delayed;

(B) references to any right of (or obligation to permit) the Landlord to enter the Premises extend to the Superior Landlord and to all persons authorised by it and shall be construed in the manner required by clause 2.3(B); and

(C) this lease takes effect subject to the rights which are reserved out of the Head Lease.

3. DEMISE AND RENTS

The Landlord at the request of the Guarantor **DEMISES** the Premises to the Tenant **TOGETHER WITH** for the benefit of the Tenant, and others authorised by it at any time during the Term or otherwise entitled to exercise them, the rights specified in Part II of Schedule 1 **EXCEPT** and **RESERVED** to the Landlord, and other persons authorised by it at any time during the Term or otherwise entitled to exercise them, the rights specified in Part III of schedule 1 **TO HOLD** the Premises to the Tenant for the Term **SUBJECT** to all existing rights, obligations and other matters affecting them,

THE TENANT PAYING TO THE LANDLORD :

3.1 Yearly and proportionately for any part of a year, until the Rent Commencement Date a peppercorn (if demanded) and thereafter until the Review Date the Yearly Rent and thereafter the Review Rent, by equal quarterly payments in advance on the usual quarter days in every year, the first payment of the Yearly Rent or a proportionate part of it (being a proportion from and including the Rent Commencement Date to and excluding the first quarter day thereafter) to be made on the Rent Commencement Date;

3.2 The Insurance Rent, payable on demand;

3.3 Interest payable on demand, at the Stipulated Rate on any sum owed to the Landlord pursuant to the Tenant's obligations, whether or not as rent, which is not received by the Landlord on the due date (or, in the case of money due only on demand, within fourteen days after the date of demand), calculated for the period commencing on the due payment date and ending on the date the sum (and the interest) is received by the Landlord; and

3.4 All VAT for which the Landlord is or may become liable on the supply by the Landlord to the Tenant in connection with this lease or the interest created by it and of any other supplies, whether of goods or services, such VAT to be paid at the same time as the other rents or sums to which it relates.

4. TENANT'S OBLIGATIONS

The Tenant agrees with the Landlord:

4.1 Rent

To pay the rents reserved by this lease on the days and in the manner set out in clause 3 without deduction or set off and (unless the Landlord agrees otherwise) to pay the Yearly Rent (together with any VAT on it) by banker's standing order to such bank as the Landlord may nominate at any time.

4.2 VAT

To pay the Landlord an amount equal to any VAT incurred by it on any amount which the Tenant is required to reimburse or indemnify the Landlord against pursuant to the Tenant's obligations, except to the extent the Landlord obtains credit for such VAT pursuant to sections 24, 25 and 26 Value Added Tax Act 1994 or any regulations made under them.

4.3 Outgoings

4.3.1 To pay all rates, taxes and other outgoings assessed on or reasonably attributable to the Premises or on their owner or occupier during the Term excluding, without prejudice to the rent reserved in clause 3.4 and to clause 4.2, any tax payable by the Landlord as a direct result of any actual or implied dealing with the reversion of this lease or of the Landlord's receipt of income.

4.3.2 To pay all charges for water, gas and electricity (including meter rents) consumed in the Premises during the Term.

4.4 Compliance with Enactments

(Without prejudice to the provisions of clause 5.4) to comply with all Enactments and with the requirements of any Public Authority affecting the Premises, their use, occupation, employment of people in them and any work being carried out to them (whether the requirements are imposed upon the owner, lessee or occupier) and not to do or omit anything by which the Landlord may incur any liability under any Enactment or requirement of a Public Authority.

4.5 Official communications

Without delay, to supply the Landlord with a true copy of any official communication received from, or proposal made by, any Public Authority and to comply fully with its provisions at the Tenant's cost, except that (if requested by the Landlord and at its cost) the Tenant shall make such representations as the Landlord may reasonably require against any communication or proposal, so long as the representations do not conflict with the Tenant's rights under this lease.

4.6 Repair

4.6.1 (Without prejudice to the provisions of clause 5.4), well and substantially to repair the Premises and maintain and keep them in good and substantial repair and condition (damage by any of the Insured Risks excepted, to the extent that this lease obliges the Landlord to insure against them and to the extent that the insurance money is not rendered irrecoverable or insufficient because of a breach of the Tenant's obligations) provided that the Tenant's obligations under this clause shall not extend to any liability of the Superior Landlord to repair under clauses 4.3.1 and 4.4 of the Head Lease.

4.6.2 (Without prejudice to the generality of the foregoing) to keep in a good state of repair and condition and cleanliness the carpeting and ceiling tiles in the Premises and to replace the same in the last three months of the Term (howsoever determined) in such colours and patterns as the Landlord may reasonably require.

4.7 Decoration and general condition

4.7.1 To keep the Premises clean and in the fifth and last years of this lease to redecorate and treat the Premises with appropriate materials in a good and workmanlike manner (and during the last year of this lease in a colour scheme and with materials reasonably approved by the Landlord) but the Tenant shall not be obliged to redecorate or treat the Premises if the need to do so is caused by any of the Insured Risks, to the extent the insurance money is not rendered irrecoverable or insufficient because of a breach of the Tenant's obligations.

4.7.2 To enter into and maintain contracts for the regular inspection maintenance and servicing of all fixed plant and equipment comprised in the Premises by reputable contractors and to obtain satisfactory test certificates as may be reasonably required by the insurers and, whenever reasonably required, to produce copies of such contracts and certificates to the Landlord.

4.8 Refuse

To ensure the removal of refuse from the Premises at least once a week.

4.9 Entry by the Landlord

To permit the Landlord, at reasonable times on reasonable prior written notice (except in an emergency), to enter the Premises in order to:

(A) investigate whether the Tenant has complied with its obligations created by this lease;

(B) take any measurement or valuation of the Premises;

(C) fix and retain on the Premises, without interference but in a position which does not materially affect their amenity, a notice for their disposal and to allow the Landlord to show the Premises to prospective purchasers and their agents and, during the last ten months of the Term, to prospective tenants and their agents; and

(D) to exercise the rights described in Part II of schedule 1,

provided the Landlord causes as little interference as reasonably possible to the Tenant's use of the Premises for its business (except where it is necessary to do so in order to comply with any obligation to the Tenant) and, if the Landlord exercises any of the rights by carrying out work on the Premises, it shall make good any damage caused to them and to any of the Tenant's chattels straight away, unless the right has been exercised because of some material breach of the Tenant's obligations.

4.10 Remedying breaches

4.10.1 To comply with any notice requiring remedy of any breach of the Tenant's obligations.

4.10.2 If the Tenant does not comply with any such notice within a reasonable time, to permit the Landlord to enter the Premises to remedy the breach, as the Tenant's agent .

4.10.3 To pay the Landlord, on demand, all the reasonable costs and expenses properly incurred by the Landlord in exercising its rights under this clause.

4.11 Preserving rights

4.11.1 To preserve all rights of light and other easements belonging to the Premises and not to give any acknowledgement that they are enjoyed by consent.

4.11.2 Not to do or omit anything which might subject the Premises to any new easement and to notify the Landlord, without delay, of any encroachment which might have that effect.

4.12 Alterations and reinstatement

4.12.1 Not to carry out:

(A) any Development and not to commit any waste;

(B) any work which adversely affects any load bearing structure of the Premises;

(C) the erection of any structure on the Premises (subject to clause 4.14).

4.12.2 Not to carry out any structural alterations to the Premises or any alterations which affect the external appearance of the Premises or any alterations to capital plant within the Premises without the Landlord's consent which will not be unreasonably withheld or delayed and which shall be deemed granted if no response to the Tenant's application is received by the Tenant within 10 working days of receipt of the application by the Landlord and provided that the Tenant's application contains reasonable details and supporting documentation relating to the proposed alterations.

4.12.3 Subject to the other provisions of this clause, any other alteration or addition to the Premises will not require the Landlord's consent.

4.12.4 On making alterations or additions to the Premises for which the Landlord has insurance obligations, to provide the Landlord without delay with a written, independent, current insurance (VAT exclusive) valuation of the work, for replacement purposes.

4.12.5 The Tenant shall provide the Landlord within four weeks of completion of any works carried out under this clause 4.12 with detailed drawings and specifications relating to such works.

4.12.6 At the expiry of this lease to:

(A) remove all alterations and additions made at any time to the Premises, and anything installed under clause 4.14.2, by the Tenant or by any person deriving title from it;

(B) remove all work done in connection with the original fitting out of the Premises by the Tenant pursuant to the agreement for the grant of this lease dated **[ ]** and to restore and make good the Premises in a proper and workmanlike manner to the condition and design which existed before the relevant work was carried out, to the Landlord's reasonable satisfaction.

provided that if either include the addition of a mezzanine area between the ground and first floors, the Tenant shall not be obliged to remove it and instead shall reinstate the ground and mezzanine areas (which for the avoidance of doubt may not necessarily be a complete floor) to an office standard with suspended ceiling, raised floor, carpet tiles and painted plaster to wall surfaces. All finishes shall be to a standard in keeping with the remainder of the building. The Tenant shall install ceiling mounted air distribution from existing Landlord's plant and ducts to the area. For the avoidance of doubt, if the mezzanine area is less than 70% of the area of the ground floor and is left open to the ground floor, the air distribution will be provided to only one ceiling of one floor level.

4.13 Use

Not to use the Premises:

(A) for any purpose which causes a nuisance, disturbance or obstruction to any person or property;

(B) for any public auction or public meeting or for any noxious, noisy or immoral use or one which would cause diplomatic or State immunity from the Tenant's obligations or for the business of a government agency which the public visit without appointment or (except as incidental to the Permitted Use) for the transmission of telecommunications signals; or

(C) (without prejudice to the preceding paragraphs of this clause) except for the Permitted Use.

4.14 Signs , aerials etc

4.14.1 Not to erect anything on the outside of the Premises except the Tenant's usual corporate signage referred to in clause 4.14.2

4.14.2 (Subject to obtaining all necessary planning consents) to display and maintain on the exterior of the Premises the Tenant's usual corporate signage reasonably approved (as to siting, design and appearance) by the Landlord, showing the name (or trading name) of every permitted occupier of the Premises.

4.15 Dealings with the lease

4.15.1 In clause 4.15, any reference to a transfer includes an assignment.

4.15.2 Not to transfer, mortgage, charge, hold on trust for another, underlet or otherwise part with possession of part only of the Premises or agree to do so, except that the Tenant may underlet the whole of (but not more or less than) any Permitted Part, if it first complies or, where appropriate, procures compliance with the conditions described in clauses 4.15.5 and 4.15.6.

4.15.3 Not to transfer, hold on trust for another, underlet or otherwise part with possession of the whole of the Premises or agree to do so, except that the Tenant may transfer or underlet the whole of the Premises if, before the transfer or underletting is completed, the Tenant complies or, where appropriate, procures compliance with the conditions described in clause 4.15.4 or clause 4.15.5, as applicable.

(Transfer)

4.15.4 Not to transfer the whole of the Premises without complying with the following conditions (which are specified for the purposes of section 19(1A) of the Landlord and Tenant Act 1927 and which operate without prejudice to the Landlord's right to withhold consent on any reasonable ground):

(A) if the proposed transfer is to a non Group Company:

(1) that the Tenant enters into an authorised guarantee agreement, as defined in section 16 of the Landlord and Tenant (Covenants) Act 1995, with the Landlord in a form which the Landlord reasonably requires; and

(2) that any Guarantor guarantees to the Landlord that the Tenant will comply with the authorised guarantee agreement in a form which the Landlord reasonably requires; and

(3) that if the Landlord reasonably requires, the proposed transferee procures the following:

(a) covenants with the Landlord by an additional guarantor or guarantors reasonably approved by the Landlord, in the terms contained in clause 7; and/or

(b) a deposit with the Landlord of an amount in cleared funds equal to up to half the Yearly Rent or the Review Rent (as the case may be) and an amount equal to VAT on that amount, on terms which the Landlord reasonably requires; or

(B) if the proposed transfer is to a Group Company;

(1) if the Tenant's obligations, or any of them, are guaranteed by another Group Company, that such Group Company covenants with the Landlord in the terms contained in clause 7; or

(2) if the Tenant's obligations are not guaranteed by another Group Company and if the transferee is not, in the Landlord's reasonable opinion, of equal financial standing to the Tenant, that the proposed transferee procures covenants by a Group Company other than the Tenant and the transferee and which is, in the Landlord's reasonable opinion, of equal financial standing to the Tenant, in a form which the Landlord reasonably requires; and

(3) if any of the Tenant's obligations are secured by a deposit, the proposed transferee procures a deposit with the Landlord of the same amount and on the same terms; and

(C) that the Landlord's consent, which will not be unreasonably withheld, is obtained to, and within two months before, the transfer (save in respect of a transfer to a Group Company which shall not require the Landlord's Consent).

(Underletting)

4.15.5 Not to underlet the whole of the Premises or any Permitted Part (each being referred to in this paragraph as the premises) except:

(A) to a person who has covenanted with the Landlord:

(1) to observe the Tenant's obligations to the extent they relate to the premises (other than the payment of rents);

(2) not to transfer the whole of the premises without the Landlord's consent (which will not be unreasonably withheld if the conditions referred to in clause 4.15.5(C)(2)(b)(ii) are first satisfied); and

(3) not to transfer part of the premises or if the premises comprise a wing of a floor underlet or otherwise part with possession or share the occupation of them or any part of them (except that the underlessee may share occupation with a Group Company of the underlessee on the same terms as and set out in clause 4.15.8, provided they are contained in the underlease and require notification upon request to the Landlord of this lease);

(B) by reserving as a yearly rent, without payment of a fine or premium, an amount equal to:

(1) (in the case of an underletting of the Premises) their then open market rack rental value **;**

(2) (in the case of an underletting of a Permitted Part) its then open market rack rental value,

such rent to be approved by the Landlord (who will not unreasonably withhold it) and to be payable by equal quarterly instalments in advance on the usual quarter days and by reserving, as additional rents, amounts equal to, and payable at the same times as, the other rents reserved by this lease or, in the case of an underletting of a Permitted Part, a pro rata proportion of them;

(C) by a form of underlease:

(1) which does not express any sum to be payable by reference to a proportion of the rent or of any other sum payable under this lease, but which requires it to be payable and assessed in accordance with the same principles as are required by this lease;

(2) which requires:

(a) the principal rent reserved by it to be reviewed upwards only at intervals of not more than five years, in accordance with open market rent review principles; and

(b) the underlessee to observe the Tenant's obligations (other than the obligation to pay rents under this lease) to the extent they relate to the premises, and containing:

(i) a condition for re-entry by the underlessor on breach of obligation by the underlessee;

(ii) a qualified covenant not to transfer the whole of the premises (subject to prior compliance with conditions as set out in clause 4.15.4) and an unqualified covenant not to transfer part of the premises or to underlet or otherwise part with possession or share the occupation of them or any part of them (except that the underlessee may share occupation with a Group Company of the underlessee on the same terms as and set out in clause 4.15.8, provided they are contained in the underlease and require notification upon request to the Landlord of this lease); and

(3) which is approved by the Landlord such approval not to be unreasonably withheld if the other provisions of this paragraph are observed;

(D) (save in the case of an underletting of the whole of the Premises) where sections 24 to 28 inclusive of the 1954 Act are validly excluded in relation to the underlease in accordance with the provisions contained and referred to in section 38A of that Act; and

(E) with the Landlord's consent, in response to the Tenant's application which must disclose all material circumstances relevant to the proposed underletting, issued within two months before completion of the underletting, which consent (subject to compliance with the foregoing conditions precedent and if appropriate with clause 4.15.6) will not be unreasonably withheld.

4.15.6 And, further, in relation to an underlease of a Permitted Part:

(A) to reserve a separate service charge in respect of the maintenance, repair and renewal of any common parts or common facilities; and

(B) not to grant or agree to grant any underlease:

(1) so as to create the possibility of there being more than eight separate occupations affecting the whole of the Premises (occupations in right of this lease counting as one occupation);

(2) except where sections 24 to 28 inclusive of the 1954 Act are validly excluded in relation to the underlease in accordance with the provisions contained and referred to in section 38A of that Act.

4.15.7 To require every underlessee to observe the provisions of the underlease and not, expressly or impliedly, to waive any breach of them, nor to vary the terms of any underlease.

(Sharing occupation)

4.15.8 Not to share the occupation of the Premises or any part of them except that the Tenant may share occupation with a company which is, but only for so long as it remains, a Group Company provided the Tenant does not grant the company sharing occupation exclusive possession nor create any relationship of landlord and tenant, nor otherwise transfer or create a legal estate, and the Tenant shall upon request notify the Landlord of the identity of each such Group Company.

4.16 Notifying Landlord of dealings with the lease

4.16.1 Within five working days after any disposition or devolution of this lease, or of any estate or interest in or derived out of it, to give the Landlord notice of the relevant transaction with a certified copy of the relevant document (and of the notice and declaration relevant to the exclusion of the 1954 Act from any underlease), and to pay the Landlord a fair and reasonable fee of not more than fifty pounds for registering each notice.

4.16.2 To register with the Landlord the name, home address and telephone number of at least two keyholders of the Premises.

4.17 Payment of cost of notices, consents etc

To pay the Landlord on demand all reasonable and proper expenses (including bailiffs' and consultants' fees) incurred in connection with:

(A) the preparation and service of a notice under section 146 Law of Property Act 1925, or in contemplation of any proceedings under section 146 or 147 of that Act, notwithstanding that forfeiture is avoided otherwise than by relief granted by the court;

(B) every step taken during, or within a reasonable time after, the expiry of this lease in connection with the enforcement of the Tenant's obligations, including the service or proposed service of all notices and schedules of dilapidations and reasonable consultants' fees incurred in monitoring any action taken to remedy any breach of the Tenant's obligations; and

(C) every application for consent under this lease, even if the application is withdrawn provided that consent is not unreasonably withheld or subject to an unlawful condition or conditions.

4.18 Obstruction/overloading

Not to obstruct:

(A) or obscure any openings of the Premises;

(B) any notice erected by the Landlord in accordance with its powers under this lease,

nor overload or cause undue strain to the Premises.

4.19 Complying with Planning Law

4.19.1 Not, without the Landlord's consent (not to be unreasonably withheld), to apply for planning permission relating to the Premises.

4.19.2 If the Landlord reasonably requires in connection with any relevant proposal by the Tenant, to apply for a determination under section 192 Town and Country Planning Act 1990.

4.19.3 If the Landlord gives consent under clause 4.19.1, not to implement the planning permission before the Landlord has acknowledged, acting reasonably, that its terms are acceptable.

4.19.4 To complete before the end of the Term all works on the Premises required as a condition of any planning permission implemented by the Tenant or by any person claiming under or through it.

4.20 Indemnifying the Landlord

To indemnify the Landlord against all consequences of any breach of any of the Tenant's obligations (including all costs reasonably incurred by the Landlord in an attempt to mitigate any such breach).

4.21 Notifying defects in the Premises

To notify the Landlord, without delay, of any defect in the Premises which becomes known to the Tenant and which might give rise to:

(A) an obligation on the Landlord to do, or refrain from doing, anything at the Premises; or

(B) any duty of care, or the need to discharge such duty, imposed by the Defective Premises Act 1972,

and to display such notices as the Landlord may reasonably require to be displayed at the Premises relating to their state of repair and condition.

4.22 Insurance and fire fighting equipment

4.22.1 Not to do or omit anything by which any insurance policy, of which the Tenant shall have been provided with written particulars, relating to the Premises becomes void or voidable.

4.22.2 To comply with all requirements and reasonable recommendations of the insurers and to provide and maintain unobstructed, appropriate operational fire fighting equipment and fire notices on the Premises.

4.22.3 To notify the Landlord, without delay, of any incidence of an Insured Risk on the Premises and of any other event which ought reasonably to be brought to the insurers' attention.

4.22.4 If the Tenant or any person claiming title from it is entitled to the benefit of any insurance of the Premises, to cause all money paid under such insurance to be applied in making good the loss or damage for which it was paid.

4.22.5 If any damage is caused to the Premises and any insurance money under the Landlord's insurance is irrecoverable because of a breach of the Tenant's obligations, to pay the Landlord, without delay, the whole of the irrecoverable insurance money.

4.22.6 If there is any deficiency in any insurance money received by the Landlord in respect of the replacement of any damage or destruction referred to in clause 5.2.3 because the Tenant has failed to comply with its obligations under clause 4.12.4, or if any insurance valuation provided under that clause is shown (even allowing for reasonable inflation) to have been too low at the time it was given, to pay the Landlord the amount of the deficiency in the insurance money.

4.23 Dangerous and contaminative materials

Not to keep or use at the Premises any dangerous or contaminative materials which might cause harm and, if there is any breach of that obligation, to remove all trace of the material from the affected land and to leave it in a clean and safe condition.

4.24 Returning the Premises to the Landlord

At the expiry of this lease:

(A) to return all keys of the Premises to the Landlord;

(B) to remove all chattels and tenant's fixtures and to vacate the Premises, reinstated and restored and made good in accordance with clause 4.12.6 and in the state of repair and condition required pursuant to the Tenant's obligations;

(C) to make due application to the Land Registry for the cancellation of any notice of, or relating to, this lease or any document supplemental or collateral to it and, on request, to supply the Landlord with a copy of the application; and

(D) subject to paragraph (B), to return the documents referred to in that paragraph to the Landlord.

4.25 Covenants

To comply with all obligations affecting the Premises being those contained or referred to in the documents referred to in schedule 2 and not to interfere with any rights which benefit them.

4.26 Land Registry

To the extent the grant (or any transfer) of this lease and of any right appurtenant to it requires to be completed by registration pursuant to the Land Registration Act 2002 in order to operate at law, to comply with the relevant registration requirements and, as soon as practicable, to provide the Landlord's solicitors with a copy of an official copy of the relevant register evidencing compliance with them.

4.27 Head Lease

4.27.1 To comply with the lessee's obligations contained in the Head Lease so far as they relate to the Premises, except the obligations to pay rent and, so far as the obligation to insure falls on the Landlord pursuant to clause 5.2, to insure.

4.27.2 Not to do or omit any act or thing which would or might cause the Landlord to be in breach of the Head Lease.

5. LANDLORD'S OBLIGATIONS

The Landlord agrees with the Tenant:

5.1 Quiet enjoyment

That the Tenant may peaceably hold and enjoy the Premises without any interruption by the Landlord or any person rightfully claiming from or in trust for it.

5.2 Insurance

5.2.1 To keep the Premises (except any demountable partitioning, window blinds and wall or floor surface coverings not installed by or at the cost of the Landlord and fixtures which are tenant's trade fixtures) insured against the Insured Risks in a sum which, in the Landlord's reasonable opinion, is their full replacement cost (but not necessarily the facsimile reinstatement cost).

5.2.2 On request to supply the Tenant (but not more frequently than once in any period of twelve months) with evidence of such insurance.

5.2.3 If, during the Term, the Premises (except as set out in clause 5.2.1) are damaged by an Insured Risk and to the extent that payment of the insurance money is not refused because of a breach of the Tenant's obligations, the Landlord will (subject to clause 6.5) with all convenient speed take the necessary steps to obtain any requisite planning permissions and consents and, if they are obtained, to lay out the insurance money received (except sums for public and employer's liability and loss of rent) towards replacing, but not necessarily in facsimile reinstatement, the damaged parts (except as set out in clause 5.2.1) as soon as reasonably practicable and will make up any deficiencies out of its own resources but:

(A) the Landlord's obligation to insure and to replace does not extend to any alteration or addition referred to in clause 4.12.4, if and to the extent the Tenant has failed to comply with that clause;

(B) the Landlord is not liable to carry out the replacement if it is unable, having used all reasonable endeavours, to obtain every permission and consent necessary to execute the relevant work, in which event the Landlord shall, subject to paragraph (C), be entitled to retain all the insurance money received by it; and

(C) if the Landlord is not liable to carry out the replacement and if the Tenant has complied with clause 4.12.4, the Landlord shall pay the Tenant that proportion of any received insurance money which is referable to any damaged alterations or additions referred to in that clause, such proportion to be agreed between the Landlord and the Tenant or, if they cannot agree, to be determined by an arbitrator appointed by The Royal Institution of Chartered Surveyors on the application of the Landlord or the Tenant in accordance with the Arbitration Act 1996.

5.2.4 **Waiver of Subrogation**

The Landlord shall use all reasonable endeavours to obtain the insurer's agreement to waive all rights of subrogation against the Tenant, its servants and agents in respect of any claim concerning damage to the Premises during the Term.

5.3 Head Lease

5.3.1 To comply with the lessee's obligations in the Head Lease to the extent the Tenant is not liable to do so pursuant to clause 4.27.

5.3.2 On the request of the Tenant and at its reasonable and proper expense, to take all reasonable steps to enforce the Superior Landlord's obligations in the Head Lease.

5.3.3 Without prejudice to the generality of clause 5.3.2:

(A) the Landlord shall, without delay, pay to the Tenant the sums it receives from the Superior Landlord pursuant to paragraph 2 of Schedule C to the Head Lease save where the Superior Landlord makes such payment direct to the Tenant in respect of which the Landlord and the Tenant shall use reasonable endeavours to achieve; and

(B) if the Superior Landlord does not provide the Landlord's Services (as defined in Schedule D to the Head Lease) to the reasonable satisfaction of the Tenant the Tenant may serve notice to that effect on the Landlord and the Landlord (acting reasonably) shall either carry out the appropriate Landlord's Services (in accordance with paragraph 5.1 of Schedule D to the Head Lease) or refer the issue to determination (in accordance with paragraph 5.2 of Schedule D to the Head Lease).

5.3.4 Wherever the Tenant makes application for any consent under this lease and the Landlord is prepared in principle to give its consent, to take all reasonable steps, at the Tenant's reasonable expense, to obtain any necessary consent from the Superior Landlord.

5.4 Defects

5.4.1 In this clause 5.4:

"Defect" means a defect in the Landlord's Works attributable to faulty design and/or faulty workmanship and/or faulty materials and/or faulty installation;

"Landlord's Works" means the works carried out to the Premises by or on behalf of the Landlord and/or by or on behalf of Tilebox Limited (company registration number 03600395) prior to the grant of this lease;

5.4.2 The Landlord covenants with the Tenant within a reasonable time and to the Tenant's reasonable satisfaction to make good any Defect or procure that any Defect is made good provided that the existence of such Defect is notified in writing by the Tenant to the Landlord prior to [ ] 2011.

5.4.3 The Tenant shall permit the Landlord to have access to such parts of the Premises as are necessary in order to remedy any Defects.

5.4.4 Such access will be in accordance with a programme submitted by the Landlord and approved by the Tenant (such approval not to be unreasonably withheld or delayed).

5.4.5 The Landlord shall procure that all persons given access to the Premises in order to comply with its obligations pursuant to this clause 5.4:

(A) are supervised by a representative of the Landlord's contractor at all times;

(B) comply with the proper and reasonable safety requirements imposed by the Tenant from time to time for the Premises and notified to the Landlord in writing;

(C) comply with the programme agreed by the Tenant pursuant to clause 5.4.4 so as to cause the minimum disruption to the Tenant's business; and

(D) do not materially impede the Tenant's use and enjoyment of the Premises.

5.4.6 The Landlord shall procure that any damage caused in complying with its obligations under clause 5.4.2 is made good forthwith and to the reasonable satisfaction of the Tenant.

5.4.7 If the Landlord and the Tenant cannot agree on whether the subject matter of a notice given by the Tenant under paragraph 5.4.2 constitutes a Defect within fourteen days of such notice the dispute will be determined by an arbitrator in accordance with the Arbitration Act 1996. The arbitrator shall be appointed by the president or vice president of The Royal Institution of Chartered Surveyors on the application of the Landlord or the Tenant.

6. OTHER AGREEMENTS AND DECLARATIONS

6.1 Forfeiture and re-entry

If:

(A) any rent is unpaid for twenty-one days after becoming payable (whether the rent has been demanded or not); or

(B) there is any other breach of the Tenant's obligations; or

(C) any guarantee of the Tenant's obligations is or becomes unenforceable for any reason; or

(D) if the Tenant or any Guarantor (or if more than one person any one of them):

(1) is the subject of a winding up order, bankruptcy order or a petition is presented, filed or lodged at court for winding up or liquidation whether voluntarily (except for reconstruction or amalgamation of a solvent company on terms agreed by the Landlord acting reasonably) or compulsorily;

(2) calls, convenes or summons a meeting of members to consider a winding-up resolution or is the subject of any such resolution, except for a voluntary reconstruction as stated in paragraph (1);

(3) is subject to the appointment of any receiver, manager or administrative receiver or a provisional liquidator or a resolution is passed or any other step is taken by the Tenant or the Guarantor or its directors for the appointment of an administrator, or an administrator is appointed, or a petition or application for an administration order is presented, in relation to the Tenant or the Guarantor;

(4) enters into any form of compromise of debts, scheme of arrangement, rescheduling or restructuring with its creditors or any of them, including but not limited to any scheme of arrangement under the Companies Act 1985 or any voluntary arrangement under the Insolvency Act 1986;

(5) obtains, or takes any steps to obtain, any moratorium or other form of protection against creditors or a general suspension of the payment of debts due and payable, including but not limited to any moratorium available under the Insolvency Act 1986;

(6) dies or is dissolved or is otherwise struck off any register of companies in its place of incorporation or any other place where it is registered or located;

(7) is the subject of any lawful forfeiture, execution, distraint, repossession in relation to any of its assets; or

(8) is the subject of any analogous procedure, regime, process or step in any jurisdiction outside England and Wales.

the Landlord may, notwithstanding the waiver of any previous right of re-entry, re-enter on any part of the Premises and on such re-entry this lease shall absolutely determine, but without prejudice to any Landlord's right of action for any prior breach of the Tenant's obligations.

6.2 No implied rights

6.2.1 Neither the Tenant nor the Premises is entitled to any right, including any quasi-easement, except those expressly granted by this lease.

6.2.2 The Tenant may not enforce, or prevent the release or modification of, any type of right or obligation attaching to the Landlord's interest in the Premises or in any other land so as to prevent or restrict the development or use of any other land.

6.2.3 Any provision of this lease which would, apart from this provision, be in conflict with this clause takes effect subject to it.

6.3 Service of notices

6.3.1 In addition to any other method of service, any notice which is served under this lease shall be validly served if it is served in accordance with section 196 Law of Property Act 1925, as amended by the Recorded Delivery Service Act 1962.

6.3.2 If the Tenant or any Guarantor comprises more than one person, it shall be sufficient if notice is served on one of them, but a notice duly served on the Tenant does not need to be served on any Guarantor.

6.4 Relief from liability to pay rent

If:

(A) the Premises (except as set out in clause 5.2.1) are damaged by an Insured Risk, so that the Premises are incapable of occupation and use; and

(B) the payment of any insurance money has not been vitiated by a breach of the Tenant's obligations,

the Yearly Rent, or a fair proportion of it according to the nature and extent of the damage sustained, shall cease to be payable from the date when the damage occurred until the date on which the Premises (except as set out in clause 5.2.1) are made fit for substantial occupation and use and any dispute about such cessation shall be determined by an arbitrator to be appointed, in default of agreement, on the application of the Landlord or the Tenant to The Royal Institution of Chartered Surveyors in accordance with the Arbitration Act 1996.

6.5 Ending of the lease following major damage

6.5.1 If the Premises are damaged by an Insured Risk so that substantially the whole of them cannot be occupied for the Permitted Use without substantial work being undertaken under clause 5.2, this lease may be determined:

(A) by the Tenant, but only if:

(1) the Landlord has not commenced the necessary replacement work by the expiry of 24 months after the date when the damage occurred; or

(2) the necessary replacement work is not substantially complete by the expiry of the period for which loss of rent is insured; and, in either case,

(3) payment of any insurance money has not been vitiated by a breach of the Tenant's obligations; and

(4) it does not owe the Landlord any debt under clauses 4.22.5 or 4.22.6; and

(5) it serves the Landlord, by the expiry of 26 months after the date when the damage occurred (if paragraph (1) applies) or by the expiry of the period for which loss of rent is insured (if paragraph (2) applies), with written notice to determine; and

(B) by the Landlord, but only if:

(1) the damage occurs during the last five years of the Term; and

(2) despite having used all reasonable endeavours to achieve a lawful commencement of the necessary replacement work by the expiry of the period specified in paragraph (A)(1), the Landlord was unable to do so; and

(3) it serves the Tenant, by the expiry of 28 months after the date when the damage occurred, with not less than six months prior written notice to determine.

6.5.2 Once a notice has been served under 6.5.1(A)(5) or (B)(3), it shall be irrevocable and the Landlord's obligations under clause 5.2.3 shall cease and, on the expiry of the notice, this lease shall determine without prejudice to any accrued rights of any party and the Landlord shall be entitled to retain the insurance money (provided that, if the Tenant has complied with clause 4.12.4, the Landlord shall pay the Tenant that proportion of any received insurance money which is referable to any damaged alterations or additions referred to in that clause, such proportion to be agreed between the Landlord and the Tenant or, if they cannot agree, to be determined by an arbitrator appointed by The Royal Institution of Chartered Surveyors on the application of the Landlord or the Tenant in accordance with the Arbitration Act 1996).

6.5.3 For the purposes of this clause, replacement work:

(A) commences when it would be treated as commencing under Section 56 of the Town & Country Planning Act 1990 but work of demolition does not, of itself, signify commencement; and

(B) is substantially complete when any person, appointed by the Landlord to certify its completion, properly certifies that it is complete, whether by issue of a certificate of practical completion or otherwise.

6.5.4 Time is of the essence of the periods referred to in this clause.

6.6 Arbitration fees

Any arbitrator's fees may be paid by the Landlord or the Tenant, notwithstanding any direction or prior agreement as to liability for payment, and if either party chooses to do so, it shall be entitled to an appropriate repayment by the other party on demand.

6.7 No warranty as to use

The Landlord does not warrant that the Premises are authorised under Planning Law to be used, or are otherwise fit for, any specific purpose.

6.8 Overriding lease

If, during the Term, the Landlord grants a tenancy of the reversion immediately expectant on the determination of this lease, whether pursuant to section 19 Landlord and Tenant (Covenants) Act 1995 or otherwise, any obligation of the Tenant to obtain the consent of the Landlord under this lease to any dealing with it includes an obligation to obtain the consent of the lessor under such tenancy to that dealing.

6.9 Application of Landlord and Tenant (Covenants) Act 1995

This lease is a new tenancy for the purposes of the Landlord and Tenant (Covenants) Act 1995.

6.10 Exclusion of Third Party Rights

The parties confirm that no term of this lease is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to it.

6.11 Jurisdiction

This lease is governed by and construed in accordance with the law of England and the Tenant and the Guarantor submit to the exclusive jurisdiction of the English courts and agree that any process may be served on them by leaving a copy of the relevant document at the Premises and each party to this lease undertakes to notify the other in advance of any change from time to time of such address for service and to maintain an appropriate address at all times.

7. GUARANTOR'S OBLIGATIONS

In consideration of the Landlord entering into this lease, the Guarantor as a principal obligor agrees with the Landlord that:

7.1 Guarantee

Until the expiry of this lease or until any earlier date when the Guarantor is released by virtue of the Landlord and Tenant (Covenants) Act 1995 from its obligations under this sub-clause:

(A) the Tenant's obligations will be performed;

(B) the Tenant will comply with any authorised guarantee agreement which it enters into on a transfer of this lease; and

(C) to the extent the Tenant's obligations or any such authorised guarantee agreement are not complied with, the Guarantor will comply with them and will indemnify the Landlord against any loss it suffers as a result of any non-compliance.

7.2 Preservation of the Guarantee

The Guarantor's obligations under sub-clause 7.1 are not affected by:

(A) any indulgence, compromise or neglect in enforcing the Tenant's obligations or any refusal by the Landlord to accept tendered rent;

(B) any variation or waiver of any of the terms of this lease;

(C) any partial surrender of this lease (and the Guarantor's liability shall continue but only in respect of the Tenant's continuing obligations);

(D) any forfeiture of this lease, whether in whole or in part;

(E) any legal limitation, immunity, incapacity, insolvency or the winding-up of the Tenant or by the fact that the Tenant otherwise ceases to exist;

(F) any action taken by or on the Landlord's behalf in contemplation of re-letting the Premises;

(G) any other act or omission which, but for this provision, would have released the Guarantor from liability;

or any combination of any such matters.

7.3 No right to participate in security

The Guarantor may not participate in, or exercise any right of subrogation in respect of, any security held by the Landlord for the Tenant's obligations.

7.4 Disclaimer etc.

If this lease is disclaimed, forfeited or if the Tenancy ceases to exist:

7.4.1 The Landlord may require the Guarantor at its reasonable and proper cost to accept a new lease of the Premises on the same terms of, and containing the same agreements as, this lease (and, where any such term applies as at a particular date or period, as at the same date or period), as if this lease had not been disclaimed etc. and as the terms have effect immediately before the disclaimer etc., for the residue of the Term, and with effect, from the date of disclaimer etc. but the new lease shall omit this clause.

7.4.2 For the purposes of sub-clause 7.4.1:

(A) the Landlord may notify the requirement to the Guarantor only within the period of three months commencing on the date of disclaimer;

(B) if there are any matters outstanding under this lease immediately before it is disclaimed, they shall be determined between the Landlord and the Guarantor and be reflected, as appropriate, in the new lease;

(C) the new lease shall be completed within 4 weeks after the date when the Landlord notifies the requirement to the Guarantor **.**

7.5 Transfer of the reversion

The benefit of the Guarantor's obligations under this clause will pass to a transferee of the Landlord's reversion in the Premises without need for an express assignment.

IN WITNESS whereof this deed has been executed by the parties hereto and is intended to be and is hereby delivered on the date first above written.

SCHEDULE 1

PART I

(the Premises)

The land and buildings known as Onslow House, Guildford, being the whole of the land comprised in Title Numbers SY702491 and SY706210

PART II

(Rights)

The rights granted by paragraphs 1 to 9 (inclusive) of Part 3 of Schedule A to the Head Lease

PART III

(Exceptions and reservations)

1. The rights excepted and reserved by the Head Lease.
2. The right, at reasonable times on reasonable prior written notice (except in an emergency), to enter the Premises as often as may be necessary for any purpose for which the Tenant covenants in this lease to permit entry.
3. The right to construct, inspect, maintain, repair and renew and to make connections to any conduit at the Premises at any time during the Term for the benefit of any other land.
4. All rights of light, air and other easements and rights enjoyed by the Premises from or over any other land.
5. The right to erect and maintain scaffolding on or against the Premises so long as reasonable and sufficient means of access to, egress from and servicing the Premises are maintained,

such rights being reserved for the benefit of the land comprised in title numbers SY702491 and SY706210 and exercisable provided the Landlord causes as little interference as reasonably possible to the Tenant's use of the Premises for its business (except where it is necessary to do so in order to comply with any obligation to the Tenant) and, if the Landlord exercises any of the rights by carrying out work on the Premises, it shall make good any damage caused to them and to any of the Tenant's chattels straight away, unless the right has been exercised because of some material breach of the Tenant's obligations and the Landlord would otherwise be out of pocket.

SCHEDULE 2

(Covenants etc.)

1. The Section 106 Agreement.
2. Section 278 Agreement dated 03.11.2000 and made between (1) Surrey County Council and (2) Tilebox Limited.
3. The entries contained or referred to in the registers of title number SY702491.

SIGNED and **DELIVERED** as a deed)
by)
as the Attorney of **THE STANDARD**)
LIFE ASSURANCE COMPANY)
(in exercise of a Power of Attorney under its)
Seal dated 28 April 2005))
in the presence of:)

Signature of Witness:

Name (in BLOCK CAPITALS):

Address:

EXECTED as a **DEED** by)
ELECTRONIC ARTS LIMITED was)
hereunto affixed in the presence of:)

Director

Director/Secretary

[THE COMMON SEAL of **[**)
] was hereunto affixed)
in the presence of:)

Director

Director/Secretary **]**

2006

THE STANDARD LIFE ASSURANCE COMPANY

and

ELECTRONIC ARTS LIMITED

DEED
relating to
Onslow House, Guildford, Surrey

Herbert Smith LLP

TABLE OF CONTENTS

THIS DEED is made on the day of 2006

BETWEEN :

(1) **THE STANDARD LIFE ASSURANCE COMPANY** whose head office is at 30 Lothian Road, Edinburgh EH1 2PH (Co. Regn. No: SZ000004) (**"Standard Life"**) and

(2) **ELECTRONIC ARTS LIMITED** whose registered office is at 2000 Hillswood Drive, Chertsey, Surrey KT16 0EV (Co. Regn. No: 02057591) (the **"Tenant"**)

WITNESSES as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this agreement the following words and expressions have the following meanings unless the context otherwise requires:

"Building Contract" means the building contract dated 27 th April 2001 made between Tilebox Limited (Co. Regn. No. 03600395) (1) and the Contractor (2) as amended and varied;

"Cladding Defect" means a defect in the Cladding System (excluding any snagging matters identified at or about the date of practical completion of the works which are the subject of the Building Contract and which the Landlord procures or rectifies within a reasonable period following practical completion) attributable to the design, workmanship, materials, or installation of the Cladding System;

"Cladding System" means the Spanwall composite cladding system, the double glazed Kawneer curtain walling system and all brise soleil assemblies and external steel grillage (including all bracketry and associated fixings) to the Premises;

"Contractor" means Alfred McAlpine Capital Projects Limited (Co. Regn. No. 00247624) whose registered office is at Kinnaird House, 1 Pall Mall East, London SW1Y 5AZ;

"Initial Period" means the period commencing on the date of this deed and expiring on [ ] 2011 **[i.e. as clause 5.4.2 of Lease];**

"Landlord" means the person for the time being entitled to the reversion expectant on the determination of the Lease;

"Lease" means an underlease of even date made between Standard Life (1) the Tenant (2) and Electronic Arts Inc. (3) of the premises shortly known as Onslow House, Guildford, Surrey (more particularly described in such underlease);

"Losses" means the aggregate of (i) the reasonable costs properly incurred by the Tenant in rectifying a Cladding Defect by way of repair, replacement or renewal as appropriate and (ii) (where Remedial Works cannot reasonably be carried out unless the Tenant vacates the Premises in whole or in part) the Tenant's reasonable temporary relocation costs (to include without limitation the cost of taking alternative premises, professional costs and removal expenses to and from such alternative premises);

"Maximum Amount" means £750,000 in aggregate (exclusive of VAT);

"Remedial Works" means works undertaken or procured by the Tenant to rectify a Cladding Defect by way of repair, replacement or renewal, as appropriate.

1.2 **Interpretation**

1.2.1 Any expressions common to this Deed and the Lease shall have the same meaning ascribed to them in the Lease unless this agreement otherwise prescribes.

1.2.2 Words in the singular shall include the plural and vice versa and words of one gender shall include the other two genders.

1.2.3 If a party comprises two or more persons their obligations and liabilities are joint and several.

1.2.4 Reference to a party agreeing not to do or omit any act or thing shall include references to that party not permitting or suffering it to be done or omitted.

1.2.5 Any reference to a Clause is a reference to a Clause of this Deed and any heading in this Deed shall not affect its construction.

1.2.6 The obligations of Standard Life contained in this Deed shall be personal to Standard Life.

1.2.7 Any reference to any statute or section of a statute shall include all subordinate legislation deriving validity from that statute or section of a statute and shall extend to any statutory amendment modification consolidation and re-enactment of it or such subordinate legislation for the time being in force.

2. CLADDING DEFECTS

2.1 The Tenant shall notify the Landlord of any Cladding Defect which becomes apparent during the Initial Period.

2.2 In relation to any Cladding Defect notified pursuant to clause 2.1 the Tenant shall allow the Landlord a reasonable period of time having regard to the nature and extent of the Cladding Defect within which to rectify the Cladding Defect in accordance with clause 5 of the Lease before submitting the details of the proposed Remedial Works to Standard Life in accordance with clause 2.3. Where Standard Life is the Landlord, Standard Life shall keep the Tenant advised of any remedial works it proposed to undertake to rectify a Cladding Defect and have due regard to (but not be bound by) any representations which the Tenant or its representatives may make in relation to the same.

2.3 The Tenant shall submit to Standard Life for its approval (not to be unreasonably withheld or delayed) full details of any Remedial Works it proposes to undertake and its reasonable estimate of Losses.

2.4 The Tenant shall have due regard to (but shall not be bound by) any representations which Standard Life may make in relation to the proposed Remedial Works and/or the need for the Tenant to vacate the Premises in whole or in part whilst the proposed Remedial Works are carried out.

2.5 If Standard Life has not objected to the Tenant's proposals pursuant to clause 2.3 within 10 working days giving reasonable details of its reasons for such objection, Standard Life's consent shall be deemed to be given.

3. DISPUTE RESOLUTION

3.1 Any dispute or difference between the parties as to any matters referred to in clause 2.2, 2.3 or 2.4 shall be determined by an arbitrator in accordance with the Arbitration Act 1996. In the absence of agreement, the arbitrator shall be appointed by the President or Vice President of the Royal Institution of Chartered Surveyors.

3.2 Any dispute or difference between the parties as to what may be a reasonable period of time pursuant to clause 2.2 shall be determined by expert determination in accordance with clauses 3.3-3.7.

3.3 The expert shall be an independent chartered surveyor who shall be a partner in or director of a leading firm of surveyors having their main UK office in Central London and who shall have not less than ten years post qualification experience.

3.4 That expert shall be previously agreed upon between Standard Life and the Tenant or (in the absence of such agreement) nominated on the application of either Standard Life or the Tenant, or both of them jointly, by the President for the time being of the Royal Institution of Chartered Surveyors, or his duly appointed nominee.

3.5 The expert shall:

3.5.1 act as an expert;

3.5.2 allow the parties a reasonable opportunity of making representations and counter-representations to him;

3.5.3 take those representations and counter-representations into account; and

3.5.4 if required by either party give written reasons for his determination.

3.6 The award of the expert shall be binding on the parties, and the costs of the reference to him and of his determination (including his own fees and expenses and the legal and other costs of the parties) shall lie in his award.

3.7 If the expert dies or becomes unwilling to act or becomes incapable of acting, the President may, upon the application of either Standard Life or the Tenant, or both of them jointly, discharge him and appoint another chartered surveyor to act in his place and this shall be repeated as many times as the circumstances may require.

4. REIMBURSEMENT OF LOSSES

Standard Life shall upon production from time to time of receipted invoices or, in the absence of such invoices, other evidence satisfactory to Standard Life (acting reasonably) of monies expended by the Tenant in respect of any matter falling within the definition of Losses pay to the Tenant the monies so expended within 14 working days after the production to Standard Life of such receipted invoices or other evidence PROVIDED THAT Standard Life shall not be obliged to make:-

4.1 any such payment or part of such payment to the extent that the amount of it when aggregated with any previous payments exceeds the Maximum Amount;

4.2 any such payment in respect of VAT which is recoverable by the Tenant as an input.

5. ASSIGNMENT

This Deed may be assigned without the consent of Standard Life by the Tenant to another person (T1) taking an assignment of the Tenant's interest in the Lease and by T1 to another person (T2) taking an assignment of T1's interest in the Lease. Standard Life shall be given written notice of any assignment, but failure to give such notice shall not affect the validity or effectiveness of such assignment. No further or other assignment of this Deed will be permitted and in particular T2 shall not be entitled to assign this Deed.

6. DURATION

The Tenant shall not be permitted to make any claim pursuant to this Deed after the expiry of the Term or earlier determination of the Lease.

7. THIRD PARTY RIGHTS

For the avoidance of doubt the parties confirm that this Deed shall not and the parties do not intend that this Deed shall confer or purport to confer on any third party any right to enforce any term of this Deed pursuant to The Contracts (Rights of Third Parties) Act 1999.

8. JURISDICTION

This Deed shall in all respects be governed by the Laws of England and Wales and subject to clause 3 any dispute or difference arising under or in connection with this Deed shall be subject to the exclusive jurisdiction of the Courts of England and Wales, save for the purposes of enforcing the decisions of such courts in other jurisdictions.

IN WITNESS whereof this Deed has been executed by the parties hereto and is intended to be and is hereby delivered on the date first above written

SIGNED and **DELIVERED** as a deed	)
by	)
as the Attorney of **THE STANDARD LIFE**	)
ASSURANCE COMPANY (in exercise	)
of a Power of Attorney under its Seal	)
dated 28 April 2005)	)
In the presence of:	)

Signature of Witness;

Name (in BLOCK CAPITALS):

Address:

EXECUTED as a **DEED** by)
ELECTRONIC ARTS LIMITED was)
hereunto affixed in the presence of)

Director

Director/Secretary

2006

LANDLORD: THE STANDARD LIFE ASSURANCE COMPANY and

TENANT: ELECTRONIC ARTS LIMITED and

GUARANTOR: ELECTRONIC ARTS INC

LICENCE TO ALTER
(by tenant within demise)
relating to Lease of
Onslow House, Guildford, Surrey

The Landlord's consent has not been given and is not being given by virtue of this draft being sent out or until a formal licence executed by the landlord is completed.

Herbert Smith LLP

LICENCE DATED

1. PARTICULARS

LANDLORD	**THE STANDARD LIFE ASSURANCE COMPANY** whose registered office is at Standard Life House, 30 Lothian Road Edinburgh EH1 2DH (Co. Regn. No.SZ000004)
TENANT	**ELECTRONIC ARTS LIMITED** whose registered office is at 2000 Hillswood Drive Chertsey Surrey KT16 0EU (Co. Regn. No.02057591)
GUARANTOR	**ELECTRONIC ARTS INC** whose registered office is at 209 Redwood Shares Parkway, Redwood City California 94065 (a corporation incorporated in the State of Delaware)
PREMISES	Onslow House, Guildford more particularly described in the Lease;
LEASE	Date: **[ ]** 2006 Parties: (1) the Landlord (2) the Tenant (3) the Guarantor and includes all documents supplemental to it (whether or not expressed to be so);
TERM	the term of years granted by the Lease;
CDM REGULATIONS	the Construction (Design and Management) Regulations 1994;
REQUISITE CONSENTS	all requisite planning permissions, building regulation requirements, relevant British Standards and Codes of Practice, Acts of Parliament, byelaws and regulations necessary to commence carry out and complete the Works;
WORKS	the works to the Premises described in the drawing(s) (and specification(s)) referred to in the schedule and annexed to this licence.

2. OWNERSHIP

The reversion expectant on the determination of the Term is vested in the Landlord and the residue of the Term is vested in the Tenant.

3. INTERPRETATION

In this licence:

3.1 expressions defined in the particulars and expressions defined in the CDM Regulations have the same meaning and, unless this licence otherwise prescribes, expressions common to the licence and the Lease have the meaning given to them in the Lease;

3.2 any obligation of a party which comprises more than one person takes effect as a joint and several obligation;

3.3 an obligation not to do or omit anything also operates as an obligation not to permit or suffer it to be done or omitted and to prevent or, as the case may be, to require it being done; and

3.4 references to any clause, sub-clause, schedule or paragraph are to the corresponding clause, sub-clause, schedule or paragraph in this licence and any headings do not affect the construction or interpretation of this licence.

4. CONSENT

4.1 The Landlord consents to the Tenant carrying out the Works upon the terms of this licence.

4.2 This licence is of no effect unless the Works are commenced within one month from and including the date of this licence.

5. THE WORKS

The Tenant agrees with the Landlord:

5.1 to obtain and produce all Requisite Consents to the Landlord before the Works are commenced;

5.2 if the Works are commenced, to carry out and complete them:

5.2.1 in accordance with the details shown on the drawing(s) (and specification(s)) referred to in the schedule;

5.2.2 in a good and workmanlike manner using sound materials of good quality and in accordance with good design practice;

5.2.3 to the reasonable satisfaction of the Landlord;

5.2.4 in compliance with all Requisite Consents;

5.2.5 so that no damage nuisance or disturbance is caused to the Premises or any neighbouring premises or to the owners or occupiers of them;

5.2.6 in compliance with the insurance policy for the Premises and all requirements of the relevant insurance company which have been notified to the Tenant in relation to the Works;

5.2.7 with all due diligence and without avoidable delay; and

5.2.8 within six months of the date of this licence;

5.3 to ensure that all electrical items forming part of the Works are carried out in accordance with the edition of the Institution of Electrical Engineers' Requirements for Electrical Installations which is current at the relevant time;

5.4 to ensure that any alteration or connection to the installed services or the Landlord's System as part of the carrying out of the Works are undertaken by contractors approved by the Landlord (such approval not to be unreasonably withheld);

5.5 that it will during the carrying out of the Works keep all building equipment materials or debris inside the Premises; and

5.6 if required by the Landlord, to make good any damage to the Premises during the progress of the Works to the Landlord's reasonable satisfaction;

5.7 to pay the Landlord on demand the amount of any increased insurance premium from time to time payable in respect of the Premises as a result of carrying the Works out and to provide the Landlord (without any delay) on completion of the Works with a written independent current insurance (VAT inclusive) valuation of the Works for replacement purposes;

5.8 to keep the Landlord fully indemnified from all expenses, costs, claims, damages, losses, demands and any other liability whatsoever in respect of the Works or anything done by the Tenant pursuant to this licence;

at the expiry or sooner determination of the Lease (if and to the extent required by the Landlord) at the Tenant's own cost to reinstate and make good the Premises in a proper and workmanlike manner to the same state and condition which existed before the Works were made and to do so in accordance with drawings and specifications approved in writing by the Landlord (acting reasonably) and in compliance with the provisions of paragraphs 5.1 to 5.4 inclusive as if reference in those paragraphs to the Works were references to the works of reinstatement and making good;

5.9 to pay on demand an amount equal to the reasonable costs and disbursements (plus Value Added Tax) of any surveyors architects and engineers of the Landlord in connection with any reinstatement and making good referred to in paragraph 0;

6. CDM REGULATIONS

6.1 In respect of the Works to which the CDM Regulations apply, the Tenant shall:

6.1.1 fully comply, and procure full and lawful compliance with the CDM Regulations;

6.1.2 act as the only client in respect of the relevant Works and shall serve a declaration to that effect on the Health and Safety Executive pursuant to regulation 4 of the CDM Regulations and give a copy of it to the Landlord; and

6.1.3 not derogate from its obligations under this clause nor from the declaration referred to in paragraph 6.1.2.

6.2 The Tenant shall:

6.2.1 maintain and make the Health and Safety file for the Premises and works carried out to them, required by the CDM Regulations (the "File") available to the Landlord for inspection at all times;

6.2.2 on request provide copies of the whole or any part of the File to the Landlord; and

6.2.3 deliver the File to the Landlord at the end of the Term.

7. DECLARATIONS

It is agreed that:

7.1 the approval by the Landlord or its agents of the Works does not imply any warranty by or on the Landlord's behalf of the suitability or condition of the Premises for the Works and no liability shall attach to the Landlord or its agents in respect of such approval;

7.2 the condition for re-entry contained in the Lease is exercisable if there is a breach of this licence as well as in any of the events mentioned in that condition;

7.3 the Tenant's and the Guarantor's obligations and the conditions contained in the Lease which now apply to the Premises shall continue to apply to them when and as altered as permitted by this licence and shall extend to all additions made to the Premises in the course of the Works;

7.4 any effect that the Works may have on the open market rent (or as otherwise defined in the relevant provisions in the Lease) of the Premises will not be disregarded in determining the revised rent in accordance with the provisions of the Lease;

8. GUARANTOR'S OBLIGATION

The Guarantor agrees with the Landlord that if there is any breach of the Tenant's obligations in this licence:

8.1 the Guarantor shall remedy the breach and make good to the Landlord all losses, costs, damages and expenses occasioned by it; and

8.2 the breach shall entitle the Landlord to enforce the Guarantor's obligations in the Lease.

9. EXCLUSION OF THIRD PARTY RIGHTS

No term of this licence is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this licence.

10. JURISDICTION

This licence is governed by and construed in accordance with English law and the English courts have exclusive jurisdiction in relation to any dispute arising under or connected with this licence and the Tenant and Guarantor irrevocably agree that any process may be served on them by leaving a copy of the relevant document at the Premises and each party

undertakes to notify the other in advance of any change from time to time of such address for service and to maintain an appropriate address at all times.

IN WITNESS whereof this licence has been executed as a deed by the parties and is intended to be and is delivered on the date first above written.

SCHEDULE

(Drawings and Specification)

Drawing Number	Title	Prepared by

Specifications

On Original

SIGNED and DELIVERED as a **DEED**)
by)
as Attorney to **THE STANDARD LIFE**)
ASSURANCE COMPANY in exercise of a)
Power of Attorney under its seal dated)
28 April 2005 in the presence of:)

Witness:
Name:
Address:

On Counterpart
SIGNED as a **DEED** by **ELECTRONIC**)
ARTS LIMITED acting by two of)
its directors/a director and its secretary)

Director

Director/Secretary

SIGNED as a **DEED** by **ELECTRONIC ARTS INC** acting by two of its directors/a director and its secretary)

Director

Director/Secretary

[TO BE TYPED ON THE HEADED NOTEPAPER OF ELECTRONIC ARTS INC]

[ ] 2006

To: The Standard Life Assurance Company
30 Lothian Road
Edinburgh
EH1 2PH

Dear Sirs

Electronic Arts Inc, 209 Redwood Shares Parkway, Redwood City, California 94065 ("the Company")

Onslow House, Guildford, Surrey ("the Premises")

An Agreement for Lease and Lease of the Premises to be made between The Standard Life Assurance Company (1) Electronic Arts Limited (2) and Electronic Arts Inc (3) (together known as "the Documents")

I act as legal counsel to the Company and am licensed to practice law only in the State of California (the " **Jurisdiction** ").

1 Request for legal opinion

I have been requested to give a legal opinion as to:

1.1 the validity of the intended execution of the Documents by the Company; and

1.2 the enforceability of the Documents under the laws of the Jurisdiction.

2 Examination of documents

I have examined the Documents for the purpose of giving this opinion.

3 Opinion re: the Law of the Jurisdiction

My opinion is limited to the laws of the Jurisdiction as at the date of this letter.

4 Assumptions made

I have assumed without enquiry that:

4.1 the Documents are within the capacity and powers of, and will be duly authorised, executed and delivered by or on behalf of, each of the parties other than the Company;

4.2 the Documents will, when duly executed and delivered, constitute valid, binding and enforceable obligations of the Company under English Law;

unless when executed there is anything apparent to the contrary or on the face of the documents to displace such assumptions.

1 The Guarantor is duly incorporated and validly existing under the laws of the State of Delaware and is duly admitted and licensed to do business in the State of California.

5 In my opinion:

5.1 **Status**

The Company is a Corporation, duly incorporated and validly existing under the laws of the State of Delaware and is duly admitted and licensed to do business in the State of California.

5.2 **Enforceability of Documents**

5.2.1 The Documents, when duly executed by the Company, will constitute obligations of the Company enforceable in the courts of the Jurisdiction.

In relation to due execution of the Documents by the Company, the constitution of the Company provides that the duly appointed **[** President **] [** Vice President **] [** Senior Corporate Officers **]** of the Company from time to time are empowered to execute documents in the nature of the Documents on its behalf and ***[name]*** is such a duly appointed and authorised corporate officer and the Documents will be duly executed by the Company if they are signed by **[** him **]** .

5.2.2 The entry into any of the Documents will not violate:

5.2.2.1 any present law, regulation or order of or in the Jurisdiction; or

5.2.2.2 the constitutional documents of the Company.

5.2.3 No authorisations, approvals, consents, licences, exemptions, filings, registrations, notarisations or other requirements of government, judicial or public bodies or authorities of or in the Jurisdiction are required or advisable in connection with the entry into, performance, validity, and enforceability of the Documents.

5.2.4 No stamp, registration, documentary or similar tax is payable in respect of the entry into, performance or enforcements of the Documents or to render them admissible in evidence in the Jurisdiction.

5.2.5 No deduction or withholding, whether on account of tax or otherwise, will be required from any payment by the Company under the Documents in the Jurisdiction.

5.2.6 Neither the Company nor its assets is entitled to immunity from suit, execution, attachment or other legal process in the Jurisdiction.

5.2.7 So far as we are aware, no proceedings have been started or other steps taken for the winding-up or dissolution of the Company or the appointment of a receiver, trustee or similar officer of the Company of any of its assets or revenues.

5.2.8 The choice of the law of England and Wales as proper law of any of the Documents will be valid and binding and is recognised and given effect to by the courts of the Jurisdiction.

5.2.9 Any submission to jurisdiction by the Company and appointment of process agents contained in any of the Documents is valid and binding on the Company and not subject to revocation.

5.2.10 Any address within any part of the United Kingdom as an address for service of proceedings in respect of any of the Documents is valid and binding on the Company.

6 Qualifications to opinion

This opinion is subject to the following qualifications:

6.1 The effect of applicable bankruptcy, insolvency, reorganisation, moratorium or other similar federal, state or international laws generally affecting the rights of creditors.

6.2 The application of general principles of equity, including, but not limited to, concepts of reasonableness, good faith and fair dealing, equitable subordination and the possible unavailability of specific performance or injunctive relief (regardless of whether such remedy is considered in a proceeding in equity or at law).

6.3 The effect of statutes, common laws and judicial decisions (i) which, under certain circumstances, exonerate a guarantor, if the creditor materially alters the original obligation of the principal without the consent of the guarantor, if the landlord exercises remedies for default that impair the subrogation or other rights of the

guarantor against the principal, or otherwise takes action which materially prejudices the guarantor, without obtaining consent of the guarantor, (ii) relating to waivers or subordination by a guarantor of its subrogation rights against the principal, its contribution rights, or other common law and statutory protections of a guarantor or (iii) which limit the liability of the guarantor to be no greater than the liability of the principal.

7 Who may rely on this opinion

This opinion is addressed to you solely for your benefit and solely for the purpose of the Documents. It is not to be relied upon by anyone else or for any other purpose without our express consent.

We are licensed to practice law only in the State of Delaware. Accordingly, this Opinion is limited in all respects to applicable existing laws of the United States and the State of Delaware and the general corporate law of the State of Delaware and we have made no inquiry into, and express no opinion as to, the statutes, regulations, treaties or common laws of any other nation or state, including, without limitation, those of England, if any, applicable to our Opinions.

This Opinion is rendered based on the facts and circumstances, together with applicable law, existing on the date of this Opinion and we express no opinion as to the effect on the Documents of any statute, rule, regulation or other law enacted, of any court decision rendered, or of the conduct of any persons, which occurs after the date of this Opinion. Moreover, we assume no obligation to advise you or any other person of any change, whether factual or legal, and whether or not material, that may hereafter arise or be brought to our attention after the date hereof.

Yours faithfully

[ ]
Electronic Arts Inc.

Exhibit 15.1

Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm

The Board of Directors
Electronic Arts Inc.:

With respect to the subject registration statements on Forms 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 and 333-107710, 333-117990, 333-102797), and the registration statement on Form S-3 (No. 333-120256) of Electronic Arts Inc., we acknowledge our awareness of the use therein of our report dated February 7, 2006 relating to the unaudited condensed consolidated interim financial statements of Electronic Arts Inc. and subsidiaries that are included in its Form 10-Q for the quarterly period ended December 31, 2005.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

Mountain View, California
February 7, 2006

Exhibit 31.1

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 Quarterly Report on Form 10-Q 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: February 7, 2006

By: /s/ Lawrence F. Probst III
Lawrence F. Probst III
Chairman and Chief Executive Officer

Exhibit 31.2

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 Quarterly Report on Form 10-Q 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: February 7, 2006

By: /s/ Warren C. Jenson
Warren C. Jenson
Executive Vice President, Chief Financial and
Administrative Officer

Exhibit 32.1

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 Quarterly Report of Electronic Arts Inc. on Form 10-Q for the period ended December 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.

February 7, 2006

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.

Exhibit 32.2

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 Quarterly Report of Electronic Arts Inc. on Form 10-Q for the period ended December 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.
February 7, 2006

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.