Electronic Arts Inc.

Notice of 2005 Annual Meeting

Proxy Statement and

2005 Annual Report

TO OUR STOCKHOLDERS:

EA's fiscal year 2005 was highlighted by exciting new games from our creative teams and important initiatives for extending our leadership into the next generation. We invested in people and processes, forged long-term agreements with strategic partners, introduced new franchise properties and extended our portfolio onto promising new platforms.

Our net revenue was $3.1 billion — up six percent and gross margin was 61.8 percent. Operating income was down 14 percent to $669 million. Operating margin was 21 percent. Operating cash flow was $634 million, our return on invested capital was 60 percent and diluted earnings per share were $1.59. In the third quarter we announced a $750 million stock repurchase program which is now in process.

This year, EA published 31 titles that sold more than a million copies worldwide — four more than last year — and the average score critics gave our games positioned us among the industry's elite developers. Despite renewed competitive pressure, EA SPORTS™ titles increased their share of the sports category to a record 63 percent, and we successfully launched two new sports properties — FIFA Street and Fight Night.

Our Club Pogo™ online site continues to grow with more than 840,000 active players, including 780,000 paying members, at the end of our fiscal year — the majority of whom are women. The Club Pogo subscription site maintains a strong growth curve toward what we expect will be more than one million subscribers.

Investments in Strategic Partnerships

Long-term partnerships move us beyond the time horizon that has traditionally driven our planning. Exclusive and multi-year relationships offer strategic advantages that allow us to plan, invest in quality and grow for many years into the future.

Last year we announced an exclusive five-year agreement with the NFL and NFL Players Association. Professional football is the cornerstone of the EA SPORTS business in North America. Soon after, EA signed a six-year agreement for exclusive rights on NCAA® football games. With exclusivity comes a responsibility to consistently grow those segments of our business. We believe that working more closely with our football partners will result in even better products and a more compelling entertainment experience for our consumers.

In addition, we renewed our non-exclusive relationship with the NBA and signed a 15-year agreement with ESPN enabling us to integrate ESPN programming, on-air personalities, and marketing assets in our EA SPORTS titles.

Investments in Talent and Tools

Strategic acquisitions brought new talent and proven franchises to Electronic Arts. UK-based Criterion Software Ltd. has added many talented developers to our worldwide studio operation and their game, *Burnout*™ *3: Takedown*™, was a critical and commercial success in both the US and Europe.

The Criterion acquisition also brought us RenderWare™ — a powerful middleware tool for developing games. Converting our teams to the RenderWare platform increases capacity and catapults our teams forward as they prepare for the next-generation consoles.

EA also completed a tender offer for shares of Stockholm-based developer Digital Illusions and now owns approximately 68 percent — a controlling interest in the company. EA continues its successful long-term publishing relationship with Digital Illusions, and in June 2005, we released one of the year's most anticipated PC-games — Battlefield 2™.

EA also purchased 19.9 percent of Ubisoft.

Investing in People

It takes a unique brand of engineer, designer and artist to create award-winning games. For too long our industry has required talented people to transfer learning from other professions. To improve this dynamic, EA has pioneered a broad education initiative aimed at providing developers with the skills they need for creating new games on increasingly complex systems.

In our studios, we've created a vast network of shared tools and technologies that create efficiencies and promote the sharing of assets and ideas. We've established EA University — a worldwide program with a goal of providing training to 85 percent of our employees at least once per year.

We're also studying ways to improve the development process and provide more predictability in work schedules. We're making better use of pre-production processes and adding project managers to plan manpower needs. We've also recently reclassified some positions to make certain employees eligible for overtime when schedules demand it.

But addressing the need for more creative talent goes beyond our own studios. To develop the next generation of games, we have to develop the next generation of EA Game Makers.

In September, we announced the opening of the EA Game Innovation Lab at the University of Southern California which was funded from an $8 million grant we made to the school. Today, in roughly 50 schools worldwide, EA is helping educators plan classes that will provide students the knowledge and skills they'll need for careers in the videogame industry.

We're particularly proud of an initiative that facilitates the use of RenderWare software in colleges and universities around the world. RenderWare — a development platform used in many commercial games — will provide the infrastructure that schools need to help students hone their game-development skills. We announced the RenderWare program in March and to date, 56 schools have applied to receive the software.

Investing in Next-Generation Technology

Every five to six years, the game industry undergoes an evolution marked by a leap to vastly improved technology with better graphics and game play — and, historically — a larger consumer base. This is an exciting yet difficult period for game makers when R&D costs increase, pricing softens on current-generation software and the new consoles begin to grow an installed base.

Make no mistake, we are in a transition period. In the coming months, our partners at Microsoft, Nintendo and Sony will launch exciting new consoles. At EA, our mantra remains the same: *Transition Is Our Friend*. We understand the economics, the sacrifices and the discipline it takes to contain costs and focus on next-generation development. We also know that throughout our 23-year history, each time EA has entered a transition, we've emerged much stronger on the other side.

In fiscal year 2006, the transition will be influenced by a new dynamic, Sony's PlayStation® Portable (PSP™) and other handheld game devices. Last year, EA got an early jump on PSP development by creating a special group of developers — Team Fusion — to prepare for this important new platform. The early results are impressive. EA had three of the top ten games when PSP launched in North America and currently has approximately 15 new titles planned for release in fiscal year 2006. *Need for Speed™ Underground Rivals* was the best selling game on the new system at launch. We believe the PSP will have a profound impact on the worldwide game market — stimulating consumer excitement throughout the console transition.

However, the big headline in fiscal years 2006 and 2007 will be the new consoles — the Xbox 360™ from Microsoft, the next-generation system from Nintendo and the PlayStation®3 from Sony. The capabilities of these new machines has created a tremendous amount of excitement in the EA studios. Our teams are focused on four areas that will dramatically improve the game playing experience:

- **High Definition Graphics** — Images will be much sharper, but that's just the beginning. The wider aspect ratio of HDTV allows developers to fill the peripheral space with more action and detail.

- **Rich Worlds** — Next-generation games will feature nuanced visual detail that evolves with every visit. In *Tiger Woods PGA TOUR®*, players will need to read the grain of the grass on every green. In *Need For Speed™ Most Wanted*, detailed images reflected in the car's paint will blur as your vehicle accelerates.

- **Emotionally Believable Characters** — In the next generation, inexperienced characters will send visual cues that betray their uncertainty — artificial intelligence and online players will recognize these emotional states and the outcome of the game will change.

- **Deeper Online Experiences** — Currently, about ten percent of game consoles are connected online. In the next generation, that number could climb to 40 percent. In four years, it's easy to imagine that every successful game will have extensive online features. The EA Nation will continue to grow and serve as a hub to connect EA SPORTS and EA™ gamers.

It's All About Quality

Fiscal 2005 was a year of intense competition. We faced a price-based challenge to our sports titles and an unprecedented number of great holiday titles from other publishers. These were different games in different genres but they had one thing in common — each delivered many hours of top-quality entertainment.

The experience affirmed a standing rule in today's game market: *Quality Wins With The Consumer*. Gamers are very sophisticated — they research new releases, compare critical scores and post their impressions on the many Internet sites dedicated to enthusiasts. The games with the highest quality index are generally the best sellers. That's why EA's *Need For Speed* and *The Sims™* franchises each sold more than 15 million copies this year.

The correlation between quality and commercial performance provides us with a clear objective: to approach each year with the highest quality, most exciting and innovative games in the market. In fiscal year 2006, we will launch a portfolio of games to meet that objective.

- In sports, *Madden NFL 2006* will showcase our new relationship with the NFL and NFLPA and prove that it *does* keep getting better. *Madden, EA SPORTS™ Fight Night, FIFA Soccer, NBA Live* and *Tiger Woods PGA TOUR* will support the launch of the next-generation consoles and set a stunning new visual standard for sports games. In addition, we will add Arena Football to our industry-leading lineup of sports products.

- There will be new properties. EA's Criterion Studio is in development with a promising new property — *Black*, and EA Canada will release *Marvel Nemesis™: Rise of the Imperfects™* with our own characters fighting Superheroes™ like Spiderman.

- There will be games based on blockbuster movies: *The Godfather™*, *Harry Potter and the Goblet of Fire™*, *Batman Begins™*, and *James Bond From Russia With Love* featuring the voice of Sean Connery.

In the aggregate, we believe our product lineup in fiscal year 2006 is significantly stronger relative to fiscal year 2005 and the competition.

Stronger Leadership For New Growth and Creativity

Twenty years ago, most analysts wrote off videogames as a hobbyist niche. Over time that has changed to a consensus that the videogame industry has extraordinary growth potential. Today, we're realizing that potential and setting the bar even higher for both growth and creativity.

EA has evolved as the industry leader, a company that is guiding audiences along a path that is changing the way entertainment is experienced. Our games have a large and enthusiastic following around the globe — in fiscal year 2005, 47 percent of our revenue came from markets outside of North America.

Building upon EA's leadership in the next 20 years will require a dramatic change in the way we operate as a company. As the industry leader, we have a responsibility to think beyond the cyclicality of the console platforms. We need to ensure that current and future employees have the skills and tools to develop for new systems. We need to simplify the development process to make it easier for creative people to turn ideas into games. We need to maintain partnerships that allow us to make long-term plans and investments. We need to provide ongoing value for our investors.

Most of all, we need to continue as the company that makes great content for a rapidly expanding world of consumers who love to play games.

In closing, I would like to thank our shareholders, customers, partners and most of all the terrific people at EA for their continued support — thanks!

Sincerely,

Lawrence F. Probst III
Chairman and Chief Executive Officer

This Letter to Stockholders, as well as the discussion under the headings "Business" and "Management's Discussion and Analysis" included in our Annual Report on Form 10-K for the year ended March 31, 2005, contain forward-looking statements about circumstances that have not yet occurred and are subject to change. All statements, trend analysis and other information related to industry prospects, our products, and trends in our financial performance, as well as other statements including such words as "anticipate", "believe", "estimate", "expect", "intend" (and the negative of any of these terms), "future" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements. Some of the factors which could cause our results to differ materially from our expectations include, but are not limited to, those listed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2005. We undertake no obligation to update these forward-looking statements.

Proxy Statement

ELECTRONIC ARTS INC.
Fiscal Year Ended March 31, 2005

Notice of 2005 Annual Meeting and Proxy Statement

(This page intentionally left blank)

ELECTRONIC ARTS™

June 24, 2005

DEAR FELLOW STOCKHOLDERS:

You are cordially invited to join us at the 2005 Annual Meeting of Stockholders that will be held at 209 Redwood Shores Parkway, Building 250, in Redwood City, California on July 28, 2005 at 2:00 p.m. At this meeting, we are asking the stockholders to:

- Elect nine Directors;
- Approve amendments to the 2000 Equity Incentive Plan and the 2000 Employee Stock Purchase Plan; and
- Ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2006.

After the meeting, we will report on our performance in the last year and answer your questions. Our products will be on display before and after the meeting.

Enclosed with this proxy statement are your proxy card and voting instructions and our 2005 annual report. We encourage you to conserve natural resources and help us reduce our printing and mailing costs, by **signing up for electronic delivery of our stockholder communications.** For more information, see *Electronic Delivery of Our Stockholder Communications* in the attached proxy statement.

We know that it is not practical for most stockholders to attend the Annual Meeting in person. Whether or not you are able to attend in person, your vote is important. In addition to using the enclosed proxy card to vote your shares, you may also vote your shares via the Internet or a toll-free telephone number. Instructions for using these services are provided on your proxy card.

I look forward to seeing you at the meeting.

Sincerely,

Lawrence F. Probst III

LAWRENCE F. PROBST III
Chairman and Chief Executive Officer

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE STRONGLY ENCOURAGE YOU TO DESIGNATE THE PROXIES SHOWN ON THE ENCLOSED CARD SO THAT YOUR SHARES WILL BE REPRESENTED AT THE ANNUAL MEETING.

(This page intentionally left blank)

Notice of 2005 Annual Meeting of Stockholders

DATE: July 28, 2005

TIME: 2:00 p.m.

PLACE: ELECTRONIC ARTS HEADQUARTERS
Milestone Auditorium
209 Redwood Shores Parkway, Building 250
Redwood City, CA 94065

MATTERS TO BE VOTED UPON:

1. The election of nine Directors to hold office for a one-year term;
2. Amendments to the 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, (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;
3. An amendment to the 2000 Employee Stock Purchase Plan to increase by 1,500,000 the number of shares of common stock reserved for issuance under the Purchase Plan;
4. Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2006; and
5. Any other matters that may properly come before the meeting.

OUR BOARD OF DIRECTORS RECOMMENDS YOU VOTE **FOR** EACH OF THE NOMINEES AND **FOR** EACH PROPOSAL.

Stockholders of record at the close of business on June 6, 2005 are entitled to notice of the meeting and to attend and vote at the meeting. A complete list of these stockholders will be available at Electronic Arts' headquarters prior to the meeting.

By Order of the Board of Directors,

STEPHEN G. BENÉ
Senior Vice President, General Counsel
and Secretary

TABLE OF CONTENTS

	Page
PROXY STATEMENT	1
HOW TO VOTE YOUR SHARES	1
ELECTRONIC DELIVERY OF OUR STOCKHOLDER COMMUNICATIONS	1
COMMONLY ASKED QUESTIONS AND ANSWERS	2
PROPOSAL 1 — ELECTION OF DIRECTORS	6
Required Vote and Board of Directors' Recommendation	6
Director Biographies	6
Board, Board Meetings, and Committees	8
Audit Committee	9
Compensation Committee	9
Nominating and Governance Committee	9
Corporate Governance Guidelines	11
Global Code of Conduct	11
Director Attendance at Annual Meetings	11
Stockholder Communications with the Board of Directors	11
Director Compensation and Stock Ownership Guidelines	12
PROPOSAL 2 — AMENDMENTS TO THE 2000 EQUITY INCENTIVE PLAN	13
PROPOSAL 3 — AMENDMENT TO THE 2000 EMPLOYEE STOCK PURCHASE PLAN	16
PROPOSAL 4 — RATIFICATION OF THE APPOINTMENT OF KPMG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	17
OTHER BUSINESS	18
PRINCIPAL STOCKHOLDERS	19
STOCK PERFORMANCE GRAPH	20
SUMMARY COMPENSATION TABLE	21
OPTIONS GRANTED IN FISCAL 2005	22
OPTIONS EXERCISED	23
EQUITY COMPENSATION PLAN INFORMATION	23
EMPLOYMENT AND CHANGE OF CONTROL AGREEMENTS	24
COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION	25
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS	30
CERTAIN TRANSACTIONS	31
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION	31
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	31
STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING	31
HOUSEHOLDING OF PROXY MATERIALS	32
OTHER BUSINESS	32
REQUESTS TO THE COMPANY	32
APPENDIX A — GENERAL DESCRIPTION OF THE 2000 EQUITY INCENTIVE PLAN	A-1
APPENDIX B — GENERAL DESCRIPTION OF THE 2000 EMPLOYEE STOCK PURCHASE PLAN	B-1

PROXY STATEMENT

Our Board of Directors is soliciting proxies for the 2005 Annual Meeting of Stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board has set June 6, 2005 as the record date for the meeting. Stockholders who owned common stock on that date are entitled to notice of the meeting, and to attend and vote at the meeting, with each share entitled to one vote. There were 305,980,494 shares of common stock outstanding on the record date.

Voting materials, which include the proxy statement, proxy card and our 2005 annual report, were first mailed to stockholders on or about June 24, 2005.

In this proxy statement:

- "EA", "we" and "the Company" mean Electronic Arts Inc.
- "2000 Equity Plan" and "Equity Plan" mean EA's 2000 Equity Incentive Plan.
- "2000 Purchase Plan" and "Purchase Plan" mean EA's 2000 Employee Stock Purchase Plan.
- Holding shares in "street name" means your EA shares are held in an account at a bank, brokerage firm or other nominee.
- "Common Stock" means EA's common stock, as described in EA's current Amended and Restated Certificate of Incorporation.
- "Fiscal 2006", "fiscal 2005", "fiscal 2004", "fiscal 2003" and "fiscal 2002" refer to EA's fiscal years ending or ended (as the case may be) on March 31, 2006, 2005, 2004, 2003 and 2002, respectively.
- We use "independent auditors" to refer to an independent registered public accounting firm.
- Unless otherwise noted, all share and per-share information has been adjusted to reflect the November 2003 two-for-one split of our common stock.

HOW TO VOTE YOUR SHARES

We are pleased to offer you three options for designating the proxies and indicating your voting preferences:

(1) You may complete, sign, date and return by mail the enclosed proxy card;

(2) You may follow the instructions found on the proxy card and vote by telephone; or

(3) You may follow the instructions found on the proxy card and vote via the Internet.

If you choose to vote via telephone or the Internet, you will have a PIN number assigned to you on the proxy card that you will use to safeguard your vote.

ELECTRONIC DELIVERY OF OUR STOCKHOLDER COMMUNICATIONS

If you are a beneficial holder or your shares are held in "street name" (your shares are held by a brokerage firm, a bank or a trustee) and you received your annual meeting materials by mail, we encourage you to conserve natural resources and help reduce our printing and mailing costs, by signing up to receive future stockholder communications via e-mail. With electronic delivery, you will be notified via e-mail as soon as EA's next annual report and proxy statement are available on the Internet, and you can easily submit your stockholder votes online. Electronic delivery can also help reduce the number of bulky documents in your personal files and eliminate duplicate mailings. To sign up for electronic delivery, please visit *www.icsdelivery.com/erts* to enroll.

Your electronic delivery enrollment will be effective until you cancel it. If you have questions about electronic delivery, please contact our Investor Relations department at 650-628-7352.

COMMONLY ASKED QUESTIONS AND ANSWERS

Why am I receiving this proxy statement and proxy card?

This proxy statement describes proposals on which you, as a stockholder, are being asked to vote. It also gives you information on these proposals, as well as other information so that you can make an informed decision. You are invited to attend the Annual Meeting to vote on the proposals, but you do not need to attend in person in order to vote. You may instead follow the instructions below to vote by mail using the enclosed proxy card, or to vote by telephone or over the Internet. By doing so, you are giving a proxy appointing Lawrence F. Probst III and Warren C. Jenson to vote your shares at the meeting as you have instructed. If a proposal comes up for vote at the meeting that is not on the proxy card, or if you do not indicate an instruction, Mr. Probst and Mr. Jenson will vote your shares according to their best judgment. Even if you currently plan to attend the meeting, it is a good idea to complete and return your proxy card, or vote by telephone or on the Internet, before the meeting date just in case your plans change.

Who can vote at the Annual Meeting?

Stockholders who owned common stock on June 6, 2005 may attend and vote at the Annual Meeting. Each share of common stock is entitled to one vote. There were 305,980,494 shares of common stock outstanding on June 6, 2005.

What am I voting on?

We are asking you to:

- Elect nine Directors;
- Approve amendments to the 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;
- Approve an amendment to the 2000 Employee Stock Purchase Plan to increase by 1,500,000 the number of shares of common stock reserved for issuance under the Purchase Plan; and
- Ratify the appointment of KPMG LLP as our independent auditors for fiscal 2006.

How do I vote?

You may vote by mail

Complete, date, sign and mail the enclosed proxy card in the postage pre-paid envelope provided. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

If you do not mark your voting instructions on the proxy card, your shares will be voted:

- **for** *the election of nine Directors;*
- **for** *the amendments to the 2000 Equity Incentive Plan;*
- **for** *the amendment to the 2000 Employee Stock Purchase Plan; and*
- **for** *ratification of the appointment of KPMG LLP as our independent auditors for fiscal 2006.*

You may vote by telephone

You may do this by following the "Vote by Telephone" instructions on your proxy card. If you vote by telephone, you do not have to mail in your proxy card.

You may vote on the Internet

You may do this by following the "Vote by Internet" instructions on your proxy card. If you vote by Internet, you do not have to mail in your proxy card. The law of Delaware, where we are incorporated, allows a proxy to be sent electronically, so long as it includes or is accompanied by information that lets the inspector of elections determine it has been authorized by the stockholder.

You may vote in person at the meeting

You may complete the ballot we will pass out to any stockholder who wants to vote at the meeting. However, if you hold your shares in street name, you must obtain a proxy from the institution that holds your shares in order to vote at the meeting.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete and return all proxy cards, or follow the instructions on each to vote by telephone or over the Internet, to ensure that all your shares are voted.

What if I change my mind after I give my proxy?

You may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

- Sending a signed statement to the Company that the proxy is revoked (you may send such a statement to the Company's Secretary at our corporate headquarters address listed on the Notice of Meeting), or
- Signing another proxy with a later date, or
- Voting by telephone or on the Internet at a later date (your latest vote is counted), or
- Voting in person at the meeting.

Your proxy will not be revoked if you attend the meeting but do not vote.

Who will count the votes?

An employee of Wells Fargo Shareowner Services will tabulate the votes and act as the inspector of election.

How many shares must be present to hold the meeting?

To hold the meeting and conduct business, a majority of EA's outstanding voting shares as of June 6, 2005 must be present or represented by proxies at the meeting. On this date a total of 305,980,494 shares of common stock were outstanding and entitled to vote. Shares representing a majority, or 152,990,248 of these votes must be present. This is called a quorum.

Shares are counted as present at the meeting if:

- They are voted in person at the meeting, or
- The stockholder has properly submitted a proxy card or voted via telephone or the Internet.

Will my shares be voted if I do not sign and return my proxy card?

If your shares are registered in your name, they will not be voted unless you submit your proxy card, vote by telephone or on the Internet or vote in person at the meeting.

How will my shares be voted if they are held in "street name"?

If your shares are held in "street name", you should have received voting instructions with these materials from your broker or other nominee. We urge you to instruct your broker or other nominee how to vote your shares by following those instructions. If you do not give your broker or nominee instructions as to how to vote your shares, they may be voted only on matters for which the broker or nominee has discretionary authority under applicable rules. These "broker non-votes" will be counted for purposes of determining whether a quorum is present but will not be counted for any purpose with respect to Proposals 2 and 3.

How are votes counted?

In the election of Directors, you may vote either "for" each nominee or withhold your vote. You may vote "for", "against" or "abstain" on each of the other proposals. Abstentions, although counted for purposes of determining whether a quorum is present, will not be counted for any other purpose with respect to Proposals 2, 3 and 4.

If you sign and return your proxy without voting instructions, your shares will be counted as a "for" vote in favor of each nominee and in favor of each other proposal.

How many votes must the nominees have to be elected as Directors?

The nine nominees receiving the highest number of "for" votes will be elected as Directors. This number is called a plurality.

What happens if one or more of the nominees is unable to stand for re-election?

The Board may reduce the number of Directors or select a substitute nominee. In the latter case, if you have completed and returned your proxy card, Lawrence F. Probst III and Warren C. Jenson shall have the discretion to vote your shares for a substitute nominee. They cannot vote for more than nine nominees.

How many votes are required to pass the amendments to the 2000 Equity Plan and 2000 Purchase Plan, and to ratify the Company's selection of auditors?

The Equity Plan and Purchase Plan amendments and the ratification of auditors must receive a "for" vote of a majority of the voting shares present at the meeting in person or by proxy and voting on these proposals.

Where do I find the voting results of the meeting?

We will announce preliminary voting results at the meeting. We will publish the final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2006. We will file that report with the Securities and Exchange Commission, and you can request a copy by contacting our Investor Relations department at (650) 628-7352 or the SEC at (800) SEC-0330 for the location of its nearest public reference room. You can also get a copy on the Internet at *http://investor.ea.com* or through the SEC's electronic data system called EDGAR at *www.sec.gov*.

Why are you amending the Equity Plan?

First, we are amending the Equity Plan to increase, by 10 million, the number of shares available for issuance. We want to ensure that the Equity Plan includes enough shares for employees, officers and Directors to be appropriately compensated under the Equity Plan going forward. We believe it is essential to be able to grant equity incentives to new and existing employees, officers and Directors in order to recruit, retain and motivate key talent and to drive our performance.

Second, we are amending the Equity Plan to authorize the issuance of awards of stock appreciation rights in addition to awards of stock options, restricted stock and restricted stock units. We believe that our ability to employ different forms of equity incentives is important, and stock appreciation rights provide an additional method of providing equity incentives to our employees.

Third, we are amending the Equity Plan to increase by 1 million shares the limit on the total number of shares underlying awards of restricted stock and restricted stock units — from 3 million to 4 million shares.

Fourth, we are amending the Equity Plan to modify the payment alternatives available upon exercise of awards granted under the Equity Plan to (a) prohibit the use of loans from or guaranteed by EA to pay for shares, and (b) provide a "net settlement" mechanism that could, in the future, enable us to reduce dilution by issuing fewer shares upon the exercise of stock options while still providing for the same economic benefit to the option holder.

Fifth, we are amending the Equity Plan to add flexibility to grant performance-based options and stock appreciation rights and to revise the permissible performance factors used in connection with performance-based awards to more accurately reflect the nature of our business.

Sixth, we are amending the Equity Plan to revise the share-counting methodology used to determine the number of shares available for issuance. The amendments would clarify that the following types of shares would not be available for future issuance as awards under the Equity Plan: (a) shares that are not issued or delivered as a result of the net settlement of a stock option or stock appreciation right award; (b) shares that are used to pay the exercise price or withholding taxes related to an award granted under the Equity Plan; and (c) shares that are repurchased by us with the proceeds of a stock option exercise.

Why are you amending the Purchase Plan?

We are amending the Purchase Plan to increase the number of shares available for issuance. The Purchase Plan enables our employees to purchase of our common stock through payroll deductions and provides continuing opportunities for our employees to become stockholders. It also provides an incentive for continued employment. Since the adoption of the Purchase Plan, we have experienced both significant growth in the number of employees, as well an increase in the percentage of employees, who elect to participate in the Purchase Plan. We estimate that an additional 1,500,000 shares available for issuance under the Purchase Plan will permit all current and potential future employees to fully participate in the Purchase Plan through at least fiscal 2006, our current fiscal year.

Who will pay for this proxy solicitation?

We have retained Georgeson & Company Inc. to solicit proxies from stockholders at an estimated fee of $7,500 plus expenses and we will pay these costs. This fee does not include our costs of printing and mailing the proxy statements and annual reports. Some of our officers and other agents may also solicit proxies personally, by telephone and by mail, and we will pay these costs as well. EA will also reimburse brokerage houses and other custodians for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to the beneficial owners of common stock.

Whom can I call with any questions?

You may call Wells Fargo Shareowner Services at 1-800-468-9716 or visit their web site at *www.wellsfargo.com/shareownerservices.*

PROPOSALS TO BE VOTED ON

PROPOSAL 1. ELECTION OF DIRECTORS

At the Annual Meeting, stockholders will elect nine Directors to hold office for a one-year term until the next Annual Meeting (or until their respective successors are elected and qualified). All nominees have consented to serve a one-year term, if elected.

Vivek Paul, who was appointed as a Director on June 15, 2005, is standing for election to our Board of Directors for the first time. Mr. Paul was referred as a potential candidate for Director to our Nominating and Governance Committee by an external, independent recruiting firm. At the time of Mr. Paul's appointment, the authorized size of our Board was temporarily increased from nine to ten Directors. In May 2005, William J. Byron announced his retirement from the Board, effective as of the commencement of the 2005 Annual Meeting, and therefore will not be standing for re-election. Accordingly, immediately upon Mr. Byron's retirement at the commencement of the 2005 Annual Meeting, the authorized size of our Board will be reduced back to nine Directors.

The Board has nominated the following Directors to stand for re-election this year:

- M. Richard Asher
- Leonard S. Coleman
- Gary M. Kusin
- Gregory B. Maffei
- Timothy Mott
- Robert W. Pittman
- Lawrence F. Probst III
- Linda J. Srere

In addition, the Board has nominated the following Director to stand for election for the first time this year:

- Vivek Paul

Required Vote and Board of Directors' Recommendation

The nine nominees receiving the highest number of "for" votes will be elected as Directors. Shares represented by your proxy will be voted for the election of the nine nominees recommended by EA's management unless you mark your proxy to "withhold authority" to so vote.

The Board recommends a vote FOR each of the nominees.

Director Biographies

Each of the following Directors, other than Mr. Byron, have been nominated for election or re-election at the 2005 Annual Meeting.

M. Richard Asher
Director since 1984
Mr. Asher, age 73, is presently an attorney, a consultant, and an affiliate professor with Florida Atlantic University. He was a senior executive officer and CEO in the music and record business with CBS, Warner Brothers and PolyGram Records for over 25 years. Mr. Asher is a director of several private companies and previously served as a director for a number of public companies.

William J. Byron
Director since 1989; retiring in July 2005
Mr. Byron, age 72, is currently self-employed. Previously, Mr. Byron was President of Sanyo Electric Consumer Products Division, and Vice Chairman of the Sanyo Fisher Corporation. On May 12, 2005, Mr. Byron declared his intention to retire from the Board of Directors, effective as of the 2005 Annual Meeting.

Leonard S. Coleman
Director since 2001
Mr. Coleman, age 56, has been Senior Advisor to Major League Baseball since November 1999 and, from 2001 to 2002, Mr. Coleman was the Chairman of ARENACO, a subsidiary of Yankees/Nets. Mr. Coleman was President of The National League of Professional Baseball Clubs from 1994 to 1999, having previously served since 1992 as Executive Director, Market Development of Major League Baseball. Mr. Coleman serves on the Board of Directors of the following public companies: Cendant Corporation; The Omnicom Group; H.J. Heinz Company; Churchill Downs; and Aramark. Mr. Coleman is also a director of several not-for-profit organizations, including the Jackie Robinson Foundation of which he is the Chairman.

Gary M. Kusin
Director since 1995
Mr. Kusin, age 54, is currently President and Chief Executive Officer of Fedex Kinko's Office and Print Services, an operating division of Fedex, Inc. Fedex Kinko's is a leading provider of document solutions and business services. From September 1998 to July 2001, he was the Chief Executive Officer of HQ Global Workplaces, Inc., a global leader in office outsourcing. Mr. Kusin also serves on the Board of Directors of Radio Shack. In April 2002, HQ Global filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code and subsequently emerged from bankruptcy in October 2003. Prior to September 1998, Mr. Kusin was co-founder and Chairman of Kusin Gurwitch Cosmetics, LLC and co-founder and President of Babbages, Inc.

Gregory B. Maffei
Director since 2003
Mr. Maffei, age 45, has been Chief Executive Officer of 360networks Corporation, a broadband telecom service provider, since 2000 and became Chairman in 2002. Previously, Mr. Maffei was Senior Vice President, Finance and Administration and CFO of Microsoft Corporation from 1997 to 2000. He joined Microsoft in 1993 and also served as Treasurer and Vice President, Corporate Development. Mr. Maffei also served as Chairman of Expedia, Inc. from 1999 to 2002. Mr. Maffei serves on the Board of Directors of Starbucks Coffee and is President of the Trustees of the Seattle Public Library.

Timothy Mott
Director since 1990
Mr. Mott, age 56, has been Chairman of All Covered, a nationwide information technology outsourcing company focused on small and mid-size businesses, since June 2000 and was Chief Executive Officer from November 2001 to February 2004. At various times prior to 1999, Mr. Mott co-founded and was Chairman of Audible Inc., co-founded and was Chief Executive Officer and Chairman of Macromedia Inc., co-founded and was Senior Vice President of Electronic Arts, and was a member of the research staff at Xerox PARC.

Vivek Paul
Director since 2005
Mr. Paul, age 46, has been the Vice Chairman of the Board of Directors of Wipro, Ltd., a provider of integrated business, technology and process solutions, and Chief Executive Officer of Wipro Technologies, Wipro's global information technology, product engineering, and business process services segments, since July 1999. From January 1996 to July 1999, Mr. Paul was General Manager of Global CT Business at General Electric, Medical Systems Division. From March 1993 to December 1995, he served as President and Chief Executive Officer of Wipro GE Medical Systems Limited. Mr. Paul holds a Bachelor of Engineering from the Birla Institute of Technology and Science, and an M.B.A. from the University of Massachusetts, Amherst.

Robert W. Pittman

Director since 2003

Mr. Pittman, age 51, was appointed as a Director by EA's Board of Directors effective November 1, 2003. Mr. Pittman has been a member of and an investor in, respectively, Pilot Group Manager LLC and Pilot Group LP, a private investment firm, since April 2003. Mr. Pittman was formerly Chief Operating Officer of AOL Time Warner, Inc. from May 2002 to July 2002. He also served as Co-Chief Operating Officer of AOL Time Warner from January 2001 to May 2002, and, earlier, as President and Chief Operating Officer of America Online, Inc. from February 1998 to January 2001. Mr. Pittman serves on the Board of Directors of Cendant Corporation and the boards of numerous charitable organizations.

Lawrence F. Probst III

Director since 1991

Mr. Probst, age 55, has been employed by EA since 1984. He has served as Chairman of the Board since July 1994, and Chief Executive Officer since May 1991. Previously Mr. Probst served as President from 1991 until 1998 and Senior Vice President of EA Distribution from 1987 to 1991.

Linda J. Srere

Director since 2001

Ms. Srere, age 49, is currently a marketing and advertising consultant. Previously, Ms. Srere was President of Young & Rubicam Advertising. Since 1994, Ms. Srere held many positions with Young & Rubicam Inc. ("Y&R"), including Vice Chairman and Chief Client Officer, Executive Vice President and Director of Business Development, Group Managing Director, and in 1997, was named Chief Executive Officer of Y&R's New York office, becoming the first female CEO in the company's 75-year history. Ms. Srere also serves on the Board of Directors of aQuantive, Inc., a digital marketing services and technology company, and Universal Technical Institute, Inc., a technical education provider.

BOARD, BOARD MEETINGS, AND COMMITTEES

Our Board of Directors currently consists of ten Directors. Immediately upon Mr. Byron's retirement at the commencement of the 2005 Annual Meeting, however, the authorized number of Directors will be reduced to nine. The Board has determined that all of our current Directors, other than Mr. Probst, are "independent" as that term is used in the Nasdaq Marketplace Rules.

The Board meets on a fixed schedule four times each year and also occasionally holds special meetings and acts by written consent. At each regularly scheduled meeting, the independent members of the Board meet in executive session separately without management present. A Lead Director, elected by the independent Directors and serving a two-year term, is responsible for chairing executive sessions of the Board and other meetings of the Board in the absence of the Chairman of the Board, serving as a liaison between the Chairman of the Board and the other independent Directors, and overseeing the Board's stockholder communication policies and procedures (including, under appropriate circumstances, meeting with stockholders). Our Lead Director may also call meetings of the independent Directors. Our current Lead Director is Linda Srere, who has been elected to serve in this capacity until our 2006 Annual Meeting of Stockholders.

The Board currently has three committees, each of which operates under a charter approved by the Board: the Audit Committee; the Compensation Committee; and the Nominating and Governance Committee. The Board of Directors amended and restated the Audit Committee's charter in February 2003, and adopted the charters of the Compensation Committee and the Nominating and Governance Committee in February and May 2003, respectively. Copies of the charters of each Committee may be found in the Investor Relations portion of our website at *http://investor.ea.com.* In accordance with the charters for each, and with current regulatory requirements, all members of these Committees are independent Directors. During fiscal 2005, each Director (other than Mr. Paul, who had not yet become a Director) participated in at least 75% of all

Board meetings and Committee meetings held during the period for which he or she was a member. As of June 1, 2005, the Committee members were as follows:

Audit	Gregory B. Maffei (Chair), Gary M. Kusin and M. Richard Asher
Compensation	M. Richard Asher (Chair), William J. Byron and Robert W. Pittman
Nominating and Governance	Linda J. Srere (Chair), Timothy Mott and Leonard S. Coleman

The Board has selected Ms. Srere to replace Mr. Byron as a member of the Compensation Committee following Mr. Byron's retirement from the Board.

Audit Committee

The Audit Committee assists the Board in its oversight of the Company's financial reporting and other matters, and is directly responsible for the appointment, compensation and oversight of our independent auditors. The Audit Committee is comprised of three Directors, each of whom in the opinion of the Board of Directors meets the independence requirements and the financial literacy standards of the Nasdaq Marketplace Rules, as well as the independence requirements of the SEC. In the opinion of the Board of Directors, Mr. Maffei meets the criteria for an "audit committee financial expert" as set forth in applicable SEC rules. The Audit Committee met thirteen times in fiscal 2005. For further information about the Audit Committee, please see the *Report of the Audit Committee* below.

Compensation Committee

The Compensation Committee is responsible for setting the overall compensation strategy for the Company, for determining the compensation of the CEO and other executive officers and for overseeing the Company's equity incentive plans and other benefit plans. In addition, the Compensation Committee is responsible for reviewing and recommending to the Board compensation for non-employee Directors. The Compensation Committee is comprised of three Directors, each of whom in the opinion of the Board of Directors meets the independence requirements of the Nasdaq Marketplace Rules and qualifies as an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code, as amended. The Compensation Committee met seven times in fiscal 2005 and also acts regularly by written consent. For further information about the Compensation Committee, please see the *Report of the Compensation Committee* below.

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for recommending to the Board nominees for election to the Board of Directors, for appointing Directors to Board Committees, and for reviewing developments in corporate governance, reviewing and ensuring the quality of the Company's succession plans, recommending formal governance standards to the Board, and establishing the Board's criteria for selecting nominees for Director and for reviewing from time to time the appropriate skills, characteristics and experience required of the Board as a whole, as well as its individual members. In May 2004, the Nominating and Governance Committee recommended, and the Board of Directors adopted, a formal set of corporate governance guidelines, available in the Investor Relations section of our website, *http://investor.ea.com*. The Nominating and Governance Committee met four times in fiscal 2005.

In evaluating nominees for Director to recommend to the Board, the Nominating and Governance Committee will take into account many factors within the context of the characteristics and needs of the Board as a whole. While the specific needs of the Board may change from time to time, all nominees for Director are considered on the basis of the following minimum qualifications:

- the highest level of personal and professional ethics and integrity, including a commitment to EA's ACTION values (as set forth in EA's Global Code of Conduct);

- practical wisdom and mature judgment;

- broad training and significant leadership experience in business, entertainment, technology, finance, corporate governance, public interest or other disciplines relevant to the long-term success of EA;
- the ability to gain an in-depth understanding of EA's business; and
- a willingness to represent the best interests of all EA stockholders and objectively appraise management's performance.

In determining whether to recommend a Director for re-election, the Nominating and Governance Committee will also consider the Director's tenure on the Board, past attendance at meetings, participation in and contributions to the activities of the Board, the Director's continued independence (including any actual, potential or perceived conflicts of interest), as well as the Director's age and changes in his or her principal occupation or professional status.

The Nominating and Governance Committee believes that the continuing service of qualified incumbent Directors promotes stability and continuity on the Board of Directors, contributing to the Board's ability to work effectively as a collective body, while providing EA with the benefits of familiarity and insight into EA's affairs that its Directors have developed over the course of their service. Accordingly, consistent with past EA practice, the Nominating and Governance Committee will first consider recommending incumbent Directors who wish to continue to serve on the Board for re-election at EA's annual meeting of stockholders.

In situations where the Nominating and Governance Committee determines not to recommend an incumbent Director for re-election, an incumbent Director declines to stand for re-election, or a vacancy arises on the Board for any reason (including the resignation, retirement, removal, death or disability of an incumbent director or a decision of the Directors to expand the size of the Board), the Committee will commence a search for new Director nominees. While the Nominating and Governance Committee may, in its discretion, use a variety of means to identify potential nominees for Director, it will generally direct EA's senior executive officer in charge of human resources to develop a list of potential nominees meeting the Board's general membership criteria discussed above. The Nominating and Governance Committee may also use third-party resources, including qualified search firms. EA has in the past engaged, and may continue in the future to engage, third-party search firms to assist with the identification and evaluation of potential candidates for Director. The Nominating and Governance Committee may consider potential nominees identified by other sources, including current Directors, senior management and stockholders. In determining whether to recommend a candidate to the Board of Directors, the Nominating and Governance Committee will consider the current composition and capabilities of current Directors, as well as any additional qualities or capabilities considered necessary or desirable in light of the existing or anticipated needs of the Board.

The Nominating and Governance Committee will evaluate candidates proposed by stockholders under criteria similar to the evaluation of other candidates, except that it may also consider as one of the factors in its evaluation, the amount of EA voting stock held by the stockholder and the length of time the stockholder has held such stock. Stockholders wishing to submit candidates for consideration by the Nominating and Governance Committee may do so by writing to EA's Corporate Secretary at 209 Redwood Shores Parkway, Redwood City, CA 94065, Attn: Director Nominations. To be considered by the Nominating and Governance Committee in connection with EA's annual meeting of stockholders, recommendations must be submitted in writing to EA not less than 120 calendar days prior to the anniversary of the date on which EA's proxy statement was released to stockholders in connection with the previous year's annual meeting (on or about February 28, 2006 for our 2006 Annual Meeting of Stockholders). Recommendations should include: (1) the stockholder's name, address and telephone number; (2) the amount and nature of record and/or beneficial ownership of EA securities held by the stockholder; (3) the name, age, business address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the proposed candidate; (4) a description of the qualifications and background of the proposed candidate that addresses the minimum qualifications and other criteria for Board membership approved by the Board from time to time and set forth in EA's Corporate Governance Guidelines; (5) the amount and nature of record and/or beneficial ownership of EA securities held by the proposed candidate, if any; (6) a description of all arrangements or understandings between the stockholder and the proposed candidate relating to the proposed candidate's candidacy; (7) a statement as to whether the proposed candidate would be considered an independent director under applicable Nasdaq Marketplace rules; (8) the consent of the proposed candidate (a) to be named in the proxy statement relating to EA's annual meeting of stockholders, and (b) to serve as a Director if elected at such annual meeting; and (9) any other information regarding the proposed candidate that may be required to be included in a proxy statement by applicable SEC rules. The Nominating and Governance Committee may request any additional information reasonably necessary to assist it in assessing a proposed candidate.

Corporate Governance Guidelines

Our Board of Directors adopted, upon the recommendation of the Nominating and Governance Committee, a formal set of Corporate Governance Guidelines in May 2004. A complete copy of the Corporate Governance Guidelines are available in the Investor Relations portion of our website at *http://investor.ea.com.* Our Corporate Governance Guidelines contain policies relating to:

- Board membership and independence criteria;
- Director resignations;
- Executive sessions of independent Directors led by a Lead Director;
- Authority to hire outside advisors;
- Director orientation and education;
- Board and Committee self-evaluations;
- Attendance at annual meetings of stockholders;
- Stock ownership guidelines for our Directors and executive officers;
- Stockholder communications with the Board; and
- Access to management, CEO evaluation and management succession planning.

Global Code of Conduct

Our Global Code of Conduct (which includes code of ethics provisions applicable to our directors, principal executive officer, principal financial officer, principal accounting officer, and other senior financial officers) is available in the Investor Relations section of our website at *http://investor.ea.com.* We will post amendments to our Global Code of Conduct in the Investor Relations section of our website. Copies of our charters and Global Code of Conduct are available without charge by contacting our Investor Relations department at (650) 628-7352.

Director Attendance at Annual Meetings

Our Directors are expected to make every effort to attend our annual meeting of stockholders. All Directors who were then members of the Board attended our 2004 Annual Meeting of Stockholders.

Stockholder Communications with the Board of Directors

EA stockholders may communicate with the Board as a whole, with a committee of the Board, or with an individual Director by sending a letter to EA's Corporate Secretary at Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065, or by sending an email to StockholderCommunications@ea.com. All stockholder communications received will be handled in accordance with procedures approved by the independent Directors serving on the Board. For further information regarding the submission of stockholder communications, please visit the Investor Relations portion of our website at *http://investor.ea.com.*

DIRECTOR COMPENSATION AND STOCK OWNERSHIP GUIDELINES

Mr. Probst, the Company's Chief Executive Officer, is not paid additional compensation for his services as a Director. During fiscal 2005, our non-employee Directors (other than Mr. Paul who had not yet become a Director and did not receive any compensation from us) received the following compensation:

Cash Compensation

- $35,000 annual retainer for service on the Board of Directors;
- $7,500 annual retainer for service on the Compensation or Nominating and Governance Committees;
- $2,500 additional annual retainer for service as Chair of the Compensation or Nominating and Governance Committees;
- $10,000 annual retainer for service on the Audit Committee;
- $5,000 additional annual retainer for service as Chair of the Audit Committee; and
- $1,000 per day, with the approval of the Board of Directors, to individual Directors for special assignments, which may include providing advisory services to management in such areas as sales, marketing, public relations and finance (provided, however, no independent Director is eligible for a special assignment if the assignment or payment for the assignment would prevent the Director from being considered independent under applicable Nasdaq Marketplace or SEC rules).

Stock Compensation

Upon their initial appointment or election to the Board, new Directors receive an option grant to purchase 25,000 shares issued under the 2000 Equity Incentive Plan. Each continuing Director receives an annual option grant to purchase 10,000 shares upon his or her re-election to the Board. In fiscal 2005, annual option grants to purchase 10,000 shares of common stock were made under the Equity Plan to each of the non-employee Directors who was re-elected at the 2004 Annual Meeting of Stockholders, other than Mr. Pittman. Because Mr. Pittman had been appointed to the Board on November 1, 2003, the number of shares subject to his option was pro-rated to 7,500 shares. These options were granted on July 29, 2004, the date of the Directors' re-election to the Board, at an exercise price of $50.32 per share.

Under the Equity Plan, non-employee Directors may elect to receive all or part of their cash compensation in the form of common stock. As an incentive for our non-employee Directors to increase their stock ownership in EA, non-employee Directors making such an election receive shares of common stock valued at 110% of the cash compensation they would have otherwise received.

The material terms regarding the exercise price of options, vesting, changes in capital structure, assumption of options and acceleration of vesting and prohibitions on "repricing" under the Equity Plan are contained in Appendix A to this proxy statement.

Stock Ownership Guidelines

Each non-employee Director is required, within three years of becoming a Director, to own shares of EA common stock having a value of at least 3 years' annual retainer for service on the Board. As of June 1, 2005, each of our Directors had fulfilled their ownership requirements.

PROPOSAL 2. AMENDMENTS TO THE 2000 EQUITY INCENTIVE PLAN

The 2000 Equity Incentive Plan, which initially was approved by the stockholders on March 22, 2000, continues EA's program of providing equity incentives to eligible employees, officers and Directors. We offer these incentives in order to assist in recruiting, retaining and motivating qualified employees, officers and Directors. Since the Equity Plan's adoption, 57,400,000 shares of common stock have been reserved for issuance. The following summary of the proposed amendments to the Equity Plan is subject to the specific provisions contained in the full text of the Equity Plan, as proposed to be amended, which we have filed with the Securities and Exchange Commission along with this proxy statement. For more information regarding the Equity Plan, we urge you to read a summary of its material terms, as proposed to be amended, included as Appendix A of this proxy statement, as well as the copy of the Equity Plan, as proposed to be amended, that we filed with the Securities and Exchange Commission along with this proxy statement.

We are proposing amendments to the 2000 Equity Incentive Plan that would:

- ***Increase the number of shares authorized under the Equity Plan by 10,000,000 shares to a total of 67,400,000 shares.*** We continue to believe that alignment of the interests of our stockholders and our employees, officers and Directors is best advanced through the issuance of equity incentives as a portion of their total compensation. In this way, we reinforce the link between our stockholders and our employees', officers' and Directors' focus on personal responsibility, creativity and stockholder returns. We also believe that delivering a portion of their total compensation in the form of long-term equity compensation helps encourage a long-term view in an industry that is subject to lengthy business cycles. Stock options also play an important role in our recruitment and retention strategies, as the competition for creative and technical talent and leadership in our industry is intense.

  Having said this, we also recognize our responsibility to keep the dilutive impact of stock options and other equity incentives within a reasonable range. For example, we decreased the size of option grants we made to our executive officers in fiscal 2004 and, following the two-for-one split of our common stock in November 2003, we did not increase our broad-based stock option award guidelines to reflect the split. During fiscal 2005, a year in which our employee base grew by approximately 1,350 people, we carefully managed stock option issuances, granting options to purchase a total of 8,962,290 shares (excluding 128,418 shares underlying options we assumed in connection with our acquisition of Criterion Software), or approximately 3% of our total shares outstanding. During fiscal 2005, fiscal 2004 and fiscal 2003, we granted stock options at an average annual rate of approximately 3.6% of total shares outstanding.

  The Equity Plan also contains several features designed to protect stockholders' interests. For example, the exercise price of outstanding options issued under the Plan may not be reduced without stockholder approval, and the Plan does not allow any options to be granted at less than 100% of fair market value. The Equity Plan also does not contain an "evergreen" provision whereby the number of authorized shares is automatically increased on a regular basis. In addition, as proposed to be amended, the Equity Plan would prohibit us from loaning, or guaranteeing the loan of, funds to participants under the Equity Plan.

  In an effort to further align the interests of our Directors, executive officers and stockholders, we have implemented minimum stock ownership requirements for our Directors and executive officers.

  Going forward, we intend to continue to responsibly manage issuances of equity incentive awards under the Equity Plan. We also will continue our comprehensive review and analysis of our compensation programs overall to ensure their continued effectiveness and to prepare for the likelihood of mandatory stock option expensing.

- ***Authorize the issuance of awards of stock appreciation rights in addition to awards of stock options, restricted stock and restricted stock units.*** We believe that our ability to employ different forms of equity incentives is important, and stock appreciation rights provide additional and alternative methods of providing equity incentives to our employees.

- ***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.*** In May 2005, we began granting restricted stock units to certain of our U.S.-based employees. In the future, we expect restricted stock and/or restricted stock units to become a more prevalent form of equity incentive compensation that we offer our non-executive employees worldwide. We believe it is important that the Equity Plan be amended to allow us to issue an adequate number of restricted stock and restricted stock units to attract, retain and motivate eligible employees.

- ***Modify the payment alternatives under the Equity Plan to:***

  (a) Eliminate the ability of participants to pay for shares issued under the Equity Plan by means of a loan from or guaranteed by EA. Although, as a matter of policy, we do not allow participants to pay for shares issued under the Equity Plan through a loan from or guaranteed by us, the Equity Plan currently provides us with the ability to do so. As we have no intention of allowing participants to pay for shares through a loan from or guaranteed by us, we believe that it would be appropriate to amend the Plan to reflect both our current practices and intentions for the future.

  (b) Provide us with the flexibility to grant stock options that include a "net settlement" mechanism that could, in the future, enable us to reduce dilution by issuing fewer shares upon the exercise of stock options while still providing for the same economic benefit to the option holder. Using a "net settlement" mechanism, a participant who wished to receive all cash proceeds upon the exercise of their stock option would be able to realize the full value of their stock option while at the same time allowing us to reduce the total number of shares we would be required to issue upon exercise. Currently under the Equity Plan, a person who wishes to receive cash proceeds upon the exercise of their stock option must instruct their broker to sell the entire number of shares underlying the stock option and use the proceeds to pay the exercise price and applicable withholding taxes. Thus, under the current provisions of the Equity Plan, if a person had a stock option to purchase 100 shares of common stock at a $30 per share exercise price, and the fair market value of one share were $50 at the time of exercise, we would issue 100 shares of common stock and, assuming the person sold such shares on the open market immediately after receiving them, the person would realize cash proceeds of $2,000 less applicable withholding taxes and brokerage fees *($50 fair market value per share at the time of exercise minus the $30 per share exercise price multiplied by 100 shares)*. By contrast, if the stock option contained a "net settlement" mechanism, we would only need to issue 40 shares of common stock less shares equal to the value of applicable holding taxes and brokerage fees, if any, to satisfy the award, which could be immediately sold to realize the same $2,000 gain less applicable withholding taxes and brokerage fees *($50 fair market value per share multiplied by 40 shares)*.

  Although we have no current plans to issue stock options with a "net settlement" feature (primarily due to their uncertain tax treatment and the difficulty encountered by brokerage firms in implementing "real time" settlement processes), we believe it is important to amend the Equity Plan to provide the flexibility to grant such stock options in the future in the event circumstances change.

- ***Add flexibility to grant performance-based stock options and stock appreciation rights under the Equity Plan and modify the performance factors currently contained in the Equity Plan to more closely reflect the metrics we use in evaluating the success of our business.*** We may, in the future, elect to grant awards under the Equity Plan that are tied to the achievement of one or more performance-based factors. We believe that granting performance-based awards would be consistent with our pay-for-performance philosophy, and would serve to further align our employees' interests with those of our stockholders. In addition, granting performance-based awards could potentially allow us to deduct under Section 162(m) of the Internal Revenue Code performance-based compensation in excess of $1 million paid to certain of our executive officers. While the Equity Plan currently permits us to grant restricted stock and restricted stock units subject to the achievement of one or more performance-based factors, the amendments would allow us to subject stock options and stock appreciation rights to performance-based factors as well. If approved, the Equity Plan would be revised to permit the Compensation Committee to grant performance-based awards subject to one or more of the following permissible performance factors, to be measured over a specified performance period (that may be as short as a calendar quarter or as long as five years) or tied to a specific and objective milestone or event, to the extent applicable on an absolute basis or relative to a pre-established target: (a) net revenue; (b) earnings before interest, income taxes, depreciation and amortization; (c) operating income; (d) operating margin; (e) net income; (f) earnings per share; (g) total stockholder return; (h) the Company's stock price; (i) growth in stockholder value relative to a pre-determined index; (j) return on equity; (k) return on invested capital; (l) operating cash flow; (m) free cash flow; (n) economic value added; and (o) individual confidential business objectives. In addition, the Committee would, in its sole discretion, have the ability, in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, to provide for one or more equitable adjustments (based on objective standards) to the performance factors to preserve the Committee's original intent regarding the performance factors at the time of the initial award grant.

- ***Revise and clarify our share-counting methodology.*** The amendments would make clear that the following types of shares would *not* be available for future issuance as awards under the Equity Plan: (a) shares that are not issued or delivered as a result of the net settlement of a stock option or stock appreciation right; (b) shares that are used to pay the exercise price or withholding taxes related to an award granted under the Equity Plan; and (c) shares that are repurchased by us with the proceeds of a stock option exercise.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting on this proposal.

The Board recommends a vote FOR the amendments to the 2000 Equity Incentive Plan.

PROPOSAL 3. AMENDMENT TO THE 2000 EMPLOYEE STOCK PURCHASE PLAN

The 2000 Employee Stock Purchase Plan, which initially was approved by the stockholders on July 27, 2000, provides our employees with a convenient means of purchasing equity in the Company through payroll deductions. It also provides an incentive for continued employment. Since its adoption, 3,800,000 shares of common stock have been reserved for issuance under the Purchase Plan.

Since the adoption of the Purchase Plan, we have experienced significant growth in the number of employees as well in the number of employees who elect to participate in the Purchase Plan. In addition, in February 2003, we terminated our International Employee Stock Purchase Plan, and have since allowed our international employees to participate in the Purchase Plan. The following table presents information since the beginning of fiscal 2002 relating to the aggregate number of shares purchased under the Purchase Plan and the International Purchase Plan, as well as the number of employees who have participated in such plans:

	Shares Purchased Pursuant to 2000 Purchase Plan	Shares Purchased Pursuant to International Purchase Plan(1)	Total Shares Purchased	No. of Employees Participating as of the Last Purchase Date in Fiscal Year
Fiscal 2002	421,542	204,938	626,480	2,217
Fiscal 2003	440,528	257,368	697,896	2,418
Fiscal 2004	866,541	—	866,541	2,933
Fiscal 2005	623,693	—	623,693	3,615
Fiscal 2006	(2)		(2)	4,013(3)

(1) The International Employee Stock Purchase Plan was terminated in February 2003.

(2) Fiscal 2006 purchases under the 2000 Purchase Plan will be made in August 2005 and February 2006.

(3) Represents number of participants in the 2000 Purchase Plan as of May 31, 2005. Participants have the right to withdraw from the 2000 Purchase Plan at any time prior to a purchase date. The number of participants may increase or decrease prior to February 2006, the last purchase date in fiscal 2006.

The proposed amendment would increase the number of shares authorized under the Purchase Plan by 1,500,000 to a total of 5,300,000, an amount that we expect will permit all current and potential future employees to fully participate in the Purchase Plan for at least fiscal 2006.

For more information about the Purchase Plan, we urge you to read the summary of its material terms included as Appendix B to this proxy statement.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting on this proposal.

The Board recommends a vote FOR the amendment to the 2000 Employee Stock Purchase Plan.

PROPOSAL 4. RATIFICATION OF THE APPOINTMENT OF KPMG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP has audited the financial statements of EA and its consolidated subsidiaries since fiscal 1987. The Board, through the Audit Committee, has appointed KPMG LLP as EA's independent registered public accounting firm ("independent auditors") for fiscal 2006. The Audit Committee and the Board believe that KPMG LLP's long-term knowledge of EA and its subsidiaries is valuable to the Company. Representatives of KPMG LLP have direct access to members of the Audit Committee and the Board. Representatives of KPMG LLP will attend the meeting in order to respond to appropriate questions from stockholders, and may make a statement if they desire to do so.

Ratification of the appointment of KPMG LLP as our independent auditors is not required by our bylaws or otherwise. The Board of Directors has determined to submit this proposal to the stockholders as a matter of good corporate practice. If the stockholders do not ratify the appointment, the Audit Committee will review their future selection of auditors. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and the stockholders.

Fees of Independent Auditors

The aggregate fees billed for the last two fiscal years for each of the following categories of services are set forth below:

Description of Fees	Year Ended March 31, 2005	Year Ended March 31, 2004
Audit[1]		
– Worldwide audit fee	$3,600,000	$1,613,000
– Accounting concurrence and regulatory matters	169,000	517,000
Total audit fees	3,769,000	2,130,000
Audit-Related Fees[2]		
– Benefit plan audit	18,000	18,000
Total audit-related fees	18,000	18,000
Tax[3]		
– Compliance	690,000	718,000
– Planning	13,000	102,000
Total tax fees	703,000	820,000
All Other Fees[4]		
Total all other fees	—	—
Total All Fees	$4,490,000	$2,968,000

(1) Audit Fees: This category includes the annual audit of the Company's financial statements and management's assessment of internal control over financial reporting, (including required quarterly reviews of financial statements included in the Company's quarterly reports on Form 10-Q) and services normally provided by the independent auditors in connection with regulatory filings. This category also includes consultation on matters that arose during, or as a result of the audit or review of financial statements, statutory audits required for our non-US subsidiaries, and services associated with our registration statement on Form S-3 filed in January 2003, periodic reports and other documents filed with the SEC and foreign filings, as well as Sarbanes-Oxley Section 404 ("Section 404") compliance consultation. The increase in audit fees for fiscal 2005 was primarily due to costs incurred in connection with the audit of management's assessment of internal control over financial reporting, as required by Section 404.

(2) Audit-Related Fees: This category consists of fees related to the annual audit of our 401(k) benefit plan.

(3) Tax Services: This category includes compliance services rendered for US and foreign tax compliance and returns, and transfer pricing consultation, as well as planning and advice which consists primarily of technical tax consulting.

(4) Other: In fiscal years 2004 and 2005, no products or services were provided under this category.

Services Provided by the Independent Auditors

The Audit Committee is required to pre-approve the engagement of, and has engaged, KPMG LLP to perform audit and other services for the Company and its subsidiaries. The Company's procedures for the pre-approval by the Audit Committee of all services provided by KPMG LLP comply with SEC regulations regarding pre-approval of services. Services subject to these SEC requirements include audit services, audit-related services, tax services and other services. The audit engagement is specifically approved and the auditors are retained by the Audit Committee. In some cases, pre-approval for a particular category or group of services is provided by the Audit Committee for up to a year, subject to a specific budget and to regular management reporting. In other cases, the Chairman of the Audit Committee has the delegated authority from the Audit Committee to pre-approve additional services up to a specified dollar limit, and such pre-approvals are then communicated to the full Audit Committee.

The Audit Committee considered and determined that fees for services other than audit and audit-related services are compatible with maintaining KPMG LLP's independence.

Required Vote and Board of Directors' Recommendation

Approval of this proposal requires the affirmative vote of a majority of the voting shares present at the meeting in person or by proxy and voting for or against the proposal.

The Board recommends a vote FOR the ratification of KPMG LLP as our independent auditors for fiscal 2006.

OTHER BUSINESS

The Board knows of no other business for consideration at the Annual Meeting. If other matters are properly presented at the Annual Meeting, or at any adjournment or postponement of the Annual Meeting, Lawrence F. Probst III and Warren C. Jenson will vote, or otherwise act, in accordance with their judgment on such matters.

PRINCIPAL STOCKHOLDERS

Common Stock

The following table shows, as of June 1, 2005, the number of shares of our common stock owned by our Directors (other than Mr. Paul, who was appointed to our Board on June 15, 2005, at which time he did not own any shares of our common stock), executive officers named in the Summary Compensation Table below, our Directors and current executive officers as a group, and beneficial owners known to us holding more than 5% of our common stock. As of June 1, 2005, there were 306,511,866 shares of our common stock outstanding. Except as otherwise indicated, the address for each of our Directors and executive officers is c/o Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065.

Stockholder Name	Shares Owned[(1)]	Right to Acquire[(2)]	Percent of Outstanding Shares[(3)]
Alliance Capital Management[(4)]	29,347,225	—	9.6
Wellington Management Company, LLP[(5)]	26,389,316	—	8.6
Marsico Capital Management, L.L.C.[(6)]	19,305,800	—	6.3
Legg Mason Capital Management, Inc.[(7)]	18,881,823	—	6.2
Janus Capital Management LLC[(8)]	18,713,649	—	6.1
TCW Asset Management Company[(9)]	16,663,872	—	5.4
Lawrence F. Probst III[(10)]	739,761	3,108,300	1.2
M. Richard Asher	301,977	191,680	*
William J. Byron	153,448	76,880	*
Timothy Mott[(11)]	118,624	69,840	*
Don A. Mattrick	50,224	415,705	*
Bruce McMillan	18,222	639,359	*
Warren C. Jenson	13,122	286,800	*
Gregory B. Maffei	10,000	37,333	*
Gerhard Florin	6,483	93,198	*
Robert W. Pittman	6,166	28,500	*
Gary M. Kusin	4,574	42,320	*
Leonard S. Coleman, Jr.	3,260	82,085	*
Linda J. Srere	2,428	82,085	*
All executive officers and Directors as a group (20 persons)	1,473,581	6,965,406	2.7

* Less than 1%

(1) Unless otherwise indicated in the footnotes, includes shares for which the named person has sole voting and investment power, or has shared voting and investment power with his or her spouse. Excludes shares that may be acquired through stock option exercises.

(2) Represents shares of common stock that may be acquired through stock option exercises within 60 days of June 1, 2005.

(3) Calculated based on the total number of shares owned plus the number of shares that may be acquired through stock option exercises within 60 days of June 1, 2005.

(4) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for Alliance Capital is 1345 Ave of the Americas, New York, NY 10105.

(5) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for Wellington Management Co LLP is 75 State Street, Boston, MA 02109.

(6) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for Marsico Capital Management LLC is 1200 17th Street, Suite 1600, Denver, CO 80202.

(7) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for Legg Mason, Inc. is 100 Light Street, Baltimore, MD 21202.

(8) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for Janus Capital Management LLC is 100 Fillmore Street, Suite 300, Denver, CO 80206.

(9) Based on information contained in a report on Schedule 13F filed with the SEC on March 31, 2005. The address for TCW Group Inc. is 865 South Figueroa St., Los Angeles, CA 90017.

(10) Includes 87,886 shares of common stock held by Mr. Probst's grantor's retained annuity trust and 497,562 shares of common stock held by the Probst Family LP, of which Mr. Probst is a partner.

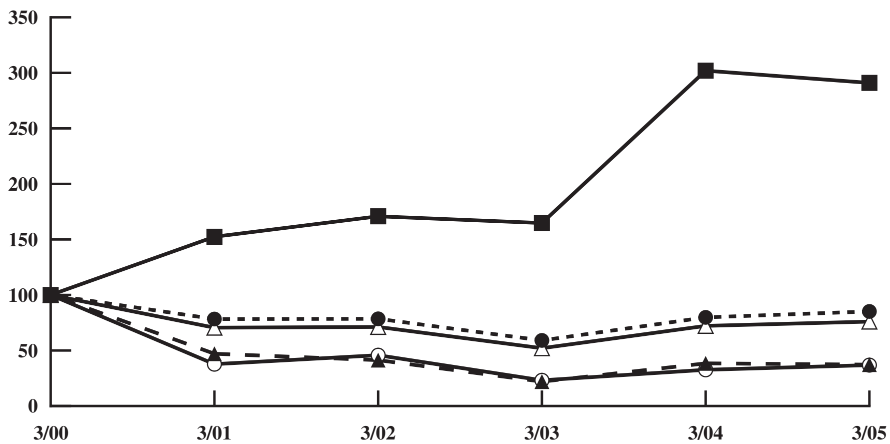
(11) Includes 36,656 shares of common stock held in trust for the benefit of Mr. Mott's son for which Mr. Mott is the trustee.

STOCK PRICE PERFORMANCE GRAPH

The following information shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

The following graph shows a five-year comparison of cumulative total returns during the period from March 31, 2000 through March 31, 2005, for our common stock, the Nasdaq Market Composite Index, the S&P 500 Index (to which EA was added in July 2002), the RDG Technology Index and the S&P Application Software Index (to which EA was added in July 2002), each of which assumes an initial value of $100. Each measurement point is as of the end of each fiscal year ended March 31. The performance of our stock depicted in the following graph is not necessarily indicative of the future performance of our stock.

STOCK PRICE PERFORMANCE GRAPH



	2000	2001	2002	2003	2004	2005
ELECTRONIC ARTS INC.	$100.00	$152.41	$170.82	$164.75	$301.96	$290.95
NASDAQ STOCK MARKET (U.S.)	$100.00	$47.07	$41.31	$21.97	$38.41	$37.26
S & P 500	$100.00	$78.32	$78.51	$59.07	$79.82	$85.16
RDG TECHNOLOGY COMPOSITE	$100.00	$70.54	$71.20	$52.06	$72.17	$76.00
S & P APPLICATION SOFTWARE	$100.00	$37.69	$45.75	$23.14	$32.62	$36.82

SUMMARY COMPENSATION TABLE

COMPENSATION OF EXECUTIVE OFFICERS

The table below shows compensation information for our Chief Executive Officer and the next four most highly compensated executive officers earned during our fiscal year ended March 31, 2005. We refer to all of these officers as the "Named Executive Officers".

	Annual Compensation				Long-Term Compensation	
Name and Principal Position	Fiscal Year Ended March 31,	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options (#)[1]	All Other Compensation ($)
Lawrence F. Probst III	2005	680,012	0	—	300,000	3,795[3]
Chairman and Chief	2004	663,759	781,000	—	200,000	9,720[3]
Executive Officer	2003	685,535[2]	1,100,000	—	800,000	11,810[3]
Don A. Mattrick	2005	674,080	0	—	200,000	—
President, Worldwide	2004	585,607	565,000	—	160,000	—
Studios	2003	606,551[2]	700,000	—	600,000	—
Bruce McMillan[4]	2005	540,924	0	—	150,000	—
Executive Vice President,	2004	472,709	371,000	—	140,000	—
Worldwide Studios						
Warren C. Jenson	2005	528,198	0	1,565,713[5]	100,000	2,122,991[7]
Executive Vice President,	2004	513,087	450,000	71,667[6]	120,000	299,047[8]
Chief Financial and	2003	375,775	404,000	—	1,200,000	661,285[9]
Administrative Officer						
Gerhard Florin[4]	2005	399,860	106,457	26,208[10]	125,000	50,447[11]
Senior Vice President	2004	355,510	252,844	22,333[10]	120,000	45,123[11]
and General Manager,						
European Publishing						

(1) Represents options to purchase shares of common stock.

(2) Includes $46,731 paid in fiscal 2003 in connection with a retroactive salary increase covering the period from October 2000 through April 2002.

(3) Represents paid term life insurance premium for the benefit of Mr. Probst of $720 and EA-matching 401(k) contribution of $3,075 in fiscal 2005; paid term life insurance premium for the benefit of Mr. Probst of $720 and EA-matching 401(k) contribution of $9,000 in fiscal 2004; and EA-paid term life insurance premium for the benefit of Mr. Probst of $810 and EA-matching 401(k) contribution of $11,000 in fiscal 2003.

(4) Mr. McMillan and Dr. Florin became executive officers of EA in May 2003 (during our fiscal year ended March 31, 2004).

(5) Represents $1,565,552 of a tax "gross-up" paid to Mr. Jenson in connection with the forgiveness of the interest-free loan (for more information regarding the loan to Mr. Jenson, see "Certain Transactions" below), and $161 tax "gross-up" paid to Mr. Jenson in connection with taxable relocation-related expenses, as discussed in footnote 9 below.

(6) Represents tax "gross-up" paid to Mr. Jenson in connection with taxable relocation-related expenses, as discussed in footnote 9 below.

(7) Represents $2,000,000 in partial forgiveness of an interest-free loan made by EA to Mr. Jenson in June 2002, $119,196 in imputed interest income on the remaining portion of the interest-free loan (for more information regarding the loan to Mr. Jenson, see "Certain Transactions" below), paid term life insurance premium for the benefit of Mr. Jenson of $720, and EA-matching 401(k) contribution of $3,075.

(8) Includes $148,800 imputed interest income on an interest-free loan from EA (for more information regarding the loan to Mr. Jenson, see "Certain Transactions" below), $36,000 temporary housing, $104,527 relocation expenses, $720 paid term life insurance premium, and EA-matching 401(k) contribution of $9,000.

(9) Prior to joining the Company in fiscal 2003, Mr. Jenson received a $500,000 bonus as incentive to accept employment with EA. The amount above also represents $66,633 imputed interest income on an interest-free loan from EA (for more information regarding the loan to Mr. Jenson, see "Certain Transactions" below), $60,533 temporary housing, $33,309 relocation expenses, and $810 paid term life insurance premiums.

(10) Represents automobile and fuel allowance received by Dr. Florin and for which all senior employees and members of management resident in the UK are generally eligible.

(11) Represents EA contribution to UK pension plan of $45,871, medical and dental insurance premiums of $1,481, and life insurance premiums of $3,095 for fiscal 2005; and EA contribution to UK pension plan of $42,399, medical and dental insurance premiums of $1,474, and life insurance premiums of $1,250 for fiscal 2004.

STOCK OPTION GRANTS

STOCK OPTION GRANTS

The following table shows stock options granted to the Named Executive Officers during the last fiscal year. In accordance with the rules of the Securities and Exchange Commission, the table sets forth the hypothetical gains that would exist for the options at the end of their respective 10 year terms. This hypothetical gain is based on assumed annualized rates of compound stock price appreciation of 5% and 10% from the dates the options were granted to the end of their respective ten year option terms. Actual gains, if any, on option exercises are dependent on the future performance of EA's common stock. The hypothetical gains shown in this table are not intended to forecast possible future appreciation, if any, of the stock price.

Options Granted in Fiscal 2005

	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in FY2005 (%)[1]	Exercise Price Per Share[2]	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Lawrence F. Probst III . .	100,000[3]	1.13	$64.92	03/01/15	$4,082,784	$10,346,576
	200,000[4]	2.25	$64.92	03/01/15	$8,165,568	$20,693,152
Don A. Mattrick	75,000[3]	0.84	$64.92	03/01/15	$3,062,088	$ 7,759,932
	125,000[4]	1.41	$64.92	03/01/15	$5,103,480	$12,933,220
Bruce McMillan	50,000[3]	0.56	$64.92	03/01/15	$2,041,392	$ 5,173,288
	100,000[4]	1.13	$64.92	03/01/15	$4,082,784	$10,346,576
Warren C. Jenson	100,000[3]	1.13	$64.92	03/01/15	$4,082,784	$10,346,576
Gerhard Florin	50,000[3]	0.56	$64.92	03/01/15	$2,041,392	$ 5,173,288
	75,000[4]	0.84	$64.92	03/01/15	$3,062,088	$ 7,759,932

(1) EA granted and/or assumed options to purchase 8,881,515 shares of common stock to all employees (excluding non-employee Directors) in fiscal 2005.

(2) The exercise price is equal to the fair market value on the date of grant.

(3) Options will first vest and become exercisable as to 24% of the shares underlying the option 12 months from date of grant and will then vest in 2% increments on the first calendar day of each month thereafter for 38 months.

(4) Options will first vest and become exercisable as to 25% of the shares underlying the option 24 months from date of grant; 25% of the shares 36 months from date of grant; and 50% of the shares 48 months from date of grant.

All option grants listed above were made pursuant to EA's 2000 Equity Incentive Plan. The material terms regarding the exercise price of options, vesting, change of control, and prohibitions on "repricing" are contained in Appendix A to this proxy statement.

OPTIONS EXERCISED

The following table shows stock option exercises and the number and value of unexercised stock options held by the Named Executive Officers during the last fiscal year.

Fiscal 2005 Aggregated Option Exercises and March 31, 2005 Option Values

	Number of Shares Acquired on Exercise	Value Realized[1]	Number of Securities Underlying Unexercised Options at March 31, 2005		Value of Unexercised In-the-Money Options at March 31, 2005[2]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Lawrence F. Probst III . .	239,700	$11,909,671	3,028,300	1,052,000	$112,770,322	$16,217,680
Don A. Mattrick	497,343	$16,465,027	350,905	778,400	$ 8,155,985	$12,459,324
Bruce McMillan	233,441	$ 8,297,354	491,359	675,200	$ 12,711,036	$11,407,836
Warren C. Jenson	210,000	$ 6,674,368	229,200	980,800	$ 4,805,862	$20,071,788
Gerhard Florin	66,002	$ 2,176,611	76,398	342,600	$ 1,331,921	$ 3,602,160

(1) The value realized is calculated by (a) subtracting the option exercise price from the market value on the date of exercise to get the realized value per share, and (b) multiplying the realized value per share by the number of shares underlying options exercised.

(2) The value of unexercised in-the-money options is calculated by (a) subtracting the option exercise price from $55.17 (the fair market value of EA's common stock at the close of business on the last trading day of fiscal 2005, March 24, 2005) to get the value per share subject to option, and (b) multiplying the value per share subject to option by the number of shares underlying exercisable and unexercisable options.

EQUITY COMPENSATION PLAN INFORMATION

Common Stock

We have five equity incentive plans (excluding plans assumed by EA in acquisitions, as described in footnote 1 below) under which our common stock is or has been authorized for issuance to employees or Directors: the 1991 Stock Option Plan; Directors' Stock Option Plan; 1998 Directors' Stock Option Plan; 2000 Equity Incentive Plan; and the 2000 Employee Stock Purchase Plan. Each of these plans has been approved by our stockholders.

In the past, we have granted options to certain individuals (not employees or Directors) under our Celebrity and Artist Stock Option Plan. This plan was not approved by the stockholders, has since expired, and no further grants will be issued under it.

The following table gives aggregate information regarding grants under all of our equity incentive plans as of the end of fiscal 2005, including the 2000 Equity Incentive and 2000 Employee Stock Purchase Plans, which are proposed to be amended at the 2005 Annual Meeting as described in "Proposals To Be Voted On" and Appendices A and B.

Plan Category[(1)]	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by security holders[(2)] . .	40,297,093	$36.07	14,192,512
Equity compensation plans not approved by security holders[(3)] . .	184,602	$10.28	0
Total.	40,481,695		14,192,512

(1) The table does not include information for equity incentive plans we assumed in connection with our acquisitions of Maxis in 1997 and Criterion Software in 2004. As of March 31, 2005, a total of: (a) 451,138 shares of common stock were issuable upon exercise of outstanding options issued under the 1995 Maxis stock option plan, with a weighted average exercise price of $25.65; and (b) a total of 19,657 shares were issuable upon exercise of outstanding options issued under the Criterion stock option plan, with a weighted average exercise price of $1.61. No shares remain available for issuance under the Maxis or Criterion plans.

(2) As of March 31, 2005, a total of: (a) 6,749,857 shares of common stock were issuable upon exercise of outstanding options under the 1991 Stock Option Plan, with a weighted average exercise price of $15.39; (b) a total of 84,720 shares of common stock were issuable upon exercise of outstanding options under the Directors' Stock Option Plan, with a weighted average exercise price of $7.97; (c) 614,410 shares of common stock were issuable upon exercise of outstanding options under the 1998 Directors' Stock Option Plan, with a weighted average exercise price of $30.81; and (d) 32,848,106 shares of common stock were issuable upon exercise of outstanding options under the 2000 Equity Incentive Plan, with a weighted average exercise price of $40.49. The 1991 and Directors' Stock Option Plans have expired and no further grants may be made under them. As of March 31, 2005, 11,259 shares remained available for issuance under the 1998 Directors' Plan, however, we do not expect to make any future grants under this plan. As of March 31, 2005, 12,733,557 shares remained available for issuance under the 2000 Equity Incentive Plan, and 1,447,696 shares remained available for purchase by our employees under the 2000 Employee Stock Purchase Plan.

(3) The Celebrity and Artist Stock Option Plan ("Artist Plan") was adopted by our Board of Directors in July 1994 and expired in July 2004. The Artist Plan was established as a plan to attract, retain and provide equity incentives to selected artists and celebrities associated with EA and certain employees of companies providing services to EA and in which we hold a minority equity interest. The terms regarding the exercise price of options, vesting, changes in capital structure, assumption of options and acceleration of vesting, and prohibitions on "repricing" under the Artist Plan are substantially similar to the terms of the 2000 Equity Incentive Plan, contained in Appendix A. As of March 31, 2005, a total of 184,602 shares of common stock were issuable upon exercise of outstanding options under the Artist Plan, with a weighted average exercise price of $10.28. No further grants will be made under the Artist Plan.

See also Note 12 to the Financial Statements included in EA's Annual Report on Form 10-K for the period ended March 31, 2005 for additional information about these plans.

EMPLOYMENT AND CHANGE OF CONTROL AGREEMENTS

EA currently has no employment contracts with any Named Executive Officer, other than Dr. Florin, or severance arrangements with respect to their resignation or termination of employment, except that outstanding options under the 2000 Equity Incentive Plan, including those held by executive officers, may immediately vest in connection with certain changes in control or ownership of the Company, unless the successor company assumes or replaces those options. In February 2001, prior to becoming an executive officer of EA, Dr. Florin entered into an agreement with us setting forth the terms and conditions of his employment. The agreement contained standard terms and conditions generally applicable at that time to all full-time employees in the UK. In addition, the agreement provided for: (i) Dr. Florin's salary at the time (which has been superseded by subsequent salary increases not reflected in the agreement); (ii) use of a company car and a fuel allowance (in accordance with company policy, this benefit is generally available to all senior employees and members of management resident in the UK); (iii) a notice of termination of employment period of six months plus one week for each year of employment with EA, up to a maximum of twelve additional weeks; and (iv) a six-month non-solicitation period following the termination of Dr. Florin's employment during which he is prohibited from enticing away from us any member of our senior management or our sales and development staff.

The following is the Report of the Compensation Committee describing the compensation policies applicable to EA's executive officers. This information shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Responsibilities and Composition of the Compensation Committee

In February 2003, the Board of Directors adopted the Compensation Committee's charter, which reflects the Committee's responsibilities and which provides that all members must be "independent", as defined in applicable regulations and listing standards. During fiscal 2005, the Compensation Committee consisted of M. Richard Asher, William J. Byron and Robert W. Pittman. None of these members is a current or past employee of EA or any of its subsidiaries, nor are any of them eligible to participate in any of the executive compensation programs of the Company except through automatic formulaic grants pursuant to either the 2000 Equity Incentive Plan or Directors' Plan. In addition, each meets the definition of "Outside Director" for the purposes of administering the compensation programs to meet the tax deductibility criteria under Section 162(m) of the Internal Revenue Code, and the definition of "independent director" under applicable Nasdaq Marketplace rules.

The Compensation Committee reviews and approves the compensation philosophy and programs for EA's executives. In fiscal 2005, the Compensation Committee reviewed and approved the salaries, bonuses and equity compensation of each of EA's executive officers, other than the Chief Executive Officer whose salary, bonus and equity compensation were reviewed by the Compensation Committee and approved by the independent members of the Board of Directors after discussing the Compensation Committee's recommendation. The Compensation Committee also administers the Company's equity compensation plans and the bonus plan for executive officers and all significant or non-standard equity grants for other employees. During fiscal 2005, the Compensation Committee engaged in extensive reviews of long-term incentive compensation strategies in light of potential stock option expensing, responsible dilution management, and a desire to continue to effectively attract, motivate and retain key talent. During the course of these reviews, the Compensation Committee evaluated the merits of several alternatives for delivering long-term incentives.

The Compensation Committee meets at scheduled times throughout the year and also takes action by written consent, often after informal telephone discussions amongst the members of the Committee. The Compensation Committee met seven times in fiscal 2005. The Company's Human Resources and Legal Departments support the Committee in its work. In addition, the Compensation Committee has the authority to engage the services of outside advisors. During fiscal 2005, the Compensation Committee engaged an independent compensation consulting firm as an advisor and resource to assist the Committee in its review of the compensation for executive officers and other elements of the Company's total compensation strategy.

Compensation Philosophy and Challenges

EA's compensation philosophy to attract, motivate and retain the best executive talent relies on two basic principles. First, a significant portion of each executive's compensation should be in the form of equity to align the executive's interests with those of EA's stockholders. Second, a significant portion of each executive's cash compensation should be performance-based and "at risk" — varying from year to year depending on EA's financial and operational performance and on the individual meeting financial and other performance measures. For fiscal 2005, several of EA's most senior executive officers, including the Chief Executive Officer, all Executive Vice Presidents, and the CEO's executive direct reports, did not receive an incentive bonus. The Compensation Committee and the Company remain committed to this "pay for performance" philosophy which ensures that executive cash compensation will reflect the Company's and the executive's performance.

As the employment market has improved over the last fiscal year, EA has experienced competitive recruiting efforts aimed at its executives. EA's leading and growing position within the entertainment industry makes it a prime target for recruiting of executives and key creative talent.

The Company also continues to recruit for key talent and executives. Competition in attracting and retaining talent comes primarily from three broad industry segments: entertainment, high technology and consumer packaged goods. EA has continued to build its senior management team and has been successful in attracting talent from the entertainment software industry and other market segments to add management depth and experience to the organization. The Company continues to look at creative new methods using its compensation programs to successfully recruit new talent into the organization while maintaining parity with compensation of current key executives. Just as important as recruiting new talent and executives into the organization is the internal development and retention of key talent and executives. As EA grows, it will, like all organizations, have normal turnover within its executive ranks.

Data Considered and Process Used

In fiscal 2005, at the direction of the Compensation Committee, EA's Human Resources Department gathered executive compensation data from nationally recognized surveys and provided a comprehensive analysis of this data to the Compensation Committee and its independent compensation consulting firm. The factors used to determine the participants in the survey included industry type, annual revenues, industry growth rate and geography. Companies included in this data were from high technology (primarily software developers), entertainment and selected packaged goods companies as reference points. The companies in the compensation survey overlap considerably with the companies contained in the RDG Technology Composite index. Additional companies included in the survey group were judged to be relevant because they compete for executive talent with EA.

EA's executive level positions, including the CEO, were matched to comparable survey positions and competitive market compensation levels to determine base salary ranges, target incentives and target total cash compensation. EA's Human Resources Department participated in comprehensive surveys such as the Mellon Global Long-Term Incentive Practices Survey to assist in determining appropriate equity level compensation. In keeping with its performance-based and "at-risk" pay philosophy, the Committee targets total cash compensation (consisting of base salary plus bonus target) between the 50th and 75th percentile of the market, and targets equity compensation to approximately the 75th percentile.

This competitive market data was reviewed by the Human Resources Department with the CEO for each benchmark executive level position, and with the Compensation Committee for the CEO and other key executives. The Compensation Committee also considers each executive's responsibility level and EA's fiscal year performance compared to objectives and potential performance targets for the subsequent year.

Executive Compensation

The Compensation Committee awards executive compensation in three components: base salary, cash incentive bonus and equity incentives. Historically, the Compensation Committee has generally reviewed and, if appropriate, adjusted executive compensation in October of each year. Beginning in fiscal 2005, in order to better align with EA's fiscal year planning and performance, the Committee moved its annual executive compensation review to February.

Base Salary. In reviewing executive officers' base salaries, the Compensation Committee considered each executive's performance over the last year as reported by the CEO and the Executive Vice President of Human Resources, as well as each executive's responsibility level. In fiscal 2005, those eligible executives received an annual merit increase to their base salary during the Committee's February 2005 compensation review, including the Named Executive Officers. In fiscal 2005, EA re-aligned its global pay practices so that all merit-based salary increases would become effective on a common date. Ordinarily, merit-based salary increases occur once every twelve months. As of February 2005, however, executives at EA had not received merit-based salary increases since October 2003 (unlike non-executives who received merit-based salary increases in July 2004). Accordingly, executive merit increases in February 2005 were pro-rated to account for the extended period of time between merit increases. Excluding the impact of this pro-ration, merit-based salary increases for EA's executives were, in the aggregate, approximately the same on a percentage basis as merit-based salary increases received by the overall non-executive employee population.

Incentive Bonus. In fiscal 2005, the Company's annual incentive bonus plan remained the same as it was in fiscal 2004. The Compensation Committee assigned a target bonus to each executive officer (expressed as a percentage of that executive's base salary), determined which portions of each executive's target bonus are dependent on EA's financial performance and individual achievements and approved the overall mechanics and structure of the bonus plan. As a result of EA's financial performance in fiscal 2005, and in keeping with the Company's strong pay-for-performance philosophy, the Compensation Committee approved the recommendation of EA's CEO and members of his executive staff that the CEO, all Executive Vice Presidents and the CEO's executive direct reports should not be awarded incentive bonuses. Other executives and employees received bonuses that were substantially below their target levels.

Stock Options. In March 2005, the Compensation Committee made stock option grants to certain executive officers including the CEO. See "Options Granted in Fiscal 2005" above. Stock options typically have been granted to executive officers when the executive first joins EA, in connection with a significant change in responsibilities, annually to provide incentives for continued performance and retention of employment and occasionally, to achieve internal equity between different positions within EA. The number of shares subject to each stock option granted to an executive officer was calculated to achieve a future value in unvested options equal to a multiple of each executive's annual base salary assuming both growth and stock appreciation. All grants were made at fair market value on the date of grant and vest as described in the "Options Granted in Fiscal 2005" above. For certain executives, individual option grants awarded in March were bifurcated for the purposes of vesting: one portion of the award vests as to 24% of the shares 12 months after the date of grant, and then 2% on the first calendar day of each month thereafter for 38 months; the remaining portion vests as to 25% of the shares 24 months after the date of grant, 25% of the shares 36 months after the date of grant, and 50% of the shares 48 months after the date of grant. Option grants awarded to all executive officers represented 17% of total options awarded during fiscal 2005 and 0.5% of total shares outstanding as of the end of fiscal 2005. Overall, total option grants to all employees represented approximately 2.9% of total shares outstanding as of the end of fiscal 2005.

The Company and the Compensation Committee continue to believe in the use of stock options as the best form of equity compensation to achieve the Company's goals of attracting the best talent to EA, retaining its high-performing team and providing an incentive for its executives to perform at their highest levels. The Compensation Committee and the Company also continue to believe that stock options reward executives in a manner consistent with the value that is created for the Company's stockholders when the Company achieves its goals, and that performance is reflected in the growth of the Company's share price. Like other companies that see the same value in the use of stock options as a key component of executive compensation, the Compensation Committee and the Company are preparing for the likelihood of stock option expensing by carefully evaluating the type of equity incentive awards the Company grants and the amount of such awards granted annually.

Executive Ownership Requirements. In fiscal 2004, the Board of Directors implemented EA stock ownership requirements for all executive officers. These ownership requirements are established as multiples of the executive's base pay, ranging from one to six times the executive officer's annual salary depending on the executive's level within the organization. In some cases, the ownership requirements are phased in on the basis of the executive officer's tenure. The Compensation Committee believes these ownership guidelines further align the interests of EA's stockholders and executive officers. As of March 31, 2005, each of EA's executive officers had met their then-applicable stock ownership requirements.

Other

Company-provided air travel for EA's executives is for business purposes only. EA's use of non-commercial aircraft on a time share or rental basis is limited to appropriate business travel.

In June 2002, EA hired Warren Jenson as Chief Financial and Administrative Officer. As part of its efforts to recruit Mr. Jenson, EA agreed to loan him $4,000,000, to be forgiven over four years based on his continuing employment. The loan does not bear interest. The loan was made prior to enactment of the Sarbanes-Oxley Act of 2002 and the prohibition on loans to executive officers. However, the Compensation Committee did review this proposed arrangement in light of the then-current environment and sensitivity to transactions with management and determined the environment for recruiting highly regarded and talented chief financial officers was, and has been, intensely competitive, and the Compensation Committee believed that a competitive compensation offer tied to continuing service was in EA's best interests and significantly more beneficial to the Company than unrestricted cash payments. In June 2004, pursuant to the terms of the loan agreement, EA forgave two million dollars of the loan and provided Mr. Jenson approximately $1.6 million to offset the tax implications of the forgiveness. The remaining outstanding loan balance of $2,000,000 will be forgiven on June 24, 2006, provided that Mr. Jenson has not voluntarily resigned his employment with EA or been terminated for cause prior to that time. No additional funds will be provided to offset the tax implications of the forgiveness of the remaining $2,000,000.

Fiscal 2005 CEO Compensation

Compensation for the CEO is determined through a process similar to that discussed above for executive officers in general. In fiscal 2005, EA's Human Resources Department gathered CEO compensation data from several nationally recognized surveys and conducted a proxy analysis comparing Mr. Probst's compensation to that of other CEOs. The analysis, which was reviewed by the Compensation Committee's independent compensation consulting firm, demonstrated that Mr. Probst's total cash compensation (consisting of base salary plus bonus target) was below the 50th percentile of the market, and his previous equity grant also fell below the 75th percentile of the market. In February 2005, this analysis was provided to the Compensation Committee for consideration.

The Compensation Committee then conferred with the full Board (other than Mr. Probst) in a closed session to further review and discuss the results of the market analysis, to review Mr. Probst's performance evaluation, and to recommend compensation adjustments. The Compensation Committee noted that Mr. Probst's previous salary increase was effective in October 2003. The Compensation Committee recommended, and the independent members of the Board approved, a base salary increase for Mr. Probst of 5.2%, establishing a new base salary of $710,000 per annum. As a result of EA's financial performance in fiscal 2005, Mr. Probst did not receive a cash performance incentive bonus for fiscal 2005. Mr. Probst's total cash compensation in fiscal 2005 decreased by approximately 52% from the prior fiscal year.

Also in February 2005, the Compensation Committee approved a new stock option grant to Mr. Probst for 300,000 shares of common stock based upon the retention and incentive factors discussed above and taking into account market comparisons, prior option grant history, the level of vested versus unvested shares and the number of shares Mr. Probst already owned at the time of the grant. Of the 300,000 shares granted, 100,000 shares will first vest and become exercisable as to 24% of the shares 12 months after the date of grant, and will then vest as to an additional 2% of the shares on the first calendar day of each month thereafter for 38 months. The remaining 200,000 shares will first vest and become exercisable as to 25% of the shares

24 months after the date of grant, 25% of the shares 36 months after the date of grant, and 50% of the shares 48 months after the date of grant. This grant reflects the Compensation Committee's continuing policy to subject a substantial portion of Mr. Probst's overall compensation each year to the market performance of the Company's common stock, to maintain his option holdings at a level consistent with that for other chief executive officers of the survey companies, and to maximize the retention value of those option holdings.

Equity Compensation Analysis

As mentioned above, during the fiscal year, the Company and the Compensation Committee reviewed the merits of a variety of alternative equity-based compensation approaches and evaluated its approach of relying on stock options for employees and executive officers. The 2000 Equity Plan permits issuance of restricted stock, restricted stock units, and, if proposal number 2 is approved, will permit the issuance of stock appreciation rights. While EA has begun granting restricted stock units to overtime-eligible employees in the U.S., and may grant restricted stock units in the future, the Compensation Committee believes that stock options and similar equity vehicles (such as stock appreciation rights) with their high-potential risks and rewards are vital to EA's growth, provide the strongest incentive for employee performance in a growth company, and best meet the Company's philosophy of aligning employee compensation with stockholder value.

Tax Law Limits on Executive Compensation

Section 162(m) of the Internal Revenue Code limits deductions for executive compensation in excess of $1 million except for certain compensation which qualifies for a performance-based exception. Certain types of compensation in excess of $1 million are deductible by the Company if performance criteria are specified in detail and are contingent on stockholder approval of the compensation arrangement. The Company and the Compensation Committee have endeavored to structure executive compensation plans to achieve maximum deductibility under Section 162(m) with minimal sacrifices of flexibility and impact on corporate objectives.

With respect to equity compensation arrangements, the Compensation Committee has structured its current stock option arrangements in a manner intended to achieve tax deductibility of such amounts. With respect to non-equity compensation arrangements, the Compensation Committee has reviewed the terms of those arrangements most likely to be subject to the deduction limitation of Section 162(m).

Cash compensation and the contractual loan forgiveness discussed above for Mr. Jenson exceeded the Section 162(m) threshold in fiscal 2005. As a result, a portion of Mr. Jenson's fiscal year 2005 compensation will not be deductible. Although the excess will reduce the tax deduction available to EA, that reduction will not be material to EA, and the Compensation Committee believes that such compensation was consistent with competitive market conditions for attracting, motivating and retaining key executive talent.

While the Compensation Committee will continue to consider deductibility under Section 162(m) with respect to future compensation arrangements with executive officers, deductibility will not be the only factor used in ascertaining appropriate levels or modes of compensation. Since corporate objectives may not always be consistent with the requirements for full deductibility, it is possible that the Committee may, if consistent with EA's "pay for performance" philosophy described above, enter into compensation arrangements in the future under which payments are not fully deductible under Section 162(m).

COMPENSATION COMMITTEE

M. Richard Asher (Chairman)

William J. Byron

Robert Pittman

The following is the Report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that EA specifically incorporates it by reference into a filing.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors operates under a written charter, which is reviewed on an annual basis and was most recently amended in February 2003. The Audit Committee is comprised of three non-employee directors, each of whom in the opinion of the Board of Directors meets the current independence requirements and financial literacy standards of the Nasdaq Marketplace rules, as well as the independence requirements of the Securities and Exchange Commission ("SEC"). During fiscal 2005, the Audit Committee consisted of M. Richard Asher, Gary M. Kusin and Gregory B. Maffei. In the opinion of the Board of Directors, Mr. Maffei meets the criteria for a "financial expert" as set forth in applicable SEC rules as well as the above-mentioned independence requirements.

EA's management is primarily responsible for the preparation, presentation and integrity of the Company's financial statements. EA's independent registered public accounting firm, KPMG LLP ("independent auditors"), is responsible for performing an independent audit of the Company's (i) financial statements and expressing an opinion as to the conformity of the financial statements with generally accepted accounting principles, and (ii) internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon.

The function of the Audit Committee is to assist the Board of Directors in its oversight responsibilities relating to the integrity of EA's accounting policies, internal controls and financial reporting. The Audit Committee reviews EA's quarterly and annual financial statements prior to public earnings releases and submission to the SEC; reviews and evaluates the performance of EA's internal audit function; reviews and evaluates the performance of EA's independent auditors; consults with the independent auditors and EA's internal audit function regarding internal controls and the integrity of the Company's financial statements; assesses the independence of the independent auditors; and is responsible for the selection of the independent auditors.

In this context, the Audit Committee has met and held discussions with members of management, EA's internal audit function and the independent auditors. Management has represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. Management has also represented to the Audit Committee that the Company's internal control over financial reporting was effective as of March 26, 2005 (the end of the Company's most recent fiscal year), and the Audit Committee has reviewed and discussed the Company's internal control over financial reporting with management and the independent auditors. The Audit Committee also discussed with the independent auditors matters required to be discussed by *Statement on Auditing Standards No. 61 (Communications with Audit Committees)*, as amended, including the quality and acceptability of the Company's financial reporting process and internal controls. The Audit Committee has also discussed with the Company's independent auditors the overall scope and plans for their annual audit.

In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from the Company and its management, including the matters in the written disclosures required by the *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees)*. The Audit Committee has also considered whether the provision of any non-audit services (as described above under "Proposal No. 4. Ratification of the Appointment of KPMG LLP, Independent Auditors — Fees of Independent Auditors") and the employment of former KPMG LLP employees by the Company is compatible with maintaining the independence of KPMG LLP.

The members of the Audit Committee are not engaged in the practice of auditing or accounting. In performing its functions, the Audit Committee necessarily relies on the work and assurances of the Company's management and independent auditors.

In reliance on the reviews and discussions referred to in this report and in light of its role and responsibilities, the Audit Committee recommended to the Board of Directors that the audited financial statements of the Company for the three years ended March 31, 2005 be included for filing with the SEC in the Company's Annual Report on Form 10-K for the year ended March 31, 2005. The Audit Committee has also approved the selection of KPMG LLP as the Company's independent auditors for fiscal 2006.

AUDIT COMMITTEE

M. Richard Asher

Gary M. Kusin

Gregory B. Maffei (Chairman)

OTHER INFORMATION

CERTAIN TRANSACTIONS

Indebtedness of Management

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

EA's Compensation Committee is composed of M. Richard Asher, William J. Byron, and Robert W. Pittman, none of whom is an employee or current or former officer of EA. No EA officer serves or has served since the beginning of fiscal 2005 as a member of the board of directors or the compensation committee of a company at which a member of EA's Compensation Committee is an employee or officer. Timothy J. Mott, an EA Director, has served as Chairman of All Covered Inc. since June 2000, and served as its Chief Executive Officer from November 2001 until February 2004. Rusty Rueff, EA's Executive Vice President, Human Resources and Facilities, serves on the board of directors of All Covered and was a member of its compensation committee until May 2004.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires EA's Directors and executive officers, and persons who own more than ten percent of a registered class of EA's equity securities, to file reports of ownership and changes in ownership of common stock and other equity securities of EA. We have adopted procedures to assist EA's Directors and officers in complying with these requirements, which include assisting officers and Directors in preparing forms for filing.

To EA's knowledge, based solely upon review of such reports furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended March 31, 2005, all Section 16(a) filing requirements applicable to our officers, Directors and greater-than-ten-percent stockholders were complied with on a timely basis.

STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

If you would like us to consider a proposal to be included in our 2006 proxy statement and proxy card, you must deliver it to the Company's Corporate Secretary at our principal executive office no later than February 24, 2006.

Stockholders who otherwise wish to present a proposal at the 2006 Annual Meeting of stockholders must deliver written notice of the proposal to our Corporate Secretary c/o Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065, no earlier than March 26, 2006 and no later than April 25, 2006 (provided, however, that if the 2006 Annual Meeting is held earlier than June 28, 2006 or later than August 27, 2006, proposals must be received no earlier than the close of business on the later of the 90th day prior to the 2006 Annual Meeting or the 10th day following the day on which public announcement of the 2006 Annual Meeting is first made). The submission must include certain information concerning the stockholder and the proposal, as specified in the Company's bylaws.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as "householding", potentially means extra convenience for stockholders and cost savings for companies.

This year a number of brokers with account holders who are EA stockholders will be "householding" our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to our Corporate Secretary at our principal executive office, or contact our Corporate Secretary at (650) 628-1500. Stockholders who currently receive multiple copies of the proxy statement and annual report at their address and would like to request "householding" of their communications should contact their broker.

OTHER BUSINESS

The Board does not know of any other matter that will be presented for consideration at the meeting except as specified in the notice of the meeting. If any other matter does properly come before the Annual Meeting, it is intended that the proxies will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

By Order of the Board of Directors,

STEPHEN G. BENÉ
Senior Vice President, General Counsel
and Secretary

REQUESTS TO THE COMPANY

The Company will provide without charge, to each person to whom a proxy statement is delivered, upon request of such person and by first class mail within one (1) business day of receipt of such request, a copy of the 2000 Equity Incentive Plan and 2000 Employee Stock Purchase Plan requested. Any such request should be directed as follows: Stock Administration Department, Electronic Arts Inc., 209 Redwood Shores Parkway, Redwood City, CA 94065 — telephone number (650) 628-1500.

Appendix A

GENERAL DESCRIPTION OF THE 2000 EQUITY INCENTIVE PLAN

History

The Company's 2000 Equity Incentive Plan (the "Equity Plan") was adopted by our Board of Directors on January 27, 2000 and approved by our stockholders on March 22, 2000. The Equity Plan has been amended several times since it was initially adopted. The following general description of the Equity Plan includes all prior amendments as well as amendments proposed to be adopted by the Company's stockholders at the 2005 Annual Meeting.

Shares Subject to the Equity Plan

The stock subject to issuance under the Equity Plan consists of shares of the Company's authorized but unissued common stock. The Equity Plan, as amended to date, authorizes the issuance of up to 57,400,000 shares of common stock pursuant to awards of stock options, restricted stock and restricted stock units. As proposed to be amended, the number of shares authorized for issuance under the Equity Plan would be increased to 67,400,000. In addition, shares are again available for grant and issuance under the Equity Plan that (a) were subject to an option granted under the Equity Plan that terminated, to the extent then unexercised, (b) were subject to a restricted stock or restricted stock unit award under the Equity Plan that is subsequently forfeited or repurchased by us at the original issue price, if any, or (c) are subject to an award of restricted stock or restricted stock units under the Equity Plan that otherwise terminates without shares being issued. As proposed to be amended, the above limitations would also apply to issuances of common stock pursuant to awards of stock appreciation rights.

As proposed to be amended, the following types of shares would not be available for future grant or issuance as awards under the Equity Plan: (a) shares that are not issued or delivered as a result of the net settlement of a stock option or stock appreciation right; (b) shares that are used to pay the exercise price or withholding taxes related to an award granted under the Equity Plan; and (c) shares that are repurchased by us with the proceeds of a stock option exercise.

The number of shares issuable under the Equity Plan, and under outstanding options and other awards, is subject to proportional adjustment to reflect stock splits, stock dividends and other similar events.

Limitation on Number of Shares Subject to Restricted Stock Awards and Restricted Stock Unit Awards.

The number of shares of common stock that may be issued pursuant to awards of restricted stock and restricted stock units may not exceed 3,000,000 in the aggregate. As proposed to be amended, the number of shares that would be issuable pursuant to awards of restricted stock and restricted stock units would be increased to 4,000,000 in the aggregate.

Eligibility

The Equity Plan provides for the issuance of incentive stock options, nonqualified stock options, restricted stock and restricted stock units. The Equity Plan provides that employees (including officers and Directors who are also employees) of EA or any parent or subsidiary of EA may receive incentive stock options under the Equity Plan. Nonqualified stock options, restricted stock and restricted stock units may be granted to employees and Directors of EA or any parent or subsidiary of EA. As of June 1, 2005, approximately 5,800 persons were in the class of persons eligible to participate in the Equity Plan. No person is eligible to receive more than 1,400,000 shares of common stock (of which no more than 400,000 shares may be covered by awards of restricted stock) in any calendar year, other than new employees who will be eligible to receive up to 2,800,000 shares of common stock (of which no more than 800,000 shares may be covered by awards of restricted stock) in the calendar year in which they commence employment. No awards of restricted stock have been made to date under the Equity Plan. A participant may hold more than one award granted under the Equity Plan.

As proposed to be amended, the Equity Plan would also authorize the issuance of stock appreciation rights to employees of EA or any parent or subsidiary of EA, subject to the numerical limits set forth above.

Administration

The Equity Plan is administered by our Compensation Committee. All of the members of the Compensation Committee are "non-employee" and "independent directors" under applicable federal securities laws and the Nasdaq listing requirements and "outside directors" as defined under applicable federal tax laws. The Compensation Committee has the authority to construe and interpret the Equity Plan, grant awards and make all other determinations necessary or advisable for the administration of the Equity Plan. The members of the Compensation Committee receive no compensation for administering the Equity Plan other than their compensation for being Board and Committee members. The Company bears all expenses in connection with administration of the Equity Plan and has agreed to indemnify members of the Compensation Committee in connection with their administration of the Equity Plan. The Compensation Committee may delegate to one or more officers of the Company the authority to grant Awards under the Equity Plan to participants who are not executives of the Company.

Stock Options

Stock options granted under the Equity Plan may be either incentive stock options or nonqualified stock options. As proposed to be amended, the Equity Plan would provide the Compensation Committee with the ability, at its discretion, to grant performance-based options subject to the achievement of one or more of the performance factors described under the heading "Performance Factors" below.

Exercise Price; No Repricings

The Compensation Committee determines the exercise price of each option granted under the Equity Plan. The option exercise price for each incentive and nonqualified stock option share must be no less than 100% of the "fair market value" (as defined in the Equity Plan) of a share of common stock at the time the stock option is granted. In the case of an incentive stock option granted to a stockholder that owns more than 10% of the total combined voting power of all classes of stock of EA or any parent or subsidiary of EA (a "Ten Percent Stockholder"), the exercise price for each such incentive stock option must be no less than 110% of the fair market value of a share of common stock at the time the incentive stock option is granted. Pursuant to an amendment to the Equity Plan approved by the Board of Directors in February 2002, the exercise price of outstanding options issued under the Equity Plan may not be reduced without stockholder approval.

The exercise price of options and purchase price of shares granted under the Equity Plan may be paid as approved by the Compensation Committee at the time of grant: (a) in cash (by check); (b) by cancellation of indebtedness of the Company to the optionee; (c) by surrender of shares of the Company's common stock obtained by the optionee in the public market or owned by the optionee for at least six months and having a fair market value on the date of surrender equal to the aggregate exercise price of the option; (d) subject to applicable laws, by tender of a full-recourse promissory note; (e) by waiver of compensation due to or accrued by the optionee for services rendered; (f) subject to applicable laws, by a "same-day sale" commitment from the optionee and a National Association of Securities Dealers, Inc. ("NASD") broker; (g) by a "margin" commitment from the optionee and an NASD broker; or (h) by any combination of the foregoing.

As proposed to be amended, payment by tender of a full-recourse promissory note would no longer be a payment option under the Equity Plan, however, payment by withholding from the shares to be issued upon exercise of an award a number of shares with a fair market value equal to the minimum amount required to satisfy the exercise or purchase price and applicable tax withholding requirements would be permitted, should the Compensation Committee elect to include such a payment provision in the applicable award agreement.

Outside Directors

Our non-employee Directors are entitled to receive automatic annual grants of options to purchase shares of our common stock under the Equity Plan. Each non-employee Director who first becomes a member of the

Board of Directors is granted an option to purchase 25,000 shares of common stock. Upon re-election to our Board of Directors following each annual meeting of our stockholders, each non-employee Director is automatically granted an additional option to purchase 10,000 shares of common stock. If a non-employee Director has not served on our Board of Directors for a full year at the time of the annual meeting of our stockholders, such Director will receive a pro-rated annual grant.

Options issued to outside Directors upon their initial election to the Board are exercisable as to 2% of the shares on the date of grant and as to an additional 2% of the shares on the first day of each calendar month after the date of grant so long as the outside Director continues as a member of the Board. The vesting schedule for annual grants made to Directors upon their re-election to the Board is subject to the discretion of the Compensation Committee.

In the event of our dissolution or liquidation or a "change in control" transaction, options granted to our non-employee Directors under the Equity Plan will become 100% vested and exercisable in full.

In addition, our non-employee Directors may elect to receive all or a portion of their cash compensation in shares of common stock. Directors making this election are entitled to receive shares having a value equal to 110% of the amount of the cash compensation foregone.

Stock Appreciation Rights

As proposed to be amended, the Compensation Committee would have the ability to grant stock appreciation rights (a "SAR" or "SARs") as stand-alone awards or in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the Compensation Committee may determine. A SAR is an award which provides the holder with the right to receive the appreciation in value of a set number of shares of company stock over a set period of time. A SAR is similar to an option in that the holder benefits from any increases in stock price above the exercise price set forth in the award agreement. However, unlike an option, the holder is not required to pay an exercise price to exercise a SAR, but simply receives the net amount of the increase in stock price in the form of cash or stock. The exercise price for a SAR must be no less than 100% of the "fair market value" (as defined in the Equity Plan) of a share of common stock at the time the SAR is granted. In addition, the Compensation Committee would have the ability, at its discretion, to subject SARs to the achievement of one or more of the performance factors described under the heading "Performance Factors" below.

Restricted Stock Awards

The Compensation Committee may grant restricted stock awards either in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the Compensation Committee may determine. A restricted stock award is an offer by Electronic Arts to award shares of common stock that are subject to restrictions established by the Compensation Committee. These restrictions may be based upon completion by the award holder of a specified number of years of service or by the attainment of one or more of the performance factors described under the heading "Performance Factors" below. The purchase price, if any, for each such award is determined by the Compensation Committee at the time of grant. In the case of an award to a Ten Percent Stockholder, the purchase price must be 100% of fair market value. The purchase price, if any, may be paid for in any of the forms of consideration listed in items under "Exercise Price" above, as are approved by the Compensation Committee at the time of grant.

Restricted Stock Units

The Compensation Committee may grant restricted stock unit awards either in addition to, or in tandem with, other awards under the Equity Plan under such terms, conditions and restrictions as the Compensation Committee may determine. A restricted stock unit award is similar to a restricted stock award (and, if the amendments to the Equity Plan are approved, could be awarded subject to any or all of the performance goals established by the Committee described below), except the stock is not delivered to the participant unless and until all restrictions have terminated.

Performance Factors

If the amendments to the Equity Plan are approved, the Compensation Committee would have the ability to grant in its sole discretion performance-based stock options, stock appreciation rights, restricted stock and restricted stock unit awards with vesting and/or exercisability conditioned on one or more of the following permissible performance factors, to be measured over a specified performance period that may be as short as a quarter or as long as five years (unless tied to a specific and objective milestone or event), to the extent applicable on an absolute basis or relative to a pre-established target: (a) net revenue; (b) earnings before interest, income taxes, depreciation and amortization; (c) operating income; (d) operating margin; (e) net income; (f) earnings per share; (g) total stockholder return; (h) the Company's stock price; (i) growth in stockholder value relative to a pre-determined index; (j) return on equity; (k) return on invested capital; (l) operating cash flow; (m) free cash flow; (n) economic value added; and (o) individual confidential business objectives. In addition, the Committee would, in its sole discretion, have the ability, in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, to provide for one or more equitable adjustments (based on objective standards) to the performance factors to preserve the Committee's original intent regarding the performance factors at the time of the initial award grant.

Mergers, Consolidations, Change of Control

Except for automatic grants to non-employee Directors, in the event of a merger, consolidation, dissolution or liquidation of EA, the sale of substantially all of its assets or any other similar corporate transaction, the successor corporation may assume, replace or substitute equivalent awards in exchange for those granted under the Equity Plan or provide substantially similar consideration, shares or other property as was provided to our stockholders (after taking into account the provisions of the awards). In the event that the successor corporation does not assume, replace or substitute awards, such awards will accelerate and all options will become exercisable in full prior to the consummation of the transaction at the time and upon the conditions as the Compensation Committee determines. Any awards not exercised prior to the consummation of the transaction will terminate.

Transferability

Incentive stock options granted under the Equity Plan are not transferable other than by means of a distribution upon the optionee's death. Nonqualified stock options, restricted stock and restricted stock unit awards, and, if approved, stock appreciation rights are or would be subject to similar restrictions on transfer unless otherwise determined by the Compensation Committee and except that nonqualified stock options may be transferred to family members and trusts or foundations controlled by, or primarily benefiting, family members of the optionee.

Term of the Equity Plan

Unless terminated earlier as provided in the Equity Plan, the Equity Plan expires in 2010, ten (10) years from the date it was adopted by the Board of Directors.

United States Federal Income Tax Information

THE FOLLOWING IS A GENERAL SUMMARY AS OF THE DATE OF THIS PROXY STATEMENT OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO THE COMPANY AND PARTICIPANTS UNDER THE EQUITY PLAN. THE FEDERAL TAX LAWS MAY CHANGE AND THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES FOR ANY PARTICIPANT WILL DEPEND UPON HIS OR HER INDIVIDUAL CIRCUMSTANCES. IN ADDITION, THE INTERNAL REVENUE SERVICE COULD, AT ANY TIME, TAKE A POSITION CONTRARY TO THE INFORMATION DESCRIBED IN THE FOLLOWING SUMMARY. ANY TAX EFFECTS THAT ACCRUE TO FOREIGN PARTICIPANTS AS A RESULT OF PARTICIPATING IN THE EQUITY PLAN ARE GOVERNED BY THE TAX LAWS OF THE COUNTRIES IN

WHICH SUCH PARTICIPANT RESIDES. EACH PARTICIPANT WILL BE ENCOURAGED TO SEEK THE ADVICE OF A QUALIFIED TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PARTICIPATION IN THE EQUITY PLAN.

Incentive Stock Options

A participant will recognize no income upon grant of an incentive stock option and incur no tax on its exercise, unless the participant is subject to the alternative minimum tax ("AMT"). If the participant holds shares acquired upon exercise of an incentive stock option (the "ISO Shares") for more than one year after the date the option was exercised and for more than two years after the date the option was granted, the participant generally will realize capital gain or loss (rather than ordinary income or loss) upon disposition of the ISO Shares. This gain or loss will be equal to the difference between the amount realized upon such disposition and the amount paid for the ISO Shares. The rate of taxation that applies to capital gain depends upon the amount of time the ISO Shares are held by the participant.

If the participant disposes of ISO Shares prior to the expiration of either required holding period (a "disqualifying disposition"), the gain realized upon such disposition, up to the difference between the fair market value of the ISO Shares on the date of exercise (or, if less, the amount realized on a sale of such shares) and the option exercise price, will be treated as ordinary income. Any additional gain will be capital gain, taxed at a rate that depends upon the amount of time the ISO Shares were held by the participant.

Alternative Minimum Tax

The difference between the option exercise price and the fair market value of the ISO Shares that are vested on the date of exercise is an adjustment to income for purposes of the AMT. If a participant exercises an ISO before it has fully vested, the participant may incur an AMT liability as the ISO Shares vest and the Company's right to repurchase the ISO Shares at the original issue price lapses, unless the participant makes a timely election under Section 83(b) of the U.S. Internal Revenue Code (an "83(b) election"). The AMT (imposed to the extent it exceeds the taxpayer's regular income tax) is 26% of an individual taxpayer's alternative minimum taxable income (28% in the case of alternative minimum taxable income in excess of $175,000). Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items (including the difference between the fair market value of the ISO Shares on the date of exercise and the exercise price) and reducing this amount by the applicable exemption amount ($45,000 in case of a joint return, subject to reduction under certain circumstances). If a disqualifying disposition of the ISO Shares occurs in the same calendar year as exercise of the ISO, there is no AMT adjustment with respect to those ISO Shares. Also, upon a sale of ISO Shares that is not a disqualifying disposition, alternative minimum taxable income is reduced in the year of sale by the excess of the fair market value of the ISO Shares at exercise over the amount paid for the ISO Shares.

Nonqualified Stock Options

A participant will not recognize any taxable income at the time a nonqualified stock option ("NQSO") is granted. However, upon exercise of an NQSO for vested shares, the participant must include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the participant's exercise price. The included amount must be treated as ordinary income by the participant and may be subject to withholding by the Company (either by payment in cash or withholding out of the participant's salary). If a participant exercises an NQSO before it has fully vested, the participant may incur a regular income liability as the shares vest and the Company's right to repurchase the shares at the original issue price lapses, unless the participant makes a timely 83(b) election. Upon resale of the shares by the participant, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss, taxable at a rate that depends upon the length of time the shares were held by the participant.

Restricted Stock Awards

A participant who receives a restricted stock award will include the amount of the award in income as compensation at the time that any forfeiture restrictions on the shares of stock lapse, unless the participant makes a timely 83(b) election. If the participant does not timely make an 83(b) election, the participant will include in income the fair market value of the shares of stock on the date that the restrictions lapse as to those shares, less any purchase price paid for such shares. The included amount may be treated as ordinary income by the participant and will be subject to withholding by the Company (either by payment in cash or withholding out of the participant's award).

If the participant makes a timely 83(b) election, the participant who receives a restricted stock award will include in income as ordinary income, the fair market value of the shares of stock on the date of receipt of the award (determined without regard to lapse restrictions), less any purchase price paid for such shares. The income may be subject to withholding by the Company (either by payment in cash or withholding out of the participant's award). If the award is subsequently forfeited, the participant will not receive any deduction for the amount treated as ordinary income.

Restricted Stock Units

Tax consequences to participants receiving restricted stock units are identical to those for awards of restricted stock, except that for restricted stock units, the amount of the award will be included in income as compensation at the time restrictions lapse, and the participant is entitled to receive the stock or cash.

Stock Appreciation Rights

Assuming that a stock-settled stock appreciation right ("SAR") is granted at an exercise price that is not less than the fair market value of the underlying shares on the grant date, a participant will not recognize any taxable income at the time a stock-settled SAR is granted. However, upon exercise of a SAR for vested shares, the participant must include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the participant's exercise price. The included amount must be treated as ordinary income by the participant and may be subject to withholding by the Company (either by payment in cash, shares or withholding out of the participant's salary). Upon resale of the shares issued to the participant at the time of exercise, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss, taxable at a rate that depends upon the length of time the shares were held by the participant.

At the present time, the Company does not intend to grant any cash-settled SARs under the Equity Plan until the application of Section 409A of the U.S. Internal Revenue Code (the "Code") is settled and expects that any deferrals made with respect to grants of cash-settled SARs or other equity awards under the Equity Plan will comply with the requirements of Section 409A. The tax treatment of a SAR settled in whole or in part in cash is unknown at this time due to the uncertainty regarding the application of Section 409A of the Code. If the requirements of Section 409A are not met, participants may suffer adverse tax consequences with respect to a SAR which is settled in whole or in part in cash. Such consequences may include taxation at the time of the vesting of the award and interest and penalties on any deferred income.

Tax Treatment of the Company

The Company generally will be entitled to a deduction in connection with the exercise of a NQSO or a SAR by a participant, or the receipt by the participant of restricted stock or restricted stock unit award, to the extent that the participant recognizes ordinary income and the Company properly reports such income to the Internal Revenue Service (the "IRS"). The Company will be entitled to a deduction in connection with the disposition of ISO Shares only to the extent that the participant recognizes ordinary income on a disqualifying disposition of the ISO Shares, provided that the Company properly reports such income to the IRS.

ERISA

The Equity Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 and is not qualified under Section 401(a) of the Code.

Outstanding Options Under the Equity Plan

As of March 31, 2005, 11,818,337 shares had been issued pursuant to exercises of stock options under the Equity Plan by award recipients, 5,806 persons held NQSOs under the Equity Plan to purchase an aggregate of 32,848,106 shares of common stock, with a weighted average exercise price of $40.43 per share, and there were 12,733,557 shares of common stock available for future awards under the Equity Plan. An aggregate of 57,400,000 shares of the Company's authorized common stock has been reserved for issuance under the Equity Plan.

Proposed Amendments to the Equity Plan

At the 2005 Annual Meeting, stockholders will be asked to approve amendments to the Equity Plan as follows:

- Increase the number of shares authorized and reserved for issuance under the Equity Plan by 10,000,000 shares to a total of 67,400,000 shares;
- Authorize the issuance of awards of stock appreciation rights;
- 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;
- Modify the payment alternatives under the Equity Plan;
- 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
- Revise the share-counting methodology used in the Equity Plan.

Appendix B

GENERAL DESCRIPTION OF THE 2000 EMPLOYEE STOCK PURCHASE PLAN

2000 Employee Stock Purchase Plan, as Amended

History. The 2000 Purchase Plan was adopted by the Board on May 25, 2000, approved by the Stockholders on July 27, 2000, and was amended on February 13, 2003 to facilitate participation by employees of the Company moving to and from the United States and other countries, on June 26, 2003, on July 26, 2003, and on July 29, 2004. The following discussion describes the terms of the Purchase Plan, as amended to date.

Purpose. The purpose of the Purchase Plan is to provide employees of the Company with a convenient means of acquiring common stock of the Company through payroll deductions, to enhance the employees' sense of participation in the affairs of the Company and subsidiaries, and to provide an incentive for continued employment.

Administration. The Purchase Plan is administered on behalf of the Board by the Compensation Committee of the Board. The interpretation by the Compensation Committee of any provision of the Purchase Plan is final and binding on all participating employees.

Eligibility. All employees of the Company (including Directors who are employees), or any parent or subsidiary, are eligible to participate in the Purchase Plan except the following: (i) employees who are not employed by the Company on the 15th day of the month before the beginning of an Offering Period (as defined below); (ii) employees who are customarily employed for less than 20 hours per week; (iii) employees who are customarily employed for less than 5 months in a calendar year; and (iv) employees who, pursuant to Section 424(d) of the Code, own or hold options to purchase or who, as a result of participation in the Purchase Plan, would own stock or hold options to purchase stock representing 5% or more of the total combined voting power or value of all classes of stock of the Company or any parent or subsidiary. As of June 1, 2005, the Company estimates that approximately 6,100 persons were eligible to participate in the Purchase Plan.

Participation. Each offering of the Company's common stock under the Purchase Plan is for a period of one year (the "Offering Period"). Offering Periods commence on the first business day of March and September of each year. The first day of each Offering Period is the "Offering Date" for such Offering Period. An employee cannot participate simultaneously in more than one Offering Period. Each Offering Period consists of two six-month purchase periods (each a "Purchase Period") commencing on the first business day of March and September. The last day of each Purchase Period is a "Purchase Date."

Employees may participate in the Purchase Plan during each pay period through payroll deductions. An employee sets the rate of such payroll deductions, which may not be less than 2% nor more than 10% of the employee's base salary, wages, commissions, overtime, shift premiums and bonuses plus draws against commissions, unreduced by the amount by which the employee's salary is reduced pursuant to Sections 125 or 401(k) of the Code. Eligible employees may elect to participate in any Offering Period by enrolling as provided under the terms of the Purchase Plan. Once enrolled, a participating employee will automatically participate in each succeeding Offering Period unless such employee withdraws from the Offering Period. After the rate of payroll deductions for an Offering Period has been set by an employee, that rate continues to be effective for the remainder of the Offering Period (and for all subsequent Offering Periods in which the employee is automatically enrolled) unless otherwise changed by the employee. The employee may increase or lower the rate of payroll deductions for any subsequent Offering Period but may only lower the rate of payroll deductions during the current Purchase Period. Not more than one change may be made effective during any one Purchase Period.

In any given Purchase Period, no employee may purchase more than (a) twice the number of shares that could have been purchased with the payroll deductions if the purchase price were determined by using 85% of the fair market value of a share of the Company's common stock on the Offering Date or (b) the maximum number of shares set by the Board. In addition, no employee may purchase shares at a rate that, when aggregated with all other rights to purchase stock under all other employee stock purchase plans of the

Company, or any parent or subsidiary of the Company, exceeds $25,000 in fair market value (determined on the Offering Date) for each year.

Purchase Price. The purchase price of shares that may be acquired in any Purchase Period under the Purchase Plan is 85% of the lesser of (a) the fair market value of the shares on the Offering Date of the Offering Period in which the participant is enrolled or (b) the fair market value of the shares on the Purchase Date. The fair market value of the common stock on a given date is the closing bid price of the common stock on the immediately preceding business day as quoted on the Nasdaq National Market. On June 1, 2005, the closing bid price of the Company's common stock was $51.14.

Purchase of Stock. The number of whole shares an employee may purchase in any Purchase Period is determined by dividing the total amount of payroll deductions withheld from the employee during the Purchase Period pursuant to the Purchase Plan by the price per share determined as described above, subject to the limitations described above. The purchase takes place automatically on the last day of the Purchase Period.

Withdrawal. An employee may withdraw from any Offering Period at any time at least 15 days prior to the end of an Offering Period. No further payroll deductions for the purchase of shares will be made for the succeeding Offering Period unless the employee enrolls in the new Offering Period in the same manner as for initial participation in the Purchase Plan.

Termination of Employment. Termination of an employee's employment for any reason, including retirement or death, immediately cancels the employee's participation in the Purchase Plan. In such event, the payroll deductions credited to the employee's account will be returned to such employee or, in case of death, to the employee's legal representative.

Adjustment Upon Changes in Capitalization. The number of shares subject to any purchase, and the number of shares issuable under the Purchase Plan, is subject to adjustment in the event of a recapitalization of the Company's common stock. In the event of a proposed dissolution or liquidation of the Company, the Offering Period will terminate and the Board may, in its sole discretion, give participants the right to purchase shares that would not otherwise be purchasable until the last day of the applicable Purchase Period.

Tax Treatment of U.S.-based Participants. Participating employees in the U.S. will not recognize income for federal income tax purposes either upon enrollment in the Purchase Plan or upon the purchase of shares. All tax consequences are deferred until a participating U.S. employee sells the shares, disposes of the shares by gift, or dies.

If shares are held for more than one year after the date of purchase and more than two years from the beginning of the applicable Offering Period, or if the employee dies while owning the shares, the employee realizes ordinary income on a sale (or a disposition by way of gift or upon death) to the extent of the lesser of: (i) 15% of the fair market value of the shares at the beginning of the Offering Period; or (ii) the actual gain (the amount by which the market value of the shares on the date of sale, gift or death, exceeds the purchase price). All additional gain upon the sale of shares is treated as long-term capital gain. If the shares are sold and the sale price is less than the purchase price, there is no ordinary income, and the employee has a long-term capital loss for the difference between the sale price and the purchase price.

If the shares are sold or are otherwise disposed of, including by way of gift (but not death, bequest or inheritance), within either the one-year or the two-year holding periods described above (in any case a *"disqualifying disposition"*), the employee will realize ordinary income at the time of sale or other disposition taxable to the extent that the fair market value of the shares at the date of purchase was greater than the purchase price. This excess will constitute ordinary income in the year of the sale or other disposition even if no gain is realized on the sale or if a gratuitous transfer is made. The difference, if any, between the proceeds of sale and the fair market value of the shares at the date of purchase is a capital gain or loss. Capital gains may be offset by capital losses, and up to $3,000 of capital losses in excess of capital gains may be offset annually against ordinary income. Ordinary income recognized by an employee upon a disqualifying disposition constitutes taxable compensation that will be reported on a W-2 form. The Company takes the position that any ordinary income recognized upon a sale or other disposition is not subject to withholding.

Tax Treatment of non-U.S.-based Participants. For participants residing outside the U.S., the Company will assess its requirements regarding tax, social insurance and other applicable taxes in connection with participation in the Purchase Plan. These requirements may change from time to time as laws or interpretations change.

Tax Treatment of the Company. The Company is entitled to a deduction in connection with the disposition of shares acquired under the Purchase Plan only to the extent that the employee recognized ordinary income on a disqualifying disposition of the shares. The Company treats any transfer of record ownership of shares, including transfer to a broker or nominee or into "street name," as a disposition, unless it is notified to the contrary. In order to enable the Company to learn of disqualifying dispositions and ascertain the amount of the deductions to which it is entitled, employees are required to notify the Company in writing of the date and terms of any disposition of shares purchased under the Purchase Plan.

Proposed amendment of the 2000 Employee Stock Purchase Plan. At the meeting, stockholders will be asked to approve an amendment to the Purchase Plan to increase by 1,500,000 the number of shares of the Company's common stock reserved for issuance under the Purchase Plan. None of these proposed shares have been granted or issued on the basis of such proposed approval.

ELECTRONIC ARTS INC.
Fiscal Year Ended March 31, 2005

Annual Report on Form 10-K

(This page intentionally left blank)

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

Form 10-K

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

For the fiscal year ended March 31, 2005

OR

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

For the transition period from to

Commission File No. 0-17948

ELECTRONIC ARTS INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Documents Incorporated by Reference

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

ELECTRONIC ARTS INC.
2005 FORM 10-K ANNUAL REPORT

Table of Contents

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

PART I

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

Item 1: *Business*

Overview

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

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

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

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

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

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

EA Studio Products

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

- EA SPORTS™ — We publish realistic sports simulation games under our EA SPORTS brand. Some of our recent products published under the EA SPORTS brand include *Madden NFL 2005* (professional football), *NCAA® Football 2005* (collegiate football), *Rugby 2005*, *FIFA Soccer 2005* (professional soccer), *NBA Live 2005, NCAA® March Madness™ 2005* (collegiate basketball), *Tiger Woods PGA TOUR® 2005* (professional golf), *NHL® 2005* (professional hockey) and *NASCAR 2005: Chase for the Cup* (stock car racing),

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

Co-publishing and Distribution Products

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

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

Method of Delivery

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

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

Intellectual Property

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

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

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

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

Market Segment

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

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

Video Game Consoles

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

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

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

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

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

Mobile Video Game Platforms

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

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

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

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

Online Games

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

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

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

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

Next-Generation Consoles

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

Competition

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

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

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

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

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

Significant Relationships

Hardware Platform Companies

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

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

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

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

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

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

Content Licensors

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

Products and Product Development

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

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

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

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

EA.com Web Site

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

- *Pogo.* We offered approximately 73 free online games under the Pogo brand. Pogo provides players a variety of free online games geared towards family entertainment. The offerings include card games, board games, casino games, word games, trivia games and puzzles. This category leverages prizes, tournaments, community and Pogo's strength and popularity in free, familiar games to significantly increase the appeal of our online games service to the broad consumer market.

- *EA GAMES.* In fiscal 2005, four PC, three PlayStation 2 and three Xbox titles of our EA GAMES brand had online gameplay capability. In addition, we provided 10 free online games on our Pogo web site under the EA GAMES brand. The EA GAMES offering consists of original arcade-style games and other original games designed solely for online play, such as *Highstakes Pool*, *Command & Conquer™: Attack Copter*, *Command & Conquer™: Armored Attack* and *Need for Speed*.

- *EA SPORTS* and *EA SPORTS BIG*. In fiscal 2005, six PC, 12 PlayStation 2 and 12 Xbox titles of our EA SPORTS and EA SPORTS BIG brands had online gameplay capability. In addition, we provided 18 free online games on our Pogo web site under the EA SPORTS and EA SPORTS BIG brands. In the EA SPORTS BIG category, *SSX Snowdreams* leverages our SSX snowboarding franchise to form a community of sports gamers. The EA SPORTS category consists of original games designed solely for online play such as *Pebble Beach Golf*, *Top Down Baseball*, *All-Star Football*, *All-Star Football Challenge*, 3-*Point Showdown* and *It's Outta Here 2!*.

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

- *Club Pogo* — our online game subscription service. To join Club Pogo, players must register and subscribe online. Players have the option of selecting a monthly or annual subscription fee plan. When a player joins Club Pogo, they have access to all of the games and content they had on the free service, plus premium features and benefits, such as additional member-exclusive games, ad-free gameplay, an enhanced prize system and more. Club Pogo also provides a deeper community experience through upgraded player profiles, weekly game challenges and member badges.

- *Pogo-To-Go* — our downloadable games offering. A one-time fee allows users to download and own a version of their favorite Pogo game to play offline. The Pogo-To-Go games include extra features like exclusive game modes, bonus levels, high scores and enhanced graphics & sounds. We currently offer 45 downloadable games under the Pogo-To-Go service including several original games, versions of popular free Pogo games and several licensed titles. In addition, we offer these downloadable game offerings at retail.

Persistent State World Games

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

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

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

Marketing and Distribution

We market the products produced by our EA Studios under the EA GAMES, EA SPORTS and EA SPORTS BIG brands. Products marketed under the EA GAMES brand typically feature challenging games and include franchises such as Need for Speed, The Lord of the Rings and Medal of Honor. Products marketed under the EA SPORTS brand typically simulate professional and collegiate sports and include franchises such as Madden NFL, FIFA Soccer and NBA Live. Products marketed under the EA SPORTS BIG brand typically feature extreme sports or modified traditional sports in an arcade-style game and include such titles as *Def Jam Fight for NY*, *FIFA STREET* and *NFL STREET 2: Unleashed.*

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

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

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

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

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

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

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

Inventory and Working Capital

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

International Operations

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

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

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

Manufacturing and Suppliers

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

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

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

Backlog

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

Seasonality

Our business is highly seasonal. We typically experience our highest revenue and profits in the holiday season quarter ending in December and a seasonal low in revenue and profits in the quarter ending in June. Our results however can vary based on title release dates, consumer demand for our products and shipment schedules, among other factors.

Employees

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

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Gardner has served as Senior Vice President, International Publishing since April 2004. During fiscal 2004, Mr. Gardner took a leave of absence from EA. He previously held the position of Senior Vice President and Managing Director, European Publishing from May 1999 to April 2003. Prior to this, he held several positions in EA Europe, which he helped establish in 1987, including Director of European Sales and Marketing and Managing Director of EA Europe. Mr. Gardner has also held various positions at Electronic Arts in the sales, marketing and customer support departments since joining the company in 1983.

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

Investor Information

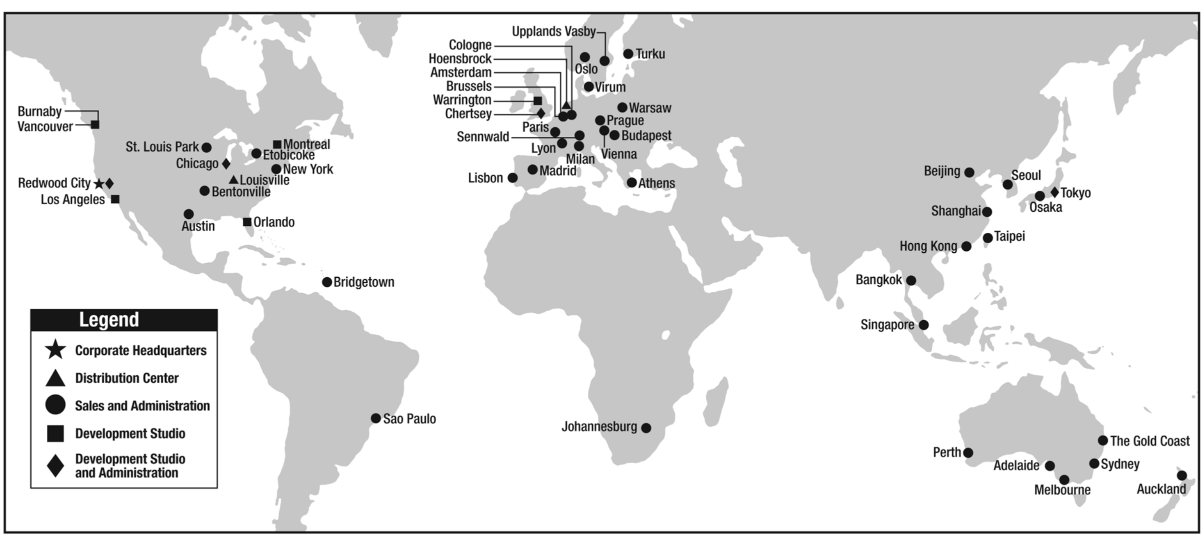
We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge on the Investor Relations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

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

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

Item 2: ***Properties***

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



We currently own a 207,000 square feet product development studio facility in Burnaby, British Columbia, Canada and a 122,000 square feet administrative, sales and development facility in Chertsey, England. In addition to the properties we own, we lease approximately 2.3 million square feet of facilities, including our headquarters in Redwood City, California, our studios in Los Angeles, California and Orlando, Florida, and our distribution center in Louisville, Kentucky. Our leased space is summarized as follows (in square feet):

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

Redwood City, California Headquarters

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

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

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

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

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

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

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

Item 3: *Legal Proceedings*

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

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

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

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

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

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

PART II

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

Market Information

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

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

Holders

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

Dividends

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

Issuer Purchases of Equity Securities

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

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

Item 6: ***Selected Financial Data***

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA
(In millions, except per share data)

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA (Continued)

(In millions)

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

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

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

OVERVIEW

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

About Electronic Arts

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

Overview of Financial Results

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

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

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

Management's Overview of Historical and Prospective Business Trends

Transition to Next-Generation Consoles. Our industry is cyclical and we believe it has entered into a transition stage heading into the next cycle. Over the course of the next eighteen months, we expect Sony, Microsoft and Nintendo to introduce new video game consoles into the market. During this transition, we intend to continue developing new titles for the current generation of video game consoles while we also make significant investments as we prepare to introduce products that operate on the next-generation consoles. We have and expect to continue to incur higher costs during this transition to next-generation consoles. We also expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. In addition, sales of video games for current generation consoles may begin to decline and consumers may defer game software purchases until the next-generation consoles become available. While we expect our sales and gross profit to increase in fiscal 2006, such increases may not offset the increased costs we have and expect to continue to incur during the transition. As we move through the transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

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

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

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

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

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

Foreign Exchange Impact. Given that a significant portion of our business is conducted internationally in foreign currency, fluctuations in currency prices can have a material impact on our results of operations. For example, the average exchange rate for the Euro, as compared to the U.S. dollar, increased from $1.17 per Euro during the twelve months ended March 31, 2004 to $1.25 per Euro during the twelve months ended March 31, 2005. As a result of the fluctuations in currency prices, we had a total foreign exchange benefit on net revenue of approximately $95 million during the twelve months ended March 31, 2005. Although we intend to continue to utilize foreign exchange forward and option contracts to either mitigate or hedge against some foreign currency exposures, we cannot predict the effect foreign currency fluctuations will have on us during fiscal 2006.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition, Sales Returns, Allowances and Bad Debt Reserves

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

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

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

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

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

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

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

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

Royalties and Licenses

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

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

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

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

Valuation of Long-Lived Assets

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

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

Income Taxes

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

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

RESULTS OF OPERATIONS

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

Comparison of Fiscal 2005 to Fiscal 2004

Net Revenue

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

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

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

North America

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

Europe

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

Asia Pacific

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

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

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

PlayStation 2

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

Xbox

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

Nintendo GameCube

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

PC

Net revenue from PC-based products increased from $470 million in fiscal 2004 to $531 million in fiscal 2005. As a percentage of total net revenue, sales of PC products increased by 1.1 percent in fiscal 2005. The increase in PC net revenue was primarily due to higher sales of products in The Sims, Lord of the Rings and Need for Speed franchises, partially offset by a decrease in sales of products in our Command and Conquer and SimCity franchises.

Mobility

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

Co-Publishing and Distribution

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

Subscription Services

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

Licensing, Advertising and Other

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

Cost of Goods Sold

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

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

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	% Change
$1,197	38.2%	$1,103	37.3%	8.5%

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

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

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

Marketing and Sales

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

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

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	$ Change	% Change
$391	12.5%	$ 370	12.5%	$21	5.4%

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

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

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

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

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

General and Administrative

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

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

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	$ Change	% Change
$221	7.1%	$185	6.3%	$36	19.8%

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

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

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

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

Research and Development

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

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

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	$ Change	% Change
$633	20.2%	$511	17.3%	$122	24.0%

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

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

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

Acquired In-process Technology

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

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

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

Interest and Other Income, Net

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

March 31, 2005	% of Net Revenue	March 31, 2004	% of Net Revenue	$ Change	% Change
$56	1.8%	$21	0.7%	$35	163.8%

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

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

Income Taxes

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

March 31, 2005	Effective Tax Rate	March 31, 2004	Effective Tax Rate	% Change
$221	30.5%	$220	27.5%	0.7%

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

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

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

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

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

Net Income

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

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

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

Comparison of Fiscal 2004 to Fiscal 2003

Net Revenue

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

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

North America

For fiscal 2004, net revenue in North America increased by 12.1 percent as compared to fiscal 2003. From a franchise perspective, the net revenue increase was primarily driven by higher sales of products released during the year ended March 31, 2004 in the following eight franchises: Need for Speed, NBA STREET, NFL STREET, Madden NFL, Def Jam, SSX, Tiger Woods/PGA TOUR and MVP Baseball. Increased sales in these franchises resulted in an increase in net revenue of $353 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003. Increases in net revenue from these franchises were partially offset by (1) a decrease in our Harry Potter franchise, as the fiscal 2004 title, *Harry Potter*™: *Quidditch*™ *World Cup*, had no associated movie release, while our fiscal 2003 product, *Harry Potter and the Chamber of Secrets,* was released in conjunction with the blockbuster movie of the same title, (2) the termination of our Square EA joint venture agreement, and (3) a decrease in net revenue in our Bond franchise as a result of the timing of the release of *James Bond 007: Everything or Nothing* (on all platforms except the Game Boy Advance) in the fourth quarter of fiscal 2004, as compared to the strong sales of *James Bond 007: NIGHTFIRE,* which was released in the third quarter of fiscal 2003. Together, lower sales in these franchises reduced net revenue by $177 million for the year ended March 31, 2004 as compared to the year ended March 31, 2003.

Europe

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

Asia Pacific

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

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

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

PlayStation 2

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

Xbox

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

Nintendo GameCube

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

Other consoles

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

PC

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

Mobility

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

Co-Publishing and Distribution

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

Subscription Services

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

Licensing, Advertising and Other

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

Operations by Segment

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

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

Cost of Goods Sold

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	% Change
$1,103	37.3%	$1,073	43.2%	2.8%

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

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

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

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

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

Marketing and Sales

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

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	$ Change	% Change
$370	12.5%	$332	13.4%	$38	11.4%

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

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

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

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

General and Administrative

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	$ Change	% Change
$185	6.3%	$131	5.3%	$54	41.2%

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

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

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

Research and Development

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	$ Change	% Change
$511	17.3%	$401	16.1%	$110	27.4%

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

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

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

Amortization of Intangibles

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	$ Change	% Change
$3	0.1%	$8	0.3%	$(5)	(63.4%)

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

Restructuring and Asset Impairment Charges

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

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

Fiscal 2004 Studio Restructuring

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

Fiscal 2003 Studio Restructuring

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

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

Fiscal 2003 Online Restructuring

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

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

Fiscal 2002 Online Restructuring

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

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

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

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

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

Interest and Other Income, Net

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

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

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

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

Income Taxes

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

March 31, 2004	Effective Tax Rate	March 31, 2003	Effective Tax Rate	% Change
$220	27.5%	$143	31.0%	53.3%

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

Net Income

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

March 31, 2004	% of Net Revenue	March 31, 2003	% of Net Revenue	$ Change	% Change
$577	19.5%	$317	12.8%	$260	82.1%

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

Impact of Recently Issued Accounting Standards

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Changes in Cash Flow

During the year ended March 31, 2005, we generated $634 million of cash from operating activities as compared to $669 million for the year ended March 31, 2004. This decline was primarily the result of (1) our overall decline in net income for fiscal 2005, (2) higher accounts receivable balances due to the timing of sales in the fourth quarter of fiscal 2005 and (3) higher cash payments for income taxes. These declines were partially offset by higher balances in our current liabilities. We expect to continue to generate significant operating cash flow in fiscal 2006. For the year ended March 31, 2005, our primary use of cash in non-operating activities consisted of net purchases of $1,446 million in short-term investments, $126 million in capital expenditures, primarily related to the expansions of our Los Angeles and Vancouver studios as well as upgrades to our worldwide ERP systems, $90 million for our purchase of a 19.9 percent investment in Ubisoft, $81 million for our acquisitions of 100 percent of Criterion and an additional 44 percent of DICE, and $41 million towards the repurchase and retirement of our common stock. These non-operating expenditures were partially offset by $241 million in proceeds from the sale of our common stock through stock plans and $16 million in proceeds from the sale of property during the year ended March 31, 2005. We anticipate making continued capital investments in our Vancouver studio during fiscal 2006 as well as completing the remaining $709 million of our $750 million share repurchase program by September 30, 2005.

Short-term investments and marketable equity securities

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

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

Receivables, net

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

Inventories

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

Other current assets

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

Accounts payable

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

Accrued and other liabilities

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

Financial Condition

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

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

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

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

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

Our ability to maintain sufficient liquidity could be affected by various risks and uncertainties including, but not limited to, those related to customer demand and acceptance of our titles on new platforms and new versions of our titles on existing platforms, our ability to collect our accounts receivable as they become due, successfully achieving our product release schedules and attaining our forecasted sales objectives, the impact of competition, the economic conditions in the domestic and international markets, seasonality in operating results, risks of product returns and the other risks described in the "Risk Factors" section below.

Contractual Obligations and Commercial Commitments

Letters of Credit

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

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

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

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

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

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

(1) See discussion on operating leases in the "Off-Balance Sheet Commitments" section herein and Note 9 of the Notes to Consolidated Financial Statements, included in Item 8 of this report, for additional information.

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

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

Transactions with Related Parties

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

OFF-BALANCE SHEET COMMITMENTS

Lease Commitments

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

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

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

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

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

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

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

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

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

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

Litigation

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

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

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

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

Director Indemnity Agreements

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

INFLATION

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

Rapid technology changes in our industry require us to anticipate, sometimes years in advance, which technologies we must implement and take advantage of in order to make our products and services competitive in the market. Therefore, we usually start our product development with a range of technical development goals that we hope to be able to achieve. We may not be able to achieve these goals, or our competition may be able to achieve them more quickly than we can. In either case, our products and services may be technologically inferior to our competitors', less appealing to consumers, or both. If we cannot achieve our technology goals within the original development schedule of our products and services, then we may delay their release until these technology goals can be achieved, which may delay or reduce revenue and increase our development expenses. Alternatively, we may increase the resources employed in research and development in an attempt to accelerate our development of new technologies, either to preserve our product or service launch schedule or to keep up with our competition, which would increase our development expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also require compatibility code and the consent of Microsoft and Sony in order to include online capabilities in our products for their respective platforms. As online capabilities for video game platforms become more significant, Microsoft and Sony could restrict our ability to provide online capabilities for our console platform products. If Microsoft or Sony refused to approve our products with online capabilities or significantly impacted the financial terms on which these services are offered to our customers, our business could be harmed.

Our international net revenue is subject to currency fluctuations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Risk

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

Foreign Currency Exchange Rate Risk

From time to time, we hedge some of our foreign currency risk related to anticipated foreign-currency-denominated sales transactions by purchasing option contracts that generally have maturities of 15 months or less. These transactions are designated and qualify as cash flow hedges. The derivative assets associated with our hedging activities are recorded at fair value in other current assets in the Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in fair value is initially reported as a component of accumulated other comprehensive income (loss), net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported in interest and other income, net in the Consolidated Statements of Operations. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements. The fair value of our foreign currency option contracts purchased and included in other current assets was $1 million as of both March 31, 2005 and 2004.

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

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

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

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

Interest Rate Risk

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

As of March 31, 2005 and 2004, our short-term investments were classified as available-for-sale and, consequently, recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of any tax effects, in stockholders' equity. Our portfolio of short-term investments consists of the following investment categories, summarized by fair value as of March 31, 2005 and 2004 (in millions):

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

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

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

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

Market Price Risk

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

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

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

Item 8: *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements

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

Financial Statement Schedule:

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

Schedule II — Valuation and Qualifying Accounts	107

Other financial statement schedules are omitted because the information called for is not required or is shown either in the Consolidated Financial Statements or the notes thereto.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions, share data in thousands)

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

See accompanying Notes to Consolidated Financial Statements.

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

(a) Consolidation

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

(b) Fiscal Year

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

(c) Reclassifications

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

(d) Use of Estimates

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

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

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

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

Short-term investments in debt and marketable equity securities are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"*. Our policy is to minimize the principal risk of our investment portfolio by earning returns based on current interest rates. Management determines the appropriate classification of its debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Securities classified as held-to-maturity are carried at amortized cost, which is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income, net. Debt securities not classified as held-to-maturity and marketable equity securities are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are included as a separate component of accumulated other comprehensive income or (loss), net of any related tax effect, in stockholders' equity. Realized gains and losses are calculated based on the specific identification method. We recognize an impairment charge when we determine a decline in the fair value of the securities below its cost basis is other-than-temporary.

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

(f) Inventories

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

(g) Property and Equipment, Net

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

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

Under the provisions of American Institute of Certified Public Accountants Statement of Position ("SOP") 98-1, *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"*, we capitalize costs associated with customized internal-use software systems that have reached the application development stage and meet recoverability tests. Such capitalized costs include external direct costs utilized in developing or obtaining the applications and payroll and payroll-related expenses for employees who are directly associated with the applications. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and ready for its intended purpose. The net book value of capitalized costs associated with internal-use software amounted to $28 million and $30 million as of March 31, 2005 and 2004, respectively, and are being depreciated on a straight-line basis over each project's estimated useful life that ranges from three to five years.

(h) Long-Lived Assets

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

(i) Goodwill

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

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

(j) Concentration of Credit Risk

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

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

(k) Revenue Recognition

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

- Evidence of an arrangement: We recognize revenue when we have evidence of an agreement with the customer reflecting the terms and conditions to deliver products.

- Delivery: Delivery is considered to occur when the products are shipped and risk of loss has been transferred to the customer. For online games and services, revenue is recognized as the service is provided.

- Fixed or determinable fee: If a portion of the arrangement fee is not fixed or determinable, we recognize that amount as revenue when the amount becomes fixed or determinable.

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

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

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

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

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

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

(l) Sales Returns and Allowances and Bad Debt Reserves

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

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

(m) Advertising Costs

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

(n) Software Development Costs

Research and development costs, which consist primarily of software development costs, are expensed as incurred. SFAS No. 86, *"Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed"*, provides for the capitalization of certain software development costs incurred after technological feasibility of the software is established or for development costs that have alternative future uses. Under our current practice of developing new products, the technological feasibility of the underlying software is not established until substantially all product development is complete, which generally includes the development of a working model. The software development costs that have been capitalized to date have been insignificant.

(o) Stock-based Compensation

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

Had compensation cost for our stock-based compensation plans been measured based on the estimated fair value at the grant dates in accordance with the provisions of SFAS No. 123, we estimate that our reported net income and net income per share would have been the pro forma amounts indicated below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for grants made under our stock-based compensation plans in fiscal 2005, 2004 and 2003:

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

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

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

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

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

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

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

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

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

(p) Foreign Currency Translation

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

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

(q) Impact of Recently Issued Accounting Standards

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

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

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

(2) FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

(c) Marketable Equity Securities

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

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

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

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

(d) Investments in Affiliates

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

For cost method investments with an aggregate cost of $3 million, we estimated that the fair value exceeded the cost basis of those investments. For the remaining $2 million, no adverse events or other impairment indicators have come to our attention suggesting that the investment is impaired. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of March 31, 2005. During fiscal 2004, no other-than-temporary impairments in investments in affiliates were recognized. However, during fiscal 2003, we determined that some of our cost method investments contained other-than-temporary impairments based on several factors such as the financial performance of the affiliate, our decision to no longer acquire or continue investing in the affiliate, the limited cash flow from future business arrangements and other information available, and a charge of $11 million was recorded to write-down these investments to their estimated fair market value.

(3) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Cash Flow Hedging Activities

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

Balance Sheet Hedging Activities

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

(4) BUSINESS COMBINATIONS

Criterion

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

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

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

Digital Illusions C.E.

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

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

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

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

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

Square Co., Ltd.

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

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

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

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill information is as follows (in millions):

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

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

Finite-lived intangible assets, net of accumulated amortization, as of March 31, 2005 and 2004, were $36 million and $18 million, respectively, and include costs for obtaining trade names and developed technologies. Amortization of intangibles for the fiscal years ended March 31, 2005, 2004 and 2003 was $6 million (of which $3 million was recognized in cost of goods sold), $3 million and $8 million, respectively. Finite-lived intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, typically from two to twelve years. As of March 31, 2005 and 2004, the weighted-average remaining useful life for finite-lived intangible assets was approximately 4.3 years and 7.5 years, respectively.

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

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

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

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

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

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

(6) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

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

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

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

Fiscal 2004 Studio Restructuring

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

Fiscal 2003 Studio Restructuring

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

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

Fiscal 2003 Online Restructuring

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

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

Fiscal 2002 Online Restructuring

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

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

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

(7) ROYALTIES AND LICENSES

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

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

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

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

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

	As of March 31,	
	2005	2004
Other current assets	$ 59	$ 31
Other assets	76	55
Royalty-related assets	$135	$ 86

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 March 31, 2005	As of March 31, 2004
Accrued liabilities	$ 88	$118
Other liabilities	33	42
Accrued royalties	$121	$160

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

(8) BALANCE SHEET DETAILS

(a) Inventories

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

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

(b) Property and Equipment, Net

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

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

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

(c) Accrued and Other Liabilities

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

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

(9) COMMITMENTS AND CONTINGENCIES

Lease Commitments and Residual Value Guarantees

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

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

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

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

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

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

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

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

Letters of Credit

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

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

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

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

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

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

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

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

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

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

Litigation

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

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

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

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

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

Director Indemnity Agreements

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

(10) INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(11) STOCKHOLDERS' EQUITY

(a) Preferred Stock

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

(b) Tracking Stock

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

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

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

(c) Share Repurchase Program

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

(12) EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

(a) Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan ("ESPP") program, which commenced in September 1991, whereby eligible employees may authorize payroll deductions of up to 10 percent of their compensation to purchase shares at 85 percent of the lower of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month purchase period. A new ESPP program, the 2000 Employee Stock Purchase Plan, was approved by the Board of Directors in May 2000 and commenced in August 2000. In addition, we have a stock purchase plan which was adopted without stockholder approval, the International Employee Stock Purchase Plan, which was terminated by the Board of Directors in connection with the amendment of the stockholder-approved Plan discussed below as of February 2003.

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

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

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

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

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

(b) Stock Option Plans

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

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

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

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

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

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

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

(In thousands, except weighted-average exercise price)

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

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

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

(In thousands, except weighted-average exercise price)

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

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

(In thousands, except exercise prices)

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

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

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

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

(c) 401(k) Plan

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

(13) INTEREST AND OTHER INCOME, NET

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

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

(14) COMPREHENSIVE INCOME

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

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

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

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

(15) NET INCOME (LOSS) PER SHARE

The following table summarizes the computations of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic EPS is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock options, restricted stock awards, warrants and other convertible securities using the treasury stock method. Effective August 2, 2004, each outstanding share of Class A common stock was reclassified as one share of common stock and prior year Class A common stock has been reclassified to reflect these amendments. See Note 11 in the Notes to Consolidated Financial Statements.

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

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

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

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

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

(16) RELATED PARTY TRANSACTIONS

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

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

(17) SEGMENT INFORMATION

SFAS No. 131, *"Disclosures About Segments of an Enterprise and Related Information"*, establishes standards for the reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way that management organizes our operating segments for making operational decisions and assessments of financial performance.

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

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

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

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

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

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

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

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

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

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

(18) QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

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

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

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

[c] Net income includes amortization of intangibles of $1 million, net of taxes.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

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

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

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

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

KPMG LLP

San Francisco, California
June 3, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Electronic Arts Inc.:

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

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

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

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

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

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

KPMG LLP

San Francisco, California
June 3, 2005

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

None.

Item 9A: ***Controls and Procedures***

Definition and Limitations of Disclosure Controls

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

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

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

Changes in Internal Controls

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

Item 9B: ***Other Information***

None.

PART III

Item 10: ***Directors and Executive Officers of the Registrant***

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

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

Item 11: ***Executive Compensation***

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

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

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

Item 13: ***Certain Relationships and Related Transactions***

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

Item 14: ***Principal Accounting Fees and Services***

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

PART IV

Item 15: ***Exhibits, Financial Statement Schedule***

(a) Documents filed as part of this report

1. Financial Statements: See Index to Consolidated Financial Statements under Item 8 on Page 59 of this report.

2. Financial Statement Schedule: See Schedule II on Page 107 of this report.

3. Exhibits: The following exhibits (other than exhibits 32.1 and 32.2, which are furnished with this report) are filed as part of, or incorporated by reference into, this report:

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

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

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

(*) Management contract or compensatory plan or arrangement.

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

(1) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

(2) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

(3) Incorporated by reference to exhibits filed with Registrant's Registration Statement on Form S-4, filed March 3, 1994 (File No. 33-75892).

(4) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant's Registration Statement on Form S-8, filed November 6, 1991 (File No. 33-32616).

(5) Incorporated by reference to exhibits filed with Registrant's Registration Statement on Form S-8, filed July 30, 1999 (File No. 333-84215).

(6) Incorporated by reference to exhibits filed with Registrant's Registration Statement on Form S-8, filed August 6, 2004 (File No. 333-117990).

(7) Incorporated by reference to exhibits filed with Registrant's Registration Statement on Form S-8, filed November 5, 2004 (File No. 333-120256).

(8) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1995.

(9) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1997.

(10) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 1999.

(11) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2004.

(12) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.

(13) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2001.

(14) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2002.

(15) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(16) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2002.

(17) Incorporated by reference to exhibits filed with Registrant's Annual Report on Form 10-K for the year ended March 31, 2003.

(18) Incorporated by reference to exhibits filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

(19) Incorporated by reference to exhibits filed with Amendment No. 2 to Registrant's Registration Statement on Form S-3, filed November 12, 2003 (File No. 333-102797).

SIGNATURES

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

ELECTRONIC ARTS INC.

By: /s/ Lawrence F. Probst III

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

Date: June 7, 2005

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

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

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Years Ended March 31, 2005, 2004 and 2003
(In millions)

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

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

ELECTRONIC ARTS INC.

2005 FORM 10-K ANNUAL REPORT

EXHIBIT INDEX

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

ADDITIONAL EXHIBITS ACCOMPANYING THIS REPORT:

32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(This page intentionally left blank)

(This page intentionally left blank)

ELECTRONIC ARTS INC.

Corporate Information

BOARD OF DIRECTORS

M. Richard Asher
Consultant
Former Chief Executive
Officer & President
PolyGram Records, Inc.

William J. Byron
(retiring July 2005)
Former President
Sanyo Electric
Consumer Products Division

Leonard S. Coleman
Senior Advisor
Major League Baseball

Gary M. Kusin
President & Chief
Executive Officer
FedEx Kinko's Office
& Print Services

Gregory B. Maffei
Chairman & Chief
Executive Officer
360networks Corporation

Timothy Mott
Chairman
All Covered

Vivek Paul
Vice Chairman
Wipro, Ltd. and
Chief Executive Officer
Wipro Technologies

Robert W. Pittman
Member of
Pilot Group Manager, LLC

Lawrence F. Probst III
Chairman & Chief
Executive Officer
Electronic Arts Inc.

Linda J. Srere
Marketing &
Advertising Consultant
Former President
Young & Rubicam Advertising

CORPORATE OFFICERS

Lawrence F. Probst III
Chairman & Chief
Executive Officer

Don A. Mattrick
President
Worldwide Studios

William B. Gordon
Executive Vice President
Chief Creative Officer

Warren C. Jenson
Executive Vice President
Chief Financial &
Administrative Officer

V. Paul Lee
Executive Vice President
Chief Operating Officer
Worldwide Studios

Joel Linzner
Executive Vice President
Business & Legal Affairs

Bruce E. McMillan
Executive Vice President
Group Studio Head
Worldwide Studios

J. Russell (Rusty) Rueff, Jr.
Executive Vice President
Human Resources & Facilities

Nancy L. Smith
Executive Vice President
General Manager
North American Publishing

Stephen G. Bené
Senior Vice President
General Counsel
& Corporate Secretary

Gerhard Florin
Senior Vice President
General Manager
European Publishing

David P. Gardner
Senior Vice President
International Publishing

Kenneth A. Barker
Vice President
Chief Accounting Officer

CORPORATE OFFICES

Corporate Headquarters
209 Redwood Shores Parkway
Redwood City, CA 94065
(650) 628-1500

North America
Bentonville, Arkansas
Burnaby, British Columbia
Vancouver, British Columbia
Emeryville, California
Los Angeles, California
Orlando, Florida
Chicago, Illinois
Louisville, Kentucky
St. Louis Park, Minnesota
New York, New York
Etobicoke, Ontario
Montreal, Quebec
Austin, Texas
Dallas, Texas

International
Adelaide, Australia
The Gold Coast, Australia
Melbourne, Australia
Perth, Australia
Sydney, Australia
Wayville, Australia
Vienna, Austria
Bridgetown, Barbados
Sao Paulo, Brazil
Beijing, China
Hong Kong, China
Shanghai, China
Prague, Czech Republic
Virum, Denmark
Chertsey, England
Guildford, England
Warrington, England
Turku, Finland
Lyon, France
Paris, France
Cologne, Germany
Athens, Greece
Budapest, Hungary
Milan, Italy
Osaka, Japan
Tokyo, Japan
Amsterdam, The Netherlands
Hoensbroeck, The Netherlands
Auckland, New Zealand
Oslo, Norway
Warsaw, Poland
Lisbon, Portugal
Singapore
Johannesburg, South Africa
Seoul, South Korea
Madrid, Spain
Upplands Vasby, Sweden
Buchs, Switzerland
Taipei, Taiwan
Bangkok, Thailand

AUDITORS

KPMG LLP
Independent Registered
Public Accounting Firm
San Francisco, California

TRANSFER AGENT

Wells Fargo Shareowner
Services
St. Paul, Minnesota

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available by contacting:

Investor Relations Department
Electronic Arts Inc.
209 Redwood Shores Parkway
Redwood City, CA 94065
(650) 628-7352

ANNUAL MEETING

The Company's Annual Meeting of Stockholders is scheduled to be held on July 28, 2005 at 2:00 P.M. at the Company's headquarters:

Electronic Arts Inc.
209 Redwood Shores Parkway
Building 250
Redwood City, CA 94065

209 Redwood Shores Parkway
Redwood City, CA 94065