

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, 2000
- 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, \$.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

Indicated 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.

The aggregate market value of the Registrant's common stock, \$.01 par value, held by non-affiliates of the Registrant on June 1, 2000 was \$2,269,355,144.

As of June 1, 2000 there were 64,638,382 shares of Registrant's common stock, \$.01 par value, outstanding.

Documents Incorporated by Reference

Portions of Registrant's definitive proxy statement (the "Proxy Statement") for its 2000 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

Portions of Registrant's definitive proxy statement for its Notice of Special Stockholders Meeting and Proxy Statement dated March 22, 2000 are incorporated by reference into Part I hereof.

This report consists of 80 sequentially numbered pages. The Exhibit Index is located at sequentially numbered page 80.

ELECTRONIC ARTS INC.
2000 FORM 10-K ANNUAL REPORT
Table of Contents

PAGE

PART I

Item 1.	Business	3
Item 2.	Properties	12
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	13
Item 4A.	Executive Officers of the Registrant	14

PART II

Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters	16
Item 6.	Selected Financial Data	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 8.	Financial Statements and Supplementary Data	44
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosures	71

PART III

Item 10.	Directors and Executive Officers of the Registrant	72
Item 11.	Executive Compensation	72
Item 12.	Security Ownership of Certain Beneficial Owners and Management	72
Item 13.	Certain Relationships and Related Transactions	72

PART IV

Item 14.	Exhibits, Financial Statement Schedule, and Reports on Form 8-K	73
Signatures		78
Exhibit Index		80

PART I

This Annual Report on Form 10-K, including Item 1 (“Business”) and Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”), contains forward-looking statements about circumstances that have not yet occurred. All statements, trend analysis and other information contained below relating to markets, our products and trends in revenue, as well as other statements including words such as “anticipate”, “believe” or “expect” and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks, and actual events or our actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. We will not necessarily update this information if any forward looking statement later turns out to be inaccurate. Risk and uncertainties that may affect our future results and performance include, but are not limited to those discussed under the heading “Risk Factors” below at pages 36 to 41.

ITEM 1: BUSINESS

Overview

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

We operate in two principal business segments globally:

- 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.

EA Core

We create, market and distribute interactive entertainment software for a variety of hardware platforms. As of March 31, 2000, our business was comprised of the following:

- Distribution of over 100 titles that we developed and/or published under one of our brand names in North America, including older titles marketed as “Classics” or “Publisher’s Choice.”
- Distribution of localized versions of our products in the rest of the world.
- Distribution of approximately 20 additional titles developed by other software publishers (that we refer to as Affiliated Labels) in North America and titles we have assisted in the development with other software publishers (referred to as Co-Published titles).
- Distribution of over 1,000 Affiliated Label and Co-Published titles in the rest of the world.

Since our inception, we have developed products for 38 different hardware platforms, including the following:

- IBM® PC and compatibles
- 16-bit Sega™ Genesis™ video game system
- 16-bit Super Nintendo Entertainment System®
- 32-bit Sony PlayStation®
- 64-bit Nintendo® 64
- 128-bit Sony PlayStation 2

Our product development methods and organization are modeled on those used in the entertainment industry. We also market our products with techniques borrowed from other entertainment companies such as record producers, magazine publishers and video distributors. Employees whom we call “producers”, who are responsible for the development of one or more products, oversee product development and direct teams comprised of both our employees and outside contractors. Our designers regularly work with celebrities and organizations in sports, entertainment and other areas to develop products that provide gaming experiences that are as realistic and interactive as possible. Celebrities and organizations with whom we have contracts include: FIFA, NASCAR, John Madden, the National Basketball Association, the PGA TOUR, Tiger Woods, the National Hockey League, World Championship Wrestling Inc., Football Association Premier League and Formula One. We maintain development studios in California, Canada, United Kingdom, Florida, Texas, Japan, Washington, Maryland, Australia and Nevada.

We invest in the creation of state-of-the-art software tools and utilities that are then used in product development. These tools allow for more cost-effective product development and the ability to more efficiently convert products from one hardware platform to

another. We have also made investments in facilities and equipment to facilitate the creation and editing of digital forms of video and audio recordings and product development efforts for new hardware platforms.

We distribute our products and those of our Affiliated Labels primarily by direct sales to retail chains and outlets in the United States and Europe. In Japan and the Asia Pacific region, we distribute products both directly to retailers and through third party distributors. Our products are available in over 79,000 retail locations worldwide. In fiscal 2000, approximately 40% of our net revenues were generated by international operations, compared to 42% in fiscal 1999 and 43% in fiscal 1998.

EA.com

On March 22, 2000, the stockholders of Electronic Arts voted on and approved a proposal (the "Tracking Stock Proposal") to authorize the issuance of a new series of common stock to be designated as Class B common stock ("Tracking Stock"), intended to reflect the performance of Electronic Arts' online and e-Commerce division ("EA.com"). As a result of the approval of the Tracking Stock Proposal, Electronic Arts' existing common stock has been re-classified as Class A common stock ("Class A Stock") and that stock will reflect the performance of Electronic Arts' other businesses ("EA Core").

EA.com, a division of Electronic Arts Inc., represents Electronic Arts' online and e-Commerce business. EA.com's online business includes subscription revenues collected for Internet game play on our websites, sales of Internet-based games and sales of Electronic Arts products sold through EA.com websites. Electronic Arts began development of its initial online product, *Ultima Online* during fiscal year 1996. We shipped *Ultima Online* during fiscal year 1998, and began development of our online business during the same year. EA.com's websites include EA.com, individual sites for Electronic Arts' games and the Games Channel on America Online, which will be launched in the second half of calendar 2000. Our goal is to be the leading online games site. To date, the majority of our subscription revenues and packaged goods revenues for online-only games have been generated by *Ultima Online* and *Ultima Online: The Second Age*, (collectively referred to as *Ultima Online*). The packaged good product is sold through our traditional distribution channel to various retailers. The *Ultima Online* product is then sold by the retail channel to the end customer who must sign up for EA.com's online service to enjoy online play on a month-to-month subscription basis. For a more detailed description of EA.com's online business, see Appendix IV of the Notice of Special Stockholders Meeting and Proxy Statement dated March 22, 2000.

Investments and Joint Ventures

Acquisitions

Kesmai Corporation

On February 7, 2000, we acquired Kesmai Corporation (now referred to as "Kesmai") from News America Corporation ("News Corp") in exchange for \$22,500,000 in cash and approximately 103,000 shares of Electronic Arts' existing common stock valued at \$8,650,000. The transaction was accounted for under the purchase method. Kesmai™ is managed by EA.com and specializes in the design and development of multiplayer games delivered directly to consumers over the Internet and is a major provider of game content to the Games Channel on the AOL service. The issuance of these shares was temporary, pending the authorization of Class B common stock. Subsequently, on March 22, 2000, Class B shares were authorized. The Company granted 5 percent of the initial equity attributable to EA.com to News Corp, adjusting the total common stock consideration relating to the acquisition by \$703,000 to \$9,353,000. The Company has contributed Kesmai to the EA.com division. See note 13 of the Notes to the Consolidated Financial Statements, included in item 8 hereof.

Westwood Studios

In September 1998, we completed the acquisition of Westwood Studios, Inc. and certain assets of the Irvine, California-based Virgin Studios (collectively "Westwood") for approximately \$122,688,000 in cash, including transaction expenses. The transaction was accounted for under the purchase method. Westwood is best known for its successful PC franchises, *Command and Conquer* and *Lands of Lore*. See note 13 of the Notes to the Consolidated Financial Statements, included in item 8 hereof.

ABC Software

In July 1998, we acquired ABC Software AG, in Switzerland, and ABC Software GmbH, in Austria (collectively "ABC"), independent distributors of entertainment, edutainment and application software, for approximately \$9,466,000 in cash (net of cash acquired of \$5,099,000) and \$570,000 in other consideration. The transaction has been accounted for under the purchase method. See note 13 of the Notes to the Consolidated Financial Statements, included in item 8 hereof.

Other Business Combinations

Additionally, during fiscal 2000 and fiscal 1999, we acquired four software development companies. See note 13 of the Notes to Consolidated Financial Statements, included in item 8 hereof.

Joint Ventures

In May 1998, Electronic Arts and Square Co., Ltd. ("Square"), a leading developer and publisher of entertainment software in Japan, completed the formation of two new joint ventures, in North America and Japan. In North America, the companies formed Square Electronic Arts, LLC ("Square EA"), which has exclusive publishing rights in North America for future interactive entertainment PlayStation titles created by Square. We own a 30% minority interest in this joint venture while Square owns 70%. Additionally, we have the exclusive right to distribute in North America products published by this joint venture.

In Japan, the companies established Electronic Arts Square KK ("EA Square KK"), which localizes and publishes in Japan our properties originally created in North America and Europe, as well as develops and publishes original video games in Japan. We own a 70% majority interest, while Square owns 30%. See note 13 of the Notes to the Consolidated Financial Statements, included in item 8 hereof.

Investments

We have made investments as part of our overall strategy and currently hold minority equity interests in several companies. As of March 30, 2000, our minority equity investments include investments in NovaLogic, Inc. and Firaxis Software, Inc.

Market

Historically, no hardware platform or video game system has achieved long-term dominance in the interactive entertainment market. In fiscal 2000, Sony's PlayStation was the dominant hardware platform in our industry. In addition, the installed base of multimedia-enabled home computers, including those with Internet accessibility, has continued to grow as personal computer, or PC, prices have declined and the quality and choices of software have increased dramatically. We develop and publish products for multiple platforms, and this diversification continues to be a cornerstone of our strategy.

The following table details select information on a sample of the hardware platforms for which we have published titles:

Manufacturer	Video Game Console / Platform Name	Date 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

Sega

Sega launched Dreamcast™ in Japan in December 1998 and in North America in September 1999. Sega designed Dreamcast to combine features from the console and PC platforms. We currently have no products in development for the Sega Dreamcast. See Risk Factors – "New video game platforms create additional technical and business model uncertainties".

Sony

Sony released the PlayStation 2 console in Japan in March 2000. Sony has announced the release of the PlayStation 2 console in the United States and Europe in the fall of 2000. The PlayStation 2 console is a 128-bit, Digital Versatile Disk ("DVD") based system that is Internet and cable ready, as well as backward compatible with the current PlayStation console software. We currently have various products under development for the Sony PlayStation 2 console. See Risk Factors – "New video game platforms create additional technical and business model uncertainties".

Nintendo

Nintendo announced that it will release a next generation system, code named Dolphin, in the first half of 2001. Dolphin will offer a DVD drive.

Microsoft

Microsoft announced that it expects to release its first video game system, code named Xbox™, in the fall of 2001.

New Entrants

New entrants into the interactive entertainment and multimedia industries, such as cable television, telephone, and diversified media and entertainment companies, in addition to a proliferation of new technologies, such as online networks and the Internet, have increased the competition in our markets. We are scheduled to release several online network gaming products during fiscal 2001. See Risk Factors – “New video game platforms create additional technical and business model uncertainties” and “The impact of e-Commerce and online games on our business is not known”.

The early investment in products for the 32-bit market, including both Compact Disk personal computer (or PC) and dedicated entertainment systems (that we call video game systems or consoles), has been strategically important in positioning us for the current generation of 32-bit and 64-bit machines. We believe that such investment continues to be important. PlayStation has achieved significant market acceptance in all geographical territories. However, as the PlayStation console market has matured and the next generation consoles are introduced, we expect sales of current PlayStation products to decline. In addition, our revenues and earnings are dependent on our ability to meet our product release schedule and our failure to meet those schedules could result in revenues and earnings which fall short of analysts’ expectations in any individual quarter. See Risk Factors – “Product development schedules are frequently unreliable and make predicting quarterly results difficult”.

Online Games

According to the market research firm, Jupiter Communications, online gamers (defined as individuals who have played online games within the past year) are expected to grow to 26.8 million Internet users by 2002 up from 3.7 million Internet users in 1998. Jupiter expects total online gaming market revenue to grow to \$2 billion by 2002. We believe the expected increases in online gaming will be primarily attributable to the following factors:

- Increasing popularity of PC gaming,
- Growing interest in multiplayer games,
- Growth in the number of households with PCs and Internet connections,
- General growth in internet usage, including the number of users, communities and increased frequency of use by consumers,
- Rapid innovation of new online entertainment experiences,
- Mass market adoption of broadband technologies, and
- Decreasing costs of Internet access.

Competition

EA Core

See Risk Factors – “Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products”.

EA.com

We believe EA.com faces substantial competition from a number of existing and potential competitors including:

- *Console & PC Game Publishers.* Other game publishers including *Sony Computer Entertainment of America (“Sony”), Nintendo, Sega, Hasbro, Mattel, Acclaim, Havas, Microsoft, Interplay, Infogrames* and *Eidos*, are each developing individual online games and games with online components. Currently, Sony (including the online divisions of Sony Entertainment) may have the broadest collection of online game offerings, which includes the online game, *Everquest*, a virtual world that directly competes with EA.com’s *Ultima Online* game. In addition, Sony operates the Sony Station, a site that offers family-oriented game shows. Each of these competitors may compete with EA.com for advertising, subscription and e-Commerce sales.
- *Portals.* With respect to advertising and e-Commerce sales, EA.com will also compete with general purpose consumer web sites such as Yahoo, Excite, Lycos, and Microsoft Network. In addition, many of these Internet portals offer gaming sites such as *Yahoo Games Channel, Excite Games Channel, Lycos Games Channel, and Microsoft Gaming Zone*. Although most of the game areas of these portals have attained modest reach, their key placement on powerful portals makes them potentially significant competitors for gaming subscriptions as well.
- *Family Oriented Game Sites.* A number of sites such as *Uproar.com, Gamesville.com, Disney’s go.com, Shockwave.com* and *Pogo.com* (formerly *TEN*), have driven significant amounts of traffic to their sites by offering unique games and entertainment content. In addition, several of the sites offer frequent prizes with easy to play “gamettes”. These sites are typically monetizing their traffic by selling advertising.
- *Aggregators.* Aggregators such as *Hearme.com, Pogo.com, Microsoft Gaming Zone* and *Heat.net*, provide an aggregation of various types of online games, including aggregation of games developed by independent third parties. While these sites have

been primarily focused on serving the gaming community, they have since adjusted their strategy to include games, such as parlor games, that reach a broader audience.

- *Sports Sites.* Sports content sites such as *ESPN.com*, *Sportsline.com* and *Foxsports.com* typically feature fantasy league games and easy to play sports “gamettes” in addition to their editorial content. Such fantasy league games and sports “gamettes” typically appeal to the overall sports fan, rather than the sports gamer. However, these sites have significant financial and content resources at their disposal and will provide competition for advertising and e-Commerce sales.
- *Microsoft Gaming Zone (“MGZ”).* *Microsoft* falls into a number of the foregoing categories, as it is a portal, an aggregator, and a publisher of PC Software Products, including game products. As such, *Microsoft’s* offerings are the closest parallel to the proposed offerings of *EA.com*. *MGZ* currently offers both family games and games directed towards the more serious gamer and, at the same time, has the opportunity to leverage these experiences with games sold at retail. At present, *MGZ* offers matchmaking for about 80 games and offers approximately 20 playable online games, which consist primarily of card and parlor games.

Relationships with Significant Hardware Platform Companies

Sony

In fiscal 2000, approximately 41% of our net revenues were derived from sales of software for the PlayStation compared to 43% in fiscal 1999. During fiscal 2000, we released 30 PlayStation games compared to 21 in fiscal 1999. Among these releases were *FIFA 2000*, *Tomorrow Never Dies*, *Madden NFL 2000*, *NBA 2000* and *Knockout Kings™ 2000*. The volume of sales of our PlayStation products significantly increased in fiscal 2000 due to more titles being released in the current fiscal year compared to the prior year. Sony has announced the release of the PlayStation 2 console in the United States and Europe in the fall of 2000. Although our PlayStation products will be playable on the PlayStation 2 console, we expect sales of current PlayStation products to decline in fiscal 2001. See Risk Factors – “Product development schedules are frequently unreliable and make predicting quarterly results difficult”.

Under the terms of a licensing agreement entered into with Sony Computer Entertainment of America in July 1994 (the “Sony Agreement”), as amended, we are authorized to develop and distribute CD-based software products compatible with the PlayStation. Pursuant to the Sony Agreement, we engage Sony to supply its PlayStation CDs for distribution by us. Accordingly, we have limited ability to control our supply of PlayStation CD products or the timing of their delivery. See Risk Factors – “Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products”.

Nintendo

During fiscal 2000, we released eight titles for the N64® compared to nine titles in fiscal 1999. In fiscal 2000, approximately 8% of our net revenues were derived from the sale of N64 products compared to 12% in 1999. The decrease in N64 revenues for fiscal 2000 compared to the same period last year was due to the weak market for N64 products as well as strong comparisons of *World Cup 98* in the prior year. We expect revenues from N64 products to continue to decline significantly in fiscal 2001.

Under the terms of the N64 Agreement, we engage Nintendo to manufacture our N64 cartridges for distribution by us. Accordingly, we have limited ability to control our supply of N64 cartridges or the timing of their delivery. A shortage of microchips or other factors outside our control could impair our ability to obtain an adequate supply of cartridges.

In connection with our purchases of N64 cartridges for distribution in North America, Nintendo requires us to provide irrevocable letters of credit prior to Nintendo’s acceptance of purchase orders from us for purchases of these cartridges. For purchases of N64 cartridges for distribution in Japan and Europe, Nintendo requires us to make cash deposits. Furthermore, Nintendo maintains a policy of not accepting returns of N64 cartridges. Because of these and other factors, the carrying of an inventory of cartridges entails significant capital and risk. See Risk Factors – “Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products”.

Relationships with Internet Service Providers

America Online, Inc. (“AOL”)

Our agreement with AOL establishes the basis for *EA.com’s* creation of a games site on the world wide web that will be available to AOL subscribers via the Games Channel on the AOL’s flagship ISP service and to other consumers who use other AOL portals (*AOL.com*, *CompuServe*, *Netscape/Netcenter*, *ICQ* and *Digital City*) as their base for navigating the web. Users will also be

able to access the EA.com website directly from the world wide web. EA.com will be AOL's exclusive provider of a broad aggregation of online games and will program and manage all of the Games Channel content within AOL's flagship ISP service in the United States. In addition, EA.com will program and manage the game channels on *AOL.com*, *CompuServe*, *Netcenter/Netscape* and *ICQ*. Within any of these AOL properties, users will be able to find a games channel or area which will provide the user access to EA.com games. According to the April 2000 Media Metrix reports, the total number of unique monthly visitors to the AOL branded properties that will have access to the EA.com games site was 53 million. Via an anchor tenant location, EA.com will also be a non-exclusive provider of games on AOL's Digital City property, the leading branded local content network and community guide on the AOL service and the Internet. For the terms of the AOL agreement, see Note 5 of the Notes to Consolidated Financial Statements, included in item 8 hereof.

Products and Product Development

In fiscal 2000, we generated approximately 56% of our revenues from products released during the year. See Risk Factors – "Product development schedules are frequently unreliable and make predicting quarterly results difficult". As of March 31, 2000, we were actively marketing over 100 titles, comprising over 150 stock keeping units, or sku's, that were published by our development divisions and subsidiaries, EA Studios. During fiscal 2000, we introduced over 48 EA Studios titles, representing over 69 sku's, compared to 38 EA Studios titles, comprising over 59 sku's, in fiscal 1999.

The products published by EA Studios are designed and created by our in-house designers and artists and by independent software developers ("independent artists"). We typically pay the independent artists royalties based on the sales of the specific products, as defined in the related independent artist agreements.

For fiscal 2000, 1999 and 1998, no title represented revenues greater than 10% of the total fiscal 2000, 1999 and 1998 net revenues.

We publish products in a number of categories such as sports, action and interactive movies, strategy, simulations, role playing and adventure, each of which is becoming increasingly competitive. Our sports-related products, marketed under the EA Sports brand name, accounted for a significant percentage of net revenues in fiscal years 2000 and 1999. There can be no assurance that we will be able to maintain our market share in the sports category.

The front line retail selling prices in North America of our products, excluding older titles (marketed as "Classics" and "Publisher's Choice"), typically range from \$35.00 to \$55.00. "Classics" and "Publisher's Choice" titles have retail selling prices that range from \$10.00 to \$30.00. The retail selling prices of EA titles outside of North America vary based on local market conditions.

We currently develop or publish products for five different hardware platforms. In fiscal 2000, our product releases were predominantly for PlayStation, PC and N64. Our planned product introductions for fiscal 2001 are predominantly for the PC, PlayStation, PlayStation 2, online Internet play and N64. See Risk Factors – "Product development schedules are frequently unreliable and make predicting quarterly results difficult" and "New video game platforms create additional technical and business model uncertainties".

Compact disks are the preferred medium for interactive entertainment, education, and information software, therefore, we are continuing our investment in the development of CD-ROM tools and technologies in fiscal 2001. We are also investing in the development of DVD tools and technologies associated with the introduction of the next generation video game console platforms. Our goal is to be the market leader on the next generation of video game consoles. We are also increasing the investment in the development of tools and technologies for online Internet game play and wide-area network infrastructure. Our goal is to be the leading provider of interactive entertainment on the Internet. PlayStation has achieved significant market acceptance in all geographic territories, however, as the PlayStation console market has reached maturity, we expect sales of current PlayStation products to decline in fiscal 2001. Most of the console video game products will be convertible for use on multiple advanced hardware systems. We had research and development expenditures of \$260.8 million in fiscal 2000, \$199.1 million in fiscal 1999, and \$145.7 million in fiscal 1998. See Risk Factors – "Product development schedules are frequently unreliable and make predicting quarterly results difficult".

EA.com Web Site

Content. EA.com intends to offer games within three broad categories of interest: sports, family entertainment, and avid gaming. Each channel will focus on targeting and serving its specific consumer group 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 multi-player 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.

In addition, the product offering of each broad category will include existing Electronic Arts franchises adapted for game play on the Internet, as well as additional original games for online play. EA.com's products will be offered to consumers within the appropriate "channels" on the site. It is anticipated that the offerings will incorporate some or all of the following:

- *Sports*. EA.com intends to leverage existing Electronic Arts' franchises, such as *PGA® Tour/Tiger Woods Golf®* and *Knockout Kings™*, to develop a community of sports gamers. In addition, EA.com will offer unique, original online sports gaming experiences, sports game shows and support of existing EA packaged goods products with services such as matchmaking, game updates, product downloads and game tips.
- *Family Entertainment*. The EA.com family games offering will consist of card games, board games, casino games, trivia games, game shows and other products with mass-market appeal. This channel will leverage cash prizes, merchandise prizes, tournaments and community.
- *Avid Gaming*. The general gaming offering will be directed at teens and adults looking to participate in games made up of fantastic worlds, characters, adventures or activities--big or small, real or imagined. This offering will feature immersive experiences and sophisticated game play appealing to dedicated gamers, as well as new forms of cutting-edge Internet entertainment. This offering will capitalize on the success of our existing *Ultima Online* product as well as Electronic Arts' existing packaged goods franchises.

Marketing and Distribution

Electronic Arts Distribution

We distribute EA Studio, Affiliated Label and Co-Published products.

Affiliated Label products are delivered to us as completed products. Co-Published products are titles we have assisted in developing with other software publishers. As of March 31, 2000, we distributed approximately 20 Affiliated Label and Co-Published titles in North America and over 1,000 Affiliated Label and Co-Published titles in the rest of the world. No single Affiliated Label Publisher has accounted for more than 10% of our net revenue in any of the last three fiscal years.

In May 1998, Electronic Arts and Square Co., Ltd. formed a new joint venture in North America, creating Square Electronic Arts, LLC ("Square EA") as discussed in note 13 in the Notes to the Consolidated Financial Statements, included in item 8 hereof. In conjunction with the formation of this joint venture, we have the exclusive right in North America to distribute products published by this joint venture. In fiscal 2000, Square EA published *Final Fantasy VIII* for the PlayStation, which was a top five selling title for Electronic Arts.

We generated approximately 90% of our North American net revenues from direct sales to retailers through a field sales organization of professionals and a group of telephone sales representatives. The remaining 10% 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. For the fiscal years ended March 31, 2000 and March 31, 1999, we had sales to one customer, Wal-Mart Stores, Inc., which represented 12% of total net revenues. We had no sales to any one customer in excess of 10% of total net revenues for the fiscal year ended March 31, 1998.

The video game and PC businesses have become increasingly "hits" driven, requiring significantly greater expenditures for marketing and advertising, particularly for television advertising. 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 have stock-balancing programs for our personal computer products that, under certain circumstances and up to a specified amount, allow for the exchange of personal computer products by resellers. We also typically provide for price protection for our personal computer and video game system products that, under certain conditions, allows the reseller a price reduction from us for unsold products. We maintain a policy of exchanging products or giving credits, but do not give cash refunds. Moreover, the risk of product returns may increase as new hardware platforms become more popular or market factors force us to make changes in our distribution system. We 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. We believe that we provide adequate reserves for returns and price protection which are based on estimated future returns of products, taking into account promotional activities, the timing of new product introductions, distributor and retailer inventories of our products and other factors. We believe our current reserves will be sufficient to meet return and price protection requirements for current in-channel inventory. However, there can be no assurance that actual returns or price protection will not exceed our reserves.

We also have a fulfillment group that sells product directly to consumers through a toll-free number and through our websites listed in advertising by us and our Affiliated Labels. This group is also responsible for targeted direct mail marketing and sells product backups and accessories to registered customers.

The distribution channels through which consumer software products are sold have been characterized by change, including consolidations and financial difficulties of certain distributors and retailers and the emergence of new retailers such as general mass merchandisers. The development of remote and electronic delivery systems will create further changes. 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 these 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 for which there is intense competition. 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.

Segment Reporting

As a result of the approval of the Tracking Stock proposal to authorize issuance of a new series of common stock designated as Class B common stock, intended to reflect the performance of EA.com, management considers EA.com a separate reportable segment. Accordingly, prior period information has been restated to disclose separate segments. The Company operates in two principal business segments globally:

- 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.

Please see the discussion regarding segment reporting in the MD&A and Note 18 of the Notes to Consolidated Financial Statements.

International Operations

We have wholly owned subsidiaries throughout the world, including offices in the United Kingdom, France, Spain, Germany, Australia, Canada, South Africa, Singapore, Sweden, Japan, Malaysia, Brazil and Holland. The amounts of net revenues, operating profit and identifiable assets attributable to each of our geographic regions for each of the last three fiscal years are set forth in Note 18 of the Notes to the Consolidated Financial Statements, included in item 8 hereof.

International net revenues increased by 11% to \$573,374,000, or 40% of consolidated fiscal 2000 net revenues, compared to \$516,865,000, or 42% of consolidated fiscal 1999 net revenues due to the following:

- Europe's net revenues increased by 11% primarily due to an increase in sales of PC titles including *Command and Conquer: Tiberian Sun*, *Sim City 3000* and *The Sims* as well as an increase in PlayStation revenues due to the success of *FIFA 2000*, *Tomorrow Never Dies* and *F1 2000*. These increases were partially offset by an expected decline in sales of N64 products. Overall European revenues were adversely impacted by a devaluation of the Euro compared to the same period last year.
- Asia Pacific's net revenues increased 20% due to PC sales of *Command and Conquer: Tiberian Sun* and *Sim City 3000*.
- Japan's net revenues were flat compared to the prior year. PC and Affiliated Label revenues increased, offset by a decrease in PlayStation product sales primarily due to strong sales of *FIFA: Road to World Cup* and *World Cup 98* in the prior year.

Though international revenues are expected to grow in fiscal 2001, international revenues may not grow at as high a rate as in prior years. See Risk Factors – “Our business, our products, and our distribution are subject to increasing regulation in key territories” and “Foreign Sales and Currency Fluctuations”.

Manufacturing and Suppliers

Materials

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 with respect to our PlayStation and N64 products, as previously mentioned. 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 or other factors beyond our control could impair our ability to manufacture, or have manufactured, our products. See Risk Factors – “Our platform licensors are our chief competitors and frequently control the manufacturing of our video game products”.

Consultants

As of March 31, 2000, approximately 25% of the staff creating, designing and developing the infrastructure of EA.com's website and network interface is being provided by outside consultants such as Andersen Consulting and Proxicom. See Risk Factors

– “If we do not maintain our relationship with outside consultants such as Andersen Consulting and Proxicom, our ability to develop our online business will be impaired”.

Backlog

We normally ship products within a few days after receipt of an order. However, a backlog may occur for EA Studio and Affiliated Label products that have been announced for release but not yet shipped. We do not consider backlog to be an indicator of future performance.

Seasonality

Our business is highly seasonal. We typically experience our highest revenues and profits in the calendar year-end holiday season and a seasonal low in revenues and profits in the quarter ending in June. In our 2001 fiscal year, and particularly in the June and September quarters, we expect these seasonal trends to be magnified by general industry factors, including the current platform transition and the concentration of our product releases in the second half of fiscal 2001. In addition, we are continuing to invest significantly in our online operation, EA.com. Accordingly, we expect significant operating losses in the first half of fiscal 2001. See Risk Factors – “Platform transitions such as the one now occurring typically depress the market for video game software until new platforms achieve a wide market acceptance” and “Our business is both seasonal and cyclical”.

Employees

As of March 31, 2000, we employed approximately 3,100 people, of whom over 1,300 were outside the United States. Of this amount, there were approximately 300 EA.com full-time employees. We believe that our ability to attract and retain qualified employees is an important factor in our growth and development 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. See Risk Factors – “We face intense competition for talent from highly valued Internet companies” and “Because of the intense competition for qualified technical, creative, marketing and other personnel, we may not be able to attract and retain the personnel necessary for our business”.

ITEM 2: PROPERTIES

Our principal administrative, sales and marketing, research and development, and support facility is located in two modern buildings in Redwood City, California, 20 miles south of San Francisco. We moved into this facility in October 1998. We presently occupy approximately 350,000 sq. ft. in these buildings under an operating lease for the buildings and certain adjoining land that will expire on December 1, 2001. Monthly lease payments vary based upon the London InterBank Offered Rate. We have the option to purchase the property for the unamortized financed balance at any time after the non-cancelable lease term, or we may terminate the lease at any time after the non-cancelable term by arranging a third party sale or by making a termination payment. In April 1999, we exercised our option to purchase a parcel of land under the lease and sold it to a third party. The proceeds will mitigate a portion of the occupancy costs for this facility. Should we elect to terminate the lease, we will guarantee a residual value of up to 85% of the unamortized value of the property. As part of the agreement, we must also comply with certain financial covenants.

Our North American distribution is supported by a newly centralized and expanded warehouse facility in Louisville, Kentucky occupying 250,000 sq. ft. The Hayward distribution center was closed in fiscal 2001 in conjunction with the expansion of our Louisville, Kentucky facility. We also occupy sales offices in the metropolitan areas of Toronto, Chicago, Dallas and New York.

In addition to our Redwood City development studio, we own a 206,000 sq. ft. development facility in Burnaby, British Columbia, Canada and rent a 33,000 sq. ft. facility in Seattle, Washington. The move to the new Canadian offices was completed in June 1999. We also own a 180,000 sq. ft. development facility in Austin, Texas, and lease development facilities in Walnut Creek and Carlsbad, California and Charlottesville, Virginia.

We own a 101,000 sq. ft. administrative and sales facility in Chertsey, England, which our United Kingdom subsidiary moved into in March 2000. In Europe, we also lease a distribution hub in Heerlen, Holland and an administrative and sales facilities in Germany, as well as sales and distribution facilities in: Madrid, Spain; Johannesburg, South Africa; and Sennwald Switzerland. Additionally, we have sales and administrative offices throughout Europe.

In Asia and the South Pacific, we maintain a 5,500 sq. ft. sales and distribution facility in Brisbane, Australia. We also have sales and distribution facilities in Singapore, Malaysia and Taiwan, and representative offices in Beijing, Hong Kong and Shanghai, China. We also maintain a 27,000 sq. ft. sales and development office in Tokyo, Japan. See Notes 4 and 11 of the Notes to the Consolidated Financial Statements, included in Item 8 hereof.

We believe that these facilities are adequate for our current needs. We believe that suitable additional or substitute space will be available as needed to accommodate our future needs.

ITEM 3: LEGAL PROCEEDINGS

We are subject to pending claims and litigation. Management, after review and consultation with counsel, considers that any liability from the disposition of such lawsuits would not have a material adverse effect upon our consolidated financial condition or results of operations.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Special Meeting of Stockholders, held on March 22, 2000, the following matters were voted upon by the Stockholders:

Amendment and Restatement of the Certificate of Incorporation (Tracking Stock Proposal).

Votes		
<u>For</u>	<u>Against</u>	<u>Abstain</u>
44,913,392	1,053,403	6,989,594

To approve Electronic Arts Inc. 2000 Class B Equity Incentive Plan.

Votes		
<u>For</u>	<u>Against</u>	<u>Abstain</u>
30,491,221	15,829,074	6,636,094

To approve Electronic Arts Inc. 2000 Class A Equity Incentive Plan.

Votes		
<u>For</u>	<u>Against</u>	<u>Abstain</u>
36,883,249	16,044,180	28,960

ITEM 4A: EXECUTIVE OFFICERS OF THE REGISTRANT

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lawrence F. Probst III	50	Chairman and Chief Executive Officer
Don A. Mattrick	36	President, Worldwide Studios
John S. Riccitiello	40	President and Chief Operating Officer
William B. Gordon	50	Executive Vice President and Chief Creative Officer
E. Stanton McKee, Jr.	55	Executive Vice President and Chief Financial and Administrative Officer
Nancy L. Smith	47	Executive Vice President and General Manager, North American Publishing
Ruth A. Kennedy	45	Senior Vice President, General Counsel and Secretary
J. Russell Rueff, Jr.	38	Senior Vice President, Human Resources
David L. Carbone	49	Vice President, Finance

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. Prior to this, he served as Executive Vice President, North American Studios, since October 1996. 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 us in 1991.

Mr. Riccitiello has served as President and Chief Operating Officer since October 1997. Prior to joining Electronic Arts, Mr. Riccitiello served as President and Chief Executive Officer of the worldwide bakery division at Sara Lee Corporation. Before joining Sara Lee, he served as President and CEO of Wilson Sporting Goods Co. and has also held executive management positions at Haagen-Dazs, PepsiCo, Inc. and The Clorox Company. Mr. Riccitiello holds a degree in Economics and Marketing from the University of California, Berkeley.

Mr. Gordon has served as Executive Vice President and Chief Creative Officer since March 1998. Prior to this, he served as Executive Vice President, Marketing since October 1995. From August 1993 to October 1995, he served as Executive Vice President of EA Studios and as Senior Vice President of Entertainment Production since February 1992. He also served as Senior Vice President of Marketing, as General Manager of EA Studios, as Vice President of Marketing, as Director of Advertising and as Vice President of our former entertainment division while employed by us. Mr. Gordon holds a B.A. degree from Yale University and an M.B.A. degree from Stanford University.

Mr. McKee joined Electronic Arts in March 1989 and is currently Executive Vice President and Chief Financial and Administrative Officer. Prior to October 1996, he served as Senior Vice President and Chief Financial and Administrative Officer. Mr. McKee holds B.A. and M.B.A. degrees from Stanford University and is also a Certified Public Accountant.

Ms. Smith has served as Executive Vice President and General Manager, North American Publishing since March 1998. Prior to this, she served as Executive Vice President, North American Sales since October 1996. 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.

Ms. Kennedy has been employed by Electronic Arts since February 1990. She served as Corporate Counsel until March 1991 and is currently Senior Vice President, General Counsel and Secretary. Prior to October 1996, she served as Vice President, General Counsel and Secretary. Ms. Kennedy was elected Secretary in September 1994. Ms. Kennedy is a member of the State Bars of California and New York and received her B.A. degree from William Smith College and her Juris Doctor from the State University of New York.

Mr. Rueff has served as Senior Vice President of Human Resources since October of 1998. 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.

Mr. Carbone has been with Electronic Arts since February 1991 as Vice President, Finance. He was elected Assistant Secretary of the Company in March 1991. Mr. Carbone holds a B.S. degree in accounting from King's College and is a Certified Public Accountant.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the National Market under the symbol "ERTS". The following table sets forth the quarterly high and low closing sales prices of our Common Stock from April 1, 1998 through March 31, 2000. Such prices represent prices between dealers and does not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	<u>Closing Sales Prices</u>	
	<u>High</u>	<u>Low</u>
Fiscal Year Ended March 31, 1999:		
First Quarter	\$ 54.81	\$41.63
Second Quarter	55.56	38.13
Third Quarter	56.00	33.88
Fourth Quarter	52.19	38.25
Fiscal Year Ended March 31, 2000:		
First Quarter	\$ 54.81	\$45.63
Second Quarter	76.19	52.88
Third Quarter	120.94	66.44
Fourth Quarter	102.19	69.00

There were approximately 2000 holders of record of our Common Stock as of June 1, 2000. We believe that a significant number of beneficial owners of our Common Stock hold their shares in street names.

Dividend Policy

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

ITEM 6: SELECTED FINANCIAL DATA**ELECTRONIC ARTS AND SUBSIDIARIES
SELECTED FIVE-YEAR FINANCIAL DATA**

Years Ended March 31 (In thousands, except per share data)

INCOME STATEMENT DATA	2000	1999	1998	1997	1996
Net revenues	\$1,420,011	\$1,221,863	\$908,852	\$673,028	\$587,299
Cost of goods sold	705,808	627,823	481,233	328,943	291,491
Gross profit	714,203	594,040	427,619	344,085	295,808
Operating expenses:					
Marketing and sales	188,628	163,407	128,308	102,072	85,771
General and administrative	92,502	76,219	57,838	48,489	37,711
Research and development	260,759	199,141	145,732	130,755	108,043
Charge for acquired in-process technology	6,539	44,115	1,500	-	2,232
Merger costs	-	-	10,792	-	-
Amortization of intangibles	11,989	5,880	-	-	-
Total operating expenses	560,417	488,762	344,170	281,316	233,757
Operating income	153,786	105,278	83,449	62,769	62,051
Interest and other income, net	16,028	13,180	24,811	13,279	7,514
Income before provision for income taxes and minority interest	169,814	118,458	108,260	76,048	69,565
Provision for income taxes	52,642	45,414	35,726	26,003	22,584
Income before minority interest	117,172	73,044	72,534	50,045	46,981
Minority interest in consolidated joint venture	(421)	(172)	28	1,282	(304)
Net income	\$116,751 ^(a)	\$72,872 ^(b)	\$72,562 ^(c)	\$51,327	\$46,677 ^(d)
Net income per share amounts:					
Basic	\$1.86 ^(a)	\$1.20 ^(b)	\$1.23 ^(c)	\$0.89	\$0.84 ^(d)
Diluted	\$1.76 ^(a)	\$1.15 ^(b)	\$1.19 ^(c)	\$0.86	\$0.80 ^(d)
Number of shares used in computation:					
Basic	62,830	60,748	58,867	57,544	55,685
Diluted	66,371	63,272	60,958	59,557	58,190

**BALANCE SHEET DATA AT FISCAL
YEAR END**

Cash, cash equivalents and short-term investments	\$339,804	\$312,822	\$374,560	\$268,141	\$190,873
Marketable securities	236	4,884	3,721	5,548	37,869
Working capital	440,021	333,256	408,098	284,863	247,001
Long-term investments	8,400	18,400	24,200	34,478	30,319
Total assets	1,192,312	901,873	745,681	584,041	489,496
Total liabilities	265,302	236,209	181,713	136,237	108,668
Minority interest	3,617	2,733	-	28	1,277
Total stockholders' equity	923,393	662,931	563,968	447,776	379,551

Note: The selected five-year financial data has been restated to reflect the acquisition of Maxis, Inc. which was accounted for as a pooling of interest.

- (a) Net income and net income per share include one-time acquisition related charges of \$4.5 million, net of taxes, incurred in connection with the acquisition of Kesmai and other business combinations made during the year as well as goodwill amortization of \$8.3 million, net of taxes.
- (b) Net income and net income per share include one-time acquisition related charges of \$37.5 million, net of taxes, incurred in connection with the acquisition of Westwood Studios and other business combinations made during the year as well as goodwill amortization of \$4.0 million, net of taxes.
- (c) Net income and net income per share include one-time acquisition related charges of \$1.0 million, net of taxes, incurred in connection with the acquisition of the remaining minority ownership interest in Electronic Arts Victor, Inc. as well as merger costs of \$7.2 million, net of taxes, associated with the merger with Maxis, offset by a one-time gain on sale of Creative Wonders, LLC in the amount of \$8.5 million, net of taxes.
- (d) Net income and net income per share include one-time acquisition related charges of \$1.5 million, net of taxes, incurred in connection with the acquisition of Cinematronics LLC made by Maxis prior to the Maxis merger with Electronic Arts.

Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for discussions of EA Core and EA.com proforma financial statements.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements about circumstances that have not yet occurred. All statements, trend analysis and other information contained below relating to markets, our products and trends in revenue, as well as other statements including words such as "anticipate", "believe" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and actual events or our actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. 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 and performance include, but are not limited to those discussed under the heading "Risk Factors" at pages 36 to 41 of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Comparison of Fiscal 2000 to 1999:

Revenues

We derive revenues primarily from shipments of entertainment software, which includes EA Studio products for dedicated entertainment systems (that we call video game systems or consoles such as PlayStation and Nintendo 64), EA Studio personal computer products (or PC), and Affiliated Label (or AL) products that are published by third parties and distributed or co-published by us. We also derive revenues from licensing of EA Studio products and Affiliated Label products through hardware companies (or OEMs) and online subscription revenues.

Information about our net revenues for North America and foreign areas for fiscal 2000 and 1999 is summarized below (in thousands):

	2000	1999	Increase	% change
North America	\$ 846,637	\$ 704,998	\$141,639	20.1 %
Europe	492,430	443,937	48,493	10.9 %
Asia Pacific	47,573	39,560	8,013	20.3 %
Japan	33,371	33,368	3	0.0 %
International	573,374	516,865	56,509	10.9 %
Consolidated Net Revenues	\$1,420,011	\$1,221,863	\$198,148	16.2 %

North America Net Revenues

The increase in North America net revenues for fiscal 2000 compared to fiscal 1999 was primarily attributable to:

- A 52% increase in PC revenues due to strong sales of *Command and Conquer: Tiberian Sun*, *Sim City 3000* as well as the fourth quarter shipment of *The Sims* in fiscal 2000.
- A 20% increase in PlayStation revenues due to more titles released during fiscal 2000 including *Madden NFL 2000*, *NBA 2000* and *Tomorrow Never Dies* as compared to fiscal 1999.
- A 17% increase in AL revenues primarily due to the shipment of titles published by Square EA offset by the loss of an affiliate, Accolade, due to its acquisition by a third party in the first quarter of the current fiscal year.
- These increases were partially offset by an expected decline in sales of Nintendo 64 ("N64") products.

International Net Revenues

The increase in international net revenues for fiscal 2000 compared to fiscal 1999 was attributable to the following:

- Europe's net revenues increased by 11% primarily due to an increase in sales of PC titles including *Command and Conquer: Tiberian Sun*, *Sim City 3000* and *The Sims* as well as an increase in PlayStation revenues due to the success of *FIFA 2000*, *Tomorrow Never Dies* and *F1 2000*. These increases were partially offset by an expected decline in sales of N64 products. Overall European revenues were adversely impacted by a devaluation of the Euro compared to the same period last year.
- Asia Pacific's net revenues increased 20% due to PC sales of *Command and Conquer: Tiberian Sun* and *Sim City 3000*.
- Japan's net revenues were flat compared to the prior year. PC and Affiliated Label revenues increased, offset by a decrease in PlayStation product sales primarily due to strong sales of *FIFA: Road to World Cup* and *World Cup 98* in the prior year.

Information about our net revenues by product line for fiscal 2000 and 1999 is presented below (in thousands):

	2000	1999	Increase/ (Decrease)	% change
<u>EA Studio:</u>				
PlayStation	\$ 586,821	\$ 519,830	\$ 66,991	12.9 %
PC	397,777	270,793	126,984	46.9 %
N64	120,415	152,349	(31,934)	(21.0)%
Online Subscriptions	16,771	12,570	4,201	33.4%
License, OEM and Other	22,894	18,216	4,678	25.7 %
	1,144,678	973,758	170,920	17.6 %
<u>Affiliated Label:</u>				
	275,333	248,105	27,228	11.0 %
Consolidated Net Revenues	\$1,420,011	\$1,221,863	\$198,148	16.2 %

Personal Computer Product Net Revenues

We released 31 PC titles in fiscal 2000 compared to 29 PC titles in fiscal 1999. The worldwide increase in sales of PC revenues was primarily attributable to an increase in sales in North America and Europe due to the success of *Command and Conquer: Tiberian Sun* released in the second quarter of fiscal 2000 and continued strong catalog sales of *Sim City 3000* released in the fourth quarter of fiscal 1999. Other key titles in the current year include *The Sims* and *FIFA 2000*.

We expect revenues from PC products to grow in fiscal 2001, but as revenues for these products increase, they may not grow at the current rate.

PlayStation Product Net Revenues

We released 30 new PlayStation titles in fiscal 2000 compared to 21 in fiscal 1999. The increase in PlayStation product sales was attributable to more titles released in the current fiscal year compared to the same period last year. Key releases for the year include *FIFA 2000*, *Tomorrow Never Dies*, *Madden NFL 2000*, *NBA 2000* and *Knockout Kings™ 2000*.

Sony has announced the release of the PlayStation 2 console in the United States and Europe in the fall of 2000. Although our PlayStation products will be playable on the PlayStation 2 console, we expect sales of current PlayStation products to decline in fiscal 2001.

Under the terms of a licensing agreement entered into with Sony Computer Entertainment of America in July 1994 (the "Sony Agreement"), as amended, we are authorized to develop and distribute software products compatible with the PlayStation. Pursuant to the Sony Agreement, we engage Sony to manufacture PlayStation Compact Disks for distribution by us. Accordingly, we have limited ability to control our supply of PlayStation products or the timing of their delivery.

Affiliated Label Product Net Revenues

AL product sales increased due to higher sales in North America. The increase in Affiliated Label revenues compared to the same period last year was due to the distribution of titles by Square EA, including *Final Fantasy® VIII*, partially offset by the termination of our distribution agreement with Accolade, which was acquired by a third party.

N64® Product Net Revenues

The expected decrease in N64 revenues for fiscal 2000 compared to the same period last year was due to the weak market for N64 products as well as strong comparisons of *World Cup 98* in the prior year. We released eight titles in fiscal 2000, including *WCW™ Mayhem*, compared to nine titles in fiscal 1999. We expect revenues from N64 products to decline significantly in fiscal 2001.

Under the terms of the N64 Agreement, we engage Nintendo to manufacture our N64 cartridges for distribution by us. Accordingly, we have little ability to control our supply of N64 cartridges or the timing of their delivery. A shortage of microchips or other factors outside our control could impair our ability to obtain an adequate supply of cartridges.

In connection with our purchases of N64 cartridges for distribution in North America, Nintendo requires us to provide irrevocable letters of credit prior to Nintendo's acceptance of purchase orders from us for purchases of these cartridges. For purchases of N64 cartridges for distribution in Japan and Europe, Nintendo requires us to make cash deposits. Furthermore, Nintendo maintains a policy of not accepting returns of N64 cartridges. Because of these and other factors, the carrying of an inventory of cartridges entails significant capital and risk.

Online Subscription Revenues

Online subscription revenues are revenues collected for Internet game play on our websites. The increase in online revenues for fiscal 2000 as compared to fiscal 1999 was attributable to the following:

- The average number of paying customers for *Ultima Online* increased to over 140,000 for fiscal 2000 as compared to over 105,000 in fiscal 1999.
- The increase in paying customers was due to continued strong sales of *Ultima Online*, the addition of new events within the *Ultima* worlds and the release of *Ultima Online: The Second Age*[™] in October 1998. *Ultima Online: The Second Age* added features including new worlds, monsters and an in-game chat feature.
- We established servers for *Ultima Online* in Europe in June 1999 and in Japan in October 1998. This local dial-in capability resulted in new customers in those territories for the fiscal 2000, as compared to fiscal 1999.

License, OEM and Other Revenues

The increase in license, OEM and other revenues was primarily due to the following:

- License/OEM revenues increased due to the sales of Gameboy® Color titles in the current fiscal year.
- Other revenues decreased primarily due to decreases in 32-bit products, other than PlayStation, as we are no longer publishing games for those platforms.

Operations by Segment

As a result of the approval of the Tracking Stock proposal (see Note 2) to authorize issuance of a new series of common stock designated as Class B common stock, intended to reflect the performance of EA.com, management considers EA.com a separate reportable segment. Accordingly, prior period information has been restated to disclose this separate segment. We operate in two principal business segments globally:

- Electronic Arts core (“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.

EA.com, a division of Electronic Arts Inc., represents Electronic Arts’ online and e-Commerce businesses. EA.com’s business includes subscription revenues collected for Internet game play on our websites, sales of packaged goods for Internet-only based games and sales of Electronic Arts games sold through EA.com websites. The statement of income includes all revenues and costs directly attributable to EA.com, including charges for shared facilities, functions and services used by EA.com and provided by Electronic Arts. Certain costs and expenses have been allocated based on management’s estimates of the cost of services provided to EA.com by Electronic Arts.

Information about our operations by segment for fiscal 2000 and 1999 is presented below (in thousands):

	Year Ended March 31, 2000			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Net revenues from unaffiliated customers	\$1,399,093	\$ 20,918	\$ -	\$1,420,011
Group sales	2,014	-	(2,014) ^(a)	-
Total net revenues	1,401,107	20,918	(2,014)	1,420,011
Cost of goods sold from unaffiliated customers	700,024	5,784	-	705,808
Group cost of goods sold	-	2,014	(2,014)	-
Total cost of goods sold	700,024	7,798	(2,014)	705,808
Gross profit	701,083	13,120	-	714,203
Operating expenses:				
Marketing and sales	185,714	2,914	-	188,628
General and administrative	87,513	4,989	-	92,502
Research and development	205,933	34,775	20,051 ^(b)	260,759
Network development and support	-	20,051	(20,051)	-
Charge for acquired in-process technology	2,670	3,869	-	6,539
Amortization of intangibles	10,866	1,123	-	11,989
Total operating expenses	492,696	67,721	-	560,417
Operating income (loss)	208,387	(54,601)	-	153,786
Interest and other income, net	16,017	11	-	16,028
Income (loss) before provision for income taxes and minority interest	224,404	(54,590)	-	169,814
Provision for income taxes	52,642	-	-	52,642
Income (loss) before minority interest	171,762	(54,590)	-	117,172
Minority interest in consolidated joint venture	(421)	-	-	(421)
Net income (loss)	\$ 171,341	\$(54,590)	\$ -	\$ 116,751

Year Ended March 31, 1999

	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	\$1,204,689	\$17,174	\$ -	\$1,221,863
Group sales	985	-	(985) ^(a)	-
Total net revenues	1,205,674	17,174	(985)	1,221,863
Cost of goods sold from unaffiliated customers	624,252	3,571	-	627,823
Group cost of goods sold	-	985	(985)	-
Total cost of goods sold	624,252	4,556	(985)	627,823
Gross profit	581,422	12,618	-	594,040
Operating expenses:				
Marketing and sales	161,029	2,378	-	163,407
General and administrative	74,995	1,224	-	76,219
Research and development	181,245	8,050	9,846 ^(b)	199,141
Network development and support	-	9,846	(9,846)	-
Charge for acquired in-process technology	44,115	-	-	44,115
Amortization of intangibles	5,880	-	-	5,880
Total operating expenses	467,264	21,498	-	488,762
Operating income (loss)	114,158	(8,880)	-	105,278
Interest and other income, net	13,180	-	-	13,180
Income (loss) before provision for income taxes and minority interest	127,338	(8,880)	-	118,458
Provision for income taxes	45,414	-	-	45,414
Income (loss) before minority interest	81,924	(8,880)	-	73,044
Minority interest in consolidated joint venture	(172)	-	-	(172)
Net income (loss)	\$ 81,752	\$(8,880)	\$ -	\$ 72,872

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.

(b) Represents reclassification of Network Development and Support to Research and Development.

The increase in net revenues for EA.com for fiscal 2000 as compared to fiscal 1999 was attributable to the following:

- Higher online revenues from increased subscriptions to *Ultima Online*.
- Higher internet-based e-Commerce revenues.
- Partially offset by lower *Ultima Online* packaged product revenues due to the decrease in the average selling price.

The following table presents pro-forma results of operations allocating taxes between EA Core and EA.com. Consolidated taxes have been allocated to EA Core and EA.com on a pro rata basis based on the consolidated effective tax rates, thereby giving EA.com the tax benefit of its losses which is utilized by the consolidated group. Such tax benefit could not be recognized by EA.com on a stand-alone basis. The sum of tax expense and tax benefit for EA Core and EA.com is the same as consolidated tax expense. This presentation represents how management analyzes each segment of the business (in thousands):

	Year Ended March 31, 2000			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Income (loss) before provision for income taxes and minority interest	\$224,404	\$(54,590)	\$ -	\$169,814
Provision (benefit) for income taxes	69,565	(16,923)	-	52,642
Income (loss) before minority interest	154,839	(37,667)	-	117,172
Minority interest in consolidated joint venture	(421)	-	-	(421)
Net income (loss)	\$154,418	\$(37,667)	\$ -	\$116,751

	Year Ended March 31, 1999			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Income (loss) before provision for income taxes and minority interest	\$127,338	\$(8,880)	\$ -	\$118,458
Provision (benefit) for income taxes	48,256	(2,842)	-	45,414
Income (loss) before minority interest	79,082	(6,038)	-	73,044
Minority interest in consolidated joint venture	(172)	-	-	(172)
Net income (loss)	\$ 78,910	\$(6,038)	\$ -	\$ 72,872

Costs and Expenses, Interest and Other Income, Net, Income Taxes and Net Income

Information about our costs and expenses, interest and other income, net, income taxes and net income for fiscal 2000 and 1999 is presented below:

	Percent of Net Revenues	
	2000	1999
Cost of goods sold	49.7 %	51.4 %
Marketing and sales	13.3	13.4
General and administrative	6.5	6.2
Research and development (includes network development and support)	18.4	16.3
Charge for acquired in-process technology	0.5	3.6
Amortization of intangibles	0.8	0.5
Interest and other income, net	1.1	1.1
Income taxes – effective tax rate	31.0	38.3
Net income	8.2 %	6.0 %

Cost of Goods Sold. Cost of goods sold as a percentage of revenues decreased in fiscal 2000 due to:

- An increase in sales of higher margin PC titles as a percentage of revenues.
- An increase in sales of higher margin AL co-published titles which make up a greater amount of total AL revenues as compared to the prior year.
- A decrease in sales of lower margin N64 titles.

- Higher average margin for PC sales due to higher percentage of revenues from internally developed and Intellectual Property owned titles, such as *Command and Conquer: Tiberian Sun*, *Sim City 3000* and *The Sims*.
- Partially offset by a decrease, as a percentage of revenues, of PlayStation products.

Marketing and Sales. Marketing and sales expenses increased in absolute dollars by 15% primarily attributed to:

- Increased print, Internet and television advertising to support new releases.
- Increased cooperative advertising associated with higher revenues in North America and Europe as compared to the prior year.
- Additional headcount related to the continued expansion of our worldwide distribution business.

General and Administrative. General and administrative expenses increased in absolute dollars by 21% primarily due to:

- An increase in payroll and occupancy costs to support the increase in growth in North America and Europe.
- Increased general and administrative spending for EA.com. EA.com expanded its staff and incurred additional administrative related costs required to support growth of the business. We anticipate a continued increase in the absolute dollars spent on general and administrative related expenses for EA.com.

Research and Development. The increase in absolute dollars by 31% for research and development expenses (including Network Development and Support) was due to:

- Increased research and development spending due to the ongoing investment in our online business. EA.com increased the number of online projects in development and increased development staff. We believe that continued spending for EA.com game development is critical to the growth of the business and to meet certain targeted launch commitments. EA.com intends to increase the number of online games in development and significantly increase development and production staff. As a result, research and development expenses are expected to increase in absolute dollars.
- Additional headcount-related expenses attributable to the increased in-house development capacity and a higher number of SKUs released in fiscal 2000.
- An increase in development spending for next generation console products including development for the PlayStation 2 console.

We released a total of 69 new products in fiscal 2000 compared to 59 in fiscal 1999.

Network Development and Support. The increase in network development and support expenses was due to:

- The ongoing investment in our online business.
- EA.com's network and development support expenses increased due to increased spending for network infrastructure in preparation for new online products and the EA.com game site. In addition, we incurred higher infrastructure costs related to increased server capacity for *Ultima Online*, allowing EA.com to serve a higher number of active subscribers.

We expect network development and support expenses to increase in absolute dollars in the future.

Charge for Acquired In-Process Technology.

Fiscal 2000:

- In connection with the acquisition of Kesmai by EA.com in the fourth fiscal quarter of fiscal 2000, we allocated and expensed \$3,869,000 of the purchase price to acquired in-process technology. Kesmai had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Kesmai projects acquired were expected to be approximately \$10,550,000 in future periods. We believe there have been no significant changes to these estimates as of March 31, 2000. We currently expect to complete the development of these projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the merger of Kesmai, we accrued approximately \$200,000 related to direct transaction and other related costs. At March 31, 2000 there were \$133,000 in accruals remaining related to these items.
- In connection with the acquisitions of two development companies by EA Core, made in the 2nd and 4th quarters of fiscal 2000, we allocated and expensed \$2,670,000 of the purchase price to acquired in-process technology.

Fiscal 1999:

- In connection with the acquisition of Westwood by EA Core in September 1998, we allocated and expensed \$41,836,000 of the purchase price to acquired in-process technology.
- Additionally, in connection with the acquisition of two software development companies by EA Core, in the first quarter of fiscal 1999, we incurred a total charge of \$2,279,000 for acquired in-process technology.

These charges were made after we concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

Amortization of Intangibles. The amortization of intangibles results primarily from the acquisitions of Westwood, Kesmai, ABC Software and other acquisitions made in fiscal 2000. Amortization of intangibles was \$10,866,000 for EA Core and \$1,123,000 for EA.com.

Interest and Other Income, Net. Interest and other income, net, increased in absolute dollars primarily due to realized gains on sales of marketable securities and the sale of our interest in an affiliate. Those gains were partially offset by a write-off of a note receivable from an affiliate in the current year as well as a gain on sale of land recognized in the prior year.

Income Taxes. Our effective tax rate was 31.0% for fiscal 2000 and 38.3% for fiscal 1999. The effective tax rate was lower than the comparable prior year period (excluding the effect of the one-time charges in the prior year) primarily as a result of a higher portion of international income for fiscal 2000 subject to a lower foreign tax rate as compared to the prior year. Our effective tax rate for fiscal 1999 was negatively affected as there was no tax benefit recorded for a portion of the charges related to the acquired in-process technology. Excluding the effect of these charges, the effective tax rate for fiscal 1999 would have been 32.0%.

Net Income. In absolute dollars, reported net income increased by 60% primarily related to higher revenues and gross profits as compared to the same period last year. The increase was also due to significant one-time charges for acquired in-process technology in the prior year. This was partially offset by higher costs incurred by EA.com for the development of online projects, the network infrastructure development and higher infrastructure costs for *Ultima Online* and *Ultima Online: The Second Age*. Excluding the one-time charges relating to acquired in-process technology of \$4,512,000, net of taxes, in the current year, net income would have been \$121,263,000. Excluding the one-time charges relating to acquired in-process technology of \$37,506,000, net of taxes in the prior year, net income would have been \$110,378,000.

Excluding one-time charges related to acquired in-process technology and goodwill amortization, net income would have been \$129,535,000 for fiscal 2000. Excluding one-time charges relating to acquired in-process technology and goodwill amortization, net income would have been \$114,376,000 for fiscal 1999.

Comparison of Fiscal 1999 to 1998:

Revenues

Information about our net revenues for North America and foreign areas for fiscal 1999 and 1998 is summarized below (in thousands):

	1999	1998	Increase/ (Decrease)	% change
North America	\$ 704,998	\$519,423	\$185,575	35.7 %
Europe	443,937	325,938	117,999	36.2 %
Asia Pacific	39,560	41,494	(1,934)	(4.7)%
Japan	33,368	21,997	11,371	51.7 %
International	516,865	389,429	127,436	32.7 %
Consolidated Net Revenues	\$1,221,863	\$908,852	\$313,011	34.4 %

North America Net Revenues

The increase in North America net revenues was mainly attributable to:

- Strong growth in N64 and PlayStation systems. Net revenues from PlayStation and N64 increased 51% due to a larger market and greater installed base for these platforms as well as more title releases for N64 in comparison to the prior year.
- AL sales increased 53% compared to the prior year primarily due to the distribution of products published by Square EA.
- PC revenues increased 11% due to key title releases during the year.

International Net Revenues

The increase in international net revenues for fiscal 1999 compared to fiscal 1998 was attributable to the following:

- Europe's net revenues increased primarily due to an increase in sales of PlayStation and Affiliated Label products.
- Japan's net revenues increased primarily due to the sales of *FIFA: Road to World Cup 98*.

- Offset by a decrease in Asia Pacific net revenues due to the weakness in Asian currencies. In local currency, in spite of weak economies, net revenues for Asia Pacific increased compared to the prior year.

Information about our net revenues by product line for fiscal 1999 and 1998 is presented below (in thousands):

	1999	1998	Increase/ (Decrease)	% change
<u>EA Studio:</u>				
PlayStation	\$ 519,830	\$380,299	\$139,531	36.7 %
PC	270,793	231,034	39,759	17.2 %
N64	152,349	56,677	95,672	168.8 %
Online subscriptions	12,570	4,451	8,119	182.4%
License, OEM and Other	18,216	50,526	(32,310)	(63.9)%
	973,758	722,987	250,771	34.7 %
<u>Affiliated Label:</u>				
	248,105	185,865	62,240	33.5 %
Consolidated Net Revenues	\$1,221,863	\$908,852	\$313,011	34.4 %

PlayStation Product Net Revenues

We released 21 new PlayStation titles in fiscal 1999 compared to 25 in fiscal 1998. The increase in PlayStation product sales was attributable to the greater installed base of PlayStation game consoles and the releases of key titles for this platform including *FIFA 99*, *World Cup 98* and *Madden NFL 99*.

Personal Computer Product Net Revenues

We released 29 PC titles in fiscal 1999 compared to 30 PC titles in fiscal 1998. The worldwide increase in sales of PC products was primarily attributable to an increase in sales in Europe and North America due to the related releases of key titles for this platform including *SimCity 3000*.

N64 Product Net Revenues

The increase in N64 revenues was primarily due to more title releases for this platform compared to the prior year and a larger N64 market. We released nine titles in fiscal 1999, including *NASCAR® 99*, compared to two titles in fiscal 1998.

Affiliated Label Product Net Revenues

AL product sales increased due to higher sales in North America and Europe. This increase was primarily attributable to the distribution of products published by Square EA in North America and the acquisition of ABC Software in Switzerland.

Online Subscription Revenues

The increase in online revenues for fiscal 1999 as compared to fiscal 1998 was attributable to the following:

- The average paying customers for *Ultima Online* increased to over 105,000 for fiscal 1999 as compared to over 74,000 for fiscal 1998, due to continued strong sales of *Ultima Online* and the release of *Ultima Online: The Second Age* in the third quarter of fiscal 1999. *Ultima Online: The Second Age* added features such as new worlds, monsters and in-game chat features.
- EA.com established servers providing local dial-in capability for *Ultima Online* in Japan in the third quarter of fiscal 1999. We only had servers in North America in fiscal 1998.

License, OEM and Other Revenues

The decrease in license, OEM, online and other revenues was primarily due to the following:

- Net revenues derived from 32-bit products other than PlayStation decreased primarily due to lower sales of Sega Saturn® products. We released no new Sega Saturn titles in fiscal 1999 compared to eight in fiscal 1998.
- Net revenues generated by 16-bit video game cartridge-based products decreased in fiscal 1999 as compared to fiscal 1998. As the 16-bit video game market has been replaced by 32-bit and 64-bit systems, we did not release any new titles in fiscal 1999.
- Licensing of EA Studio products increased primarily as a result of an increase in the revenues generated by licensing of our products in Europe.

Operations by Segment

Information about our operations by segment for fiscal 1999 and 1998 is presented below (in thousands):

Year Ended March 31, 1999

	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	\$1,204,689	\$17,174	\$ -	\$1,221,863
Group sales	985	-	(985) ^(a)	-
Total net revenues	1,205,674	17,174	(985)	1,221,863
Cost of goods sold from unaffiliated customers	624,252	3,571	-	627,823
Group cost of goods sold	-	985	(985)	-
Total cost of goods sold	624,252	4,556	(985)	627,823
Gross profit	581,422	12,618	-	594,040
Operating expenses:				
Marketing and sales	161,029	2,378	-	163,407
General and administrative	74,995	1,224	-	76,219
Research and development	181,245	8,050	9,846 ^(b)	199,141
Network development and support	-	9,846	(9,846)	-
Charge for acquired in-process technology	44,115	-	-	44,115
Amortization of intangibles	5,880	-	-	5,880
Total operating expenses	467,264	21,498	-	488,762
Operating income (loss)	114,158	(8,880)	-	105,278
Interest and other income, net	13,180	-	-	13,180
Income (loss) before provision for income taxes and minority interest	127,338	(8,880)	-	118,458
Provision for income taxes	45,414	-	-	45,414
Income (loss) before minority interest	81,924	(8,880)	-	73,044
Minority interest in consolidated joint venture	(172)	-	-	(172)
Net income (loss)	\$ 81,752	\$(8,880)	\$ -	\$ 72,872

Year Ended March 31, 1998

	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	\$897,877	\$10,975	\$ -	\$908,852
Group sales	538	-	(538) ^(a)	-
Total net revenues	898,415	10,975	(538)	908,852
Cost of goods sold from unaffiliated customers	478,967	2,266	-	481,233
Group cost of goods sold	-	538	(538)	-
Total cost of goods sold	478,967	2,804	(538)	481,233
Gross profit	419,448	8,171	-	427,619
Operating expenses:				
Marketing and sales	125,711	2,597	-	128,308
General and administrative	57,650	188	-	57,838
Research and development	137,360	5,352	3,020 ^(b)	145,732
Network development and support	-	3,020	(3,020)	-
Charge for acquired in-process technology	1,500	-	-	1,500
Merger costs	10,792	-	-	10,792
Total operating expenses	333,013	11,157	-	344,170
Operating income (loss)	86,435	(2,986)	-	83,449
Interest and other income, net	24,811	-	-	24,811
Income (loss) before provision for income taxes and minority interest	111,246	(2,986)	-	108,260
Provision for income taxes	35,726	-	-	35,726
Income (loss) before minority interest	75,520	(2,986)	-	72,534
Minority interest in consolidated joint venture	28	-	-	28
Net income (loss)	\$ 75,548	\$(2,986)	\$ -	\$ 72,562

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.

(b) Represents reclassification of Network Development and Support to Research and Development.

The increase in net revenues for EA.com for fiscal 1999 as compared to fiscal 1998 was mainly attributable to the following:

- Higher online revenues from subscriptions for *Ultima Online: The Second Age*, the upgrade to *Ultima Online*.
- Mitigated by lower product revenues from *Ultima Online* for fiscal 1999 as compared to fiscal 1998.

The following table presents pro-forma results of operations allocating taxes between EA Core and EA.com. Consolidated taxes have been allocated to EA Core and EA.com on a pro rata basis based on the consolidated effective tax rates, thereby giving EA.com the tax benefit of its losses which is utilized by the consolidated group. Such tax benefits could not be recognized by EA.com on a stand-alone basis. The sum of tax expense and tax benefit for EA Core and EA.com is the same as consolidated tax expense. This presentation represents how management analyzes each segment of the business (in thousands):

	Year Ended March 31, 1999			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Income (loss) before provision for income taxes and minority interest	\$127,338	\$(8,880)	\$ -	\$118,458
Provision (benefit) for income taxes	48,256	(2,842)	-	45,414
Income (loss) before minority interest	79,082	(6,038)	-	73,044
Minority interest in consolidated joint venture	(172)	-	-	(172)
Net income (loss)	\$ 78,910	\$(6,038)	\$ -	\$ 72,872

	Year Ended March 31, 1998			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Income (loss) before provision for income taxes and minority interest	\$111,246	\$(2,986)	\$ -	\$108,260
Provision (benefit) for income taxes	36,711	(985)	-	35,726
Income (loss) before minority interest	74,535	(2,001)	-	72,534
Minority interest in consolidated joint venture	28	-	-	28
Net income (loss)	\$ 74,563	\$(2,001)	\$ -	\$ 72,562

Costs and Expenses, Interest and Other Income, Net, Income Taxes and Net Income

Information about our costs and expenses, interest and other income, net, income taxes and net income for fiscal 1999 and 1998 is presented below:

	Percent of Net Revenues	
	1999	1998
Cost of goods sold	51.4 %	52.9 %
Marketing and sales	13.4	14.1
General and administrative	6.2	6.4
Research and development (includes network development and support)	16.3	16.0
Charge for acquired in-process technology	3.6	0.2
Amortization of intangibles	0.5	-
Merger costs	-	1.2
Interest and other income, net	1.1	2.7
Income taxes – effective tax rate	38.3	33.0
Net income	6.0 %	8.0 %

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

Marketing and Sales. Marketing and sales expenses increased 27% primarily attributed to:

- Increased print, Internet and television advertising to support new releases.
- Increased cooperative advertising associated with higher revenues in North America and Europe as compared to the prior year.
- Additional headcount related to the continued expansion of our worldwide distribution business.
- The acquisitions of ABC Software and Westwood Studios.

General and Administrative. General and administrative expenses increased 32% primarily due to an increase in headcount and occupancy costs to support the increase in growth in North America and Europe operations, including the opening of additional international offices in Europe and the acquisition of ABC Software.

Research and Development. The increase in absolute dollars for research and development expenses (including Network Development and Support) was due to:

- Additional headcount-related expenses attributable to the acquisition of Westwood Studios, Inc. and certain assets of the Irvine, California-based Virgin Studio (collectively "Westwood") in September 1998 and Tiburon Entertainment, Inc. in April 1998.
- Higher development costs per title, as products are including more content and are more complex and time consuming to develop.
- An increase in development costs for *Ultima Online*.
- A higher number of projects in development in fiscal 1999 as compared to fiscal 1998 for EA.com

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

Network Development and Support. The increase in network development and support expenses for EA.com was due to higher design, engineering and software maintenance costs associated with the *Ultima Online* worlds.

Charge for Acquired In-Process Technology. In connection with the purchase of Westwood in September 1998, we allocated and expensed \$41,836,000 of the \$122,688,000 purchase price to in-process research and development projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete research and development projects. At the date of acquisition, this amount was expensed as a non-recurring charge as the in-process technology had not yet reached technological feasibility and had no alternative future uses. Westwood had three major PC projects in progress at the time of the acquisition including two in the best-selling franchise *Command and Conquer* and one in the critically acclaimed *Lands of Lore*[™] series. As of the acquisition date, costs to complete the Westwood projects acquired were expected to be approximately \$9.1 million in fiscal 1999, \$10.6 million in fiscal 2000 and \$1.0 million in fiscal 2001. We believe there have been no significant changes to these estimates. We currently expect to complete the development of these projects at various dates through fiscal 2001 and to publish the products upon completion.

The nature of the efforts required to develop the acquired in-process technology into commercially viable products principally relate to the completion of all planning, designing and testing activities necessary to establish that the product can be produced to meet our design requirements including functions, features and technical performance requirements. Though we currently expect that the acquired in-process technology will be successfully developed, there can be no assurance that commercial or technical viability of these products will be achieved. Furthermore, future developments in the entertainment software industry, changes in computer or video game console technology, changes in other product offerings or other developments may cause us to alter or abandon these plans.

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

In conjunction with the merger of Westwood, we accrued approximately \$1,500,000 related to direct transaction costs and other related accruals. At March 31, 2000, there were \$500,000 in accruals remaining related to these items.

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

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

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

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

Operating Income. Operating income increased due to:

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

Excluding one-time items in both years, as noted above, operating income would have been \$149,393,000 in fiscal 1999 and \$95,741,000 in fiscal 1998.

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

Income Taxes. Electronic Arts’ effective tax rate was 38.3% for fiscal 1999 and 33.0% for fiscal 1998. Our effective tax rate for fiscal 1999 was negatively affected as there was no tax benefit recorded for a portion of the charges related to the acquired in-process technology. Excluding the effect of these charges, the effective tax rate for fiscal 1999 would have been 32.0% as compared to a 33.0% tax rate for fiscal 1998. The lower rate of 32.0% results primarily from a higher portion of international income subject to a lower foreign tax rate as compared to the prior year and an increase in the federal research and experimental credit.

Minority Interest in Consolidate Joint Venture.

- In the first quarter of fiscal 1999, we formed EA Square KK which is seventy percent owned by us and thirty percent owned by Square Co. Ltd. (“Square”), a leading developer and publisher of entertainment software in Japan. Minority interest for fiscal 1999 represents Square’s 30% interest in the net income of EA Square KK.
- For fiscal 1998, the minority interest represented the 35% interest in Electronic Arts Victor, Inc. (“EAV”) owned by Victor Entertainment Industries, Inc. (“VEI”). We acquired the remaining 35% minority ownership interest in EAV held by VEI in December 1997.

Net Income. In absolute dollars, reported net income was flat due to the one-time charges related to acquisitions offsetting significantly higher operating income. The increase in net income, excluding one-time charges, was due to higher revenues and gross profits, partially offset by higher spending on development of online projects, higher support costs for *Ultima Online* and *Ultima Online: The Second Age*, and higher network infrastructure costs associated with *Ultima Online* worlds.

- For fiscal 1998, net income included a one-time gain on sale of Creative Wonders, LLC in the amount of \$8,459,000, net of taxes, offset by Maxis merger costs and a charge for acquired in-process developments of \$8,236,000, net of taxes.
- For fiscal 1999, net income included one-time charges for acquired in-process technology of \$37,506,000, net of taxes.

Excluding one-time items in both years, as noted above, net income increased to \$110,378,000 in fiscal 1999 from \$72,339,000, or 53% over fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2000, our working capital was \$440,021,000 compared to \$333,256,000 at March 31, 1999. Cash, cash equivalents and short-term investments increased by approximately \$26,982,000 in fiscal 2000. We generated \$45,336,000 of cash from operations in fiscal 2000 which was reduced by a payment of \$36,000,000 to AOL as discussed below. In addition, \$85,589,000 was provided through the sale of equity securities under our stock plans and \$20,000,000 was provided through the sale of shares of Class B common stock and warrants to AOL.

Reserves for bad debts and sales returns decreased from \$72,850,000 at March 31, 1999 to \$65,067,000 at March 31, 2000. Reserves have been charged for returns of product and price protection credits issued for products sold in prior periods. Management believes these reserves are adequate based on historical experience and its current estimate of potential returns and allowances.

During fiscal 2000, we invested \$22,500,000 in cash for the acquisition of Kesmai and \$22,096,000 for other acquisitions made during the year. In addition, we invested approximately \$37,400,000 for new facilities in Europe and Canada and \$61,400,000 in computer equipment worldwide.

Our principal source of liquidity is \$339,804,000 in cash, cash equivalents and short-term investments. Management believes the existing cash, cash equivalents, short-term investments, marketable securities and cash generated from operations will be sufficient to meet cash and investment requirements of Electronic Arts and EA.com for the next twelve months and the foreseeable future.

Included in the amounts above is the following for the EA.com business:

- To date EA.com has been funded solely by Electronic Arts (including proceeds from the sale of stock to AOL in the amount of \$20,000,000). This funding has been accounted for as capital contributions from Electronic Arts. Excess cash generated from operations is transferred to Electronic Arts, and has been accounted for as a return of capital. We anticipate these funding procedures will continue in the near-term. However, Electronic Arts may, at its discretion, provide funds to EA.com under a debt arrangement, instead of treating such funding as a capital contribution.
- During fiscal 2000, EA.com used \$68,329,000 of cash in operations (including payments to AOL of approximately \$36,000,000), \$37,605,000 in capital expenditures for computer equipment, network infrastructure, internal use software and related third party software, \$1,499,000 for an investment in a 3rd party developer, \$32,539,000 for the acquisition of Kesmai and another acquisition, offset by \$140,410,000 provided through capital contributions from Electronic Arts.
- During fiscal 1999, EA.com used \$9,086,000 of cash in operations and \$1,881,000 in capital expenditures for computer equipment, network infrastructure and related software, offset by \$10,967,000 provided through the capital contribution from Electronic Arts.

EA.com is required to pay \$50,000,000 to AOL as a carriage fee (including certain advertising fees of which \$604,000 was expensed in the twelve months ended March 31, 2000) under the AOL agreement. Of this amount, \$25,000,000 was paid upon signing the agreement and the remainder is due in four equal annual installments on the first four anniversaries of the initial payment. Payment of the first annual installment of \$6,250,000 will be accelerated to June 1, 2000 since certain launch requirements will not be met by that date. EA.com is also required to pay to AOL \$31,000,000 as an advance of a minimum guaranteed revenue share for revenues generated by subscriptions and other certain commercial transactions on the EA.com site. Of this amount, \$11,000,000 was paid upon signing of the agreement and the remainder is due in four equal annual installments on the first anniversary of the initial payment.

EA.com also made a commitment to spend \$15,000,000 in offline media advertisements promoting our online games, including those on the AOL service, during the term of the AOL agreement.

Future liquidity needs of EA.com will be met by Electronic Arts as Electronic Arts intends to continue to fund the cash requirements of EA.com for the foreseeable future.

Impact of Recently Issued Accounting Standards

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the SEC. SAB 101 is effective for fiscal years beginning after December 15, 1999, except, as amended by SAB 101A, registrants with fiscal years that begin between

December 16, 1999 and March 15, 2000 may report a change in accounting principle no later than the second quarter of fiscal years beginning after December 15, 1999. We believe the adoption of SAB 101 will not have a material impact on our financial position and results of operations.

In March 2000, the Emerging Issues Task Force issued No. 00-02 ("EITF 00-02"), "*Accounting for Web Site Development Costs*". EITF 00-02 states that all costs relating to software used to operate a web site and relating to development of initial graphics and web page design should be accounted for using Statement of Position ("SOP") 98-1. Under this SOP, costs incurred in the preliminary project stage should be expensed as incurred, as should most training and data conversion costs. External direct costs of materials and services and internal direct payroll-related costs should be capitalized once certain criteria are met. EITF 00-02 is effective for all fiscal quarters beginning after June 30, 2000. We do not expect a significant impact on our consolidated results of operations, financial position or cash flows on the EITF's effective date.

In March 2000, the Emerging Issues Task Force issued No. 00-03 ("EITF 00-03"), "*Application of AICPA SOP 97-2, 'Software Revenue Recognition,' to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware*", which discusses the effect on revenue recognition of a software vendor's obligation to host its software that previously was licensed to a customer. The EITF has reached the conclusion that, if the customer is unable to utilize the software on the customer's hardware or contract with another party unrelated to the vendor to host the software, then the arrangement with the customer is outside the scope of SOP 97-2 and should be treated as a service contract. We may be required to change the timing of our revenue recognition related to product revenues. We believe the adoption of EITF 00-03 will not have a material impact on our financial position and results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133") "*Accounting for Derivative Instruments and Hedging Activities*", which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is effective as of the beginning of the first quarter of the fiscal year beginning after June 15, 2000. We are determining the effect of SFAS 133 on our financial statements.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*". SOP 98-1 requires that consulting, hardware, software and direct payroll-related costs associated with the implementation of customized internal-use software be capitalized and amortized over the estimated useful life of the software. These costs relate to game site application and infrastructure design and development, as well as costs related to providing customer account management and building in e-Commerce functionality and interfaces. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. As of March 31, 2000, we have capitalized \$26,318,000 of these costs associated with the effort to build and support the EA.com game sites at launch.

YEAR 2000 READINESS DISCLOSURE

Year 2000 Status

As of the date of this filing, we have not incurred any significant business disruptions as a result of Year 2000 issues. However, while no such occurrence has developed, Year 2000 issues that may arise related to key suppliers and service providers may not become apparent immediately. We have received assurances of Year 2000 compliance from key suppliers. We have also received assurances from key service providers such as financial institutions, our payroll service provider, and our retirement plan administrator as to their Year 2000 readiness. We will continue to monitor our own systems and our business partners to identify and address any potential risk situations related to the Year 2000. We can provide no assurance that we will not be adversely affected by these suppliers and service providers due to noncompliance in the future.

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies (the "legacy currency") and the one common legal currency known as the "Euro". From January 1, 1999 through June 30, 2002 the countries will be able to use their legacy currencies or the Euro to transact business. By July 1, 2002, at the latest, the conversion to the Euro will be complete at which time the legacy currencies will no longer be legal tender. The fixed conversion rates between their existing currencies have eliminated exchange rate risk among the member countries.

The conversion to the Euro has reduced the number of forward contracts that we use to hedge the exchange rate risk. The forward contracts that were used to hedge the individual legacy currencies have been replaced by a single Euro hedge contract and the intercompany transactions among subsidiaries within the European Union are no longer subject to exchange rate risk.

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

RISK FACTORS

Electronic Arts' business is subject to many risks and uncertainties which may affect our future financial performance. Some of those important risks and uncertainties which may cause our operating results to vary or which may materially and adversely affect our operating results are as follows:

Risk Factors Relating to Our Core Business

Platform Transitions Such as the One Now Occurring Typically Depress the Market for Video game Software Until New Platforms Achieve a Wide Market Acceptance

When new video game platforms are announced or introduced into the market, consumers typically reduce their purchases of video games for current platforms in anticipation of new platforms being available. During that period sales of our video game products can be expected to slow or even decline until new platforms have achieved a wide market and consumer acceptance. We are currently in such a transition. Sony expects to ship its PlayStation 2 product in the fall of 2000. Nintendo and Microsoft have also announced that their new console systems will be released in calendar year 2001. Current sales of our products for the existing PlayStation and Nintendo 64 platforms have been adversely affected. We expect this trend to continue until one or more of these new consoles achieve a wide installed base of consumers.

New Video Game Platforms Create Additional Technical and Business Model Uncertainties

Large portions of our revenues are derived from the sale of products for play on proprietary video game platforms such as the Sony PlayStation and Nintendo 64. The success of our products is significantly affected by acceptance of the new video game hardware systems and the life span of older hardware platforms and our ability to accurately predict which platforms will be most successful.

Sometimes we will spend development and marketing resources on products designed for new video game systems that have not yet achieved large installed bases or will continue product development for older hardware platforms that may have shorter life cycles than we expected. Conversely, if we do not develop for a platform that achieves significant market acceptance, or discontinue development for a platform that has a longer life cycle than expected, our revenue growth may be adversely affected.

For example, the Sega Dreamcast console launched in Japan in early 1999 and in the United States in September of 1999. We have no products under development for this platform. Should this platform achieve wide market acceptance, our revenue growth may be adversely affected. Similarly, we intend to launch a variety of products for the new Sony platform, the PlayStation 2, expected to be released in the United States in the fall of 2000. Should that platform not achieve wide acceptance by consumers, we will have spent a disproportionate amount of our resources for this platform. Additionally, we have not negotiated publishing agreements with Sony, Sega or Nintendo for their next generation platforms, and we do not know whether the terms of those agreements will be favorable.

Product Development Schedules Are Frequently Unreliable and Make Predicting Quarterly Results Difficult

Product development schedules, particularly for new hardware platforms and high-end multimedia personal computers, or PCs, are difficult to predict because they involve creative processes, use of new development tools for new platforms and the learning process, research and experimentation associated with development for new technologies. For example, *Tiberian Sun*, which was expected to ship in fiscal 1999 at the time of our acquisition of Westwood Studios, was not released until the second quarter of fiscal 2000 due to development delays. Additionally, development risks for CD-ROM products can cause particular difficulties in predicting quarterly results because brief manufacturing lead times allow finalizing products and projected release dates late in a quarter. Our revenues and earnings are dependent on our ability to meet our product release schedules, and our failure to meet those schedules could result in revenues and earnings which fall short of analysts' expectations for any individual quarter and the fiscal year.

Our Business Is Both Seasonal and Cyclical

Our business is seasonal with a significant percentage of our revenues occurring in the December quarter. Our business is also cyclical; video game platforms have historically had a life cycle of four to six years, and decline as more advanced platforms are being introduced. As one group of platforms is reaching the end of its cycle and new platforms are emerging, buying patterns may change. Purchases of products for older platforms may slow at a faster rate than sales of new platforms. We are currently beginning such a platform transition. Sega introduced its latest platform in the United States in September 1999, and Sony expects to ship its PlayStation 2 product in the fall of 2000. Nintendo and Microsoft have also announced that their new console systems will be released in calendar

year 2001. Sales of our current products for the current Nintendo and Sony platforms have already been adversely affected, and we expect this trend to continue until one or more new platforms achieves a wide installed base of consumers.

The Impact of e-Commerce and Online Games on Our Business Is Not Known

While we do not currently derive significant revenues from online sales of our packaged products, we believe that such form of distribution will become a more significant factor in our business in the future. E-commerce is becoming an increasingly popular method for conducting business with consumers. How that form of distribution will affect the more traditional retail distribution, at which we have historically had success, and over what time period, is uncertain. In addition, we expect the number and popularity of online games to increase and become a significant factor in the interactive games business generally. We do not know how that increase generally, or the emerging business of EA.com specifically, will affect the sales of packaged goods.

Our Business, Our Products, and Our Distribution Are Subject to Increasing Regulation in Key Territories

Legislation is increasingly introduced which may affect the content of our products and their distribution. For example, privacy rules in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory while of course the Internet recognizes no geographical boundaries. Other countries such as Germany have adopted laws regulating content transmitted over the Internet that are stricter than current United States laws. In the United States, in response to recent events, the federal and several state governments are considering content restrictions on products such as those made by us as well as restrictions on distribution of such products. Any one or more of these factors could harm our business.

Our Platform Licensors Are Our Chief Competitors and Frequently Control the Manufacturing of Our Video Game Products

Our agreements with hardware licensors, which are also our chief competitors, typically give significant control to the licensor over the approval and manufacturing of our products. This fact could, in certain circumstances, leave us unable to get our products approved, manufactured and shipped to customers. 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. For example, in prior years, we experienced delays in obtaining approvals for and manufacturing of PlayStation products which caused delays in shipping those products. The potential for additional delay or refusal to approve or manufacture our products continues with our platform licensors. Such occurrences would harm our business and adversely affect our financial performance.

Proliferation and Assertion of Patents Poses Serious Risks to our Business

Many patents have been issued that may apply to widely used game technologies. Additionally, many less recently issued patents are now being asserted against Internet implementations of existing games. Several such patents have been asserted against us. For example, we currently have a lawsuit pending regarding our publication of games that can be played both alone and with others over the Internet in which the patent holder has moved to enjoin the sale of EA personal computer products that can be played alone and over the Internet. Such claims can harm our business. We will 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.

Risk Factors Relating to Our Online Business

Because of EA.com's Limited Operating History, It Will Be Difficult To Evaluate its Business and Prospects

EA.com's business is still in the developing stages, so evaluating its business and prospects will be more difficult than would be the case for a more mature business. We will continue to encounter the risks and difficulties faced in launching a new business, and we may not achieve our goals or may be compelled to change the manner in which we seek to develop the business. These uncertainties as to the future operations of EA.com will increase the difficulty we face in completing and pursuing the essential plans for the development of the business and will also make it more difficult for our stockholders and securities analysts to predict the operating results of this business.

EA.com Has a History of Losses and Expects To Continue To Incur Losses and May Never Achieve Profitability

EA.com has incurred substantial losses to date, including the current fiscal year. We expect EA.com to continue to incur losses as it develops its business. EA.com will be required to maintain the significant support, service and product enhancement demands of

online users, and we cannot be certain that EA.com will produce sufficient revenues from its operations to support these costs. Even if profitability is achieved, EA.com may not be able to sustain it over a period of time.

Our Agreements with America Online May Not Prove Successful to the Development of EA.com's Business

We have announced a series of agreements with America Online for the offering of our games through AOL for online play. These agreements require that we make substantial guaranteed payments to AOL and that we commit our resources to pursuit of the online game opportunity. We cannot be assured that the substantial costs associated with the AOL agreements will be justified by the revenues generated from that relationship. In addition, restrictions included in the AOL agreements limiting other channels we may develop for offering online games may limit our ability to diversify our online distribution strategies. Further, we are required under our agreement with AOL to launch our game site within a specified time period or be subject to certain penalties, including AOL's right to terminate the agreement. We were not successful in meeting a June 1, 2000 initial launch target and we may not be successful in achieving other specified launch targets. See additional discussion relating to our agreements with AOL in Note 5 of the Notes to Consolidated Financial Statements, included in item 8 hereof. The success for us of the AOL agreements will also be a result of AOL's performance under the agreements, a factor over which we will have very little control.

We Have Very Limited Experience with Online Games and May Not Be Able To Operate This Business Effectively

Offering games solely for online play is a substantial departure from our traditional business of selling packaged software games. We anticipate employing various pricing models, including subscription fees, "pay to play fees" and advertising. We have very little experience with developing optimal pricing strategies for online games and no experience in "pay to play" pricing or in securing advertising revenue for online services. Similarly, we are inexperienced in predicting usage patterns for our games. Because of our inexperience in this area, we may not be effective in achieving success that may otherwise be attainable from offering our games online.

Online Games Have Risks That Are Not Associated with Our Traditional Business

Online games, particularly multiplayer games, pose risks to player enjoyment that do not generally apply to packaged game sales. Players frequently would not be acquainted with other players, which may adversely affect the playing experience. Social issues raised by a player's conduct may impact the experience for other players. We have not determined whether or how we might monitor or proctor player behavior to mitigate behavior that impairs the game experience. In addition, there are substantial technical challenges to be met both in the introduction of our games online and in maintaining an effective game playing environment over time. If these risks are not successfully controlled and technical challenges resolved, potential customers for our games may be unwilling to play in sufficient volume to allow us to attain or sustain profitability.

We May Not Be Able To Obtain the Required Licenses To Offer Our Games Online

If we are unable to reach terms with certain licensors for our games, we will not be able to offer certain of our games for online play. Many of Electronic Arts' most popular games feature characters, trademarks, people or concepts for which we have licenses from third parties. As an example, our *EA SPORTS* products typically contain content licensed from a sports and players' association. In certain instances the terms of these licenses will not allow us to offer the games for online play without negotiating an additional license. We cannot be certain that the licensors will be amenable to a license for online games involving their content or, even if they are, that we will be able to reach terms with them for such use. We may be forced to agree to terms that ultimately materially impair the economic value to us of the online game market.

Proliferation and Assertion of Patents Poses Serious Risks to the Business of EA.com.

Many patents have been issued that may apply to widely used Internet technologies. Additionally, many less recently issued patents are now being asserted against Internet implementations of older technologies. Several such patents have been asserted against us. For example, we currently have a lawsuit pending regarding our publication of games that can be played both alone and with others over the Internet in which the patent holder has moved to enjoin the sale of EA personal computer products that can be played alone and over the Internet. Such claims can harm our business. We will 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.

Development of EA.com's Business Will Require Significant Capital, and We Cannot Be Assured That It Will Be Available

EA.com will not be successful if it does not receive the very substantial financing that will be required to launch its business. Electronic Arts has agreed to provide a limited amount of funding to EA.com, but this financing alone will not be sufficient for the development of EA.com's business. Any additional funding that is obtained from EA may either be treated as a revolving credit advance or would increase EA's retained interest in EA.com and correspondingly decrease the interest of the holders of outstanding shares of Class B common stock. The attraction of additional equity or debt financing for EA.com from third parties may not be possible or may only be possible on terms that result in significant dilution to Class A and Class B common stockholders or interest or other costs and debt-related restrictions on the operation of the business.

If Use of the Internet Does Not Continue To Develop and Reliably Support the Demands Placed on It by Electronic Commerce, EA.com's Business Will Be Harmed

EA.com's success depends upon growth in the use of the Internet as a medium for playing games. Although the Internet is experiencing rapid growth in the number of users, this growth is a recent phenomenon and may not continue. Furthermore, despite this growth in usage, the use of the Internet for sophisticated games like ours is relatively new. Our business would be seriously harmed if:

- ·use of the Internet does not continue to increase or increases more slowly than expected,
- ·the infrastructure for the Internet does not effectively support online game play,
- ·concerns over the secure transmission of confidential information over public networks inhibit the growth of the Internet as a means of conducting commercial transactions, or
- ·government regulations regarding Internet content, privacy or other conditions impede the effectiveness of the Internet to users.

Capacity Restraints May Restrict the Use of the Internet as a Forum for Game Play, Resulting in Decreased Demand for Our Products

The Internet infrastructure may not be able to support the demands placed on it by increased usage or the limited capacity of networks to transmit large amounts of data. Other risks associated with commercial use of the Internet could slow its growth, including:

- ·outages and other delays resulting from the inadequate reliability of the network infrastructure,
- ·slow development of enabling technologies and complementary products, and
- ·limited availability of cost-effective, high speed access.

Delays in the development or adoption of new equipment standards or protocols required to handle increased levels of Internet activity, or increased governmental regulation, would cause the Internet to fail to gain, or lose, viability as a means of game playing. If these or any other factors cause use of the Internet for commerce to slow or decline, the Internet may not prove viable as a commercial marketplace. This, in turn, would result in decreased demand for EA.com's products and services.

To Become and Remain Competitive, EA.com Must Continually Develop and Expand New Content. This Is Inherently Risky and Expensive.

EA.com's success depends on our ability to develop products and services for the initial launch of the EA.com site and our ability to continually expand the content on that site. Our agreement with AOL requires us to develop new games under our relationship with AOL. We cannot assure you that products will be developed on time, in a cost effective manner, or that they will be successful.

We May Not Be Able To Respond to Rapid Technological Change.

The market for Internet products and services is characterized by rapid technological change and evolving industry standards. Both in completing the design and implementation of our network infrastructure and thereafter, we will be required to continually improve performance, features, reliability and capacity of our network infrastructure. We cannot assure you that we will be successful in responding rapidly or in a cost effective manner to such developments.

Increasing Governmental Regulation of the Internet Could Limit the Market for Our Products

As Internet commerce continues to evolve, we expect that federal, state and foreign governments will adopt laws and regulations covering issues such as user privacy, taxation of goods and services provided over the Internet, pricing, content and quality of products and services. It is possible that legislation could expose companies involved in electronic commerce to liability, taxation or other increased costs, any of which could limit the growth of electronic commerce generally. Legislation could dampen the growth in Internet usage and decrease its acceptance as a communications and commercial medium. If enacted, these laws and regulations could limit the market for EA.com's products.

If We Do Not Maintain Our Relationship with Outside Consultants Such as Andersen Consulting and Proxicom, Our Ability To Develop Our Online Business Will Be Impaired

Because approximately 20% of the staff creating, designing, and developing the infrastructure for EA.com's website and network interface is being provided by outside consultants such as Andersen Consulting and Proxicom, losing the business relationship with such consultants would cause EA.com to lose an important component of its website implementation team. Given the intense competition for qualified technical consultants, EA.com may not be able to retain these consultants or, if necessary, replace them. If it cannot do so, its ability to develop its business will be impaired.

Our Revenues Have Been Heavily Dependent on a Single Product and Would Be Adversely Affected if That Product's Popularity Were To Decline

EA.com's revenues to date have consisted primarily of revenues from sales of our online product *Ultima Online*, and we would be adversely affected if revenues from that product were to decline for any reason and not be replaced. We expect the online game market to become increasingly competitive, and it is possible that other producer's current or future games could cause our revenue from *Ultima Online* to decline. In addition, popularity of *Ultima Online* could decline over time simply because of consumer preference for new game experiences.

We Invest Very Heavily in Research and Development and Network Development and Support for EA.com, and We Cannot Be Assured That We Will Achieve Revenues That Validate This Level of Spending

We have invested, and expect to continue to invest, very heavily in research and development and network development and support for our website and online games. We will need to expand EA.com's revenues substantially for it to achieve profitability with these levels of expenditure being required, and we may not be able to do so. If we cannot increase revenues to profitable levels, the value of EA.com will be impaired. In order to develop the broad games offerings that we envision for our online operations it will be necessary to engage in significant developmental efforts both to adapt existing EA games to the online format and to create new online games. Our agreements with AOL require us to maintain a substantial commitment to online game development and we cannot be assured that we will realize acceptable returns from this investment.

Online Product Development Schedules Are Unreliable and Make Predicting Quarterly Results Difficult

Online product development schedules, particularly for Internet based games are difficult to predict because they involve creative processes, use of new development tools, Internet latency issues, a learning process to better understand Internet based game mechanics, and research and experimentation associated with development for new online technologies. Additionally, development risks for Internet based products can cause particular difficulties in predicting quarterly results because of the challenges associated with game testing, live Beta testing, integration into network servers and integration on to the Games web site and impact the "release, ("go live") dates of products during a particular quarter. Our revenues and operating costs are dependent on our ability to meet our product "go live" schedules, and our failure to meet those schedules could result in revenues falling short of analysts' expectations, with no corresponding decrease in expenses, resulting in increased operating losses for EA.com

General Risk Factors

We Face Intense Competition for Talent from Highly Valued Internet Companies

Competition for employees in the interactive software business continues to be intense. Recently, the most intense competition for recruiting and retaining key employees is from Internet companies. The large equity positions frequently offered to key executives and creative talent in such companies and the actual or perceived opportunity for rapid stock price appreciation of these companies make their compensation packages attractive to those who are already working in more mature companies. This situation creates difficulty for us to compete for the attraction and retention of executive and key creative talent.

Because of the Intense Competition for Qualified Technical, Creative, Marketing and Other Personnel, We May Not Be Able To Attract and Retain the Personnel Necessary for our Businesses

The market for technical, creative, marketing and other personnel essential to the development of online businesses and management of our online and core businesses is extremely competitive, and we may not be able to attract and retain the employees we need. In addition, the rising cost of real estate in the San Francisco Bay area – the location of our headquarters and largest studio, has increased dramatically, and has made recruiting from other areas and relocating employees to our headquarters more difficult. If we cannot successfully recruit and retain the employees we need, our ability to develop and manage our businesses will be impaired.

Foreign Sales and Currency Fluctuations

For fiscal 2000 international net revenues comprised 40% of total consolidated net revenues. We expect foreign sales to continue to account for a significant and growing portion of our revenues. Such sales are subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies which may fluctuate. For example, our European revenues in fiscal 2000 were adversely impacted by a devaluation of the Euro as compared to the prior year. Our foreign currency exposure may increase if this trend continues. Any of these factors may significantly harm our business.

Increased Difficulties in Forecasting Results

During platform transition periods, where the success of our products is significantly impacted by the changing market for our products, forecasting our revenues and earnings is more difficult than in more stable or rising product markets. The demand for our products may decline during a transition faster than we anticipate, negatively impacting both revenues and earnings.

Fluctuations in Stock Price

Due to analysts' expectations of continued growth and other factors, any shortfall in earnings could have an immediate and significant adverse effect on the trading price of our common stock in any given period. As a result of the factors discussed in this report and other factors that may arise in the future, the market price of our common stock historically has been, and we expect will continue to be subject to significant fluctuations over a short period of time. These fluctuations may be due to factors specific to us, to changes in analysts' earnings estimates, or to factors affecting the computer, software, Internet, entertainment, media or electronics businesses or the securities markets in general. For example, during fiscal year 2000, the price per share of our common stock ranged from \$45.63 to \$120.94.

Because of these and other factors affecting our operating results and financial condition, past financial performance should *not* be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to various market risks, including the changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from changes in market rates and prices. Foreign exchange contracts used to hedge foreign currency exposures and short-term investments are subject to market risk. We do not consider our cash and cash equivalents to be subject to interest rate risk due to their short maturities. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

We utilize foreign exchange contracts to hedge foreign currency exposures of underlying assets and liabilities, primarily certain intercompany receivables that are denominated in foreign currencies, thereby, limiting our risk. Gains and losses on foreign exchange contracts are reflected in the income statement. At March 31, 2000, we had foreign exchange contracts, all with maturities of less than nine months to purchase and sell approximately \$242,143,000 in foreign currencies, primarily British Pounds, European Currency Units ("Euro"), Canadian Dollars, Japanese Yen and other currencies.

Fair value represents the difference in value of the contracts at the spot rate and the forward rate. The counterparties to these contracts are substantial and creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material. Notwithstanding our efforts to manage foreign exchange risks, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

The following table below provides information about our foreign currency forward exchange contracts at March 31, 2000. The information is provided in U.S. dollar equivalents and presents the notional amount (forward amount), the weighted average contractual foreign currency exchange rates and fair value.

	Contract Amount (In thousands)	Weighted- Average Contract Rate	Fair Value (In thousands)
Foreign currency to be sold under contract:			
British Pound	\$111,138	1.5877	\$(469)
Euro	59,378	0.9734	(273)
Japanese Yen	15,476	104.0300	410
Canadian Dollar	13,615	1.4689	(63)
Australian Dollar	6,058	0.6058	(27)
South African Rand	4,686	6.4023	56
Swedish Krona	2,326	8.5993	(19)
Norwegian Krone	1,312	8.3871	(15)
Danish Krone	1,304	7.6716	(6)
Brazilian Real	1,259	1.7480	(11)
Swiss Franc	899	1.6681	(25)
New Zealand Dollar	488	0.4876	(2)
Total	\$217,939		\$(444)
Foreign currency to be purchased under contract:			
British Pound	\$ 24,204	1.5944	\$ (75)
Total	\$ 24,204		\$ (75)
Grand total	\$242,143		\$(519)

While the contract amounts provide one measurement of the volume of these transactions, they do not represent the amount of our exposure to credit risk. The amounts (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed our obligations as these contracts can be settled on a net basis at our option. We control credit risk through credit approvals, limits and monitoring procedures.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We manage our interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments of high

credit quality and relatively short average maturities. We also manage our interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity. At March 31, 2000, our cash equivalents, short-term and long-term investments included debt securities of \$194,769,000. Notwithstanding our efforts to manage interest rate risks, there can be no assurances that we will be adequately protected against the risks associated with interest rate fluctuations.

The table below presents the amounts and related weighted average interest rates of our investment portfolio at March 31, 2000:

	Average Interest Rate	Cost	Fair Value
(Dollars in thousands)			
Cash equivalents ⁽¹⁾			
Fixed rate	0.00%	\$ -	\$ -
Variable rate	4.15%	\$92,830	\$92,830
Short-term investments ⁽¹⁾⁽²⁾			
Fixed rate	4.05%	\$83,639	\$83,539
Variable rate	6.87%	\$10,000	\$10,000
Long-term investments ⁽¹⁾			
Fixed rate	0.00%	\$ -	\$ -
Variable rate	6.35%	\$ 8,400	\$ 8,162

(1) See definition in note 1 of the Notes to the Consolidated Financial Statements.

(2) Maturity dates for short-term investments range from 6 months to 3 years.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of Independent Auditors, Consolidated Financial Statements and Notes to Consolidated Financial Statements follow below on pages 44 through 70.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Electronic Arts Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. 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 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Mountain View, California
April 28, 2000

KPMG LLP

ELECTRONIC ARTS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

As of March 31,

	2000	1999
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 339,804	\$312,822
Marketable securities	236	4,884
Receivables, less allowances of \$65,067 and \$72,850, respectively	234,087	149,468
Inventories, net	22,986	22,376
Other current assets	108,210	79,915
	<hr/>	
Total current assets	705,323	569,465
Property and equipment, net	285,466	181,266
Long-term investments	8,400	18,400
Investment in affiliates	22,601	25,864
Goodwill and other intangibles, net	117,236	90,682
Other assets	53,286	16,196
	<hr/>	
	\$1,192,312	\$901,873
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 97,703	\$ 63,881
Accrued and other liabilities	167,599	172,328
	<hr/>	
Total current liabilities	265,302	236,209
Minority interest in consolidated joint venture	3,617	2,733
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 10,000,000 shares	-	-
Common stock		
Class A common stock, \$0.01 par value. Authorized 400,000,000 shares; issued 64,434,544 and 61,291,849 shares; outstanding 64,434,544 and 61,169,286 shares, respectively	644	613
Class B common stock, \$0.01 par value. Authorized 100,000,000 shares; issued and outstanding 6,000,000 shares in 2000	60	-
Paid-in capital	412,682	267,699
Treasury stock, at cost; 0 and 122,563 shares in 2000 and 1999, respectively	-	(4,926)
Retained earnings	516,368	402,112
Accumulated other comprehensive loss	(6,361)	(2,567)
	<hr/>	
Total stockholders' equity	923,393	662,931
	<hr/>	
	\$1,192,312	\$901,873

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Years Ended March 31,		
	2000	1999	1998
Net revenues	\$1,420,011	\$1,221,863	\$908,852
Cost of goods sold	705,808	627,823	481,233
Gross profit	714,203	594,040	427,619
Operating expenses:			
Marketing and sales	188,628	163,407	128,308
General and administrative	92,502	76,219	57,838
Research and development	260,759	199,141	145,732
Charge for acquired in-process technology	6,539	44,115	1,500
Merger costs	-	-	10,792
Amortization of intangibles	11,989	5,880	-
Total operating expenses	560,417	488,762	344,170
Operating income	153,786	105,278	83,449
Interest and other income, net	16,028	13,180	24,811
Income before provision for income taxes and minority interest	169,814	118,458	108,260
Provision for income taxes	52,642	45,414	35,726
Income before minority interest	117,172	73,044	72,534
Minority interest in consolidated joint venture	(421)	(172)	28
Net income	\$116,751	\$72,872	\$72,562
Net income per share:			
Basic	\$1.86	\$1.20	\$1.23
Diluted	\$1.76	\$1.15	\$1.19
Number of shares used in computation:			
Basic	62,830	60,748	58,867
Diluted	66,371	63,272	60,958

See accompanying notes to consolidated financial statements, including segment information in note 18.

ELECTRONIC ARTS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended March 31, 2000, 1999 and 1998

(In thousands)

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at March 31, 1997	58,263	\$583	-	\$-	\$188,547	\$257,978	\$668	-	\$-	\$447,776
Net income						72,562				72,562
Change in unrealized appreciation of investments, net							1,882			1,882
Reclassification adjustment for gains realized in net income, net							(2,745)			(2,745)
Translation adjustment Comprehensive income							(1,273)			(1,273)
Proceeds from sales of shares through stock plans	1,897	19			37,729					37,748
Tax benefit related to stock options					7,931					7,931
Repayment of notes receivable					87					87
Balances at March 31, 1998	60,160	602	-	-	234,294	330,540	(1,468)	-	-	563,968
Net income						72,872				72,872
Change in unrealized appreciation of investments, net							2,533			2,533
Reclassification adjustment for gains realized in net income, net							(989)			(989)
Translation adjustment Comprehensive income							(2,643)			(2,643)
Proceeds from sales of shares through stock plans	1,132	11			27,791	(1,300)		100	4,075	30,577
Purchase of treasury stock								(223)	(9,001)	(9,001)
Tax benefit related to stock options					5,614					5,614
Balances at March 31, 1999	61,292	613	-	-	267,699	402,112	(2,567)	(123)	(4,926)	662,931

ELECTRONIC ARTS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

Years Ended March 31, 2000, 1999 and 1998
(In thousands)

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at March 31, 1999	61,292	613	-	-	267,699	402,112	(2,567)	(123)	(4,926)	662,931
Net income						116,751				116,751
Change in unrealized appreciation of investments, net							1,739			1,739
Reclassification adjustment for gains realized in net income, net							(5,194)			(5,194)
Translation adjustment Comprehensive income							(339)			(339)
Proceeds from sales of shares through stock plans	3,143	31			83,127	(2,495)		123	4,926	85,589
Issuance of Class B common stock			6,000	60	27,993					28,053
Issuance of Class B stock warrant					1,300					1,300
Tax benefit related to stock options					32,563					32,563
Balances at March 31, 2000	64,435	\$644	6,000	\$60	\$412,682	\$516,368	\$(6,361)	-	\$ -	\$923,393

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended March 31,		
	2000	1999	1998
OPERATING ACTIVITIES:			
Net income	\$116,751	\$72,872	\$72,562
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in consolidated joint venture	421	172	(28)
Equity in net (income) loss of affiliates	(1,138)	155	1,162
Gain on sale of affiliate	(842)	-	(12,625)
Depreciation and amortization	46,725	40,461	26,907
Loss on sale of fixed assets	31	729	1,813
Loss on disposition of assets related to merger	-	-	5,607
Gain on sale of marketable securities	(7,528)	(1,454)	(4,098)
Provision for doubtful accounts	6,714	6,027	4,302
Charge for acquired in-process technology	6,539	44,115	1,500
Change in assets and liabilities, net of acquisitions:			
Receivables	(77,779)	(11,702)	(40,432)
Inventories	(579)	1,282	(1,753)
Other assets	(69,727)	(24,266)	(5,660)
Accounts payable	29,673	1,622	12,783
Accrued liabilities	(6,919)	32,797	29,217
Deferred income taxes	2,994	(12,042)	(12,264)
Net cash provided by operating activities	45,336	150,768	78,993
INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	444	8,281	25
Proceeds from sales of marketable securities, net	8,598	1,818	4,514
Proceeds from sale of affiliate	8,842	-	-
Capital expenditures	(134,884)	(115,820)	(45,238)
Investment in affiliates, net	(4,099)	(5,478)	16,579
Purchase of held-to-maturity securities	-	-	(1,008)
Proceeds from maturity of securities	-	17,306	13,338
Change in short-term investments, net	(13,860)	76,755	(34,504)
Acquisition of Westwood Studios, Inc.	-	(122,688)	-
Acquisition of Kesmai	(22,500)	-	-
Acquisition of other subsidiaries, net of cash acquired	(22,096)	(11,805)	(3,225)
Net cash used in investing activities	(179,555)	(151,631)	(49,519)
FINANCING ACTIVITIES:			
Proceeds from sales of Class A shares through employee stock plans and other plans	85,589	30,577	37,748
Proceeds from sales of Class B shares and stock warrants to AOL	20,000	-	-
Purchase of treasury shares	-	(9,001)	-
Repayment of notes receivable	-	-	87
Tax benefit from exercise of stock options	32,563	5,614	7,931
Proceeds from minority interest investment in consolidated joint venture	-	2,109	-
Net cash provided by financing activities	138,152	29,299	45,766
Translation adjustment	124	(2,191)	(1,273)
Increase in cash and cash equivalents	4,057	26,245	73,967
Beginning cash and cash equivalents	242,208	215,963	141,996
Ending cash and cash equivalents	246,265	242,208	215,963
Short-term investments	93,539	70,614	158,597
Ending cash, cash equivalents and short-term investments	\$339,804	\$312,822	\$374,560
Supplemental cash flow information:			
Cash paid during the year for income taxes	\$15,525	\$ 43,050	\$ 32,888
Non-cash investing activities:			
Class B common stock issued in connection with the Kesmai acquisition	\$ 9,353	\$ -	\$ -
Change in unrealized appreciation of investments and marketable securities	\$(5,008)	\$ 1,805	\$ (1,411)

See accompanying notes to consolidated financial statements.

ELECTRONIC ARTS AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000, 1999 and 1998

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

(a) Fiscal Year

The Company's fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to March 31 in each year. The results of operations for fiscal 2000, 1999 and 1998 contain 52 weeks. For clarity of presentation herein, all fiscal periods are treated as ending on a calendar month end.

(b) Revenue Recognition

The Company's revenue recognition policies are in compliance with American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "*Software Revenue Recognition*", and SOP 98-4, "*Deferral of the Effective Date of a Provision of SOP 97-2*", which provide guidance on generally accepted accounting principles for recognizing revenue on software transactions. SOP 97-2 requires that revenue recognized from software arrangements be allocated to each element of the arrangement based on the relative fair values of the elements. The Company has adopted the provisions of these SOPs as of April 1, 1998. The adoption has, in certain circumstances, resulted in the deferral of certain revenues associated with the Company's sales promotions and products with multiple deliverable elements. Neither the changes in certain business practices nor the deferral of certain revenues have resulted in a material impact on the Company's operating results, financial position or cash flows for the fiscal year ended March 31, 2000. Total deferred revenue at March 31, 2000 and 1999 was \$1,847,000, and \$8,206,000, respectively.

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

material change in the accounting for revenues for the Company.

Product Sales: The Company recognizes revenue upon shipment of its packaged goods products based on "FOB Shipping" terms. Under FOB Shipping terms, title and risk of loss are transferred when the products are delivered to the customer. In order to recognize revenue, the Company must not have any continuing obligations and it must also be probable that the Company will collect the accounts receivable. Subject to certain limitations, the Company permits customers to obtain exchanges within certain specified periods and provides price protection on certain unsold merchandise. Revenue is recognized net of an allowance for returns and price protection.

Online Subscription Revenues: Online subscription revenues are derived principally from subscription revenues collected from customers for online play, who are only contractually obligated for pay on a month-to-month basis. Prepaid monthly subscription revenues, including revenues collected from credit card sales as well as sales of *Gametime* subscription cards, are deferred and subsequently recognized ratably over the period for which the hosting services are provided.

Software Licenses: For those agreements which provide the customers the right to multiple copies in exchange for guaranteed minimum royalty amounts, revenue is recognized at delivery of the product master or the first copy. Per copy royalties on sales that exceed the guarantee are recognized as earned.

Revenue from the licensing of software was \$21,704,000, \$17,788,000, and \$15,431,000 for the fiscal years ended March 31, 2000, 1999 and 1998, respectively.

(c) Cash and Investments

Cash equivalents consist of highly liquid investments with insignificant rate risk and with maturities of three months or less at the date of purchase. Short-term investments include securities with maturities greater than three months and less than one year, except for certain investments with stated maturities greater than one year. Long-term investments consist of securities with maturities greater than one year.

The Company accounts for investments under Statement of Financial Accounting Standards No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," ("SFAS 115"). The Company's policy is to protect the value of its investment portfolio and to minimize principal risk by earning returns based on current interest rates. Management determines the appropriate classification of its debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are

classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities classified as held-to-maturity are carried at amortized cost, which is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Debt securities, not classified as held-to-maturity, are classified as available-for-sale and are stated at fair value. Securities sold is based on the specific identification method.

(d) Prepaid Royalties

Prepaid royalties consist primarily of prepayments for manufacturing royalties, original equipment manufacturer (OEM) fees and license fees paid to celebrities and professional sports organizations for use of their trade name. Also included in prepaid royalties are prepayments made to independent software developers under development arrangements that have alternative future uses. Prepaid royalties are expensed at the contractual royalty rate as cost of goods sold based on actual net product sales. Management evaluates the future realization of prepaid royalties quarterly and charges to income any amounts that management deems unlikely to be realized through product sales. Royalty advances are classified as current and non-current assets based upon estimated net product sales for the following year. The current portion of prepaid royalties, included in other current assets, was \$54,970,000 and \$35,057,000 at March 31, 2000 and 1999, respectively. The long-term portion of prepaid royalties, included in other assets, was \$11,373,000 and \$7,602,000 at March 31, 2000 and 1999, respectively.

(e) Software Development Costs

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

(f) Inventories

Inventories are stated at the lower of cost or market. Inventories at March 31, 2000 and 1999 consisted of:

	2000	1999
	(in thousands)	
Raw materials and work in process	\$ 920	\$ 2,983
Finished goods	22,066	19,393
	\$22,986	\$22,376

(g) Advertising Costs

The Company generally expenses advertising costs as incurred, except for production costs associated with media campaigns which are deferred and charged to expense at the first run of the ad. Cooperative advertising with distributors and retailers is accrued when revenue is recognized. Cooperative advertising credits are reimbursed when qualifying claims are submitted. For the fiscal years ended March 31, 2000, 1999 and 1998, advertising expenses totaled approximately \$87,377,000, \$72,437,000 and \$55,090,000, respectively.

(h) Property and Equipment

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

Buildings	20 to 25 years
Computer equipment and software	3 to 7 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Lesser of the lease terms or the estimated useful lives of the improvements

(i) Intangible Assets

Intangible assets net of amortization at March 31, 2000 and 1999, of \$117,236,000, and \$90,682,000, respectively, include goodwill, costs of obtaining product technology and noncompete covenants which are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, typically from two to twelve years. Amortization expense for fiscal years ended March 31, 2000, 1999 and 1998 was \$11,989,000, \$5,880,000, and \$692,000, respectively. The Company assesses the recoverability of goodwill by determining whether the carried value of the assets may be recovered through estimated future cash flows.

(j) Income Taxes

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

(k) Foreign Currency Translation

For each of the Company's foreign subsidiaries the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using current

exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates. The effects of foreign currency translation adjustments are deferred and included as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Included in interest and other income in the statements of income are foreign currency transaction losses of \$1,781,000, \$1,168,000 and \$517,000, for the fiscal years ended March 31, 2000, 1999 and 1998, respectively.

(l) Net Income Per Share

The following summarizes the computations of Basic Earnings Per Share ("EPS") and Diluted EPS. Basic EPS is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock options, restricted stock awards, warrants and other convertible securities using the treasury stock method.

(In thousands, except for per share amounts):

	Years Ended March 31,		
	2000	1999	1998
Net income	\$116,751	\$72,872	\$72,562
Shares used to compute net income per share:			
Weighted-average common shares	62,830	60,748	58,867
Dilutive stock options	3,541	2,524	2,091
Dilutive potential common shares	66,371	63,272	60,958
Net income per share:			
Basic	\$1.86	\$1.20	\$1.23
Diluted	\$1.76	\$1.15	\$1.19

Excluded from the above computation of weighted-average shares for diluted EPS for the fiscal years ended March 31, 2000, 1999 and 1998 were options to purchase 229,000, 645,000 and 137,000 shares of common stock, respectively, as the options' exercise price was greater than the average market price of the common shares. For the fiscal year ended March 31, 2000, the weighted-average exercise price of the respective options was \$81.88. Class B common stock, authorized on March 22, 2000 was excluded from the Company's calculations of basic and diluted EPS because its impact on the calculations is immaterial.

(m) Employee Benefits

The Company has a 401(k) Plan covering substantially all of its U.S. employees. The 401(k) Plan permits the Company to make discretionary contributions to employees' accounts based

on the Company's financial performance. The Company contributed \$1,799,000, \$2,092,000 and \$902,000 to the Plan in fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

(n) Stock-based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25").

(o) Impact of Recently Issued Accounting Standards

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the SEC. SAB 101 is effective for fiscal years beginning after December 15, 1999, except, as amended by SAB 101A, registrants with fiscal years that begin between December 16, 1999 and March 15, 2000 may report a change in accounting principle no later than the second quarter of fiscal years beginning after December 15, 1999. The Company believes the adoption of SAB 101 will not have a material impact on the Company's financial position and results of operations.

In March 2000, the Emerging Issues Task Force issued No. 00-02 ("EITF 00-02"), "Accounting for Web Site Development Costs". EITF 00-02 states that all costs relating to software used to operate a web site and relating to development of initial graphics and web page design should be accounted for using Statement of Position ("SOP") 98-1. Under this SOP, costs incurred in the preliminary project stage should be expensed as incurred, as should most training and data conversion costs. External direct costs of materials and services and internal direct payroll-related costs should be capitalized once certain criteria are met. EITF 00-02 is effective for all fiscal quarters beginning after June 30, 2000. The Company does not expect a significant impact on the consolidated results of operations, financial position or cash flows on the EITF's effective date.

In March 2000, the Emerging Issues Task Force issued No. 00-03 ("EITF 00-03"), "Application of AICPA SOP 97-2, "Software Revenue Recognition," to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware", which discusses the effect on revenue recognition of a software vendor's obligation to host its software that previously was licensed to a customer. The EITF has reached the conclusion that, if the customer is unable to utilize the software on the customer's hardware or contract with another party unrelated to the vendor to host the software, then the arrangement with the customer is outside the scope of SOP 97-2 and should be treated as a service contract. The Company may be required to change the timing of its revenue recognition related to product revenues. The Company believes the adoption of EITF 00-03 will not have a material

impact on the Company's financial position and results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 is effective as of the beginning of the first quarter of the fiscal year beginning after June 15, 2000. The Company is determining the effect of SFAS 133 on its financial statements.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires that consulting, hardware, software and direct payroll-related costs associated with the implementation of customized internal-use software be capitalized and amortized over the estimated useful life of the software. These costs relate to game site application and infrastructure design and development, as well as costs related to providing customer account management and building in e-Commerce functionality and interfaces. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. As of March 31, 2000, the Company has capitalized \$26,318,000 of these costs associated with the effort to build and support the EA.com game sites at launch.

(p) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include provisions for doubtful accounts, sales returns and allowances, warranty provisions, and estimates regarding the recoverability of prepaid royalty advances and inventories. Actual results could differ from those estimates.

(q) Reclassifications

Certain amounts have been reclassified to conform to fiscal 2000 presentation.

(r) Long-Lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

(2) APPROVAL OF THE TRACKING STOCK PROPOSAL

On March 22, 2000, the stockholders of Electronic Arts voted on and approved a proposal (the "Tracking Stock Proposal") to authorize the issuance of a new series of common stock to be designated as Class B common stock ("Tracking Stock"), intended to reflect the performance of Electronic Arts' online and e-Commerce division ("EA.com"). As a result of the approval of the Tracking Stock Proposal, Electronic Arts' existing common stock has been re-classified as Class A common stock ("Class A Stock") and that stock will reflect the performance of Electronic Arts' other businesses ("EA Core").

(3) FINANCIAL INSTRUMENTS

(a) Cash and Investments

	March 31,	
	2000	1999
	(in thousands)	
Cash and cash equivalents:		
Cash	\$153,436	\$106,641
Municipal securities	81,326	-
Money market funds	11,503	135,567
Cash and cash equivalents	246,265	242,208
Short-term investments:		
Available-for-sale:		
Municipal securities	76,513	21,700
Corporate bonds	3,013	-
U.S. Agency bonds	4,013	-
Money market preferreds	-	43,114
Held-to-maturity:		
U.S. Treasury securities	10,000	5,800
Short-term investments	93,539	70,614
Cash, cash equivalents and short-term investments	\$339,804	\$312,822
Long-term investments:		
U.S. Treasury securities	\$ 8,400	\$ 18,400

Long-term and short-term held-to-maturity investments include commercial notes with original maturities of five to eight years secured by U.S. Treasury Notes which enable the Company to take advantage of certain tax incentives from its Puerto Rico operation. These investments are treated as held-to-maturity for financial reporting purposes.

The fair value of held-to-maturity securities at March 31, 2000 was \$18,162,000 which included gross unrealized losses of \$238,000. The fair value of held-to-maturity securities at March 31, 1999 was \$24,353,000 which included gross unrealized gains of \$153,000.

(b) Marketable Securities

Marketable securities are comprised of equity securities. The Company has accounted for investments in equity securities as "available-for-sale" and has stated applicable investments at

fair value, with net unrealized appreciation reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. Marketable securities had an aggregate cost of \$15,000 and \$585,000 at March 31, 2000 and 1999, respectively. At March 31, 2000, marketable securities included gross unrealized gains of \$221,000. At March 31, 1999 marketable securities included gross unrealized gains of \$4,299,000.

For the fiscal years ended March 31, 2000 and 1999, the fair value of marketable securities sold was \$8,604,000 and \$1,818,000, respectively. The gross realized gains from these sales totaled \$7,528,000 and \$1,454,000 for fiscal 2000 and 1999, respectively. The gain on sale of investments is based on the specific identification method.

(c) Foreign Currency Forward Exchange Contracts

The Company utilizes foreign exchange contracts to hedge foreign currency exposures of underlying assets and liabilities, primarily certain intercompany receivables that are denominated in foreign currencies, thereby limiting our risk.. The Company does not use forward exchange contracts for speculative or trading purposes. The Company's accounting policies for these instruments are based on the Company's designation of such instruments as hedging transactions. The criteria the Company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching of forward exchange contracts to underlying transactions. Gains and losses on currency forward contracts that are designated and effective as hedges of firm commitments are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. The Company transacts business in various foreign currencies. At March 31, 2000, the Company had foreign exchange contracts, all with maturities of less than nine months, to purchase and sell approximately \$242,143,000 in foreign currencies, primarily in British Pounds, Euro, Canadian Dollars, Japanese Yen and other European currencies.

Fair value represents the difference in value of the contracts at the spot rate and the forward rate, plus the unamortized premium or discount. At March 31, 2000, fair value of these contracts is not significant. The counterparties to these contracts are substantial and creditworthy multinational commercial banks. The risks of counterparty nonperformance associated with these contracts are not considered to be material. Notwithstanding our efforts to manage foreign exchange risk, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

(4) COMMITMENTS

Lease Obligations

The Company leases certain of its current facilities and certain equipment under non-cancelable operating lease agreements. The Company is required to pay property taxes, insurance and normal maintenance costs for certain of its facilities and will be required to pay any increases over the base year of these expenses on the remainder of the Company's facilities.

In February 1995, the Company entered into a master operating lease, as subsequently amended, for land and a building to be constructed in Redwood City, California. The initial term of the lease is for a period of three years from November 30, 1998. Monthly lease payments are based upon the London InterBank Offered Rate. The Company has the option to purchase the property for the unamortized financed balance at any time after the non-cancelable lease term, or it may terminate the lease at any time after the non-cancelable term by arranging a third party sale or by making a termination payment. Should the Company elect to terminate the lease, it will guarantee a residual value of up to 85% of the unamortized value of the property. As part of the agreement, the Company must also comply with certain financial covenants.

Total future minimum lease commitments as of March 31, 2000 are:

Year Ended March 31:	(in thousands)
2001	\$22,760
2002	16,477
2003	7,266
2004	5,681
2005	3,745
Thereafter	7,719
	\$63,648

Total rent expense for all operating leases was \$23,591,000, \$19,480,000 and \$13,842,000, for the fiscal years ended March 31, 2000, 1999 and 1998, respectively.

(5) AMERICA ONLINE, INC. ("AOL") AGREEMENT

In November 1999, Electronic Arts Inc., EA.com and AOL entered into a five year agreement which establishes the basis for EA.com's production of a games site on the world wide web that will be available to AOL subscribers and to users of other branded AOL properties. Under this agreement, EA.com is required to launch its site no later than June 1, 2000, although, under certain circumstances described in the agreement, this date can be extended to September 1, 2000. If the site is not launched within the specified time frame, and if prescribed additions to the site are not achieved within a specified time frame or the site does not contain content as required under the agreement, then, under certain

circumstances, AOL would have the ability to terminate the agreement.

The Company is required to pay \$50,000,000 to AOL as a carriage fee (including certain advertising fees of which \$604,000 was expensed for the fiscal year ended March 31, 2000) under the AOL agreement. Of this amount, \$25,000,000 was paid upon signing the agreement and the remainder is due in four equal installments on the first four anniversaries of the initial payment. Payment of the first annual installment of \$6,250,000 will be accelerated to June 1, 2000 since certain launch requirements will not be met by that date. The Company is also required to pay to AOL \$31,000,000 as an advance of a minimum guaranteed revenue share for revenues generated by subscriptions and other certain commercial transactions on the EA.com site. Of this amount \$11,000,000 was paid upon signing of the agreement and the remainder is due in four equal annual installments on the first anniversary of the initial payment. The fair value of the payments made under the AOL agreement was determined by an independent valuation and the resulting amounts will be amortized (beginning with the site launch) over the remaining term of the five year agreement. Advances of \$35,395,000 are included in other long-term assets as of March 31, 2000.

The Company also committed to spend \$15,000,000 in offline media advertisements promoting its games on AOL during the term of the agreement.

Sale of Class B Common Stock and Warrant to AOL

In connection with the agreement with AOL, the Company sold shares of Class B common stock to AOL (the "AOL Shares") representing 10 percent of the initial equity value attributable to EA.com valued at \$18,700,000.

In addition to the AOL Shares, the Company sold AOL a warrant (the "AOL Warrant") to purchase shares of Class B common stock representing an additional 5 percent of the initial equity value attributable to EA.com for \$1,300,000. The aggregate exercise price of the AOL Warrant will be \$40,000,000. The AOL Warrant expires at the latest at the fifth anniversary of its date of issuance, and under certain conditions may expire at an earlier date.

AOL Exchange Rights

If a Qualified Public Offering (as defined in the AOL Agreement) does not occur within 12 months following the initial sale of the AOL Shares to AOL, then AOL may exchange their Class B common stock shares for a number of Class A common stock based on the ratio of per share price paid by AOL for the Class B stock relative to \$83.7958.

(6) CONCENTRATION OF CREDIT RISK

The Company extends credit to various companies in the retail and mass merchandising industry. Collection of trade

receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact the Company's overall credit risk. Although the Company generally does not require collateral, the Company performs ongoing credit evaluations of its customers and reserves for potential credit losses are maintained.

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

(7) LITIGATION

The Company is subject to pending claims and litigation. Management, after review and consultation with counsel, considers that any liability from the disposition of such lawsuits would not have a material adverse effect upon the consolidated financial condition of the Company.

(8) PREFERRED STOCK

At March 31, 2000 and 1999, the Company had 10,000,000 and 1,000,000 shares, respectively, of Preferred Stock authorized but unissued. The rights, preferences, and restrictions of the Preferred Stock may be designated by the Board of Directors without further action by the Company's stockholders.

(9) TREASURY STOCK

In February 1999, the Board of Directors approved a plan to purchase up to two million shares of the Company's common stock. For the year ended March 31, 2000, the Company did not repurchase shares. For the year ended March 31, 1999, the Company repurchased 222,500 shares for approximately \$9,001,000 under this program. For the fiscal years ended March 31, 2000 and 1999, 122,563 and 99,937 shares were reissued under the Company's Stock Plans, respectively.

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

(10) STOCK PLANS

(a) Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan program whereby eligible employees may authorize payroll deductions of up to 10% of their compensation to purchase shares at 85% of the lower of the fair market value of the Common Stock on the date of commencement of the offering or on the last day of the six-month purchase period. The program commenced in September 1991. In fiscal 2000, 245,523 shares were purchased by the Company and distributed to employees at prices ranging from \$32.41 to \$58.28. In fiscal 1999, 241,514 shares were purchased by the Company and distributed to employees at prices ranging from \$26.19 to \$36.60. In fiscal

1998, 199,680 shares were purchased by the Company and distributed to employees at prices ranging from \$26.14 to \$26.19 per share. The weighted average fair value of the fiscal 2000, fiscal 1999 and fiscal 1998 awards was \$20.00, \$18.27 and \$9.43, respectively. Under the Employee Stock Purchase Plan 30,928 shares were distributed from reissued treasury stock in fiscal 1999. No shares were distributed from reissued treasury stock in fiscal 2000 or fiscal 1998. At March 2000, the Company had 366,921 shares of its Common Stock reserved for future issuance under the Plan.

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

(b) Stock Option Plans

The Company's 1991 Stock Option Plan, 1993 Stock Option Plan, 1995 Stock Option Plan, and Directors' Plan ("Option Plans") provide stock options for employees, officers and directors. Pursuant to these Option Plans, the Board of Directors may grant non-qualified and incentive stock options to employees and officers and non-qualified options to directors, at not less than the fair market value on the date of grant.

Together with the Tracking Stock Proposal, the stockholders approved the Electronic Arts Inc. 2000 Class B Equity Incentive Plan and the Electronic Arts Inc. 2000 Class A Equity Incentive Plan. The Class B equity plan allows the award of stock options or restricted stock for up to an aggregate of 6,000,000 shares of Class B common stock and the Class A equity plan allows the award of stock options and restricted stock for up to an aggregate of 3,100,000 shares of Class A common stock. Each includes a provision for automatic option grants to the Company's outside directors. As of March 31, 2000 there were no shares granted under either plan.

Under the Company's stock option plans, 122,563 and 69,009 shares were reissued from treasury stock in fiscal 2000 and 1999, respectively. No shares were distributed from reissued treasury stock in fiscal 1998.

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

Class B common stock grants will generally vest over 50 months with 2% vesting per month.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123,

"Accounting for Stock Based Compensation" ("SFAS 123"). Accordingly, no compensation expense has been recognized for options granted under the Company's employee-based stock option plans. Had compensation expense been determined based on the fair value at the grant dates for awards under those plans in accordance with the provisions of SFAS 123, the Company's pro forma net income and net income per share for fiscal 2000, 1999 and 1998 would have been:

(In thousands, except per share data)

	2000	1999	1998
Net income			
As reported	\$116,751	\$72,872	\$72,562
Pro forma	\$ 78,380	\$45,886	\$52,892
Earnings per share			
As reported – basic	\$1.86	\$1.20	\$1.23
Pro forma – basic	\$1.26	\$0.77	\$0.91
As reported – diluted	\$1.76	\$1.15	\$1.19
Pro forma – diluted	\$1.19	\$0.74	\$0.88

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions are used for grants made in 2000, 1999 and 1998 under the stock plans: risk-free interest rates of 4.93% to 6.54% in 2000; 4.39% to 5.55% in 1999; and 5.31% to 6.42% in 1998; expected volatility of 65% in fiscal 2000, 59% in fiscal 1999 and 58% in fiscal 1998; expected lives of 2.29 years in fiscal 2000, 2.27 years in fiscal 1999 and 2.25 years in fiscal 1998 under the Option Plans and one year for the Employee Stock Purchase Plan. No dividends are assumed in the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized when they occur. The above disclosures include options granted under the former Maxis option plans as if they were initially granted by the Company.

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

Additional information regarding options outstanding as of March 31, 2000 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 1.990 - \$23.500	1,684,898	4.21	\$16.48	1,444,433	\$15.34
23.750 - 29.875	1,544,350	6.52	27.37	1,144,030	27.66
30.000 - 35.000	1,524,245	6.97	34.15	653,137	33.49
35.063 - 43.125	1,263,602	8.08	39.64	365,063	40.01
43.625 - 46.875	1,467,705	8.62	44.61	404,804	44.12
47.125 - 57.938	1,025,608	8.77	50.62	208,722	49.82
59.750	1,826,819	9.39	59.75	205,977	59.75
66.375 - 83.875	761,102	9.68	74.38	20,293	72.67
87.813	185,600	9.93	87.81	56	87.81
91.938	183,025	9.65	91.94	7,147	91.94
\$ 1.990 - \$91.938	11,466,954	7.65	\$42.60	4,453,662	\$29.86

The following summarizes the activity under the Company's stock option plans during the fiscal years ended March 31, 2000, 1999 and 1998:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
Balance at March 31, 1997	8,323,568	\$21.97
Granted	3,833,539	32.92
Canceled	(616,275)	37.96
Exercised	(1,688,702)	18.92
Balance at March 31, 1998 (3,961,559 shares were exercisable at a weighted average price of \$18.83)	9,852,130	25.76
Granted	3,147,216	44.18
Canceled	(568,983)	34.74
Exercised	(991,104)	22.73
Balance at March 31, 1999 (5,094,075 shares were exercisable at a weighted average price of \$22.79)	11,439,259	30.65
Granted	3,907,976	63.84
Canceled	(860,586)	43.36
Exercised	(3,019,695)	24.83
Balance at March 31, 2000	11,466,954	\$42.60
Options available for grant at March 31, 2000	3,582,266	

(11) PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2000 and 1999 consisted of:

	2000	1999
	(in thousands)	
Computer equipment and software	\$ 213,815	\$127,330
Buildings	99,819	62,413
Land	51,686	50,570
Office equipment, furniture and fixtures	25,210	21,296
Leasehold improvements	12,157	5,749
Warehouse equipment and other	3,914	3,813
	406,601	271,171
Less accumulated depreciation and amortization	(121,135)	(89,905)
	\$ 285,466	\$181,266

Depreciation and amortization expenses associated with property and equipment amounted to \$34,736,000, \$34,581,000 and \$26,215,000, for the fiscal years ended March 31, 2000, 1999 and 1998, respectively.

(12) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities at March 31, 2000 and 1999 consisted of:

	2000	1999
	(in thousands)	
Accrued compensation and benefits	\$ 59,580	\$ 46,541
Accrued expenses	37,840	46,595
Accrued royalties	36,566	36,429
Accrued income taxes	22,682	23,724
Warranty reserve	8,886	7,900
Deferred revenue	1,847	8,206
Deferred income taxes	198	2,933
	\$167,599	\$172,328

(13) BUSINESS COMBINATIONS AND DIVESTITURE

(a) Kesmai

On February 7, 2000, the Company acquired Kesmai Corporation (now referred to as "Kesmai") from News America Corporation ("News Corp") in exchange for \$22,500,000 in cash and approximately 103,000 shares of the Company's existing common stock valued at \$8,650,000. Kesmai™ specializes in the design and development of multiplayer games delivered directly to consumers over the Internet and is a major provider of game content to the Games Channel on the AOL service. The issuance of these shares was

temporary, pending the authorization of Class B common stock. Subsequently, on March 22, 2000, Class B shares were authorized. The Company granted 5 percent of the initial equity attributable to EA.com to News Corp, adjusting the total common stock consideration relating to the acquisition by \$703,000 to \$9,353,000. The Company has contributed Kesmai to the EA.com division.

The Company is also committed to spend \$5 million in advertising with News Corp. or any of its affiliates.

If a qualified public offering of Class B common stock does not occur within twenty-four months of News Corp's purchase of such shares, then News Corp has the right to (1) exchange Class B common stock for approximately 103,000 shares of Class A common stock, and (2) receive cash from Electronic Arts in the amount of \$9,650,000.

The acquisition has been accounted for under the purchase method. The results of operations of Kesmai and the estimated fair market values of the acquired assets and liabilities have been included in the consolidated financial statements from the date of acquisition. The adjusted allocation of the excess purchase price over the net tangible liabilities assumed was \$32,815,000, of which, based on management's estimates prepared in conjunction with a third party valuation consultant, \$3,869,000 was allocated to purchased in-process research and development and \$28,946,000 was allocated to other intangible assets. Amounts allocated to other intangibles include goodwill of \$18,932,000, existing technology of \$3,992,000, amounts attributed to a prior AOL agreement of \$3,131,000 and other intangibles of \$2,891,000. The allocation of intangible assets is being amortized over lives ranging from two to seven years.

Purchased in-process research and development includes the value of products in the development stage that are not considered to have reached technological feasibility or to have alternative future use. Accordingly, this non-recurring item was expensed in the Consolidated Statement of Income upon consummation of the acquisition. The non-recurring charge for in-process research and development reduced diluted earnings per share by approximately \$0.04 in the fiscal year 2000.

In connection with the acquisition of Kesmai, the Company allocated and expensed \$3,869,000 of the purchase price to acquired in-process technology. Kesmai had various projects in progress at the time of the acquisition. As of the acquisition date, costs to complete Kesmai projects acquired were expected to be approximately \$10,550,000 in future periods. The Company believes there have been no significant changes to these estimates as of March 31, 2000. The Company currently expects to complete the development of these

projects at various dates through fiscal 2002 and to publish the projects upon completion. In conjunction with the merger of Kesmai, the Company accrued approximately \$200,000 related to direct transaction costs and other related costs. At March 31, 2000 there were \$133,000 in accruals remaining related to these items.

The purchase price for the Kesmai transaction was allocated to assets acquired and liabilities assumed as set forth below (in thousands):

Current assets (net of cash acquired)	\$ 605
Fixed assets (net of depreciation)	759
In-process technology	3,869
Goodwill and other intangibles	28,946
Liabilities	(2,326)
Total cash and stock paid	\$31,853

The following table reflects unaudited pro forma combined results of operations of the Company and Kesmai on the basis that the acquisition had taken place on April 1, 1998 (in thousands, except per share data):

	Year Ended March 31,	
	2000	1999
Net revenues	\$1,421,313	\$1,223,444
Net income	\$ 113,996	\$ 64,237
Net income per share – basic	\$1.81	\$1.06
Net income per share – diluted	\$1.72	\$1.02
Number of shares used in computation - basic	62,830	60,748
Number of shares used in computation - diluted	66,371	63,272

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 1999 or of future operations of the combined companies under the ownership and management of the Company.

(b) Westwood Studios

In September 1998, the Company completed the acquisition of Westwood Studios, Inc. and certain assets of the Irvine, California – based Virgin Studio (collectively "Westwood") for approximately \$122,688,000 in cash, including transaction expenses. The adjusted allocation of the excess purchase price over the net tangible liabilities assumed was \$128,573,000 of which, based on management's estimates prepared in conjunction with a third party valuation consultant, \$41,836,000 was allocated to purchased in-process research and development and \$86,737,000 was allocated to other intangible assets. Amounts allocated to other intangibles include franchise trade names of \$32,357,000, existing technology of \$6,510,000, workforces of \$1,680,000 and other goodwill of \$46,190,000 and are being amortized over lives ranging from two to twelve years. Purchased in-process

research and development includes the value of products in the development stage that are not considered to have reached technological feasibility or to have alternative future use. Accordingly, this non-recurring item was expensed in the Consolidated Statement of Income upon consummation of the acquisition. The non-recurring charge for in-process research and development reduced diluted earnings per share by approximately \$0.59 in the fiscal year 1999. The results of the operations of Westwood and the estimated fair value of assets acquired and liabilities assumed are included in the Company's financial statements from the date of acquisition.

In conjunction with the merger of Westwood, the Company accrued approximately \$1,500,000 related to direct transaction costs and other related accruals. At March 31, 2000, there were \$500,000 in accruals remaining related to these items.

In connection with the Westwood acquisition, the purchase price has been allocated to the assets and liabilities assumed based upon the fair values on the date of acquisition, as follows (in thousands):

Current assets	\$ 4,500
Property and equipment	3,257
In-process technology	41,836
Other intangible assets	86,737
Current liabilities	(13,642)
Total purchase price	\$122,688

The following table reflects unaudited pro forma combined results of operations of the Company and Westwood on the basis that the acquisition had taken place on April 1, 1997 (in thousands, except per share data):

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

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 1998 or at the beginning of fiscal 1999 or of future operations of the combined companies under the ownership and management of the Company.

(c) ABC Software

In July 1998, the Company acquired ABC Software AG and ABC Software GmbH (collectively "ABC"), independent

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

(d) Square Co., Ltd.

In May 1998, the Company and Square Co., Ltd. ("Square"), a leading developer and publisher of entertainment software in Japan, completed the formation of two new joint ventures in North America and Japan. In North America, the companies formed Square Electronic Arts, LLC ("Square EA"), which has exclusive publishing rights in North America for future interactive entertainment titles created by Square. Additionally, the Company has the exclusive right to distribute in North America products published by this joint venture. The Company contributed \$3,000,000 and owns a 30% minority interest in this joint venture while Square owns 70%. This joint venture is accounted for under the equity method.

In Japan, the companies established Electronic Arts Square KK ("EA Square KK"), which will localize and publish in Japan the Company's properties originally created in North America and Europe, as well as develop and publish original video games in Japan. The Company contributed cash and has a 70% majority ownership interest, while Square contributed cash and owns 30%. Accordingly, the assets, liabilities and results of operations for EA Square KK are included in the Company's Consolidated Balance Sheets and Results of Operations since June 1, 1998, the date of formation. Square's 30% interest in EA Square KK has been reflected as "Minority interest in consolidated joint venture" on the Company's Consolidated Financial Statements.

(e) Maxis, Inc.

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

In conjunction with the merger of Maxis, the Company recorded costs of \$10,792,000. This charge included direct transaction fees for investment bankers, attorneys, accountants, and other related costs of approximately \$2,781,000 and costs associated with integrating the operations of the two companies of approximately \$8,011,000. Included in the integration costs were redundant facility costs, severance payments, equipment abandonment costs and other asset write downs, contract termination charges and other related expenses. Of the total merger costs, approximately \$5,185,000 related to cash expenditures while approximately

\$5,607,000 related to noncash charges. At March 31, 2000, there were no accruals remaining related to these merger related costs.

(f) Creative Wonders, LLC

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

(g) Other Business Combinations

Additionally, during the year ended March 31, 2000, the Company acquired two software development companies. In connection with these acquisitions, the Company incurred a charge of \$2,670,000 for acquired in-process technology. The charge was made after the Company concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

During the quarter ended June 30, 1998, the Company acquired two software development companies. In connection with these acquisitions, the Company incurred a charge of \$2,279,000 for acquired in-process technology. The charge was made after the Company concluded that the in-process technology had not reached technological feasibility and had no alternative future use after taking into consideration the potential for usage of the software in different products and resale of the software.

(14) INCOME TAXES

The Company's pretax income from operations for the fiscal years ended March 31, 2000, 1999 and 1998 consisted of the following components:

(in thousands)	2000	1999	1998
----------------	------	------	------

Domestic	\$104,096	\$ 79,789	\$ 51,620
Foreign	65,718	38,669	56,640
Total pretax income	\$169,814	\$118,458	\$108,260

At March 31, 2000, deferred tax assets of \$26,963,000 were included in other current assets.

The differences between the statutory income tax rate and the Company's effective tax rate, expressed as a percentage of income before provision for income taxes, for the years ended March 31, 2000, 1999 and 1998 were as follows:

(in thousands)	Current	Deferred	Total
2000:			
Federal	\$2,766	\$3,231	\$5,997
State	299	859	1,158
Foreign	15,573	(2,649)	12,924
Charge in lieu of taxes from employee stock plans	32,563	-	32,563
	<u>\$51,201</u>	<u>\$1,441</u>	<u>\$52,642</u>
1999:			
Federal	\$31,204	\$(10,340)	\$20,864
State	4,401	(2,590)	1,811
Foreign	15,715	1,410	17,125
Charge in lieu of taxes from employee stock plans	5,614	-	5,614
	<u>\$56,934</u>	<u>\$(11,520)</u>	<u>\$45,414</u>
1998:			
Federal	\$14,751	\$(7,585)	\$7,166
State	1,361	(727)	634
Foreign	18,561	1,434	19,995
Charge in lieu of taxes from employee stock plans	7,931	-	7,931
	<u>\$42,604</u>	<u>\$(6,878)</u>	<u>\$35,726</u>

	2000	1999	1998
Statutory Federal tax rate	35.0%	35.0%	35.0%
State taxes, net of Federal benefit	1.5	1.5	1.0
Differences between statutory rate and foreign effective tax rate	(2.8)	(2.5)	(2.2)
Research and development credits	(1.7)	(2.1)	(0.6)
Nondeductible acquisition costs	-	7.4	-
Other	(1.0)	(1.0)	(0.2)
	31.0%	38.3%	33.0%

The Company provides for U.S. taxes on an insignificant portion of the undistributed earnings of its foreign subsidiaries and does not provide taxes on the remainder. We have not provided for Federal income tax on approximately \$165,000,000 of undistributed earnings of our foreign subsidiaries, since we intend to reinvest this amount in foreign subsidiary operations indefinitely.

The Company's U.S. income tax returns for the years 1992 through 1995 have been examined by the Internal Revenue Service (IRS). In 1998, the Company received a notice of deficiencies from the IRS. These deficiencies relate primarily to operations in Puerto Rico, which the Company is contesting in Tax Court. The Company believes that any additional liabilities, if any, that arise from the outcome of this examination will not be material to the Company's consolidated financial statements.

The components of the net deferred tax assets as of March 31, 2000 and 1999 consist of:

(in thousands)	2000	1999
Deferred tax assets:		
Accruals, reserves and other expenses	\$ 70,131	\$ 76,015
Total gross deferred tax assets	70,131	76,015
Less: valuation allowance	-	-
Net deferred tax assets	\$ 70,131	\$ 76,015
Deferred tax liabilities:		
Undistributed earnings of DISC	(1,487)	(1,784)
Prepaid royalty expenses	(38,562)	(43,681)
Fixed assets	(3,249)	-
Unrealized gains on marketable securities	(68)	(1,395)
Other	-	(949)
Total gross deferred tax liabilities	\$(43,366)	\$(47,809)
Net deferred tax asset	\$ 26,765	\$ 28,206

(15) INTEREST AND OTHER INCOME, NET

Interest and other income, net for the years ended March 31, 2000, 1999 and 1998 consisted of:

(in thousands)	2000	1999	1998
Interest income	\$13,744	\$12,625	\$13,649

Gain on disposition of assets, net	8,339	725	14,910
Foreign currency losses	(1,781)	(1,168)	(517)
Equity in net gain (loss) of affiliates	1,138	(155)	(1,162)
Other income (expense), net	(5,412)	1,153	(2,069)
	\$16,028	\$13,180	\$24,811

(16) COMPREHENSIVE INCOME

In fiscal 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in financial statements. SFAS 130 requires classification of other comprehensive income in a financial statement and display of other comprehensive income separately from retained earnings and additional paid-in capital. Other comprehensive income includes primarily foreign currency translation adjustments and unrealized gains (losses) on investments.

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

	Foreign currency translation adjustments	Unrealized gains (losses) on investments	Accumu- lated other comprehen- sive income
Balance at March 31, 1997	\$ (1,925)	\$ 2,593	\$ 668
Other comprehensive loss	(1,273)	(863)	(2,136)
Balance at March 31, 1998	(3,198)	1,730	(1,468)
Other comprehensive income (loss)	(2,643)	1,544	(1,099)
Balance at March 31, 1999	(5,841)	3,274	(2,567)
Other comprehensive loss	(339)	(3,455)	(3,794)
Balance at March 31, 2000	\$ (6,180)	\$ (181)	\$ (6,361)

Change in unrealized gains (losses) on investments, net are shown net of taxes of \$(1,553,000), \$727,000 and \$(426,000) in fiscal 2000, 1999 and 1998, respectively.

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

(17) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities - the carrying amount approximates fair value because of the short maturity of these instruments.

Long-term investments, investments classified as held-to-maturity and marketable securities - fair value is based on quoted market prices.

(18) SEGMENT INFORMATION

In 1999, the Company adopted SFAS No. 131, “*Disclosures about Segments of an Enterprise and Related Information*”, which supersedes SFAS No. 14, “*Financial Reporting for Segments of a Business Enterprise*”. SFAS No. 131 establishes standards for the reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance. The Company’s chief operating decision maker is considered to be the Company’s Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region and by product lines for purposes of making operating decisions and assessing financial performance.

As a result of the approval of the Tracking Stock proposal to authorize issuance of a new series of common stock designated as Class B common stock, intended to reflect the performance of EA.com, management considers EA.com a separate reportable segment. Accordingly, prior period information has been restated to disclose separate segments. The Company operates in two principal business segments globally:

- Electronic Arts core (“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.

Please see the discussion regarding segment reporting in the MD&A.

Information about Electronic Arts business segments is presented below for the fiscal years ended March 31, 2000, 1999, 1998 (in thousands):

	Year Ended March 31, 2000			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Net revenues from unaffiliated customers	\$1,399,093	\$ 20,918	\$ -	\$1,420,011
Group sales	2,014	-	(2,014) ^(a)	-
Total net revenues	1,401,107	20,918	(2,014)	1,420,011
Cost of goods sold from unaffiliated customers	700,024	5,784	-	705,808
Group cost of goods sold	-	2,014	(2,014)	-
Total cost of goods sold	700,024	7,798	(2,014)	705,808
Gross profit	701,083	13,120	-	714,203
Operating expenses:				
Marketing and sales	185,714	2,914	-	188,628
General and administrative	87,513	4,989	-	92,502
Research and development	205,933	34,775	20,051 ^(b)	260,759
Network development and support	-	20,051	(20,051)	-
Charge for acquired in-process technology	2,670	3,869	-	6,539
Amortization of intangibles	10,866	1,123	-	11,989
Total operating expenses	492,696	67,721	-	560,417
Operating income (loss)	208,387	(54,601)	-	153,786
Interest and other income, net	16,017	11	-	16,028
Income (loss) before provision for income taxes and minority interest	224,404	(54,590)	-	169,814
Provision for income taxes	52,642	-	-	52,642
Income (loss) before minority interest	171,762	(54,590)	-	117,172
Minority interest in consolidated joint venture	(421)	-	-	(421)
Net income (loss)	171,341	(54,590)	-	116,751
Interest income	13,733	11	-	13,744
Depreciation and amortization	39,818	6,907	-	46,725
Identifiable assets	1,085,411	106,901	-	1,192,312
Capital expenditures	97,279	37,605	-	134,884

	Year Ended March 31, 1999			
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	Electronic Arts
Net revenues from unaffiliated customers	\$1,204,689	\$17,174	\$ -	\$1,221,863
Group sales	985	-	(985) ^(a)	-
Total net revenues	1,205,674	17,174	(985)	1,221,863
Cost of goods sold from unaffiliated customers	624,252	3,571	-	627,823
Group cost of goods sold	-	985	(985)	-
Total cost of goods sold	624,252	4,556	(985)	627,823
Gross profit	581,422	12,618	-	594,040
Operating expenses:				
Marketing and sales	161,029	2,378	-	163,407
General and administrative	74,995	1,224	-	76,219
Research and development	181,245	8,050	9,846 ^(b)	199,141
Network development and support	-	9,846	(9,846)	-
Charge for acquired in-process technology	44,115	-	-	44,115
Amortization of intangibles	5,880	-	-	5,880
Total operating expenses	467,264	21,498	-	488,762
Operating income (loss)	114,158	(8,880)	-	105,278
Interest and other income, net	13,180	-	-	13,180
Income (loss) before provision for income taxes and minority interest	127,338	(8,880)	-	118,458
Provision for income taxes	45,414	-	-	45,414
Income (loss) before minority interest	81,924	(8,880)	-	73,044
Minority interest in consolidated joint venture	(172)	-	-	(172)
Net income (loss)	81,752	(8,880)	-	72,872
Interest income	12,625	-	-	12,625
Depreciation and amortization	40,271	190	-	40,461
Identifiable assets	898,905	2,968	-	901,873
Capital expenditures	113,939	1,881	-	115,820

	Year Ended March 31, 1998			Electronic Arts
	EA Core (excl. EA.com)	EA.com	Adjustments and Eliminations	
Net revenues from unaffiliated customers	\$897,877	\$10,975	\$ -	\$908,852
Group sales	538	-	(538) ^(a)	-
Total net revenues	898,415	10,975	(538)	908,852
Cost of goods sold from unaffiliated customers	478,967	2,266	-	481,233
Group cost of goods sold	-	538	(538)	-
Total cost of goods sold	478,967	2,804	(538)	481,233
Gross profit	419,448	8,171	-	427,619
Operating expenses:				
Marketing and sales	125,711	2,597	-	128,308
General and administrative	57,650	188	-	57,838
Research and development	137,360	5,352	3,020 ^(b)	145,732
Network development and support	-	3,020	(3,020)	-
Charge for acquired in-process technology	1,500	-	-	1,500
Merger costs	10,792	-	-	10,792
Total operating expenses	333,013	11,157	-	344,170
Operating income (loss)	86,435	(2,986)	-	83,449
Interest and other income, net	24,811	-	-	24,811
Income (loss) before provision for income taxes and minority interest	111,246	(2,986)	-	108,260
Provision for income taxes	35,726	-	-	35,726
Income (loss) before minority interest	75,520	(2,986)	-	72,534
Minority interest in consolidated joint venture	28	-	-	28
Net income (loss)	75,548	(2,986)	-	72,562
Interest income	13,649	-	-	13,649
Depreciation and amortization	26,805	102	-	26,907
Identifiable assets	745,000	681	-	745,681
Capital expenditures	44,715	523	-	45,238

(a) Represents elimination of intercompany sales of Electronic Arts packaged goods products to EA.com; and represents elimination of royalties paid to Electronic Arts by EA.com for intellectual property rights.

(b) Represents reclassification of Network Development and Support to Research and Development.

Information about Electronic Arts' operations in the North America and foreign areas for the fiscal years ended March 31, 2000, 1999 and 1998 is presented below:

(in thousands)	North America	Europe	Asia Pacific (excluding Japan)	Japan	Eliminations	Total
Fiscal 2000:						
Net revenues from unaffiliated customers	\$846,637	\$492,430	\$47,573	\$33,371	\$ -	\$1,420,011
Intercompany revenues	28,701	28,385	9,059	-	(66,145)	-
Total net revenues	<u>875,338</u>	<u>520,815</u>	<u>56,632</u>	<u>33,371</u>	<u>(66,145)</u>	<u>1,420,011</u>
Operating income	101,919	48,712	3,623	1,921	(2,389)	153,786
Interest income	11,775	1,755	214	-	-	13,744
Depreciation and amortization	35,114	9,968	473	1,170	-	46,725
Capital expenditures	78,298	54,379	1,447	760	-	134,884
Identifiable assets	734,626	418,034	18,019	21,633	-	1,192,312
Long-lived assets	244,845	154,475	3,306	3,975	-	406,601
Fiscal 1999:						
Net revenues from unaffiliated customers	\$704,998	\$443,937	\$39,560	\$33,368	\$ -	\$1,221,863
Intercompany revenues	32,216	15,062	2,800	12	(50,090)	-
Total net revenues	<u>737,214</u>	<u>458,999</u>	<u>42,360</u>	<u>33,380</u>	<u>(50,090)</u>	<u>1,221,863</u>
Operating income	78,826	21,052	3,208	2,192	-	105,278
Interest income	9,931	2,551	143	-	-	12,625
Depreciation and amortization	29,272	9,399	506	1,284	-	40,461
Capital expenditures	54,029	58,383	418	2,990	-	115,820
Identifiable assets	596,357	268,152	20,938	16,426	-	901,873
Long-lived assets	174,582	91,546	2,051	2,992	-	271,171
Fiscal 1998:						
Net revenues from unaffiliated customers	\$519,423	\$325,938	\$41,494	\$21,997	\$ -	\$908,852
Intercompany revenues	45,913	21,613	513	133	(68,172)	-
Total net revenues	<u>565,336</u>	<u>347,551</u>	<u>42,007</u>	<u>22,130</u>	<u>(68,172)</u>	<u>908,852</u>
Operating income (loss)	31,852	51,807	6,995	(7,205)	-	83,449
Interest income	10,931	2,471	247	-	-	13,649
Depreciation and amortization	20,826	4,541	661	879	-	26,907
Capital expenditures	25,423	18,035	669	1,111	-	45,238
Identifiable assets	515,728	201,988	17,347	10,618	-	745,681
Long-lived assets	143,398	36,300	1,959	4,805	-	186,462

For the fiscal year ended March 31, 2000 and March 31, 1999, Electronic Arts had sales to one customer which represented 12% of total net revenues in both years. The Company had no sales to any one customer in excess of 10% of total net revenues for fiscal years ended March 31, 1998.

Information about Electronic Arts' net revenues by product line for the fiscal years ended March 31, 2000, 1999 and 1998 is presented below (in thousands):

	2000	1999	1998
PlayStation	\$586,821	\$519,830	\$380,299
PC	397,777	270,793	231,034
Affiliated label	275,333	248,105	185,865
N64	120,415	152,349	56,677
License, OEM and Other	39,665	30,786	54,977
	\$1,420,011	\$1,221,863	\$908,852

QUARTERLY FINANCIAL AND MARKET INFORMATION (UNAUDITED)

(In thousands, except per share data)

	Quarter Ended				Year Ended
	June 30	Sept. 30	Dec. 31	March 31	
Fiscal 2000:					
Net revenues	\$186,120	\$338,887	\$600,691	\$294,313	\$1,420,011
Operating income (loss)	(849)	23,697	129,536	1,402	153,786
Net income	2,326 ^(a)	18,132 ^(a)	92,861 ^(a)	3,432 ^(b)	116,751
Net income per share - basic	\$ 0.04 ^(a)	\$ 0.29 ^(a)	\$ 1.47 ^(a)	\$ 0.05 ^(b)	\$ 1.86
Net income per share – diluted	\$ 0.04 ^(a)	\$ 0.28 ^(a)	\$ 1.38 ^(a)	\$ 0.05 ^(b)	\$ 1.76
Common stock price per share					
High	\$54.81	\$76.19	\$120.94	\$102.19	\$120.94
Low	\$45.63	\$52.88	\$66.44	\$69.00	\$45.63
Fiscal 1999:					
Net revenues	\$178,221	\$245,763	\$520,155	\$277,724	\$1,221,863
Operating income (loss)	3,050	(29,545)	102,439	29,334	105,278
Net income (loss)	3,700 ^(c)	(25,273) ^(d)	72,531 ^(e)	21,914 ^(e)	72,872
Net income (loss) per share - basic	\$ 0.06 ^(c)	\$ (0.42) ^(d)	\$ 1.19 ^(e)	\$ 0.36 ^(e)	\$ 1.20
Net income (loss) per share – diluted	\$ 0.06 ^(c)	\$ (0.42) ^(d)	\$ 1.15 ^(e)	\$ 0.35 ^(e)	\$ 1.15
Common stock price per share					
High	\$ 54.81	\$ 55.56	\$ 56.00	\$ 52.19	\$ 56.00
Low	\$ 41.63	\$ 38.13	\$ 33.88	\$ 38.25	\$ 33.88
Fiscal 1998:					
Net revenues	\$123,712	\$189,828	\$391,245	\$204,067	\$908,852
Operating income (loss)	(4,807)	(3,080)	70,983	20,353	83,449
Net income (loss)	(1,451)	41 ^(f)	58,620 ^(g)	15,352	72,562
Net income (loss) per share – basic	\$ (0.02)	\$ - ^(f)	\$ 0.99 ^(g)	\$ 0.26	\$ 1.23
Net income (loss) per share – diluted	\$ (0.02)	\$ - ^(f)	\$ 0.96 ^(g)	\$ 0.25	\$ 1.19
Common stock price per share					
High	\$ 35.38	\$ 37.50	\$ 39.56	\$46.94	\$46.94
Low	\$ 20.13	\$ 30.75	\$ 29.94	\$34.94	\$20.13

(a) Net income and net income per share include goodwill amortization of \$1.8 million, net of taxes.

(b) Net income and net income per share include one-time acquisition related charges of \$4.5 million, net of taxes, incurred in connection with the acquisition of Kesmai and other business combinations made during the quarter as well as goodwill amortization of \$2.9 million, net of taxes.

(c) Net income and net income per share include one-time acquisition related charges of \$1.6 million, net of taxes, incurred in connection with the acquisition of two software development companies made during the quarter.

(d) Net income and net income per share include one-time acquisition related charges of \$35.9 million, net of taxes, incurred in connection with the acquisition of Westwood Studios as well as goodwill amortization of \$0.6 million, net of taxes.

(e) Net income and net income per share include goodwill amortization of \$1.7 million, net of taxes.

(f) Net income and net income per share include one-time merger related charges of \$7.2 million, net of taxes, incurred in connection with the merger of Maxis, Inc.

(g) Net income and net income per share include one-time acquisition related charges of \$1.0 million, net of taxes, incurred in connection with the remaining minority ownership interest in Electronic Arts Victor, Inc. Net income and net income per share include a one-time gain on sale of Creative Wonders, LLC in the amount of \$8.5 million, net of taxes.

The Company's common stock is traded in the over-the-counter market under the Nasdaq Stock Market symbol ERTS. The closing prices for the common stock in the table above represent the high and low closing prices as reported on the Nasdaq National Market.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding directors who are nominated for re-election required by Item 10 is incorporated herein by reference to the information in our definitive Proxy Statement for the 2000 Annual Meeting of Stockholders (the "Proxy Statement") under the caption "Proposal No. 1 – Re-Election of Directors." The information regarding executive officers required by Item 10 is included in Item 4A hereof.

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

The information required by Item 12 is incorporated herein by reference to the information in the Proxy Statement under the caption "Principal Stockholders" and "Amount and Nature of Shares Beneficially Owned."

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."

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. <u>Index to Financial Statements.</u>	Page(s) in Form 10-K
Independent Auditors' Report	44
Consolidated Balance Sheets as of March 31, 2000 and 1999	45
Consolidated Statements of Income for the Years Ended March 31, 2000, 1999 and 1998	46
Consolidated Statements of Stockholders' Equity for the Years Ended March 31, 2000, 1999 and 1998	47
Consolidated Statements of Cash Flows for the Years Ended March 31, 2000, 1999 and 1998	49
Notes to Consolidated Financial Statements for the Years Ended March 31, 2000, 1999 and 1998	50-70

2. Financial Statement Schedule.

The following financial statement schedule of Electronic Arts for the years ended March 31, 2000, 1999 and 1998 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Electronic Arts.

Schedule II - Valuation and Qualifying Accounts

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.

3. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this report:

<u>Number</u>	<u>Exhibit Title</u>
3.01	Registrant's Certificate of Incorporation, as amended to December 1, 1992. (1)
3.02	Registrant's Certificate of Amendment of Certificate of Incorporation. (2)
3.03	Registrant's By-Laws, as amended to date. (3)
3.04	Amended and Restated Certificate of Incorporation of Electronic Arts Inc.
4.01	Specimen Certificate of Registrant's Common Stock. (4)
10.01	Registrant's 1982 Stock Option Plan, as amended to date, and related documents. (5)
	(6)
10.02	Registrant's Directors Stock Option Plan and related documents. (6) (7)
10.03	Description of Registrant's FY 2001 Executive Bonus Plan. (6)
10.04	Directors and Officers and Company Reimbursement Indemnity Policy by and between Registrant and certain underwriters at Lloyd's, London and Continental Insurance Company, dated June 20, 1992. (8)
10.05	Lease by and between Registrant, Electronic Arts Limited and Allied Dunbar Assurance PLC, dated June 24, 1987, for the Registrant's U.K. facilities. (9)

<u>Number</u>	<u>Exhibit Title</u>
10.06	Lease by and between Registrant and H.G.C. Associates, dated June 24, 1992, for the Registrant's warehouse and production facilities. (10)
10.07	Lease Agreement by and between Registrant and 1450 Fashion Island Boulevard Associates, L.P., dated March 22, 1991. (11)
10.08	Registrants' 1991 Stock Option Plan and related documents as amended. (6) (12)
10.09	Form of Indemnity Agreement with Directors. (13)
10.10	Registrants' Employee Stock Purchase Plan and related documents as amended. (6) (14)
10.11	Lease Agreement by and between Registrant and The Canada Life Assurance Company, dated December 20, 1991, for the Registrant's Canadian facilities. (15)
10.13	Amendment to Lease Agreement by and between Registrant and 1450 Fashion Island Boulevard Associates, L.P., dated March 22, 1991. (17)
10.14	Agreement between Registrant and Sega Enterprises, Ltd., dated July 14, 1992. (18) (19)
10.15	Lease Agreement by and between Registrant and Century Centre II Associates, dated July 27, 1992. (19)
10.16	Amendment to Lease Agreement by and between Registrant and 1450 Fashion Island Boulevard Associates, L.P., dated October 1, 1992. (19)
10.17	Amendment to Lease Agreement by and between Registrant and Century Centre II Associates, dated February 2, 1993. (19)
10.18	Amendment to Lease Agreement by and between Registrant and Century Centre II Associates, dated February 22, 1993. (19)
10.19	Directors and Officers and Company Reimbursement Indemnity Policy by and between Registrant and certain underwriters at Lloyd's, London and Continental Insurance Company, dated June 20, 1993. (19)
10.20	Lease by and between Registrant and 1450 Fashion Island Boulevard Associates, L.P., dated August 27, 1992 for additional space at corporate headquarters. (10)
10.22	Lease by and between Registrant, Electronic Arts Limited and Heron Slough Limited, dated June 12, 1992, for the Registrant's U.K. facilities. (20)
10.23	Lease by and between Registrant and the Travelers Insurance Company, dated April 14, 1993, for the Registrant's production facilities. (21)
10.24	Amendment to Lease Agreement by and between Registrant and 1450 Fashion Island Boulevard Associates, L.P., dated June 1, 1993. (22)
10.25	Amendment to Lease Agreement by and between Registrant and the Travelers Insurance Company, dated November 30, 1993. (23)
10.26	Amendment to Lease Agreement by and between Registrant and the Travelers Insurance Company, dated November 30, 1993. (23)
10.27	Lease Agreement by and between Registrant and Arthur J. Rogers & Co., dated January 14, 1994. (24)
10.28	Lease Agreement by and between Registrant and the Prudential Insurance Company of America, dated January 10, 1994. (24)
10.29	Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood, Inc. dated February 14, 1995. (25)
10.30	Guarantee from Electronic Arts Inc. to Flatirons Funding, LP dated February 14, 1995. (25)

<u>Number</u>	<u>Exhibit Title</u>
10.31	Lease Agreement by and between Registrant and Dixie Warehouse & Cartage Co., dated April 10, 1995. (25)
10.32	Commercial Earnest Money Contract between Novell, Inc. and ORIGIN Systems, Inc. dated April 13, 1995. (26)
10.33	First Amendment to Commercial Earnest Money Contract between Novell, Inc. and ORIGIN Systems, Inc. dated June 1, 1995. (27)
10.34	Amendment No. 1 to Agreement between Registrant and Sega Enterprises, Inc. effective December 31, 1995. (28)
10.35	Lease Agreement by and between Registrant and Don Mattrick dated October 16, 1996. (29)
10.36	Amended and Restated Guaranty from Electronic Arts Inc. to Flatirons Funding, LP dated March 7, 1997. (30)
10.37	Amended and Restated Agreement for Lease between Flatirons Funding, LP and Electronic Arts Redwood Inc. dated March 7, 1997. (30)
10.38	Amendment No. 1 to Lease Agreement between Electronic Arts Redwood Inc. and Flatirons Funding, LP dated March 7, 1997. (30)
10.39	Employment Agreement by and between the Registrant and John Riccitiello dated August 29, 1997. (31)
10.40	Lease Agreement by and between Registrant and John Riccitiello dated August 29, 1997. (31)
10.41	Employment Agreement by and between Registrant and James "Rusty" Russell Rueff, Jr. dated September 9, 1998. (32)
10.42	Lease Agreement by and between Registrant and Louisville Commerce Realty Corporation, dated April 1, 1999. (32)
10.43	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. (32)
10.44	Lease Agreement by and between Registrant and Spieker Properties, L.P., dated September 3, 1999. (33)
21.01	Subsidiaries of the Registrant.
23.01	Report on Financial Statement Schedule and Consent of KPMG LLP, Independent Auditors.
23.02	Consent of Ernst & Young LLP, Independent Auditors (32)
27	Financial Data Schedule
99.01	Report of Ernst & Young LLP, Independent Auditors (32)

-
- (1) Incorporated by reference to Exhibit 3.01 to Registrant's Current Report on Form 8-K filed on October 16, 1991.
 - (2) Incorporated by reference to Exhibit 4.01 to Registrant's Registration Statement on Form S-8 filed on December 1, 1992 (File No. 33-55212) (the "1992 Form S-8").
 - (3) Incorporated by reference to Exhibit 3.02 to Registrant's Current Report on Form 8-K filed on October 16, 1991.

- (4) Incorporated by reference to Exhibit 4.01 to Registrant's Registration Statement on Form S-4 filed on March 3, 1994 (File No. 33-75892).
- (5) Incorporated by reference to Exhibit 4.03 to Post-Effective Amendment No. 2 to Registrant's Registration Statement on Form S-8 filed on November 6, 1991 (File No. 33-32616) ("S-8 Amendment No. 2").
- (6) Management contract or compensatory plan or arrangement.
- (7) Incorporated by reference to Exhibit 4.04 to S-8 Amendment No. 2.
- (8) Incorporated by reference to Exhibit 10.08 to Registrant's Annual Report on Form 10-K for the year ended March 31, 1992 (the "1992 Form 10-K").
- (9) Incorporated by reference to Exhibit 10.07 to the Registrant's Registration Statement on Form S-1 filed on September 20, 1989, and all amendments thereto (File No. 33-30346) (the "Form S-1").
- (10) Incorporated by reference to similarly numbered exhibits to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992.
- (11) Incorporated by reference to Exhibit 10.11 to Registrant's Annual Report on Form 10-K for the year ended March 31, 1991.
- (12) Incorporated by reference to Exhibit 4.01 to the Registrant's Registration Statement on Form S-8 filed on July 29, 1993 (File No. 33-66836) (the "1993 Form S-8").
- (13) Incorporated by reference to Exhibit 10.09 to the Form S-1.
- (14) Incorporated by reference to Exhibit 4.02 to 1993 Form S-8.
- (15) Incorporated by reference to Exhibit 10.16 to the 1992 Form 10-K.
- (16) Not Used.
- (17) Incorporated by reference to Exhibit 10.18 to the 1992 Form 10-K.
- (18) Confidential treatment has been granted with respect to certain portions of this document.
- (19) Incorporated by reference to similarly numbered exhibits to Registrants Annual Report on Form 10-K for the year ended March 31, 1993.
- (20) Incorporated by reference to Exhibit 19.01 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.
- (21) Incorporated by reference to Exhibit 10.23 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993.
- (22) Incorporated by reference to Exhibit 10.24 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

- (23) Incorporated by reference to similarly numbered exhibits to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1993.
- (24) Incorporated by reference to similarly numbered exhibits to Registrant's Annual Report on Form 10-K for the year ended March 31, 1994 (the "1994 Form 10-K").
- (25) Incorporated by reference to similarly numbered exhibits to Registrant's Annual Report on Form 10-K for the year ended March 31, 1995 (the "1995 Form 10-K").
- (26) Incorporated by reference to Exhibit 10.01 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
- (27) Incorporated by reference to Exhibit 10.02 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
- (28) Incorporated by reference to similarly numbered exhibits to Registrant's Annual Report on Form 10-K for the year ended March 31, 1996 (the "1996 Form 10-K").
- (29) Incorporated by reference to Exhibit 10.35 to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.
- (30) Incorporated by reference to similarly numbered exhibits to Registrant's Annual Report on Form 10-K for the year ended March 31, 1997 (the "1997 Form 10-K").
- (31) Incorporated by reference to similarly numbered exhibits to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997.
- (32) Incorporated by reference to similarly numbered exhibits to Registrant's Annual Report on Form 10-K for the year ended March 31, 1999 (the "1999 Form 10-K").
- (33) Incorporated by reference to similarly numbered exhibits to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended March 31, 2000.

(c) Exhibits:

The Registrant hereby files as part of this Form 10-K the exhibits listed in Item 14(a)3, as set forth above.

(d) Financial Statement Schedule:

The Registrant hereby files as part of this Form 10-K the financial statement schedule listed in Item 14(a)2, as set forth on page 79.

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

By: /s/ Lawrence F. Probst III
(Lawrence F. Probst III, Chairman of the Board and Chief Executive Officer)

Date: June 28, 2000

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 28th of June 2000.

<u>Name</u>	<u>Title</u>
<u>/s/ Lawrence F. Probst III</u> (Lawrence F. Probst III)	Chairman of the Board and Chief Executive Officer
<u>/s/ E. Stanton McKee, Jr.</u> (E. Stanton McKee, Jr.)	Executive Vice President and Chief Financial and Administrative Officer
<u>/s/ David L. Carbone</u> (David L. Carbone)	Vice President, Finance (Principal Accounting Officer)

Directors:

<u>/s/ M. Richard Asher</u> (M. Richard Asher)	Director
<u>/s/ William J. Byron</u> (William J. Byron)	Director
<u>/s/ Daniel H. Case III</u> (Daniel H. Case III)	Director
<u>/s/ Gary M. Kusin</u> (Gary M. Kusin)	Director
<u>/s/ Timothy J. Mott</u> (Timothy J. Mott)	Director

ELECTRONIC ARTS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

**Years Ended March 31, 2000, 1999 and 1998
(in thousands)**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts (1)</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Year Ended March 31, 2000					
Allowance for doubtful accounts and returns	<u>\$72,850</u>	<u>\$179,952</u>	<u>\$ 39</u>	<u>\$187,774</u>	<u>\$65,067</u>
Year Ended March 31, 1999					
Allowance for doubtful accounts and returns	<u>\$51,575</u>	<u>\$161,297</u>	<u>\$ (369)</u>	<u>\$139,653</u>	<u>\$72,850</u>
Year Ended March 31, 1998					
Allowance for doubtful accounts and returns	<u>\$43,268</u>	<u>\$ 82,706</u>	<u>\$(3,243)</u>	<u>\$ 71,156</u>	<u>\$51,575</u>

- (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).

**ELECTRONIC ARTS INC.
2000 FORM 10-K ANNUAL REPORT**

EXHIBIT INDEX

<u>EXHIBIT NUMBER</u>	<u>EXHIBIT TITLE</u>
3.04	Amended and Restated Certificate of Incorporation of Electronic Arts Inc.
10.03	Description of Registrant's FY 2001 Executive Bonus Plan
21.01	Subsidiaries of the Registrant
23.01	Report on Financial Statement Schedule and Consent of KPMG LLP, Independent Auditors
27	Financial Data Schedule

EXHIBIT 10.03

ELECTRONIC ARTS INC. AND SUBSIDIARIES

DESCRIPTION OF REGISTRANT'S FISCAL YEAR 2001 EXECUTIVE BONUS PLAN

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

SUBSIDIARIES OF THE REGISTRANT**EXHIBIT 21.01**

<u>Name in Corporate Articles</u>	<u>Doing Business As</u>	<u>Jurisdiction of Incorporation</u>
ORIGIN Systems, Inc.	ORIGIN Systems, Inc.	Texas
Electronic Arts, Proprietary Limited (formerly Entertainment and Computer Proprietary, Limited)	Electronic Arts, Pty. Ltd. (formerly Entertainment and Computer Proprietary, Limited)	Commonwealth of Australia
Electronic Arts (Canada) Inc. (formerly Distinctive Software, Inc.)	Electronic Arts (Canada) Inc. (formerly Distinctive Software, Inc.)	British Columbia, Canada
Electronic Arts, Limited	Electronic Arts, Limited	United Kingdom
Electronic Arts S.A.	Electronic Arts S.A.	France
Electronic Arts GmbH	Electronic Arts GmbH	Germany
Electronic Arts K.K.	Electronic Arts K.K.	Japan
Electronic Arts Productions, Inc.	Crocodile Productions	Delaware
Electronic Arts Puerto Rico Inc.	Electronic Arts Puerto Rico Inc.	Delaware
Electronic Arts International Corporation	Electronic Arts International Corporation	California
Electronic Arts Software S.A. (formerly DROSoft)	Electronic Arts Software S.A. (formerly DROSoft)	Spain
Bullfrog Productions Ltd.	Bullfrog Productions Ltd.	United Kingdom
Kingsoft GmbH	Kingsoft GmbH	Germany
Electronic Arts Productions Ltd.	Electronic Arts Productions Ltd.	United Kingdom
Electronic Arts Nordic Aktienbolag	Electronic Arts Nordic AB	Sweden
Electronic Arts Asia Pacific PTE., LTD	Electronic Arts Asia Pacific PTE., LTD	Singapore
Electronic Arts Seattle Inc.	Electronic Arts Seattle Inc.	Washington
Vision Software (Pty) Limited	Vision Software (Pty) Limited	South Africa
Electronic Arts V.I., Inc.	Electronic Arts V.I., Inc.	Virgin Islands (U.S.)
Linear Arts, Inc.	Linear Arts, Inc.	Delaware
EA UK Holding Co.	EA UK Holding Co.	Delaware
EA Islands Ltd.	EA Islands Ltd.	British Virgin

		Islands
Electronic Arts Limitada	EA Brazil	Brazil
Electronic Arts Nederland B.V. i.o.	Electronic Arts BV	The Netherlands
Electronic Arts Portugal	Electronic Arts Portugal	Portugal
Octopus Interactive C.V.	Octopus Interactive C.V.	Amsterdam
Electronic Arts Project Inc.	Electronic Arts Project Inc.	Delaware
Maxis K.K.	Maxis K.K.	Japan
Electronic Arts Redwood Inc.	Electronic Arts Redwood Inc.	Delaware
Electronic Arts Handelsges.m.b.H	Electronic Arts Austria	Austria
Electronic Arts Square K.K.	Electronic Arts Square	Japan
Electronic Arts Switzerland GmbH	Electronic Arts Switzerland	Switzerland
Tiburon Entertainment, Inc.	Tiburon	Florida
Westwood Studios, Inc.	Westwood	Nevada
Kesmai Aries Ltd	Kesmai Aries Ltd	Virginia
Kesmai Studios Inc.	Kesmai Studios Inc.	Virginia
Kesmai Internet Game Resources Inc.	Gamestorm	Virginia
DreamWorks Interactive L.L.C.	DreamWorks Interactive L.L.C.	Washington

EXHIBIT 23.01

Report on Financial Statement Schedule and Consent of Independent Auditors

The Board of Directors
Electronic Arts Inc.:

The audits referred to in our report dated April 28, 2000, include the related financial statement schedules as of March 31, 2000, and for each of the years in the three-year period ended March 31, 2000, included in Electronic Arts Inc.'s annual report on Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedules, 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 consent to the incorporation by reference in the registration statements (Nos. 33-66836, 33-55212, 33-53302, 33-41955, 33-82166, 33-61781, 33-61783, 333-09683, 333-09893, 333-32239, 333-32771, 333-46937, 333-60513, 333-60517, 333-84215, 333-39430 and 333-39432) on Form S-8 of Electronic Arts Inc. of our report dated April 28, 2000 relating to the consolidated balance sheets of Electronic Arts Inc. and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2000, and the related financial statement schedules, which reports appear in the March 31, 2000, annual report on Form 10-K of Electronic Arts Inc.

Mountain View, California
June 28, 2000

KPMG LLP

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

By: _____
(Lawrence F. Probst III, Chairman of the Board and Chief Executive Officer)

Date: June 28, 2000

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 28th of June 2000.

<u>Name</u>	<u>Title</u>
_____ (Lawrence F. Probst III)	Chairman of the Board and Chief Executive Officer
_____ (E. Stanton McKee, Jr.)	Executive Vice President and Chief Financial and Administrative Officer
_____ (David L. Carbone)	Vice President, Finance (Principal Accounting Officer)
Directors:	
_____ (M. Richard Asher)	Director
_____ (William J. Byron)	Director
_____ (Daniel H. Case III)	Director
_____ (Gary M. Kusin)	Director
_____ (Timothy J. Mott)	Director