

ELECTRONIC ARTS INC

FORM 10-Q (Quarterly Report)

Filed 8/3/2005 For Period Ending 6/30/2005

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Industry	Software & Programming
Sector	Technology
Fiscal Year	03/31

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2005

OR

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

For the Transition Period from _____ to _____

Commission File No. 0-17948

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

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2838567
(I.R.S. Employer
Identification No.)

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

94065
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES S NO ☐

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

	Par Value	Outstanding as of August 1, 2005
Common Stock	\$0.01	303,519,559

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2005

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ELECTRONIC ARTS INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In millions, except par value data)	June 30, 2005	March 31, 2005 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 874	\$ 1,270
Short-term investments	1,699	1,688
Marketable equity securities	176	140
Receivables, net of allowances of \$111 and \$162, respectively	167	296
Inventories	66	62
Deferred income taxes	87	86
Other current assets	194	164
Total current assets	3,263	3,706
Property and equipment, net	359	353
Investments in affiliates	9	10
Goodwill	155	153
Other intangibles, net	33	36
Deferred income taxes	17	19
Other assets	82	93
TOTAL ASSETS	<u>\$ 3,918</u>	<u>\$ 4,370</u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 113	\$ 134
Accrued and other liabilities	597	694
Total current liabilities	710	828
Other liabilities	31	33
TOTAL LIABILITIES	741	861
Commitments and contingencies	–	–
Minority interest	10	11
Stockholders' equity:		
Preferred stock, \$0.01 par value. 10 shares authorized	–	–
Common stock, \$0.01 par value. 1,000 shares authorized; 305 and 310 shares issued and outstanding, respectively	3	3
Paid-in capital	1,121	1,434
Retained earnings	1,947	2,005
Accumulated other comprehensive income	96	56
Total stockholders' equity	3,167	3,498
TOTAL LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	<u>\$ 3,918</u>	<u>\$ 4,370</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

(a) Derived from audited financial statements.

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ELECTRONIC ARTS INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited) (In millions, except per share data)	Three Months Ended June 30,	
	2005	2004
Net revenue	\$ 365	\$ 432
Cost of goods sold	<u>151</u>	<u>177</u>
Gross profit	214	255
Operating expenses:		
Marketing and sales	75	63
General and administrative	51	35
Research and development	183	131
Amortization of intangibles	<u>1</u>	<u>1</u>
Total operating expenses	<u>310</u>	<u>230</u>
Operating income (loss)	(96)	25
Interest and other income, net	<u>17</u>	<u>9</u>
Income (loss) before provision for (benefit from) income taxes and minority interest	(79)	34
Provision for (benefit from) income taxes	<u>(23)</u>	<u>10</u>
Income (loss) before minority interest	(56)	24
Minority Interest	<u>(2)</u>	<u>—</u>
Net income (loss)	<u>\$ (58)</u>	<u>\$ 24</u>
Net income (loss) per share:		
Basic	\$ (0.19)	\$ 0.08
Diluted	\$ (0.19)	\$ 0.08
Number of shares used in computation:		
Basic	308	302
Diluted	308	316

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited) (In millions)	Three Months Ended June 30,	
	2005	2004
OPERATING ACTIVITIES		
Net income (loss)	\$ (58)	\$ 24
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	23	16
Minority interest	2	—
Realized (gains) losses on investments and on sale of property and equipment	1	(2)
Tax benefit from exercise of stock options	5	13
Other operating activities	—	(1)
Change in assets and liabilities:		
Receivables, net	142	37
Inventories	1	1
Other assets	(12)	—
Accounts payable	(25)	(48)
Accrued and other liabilities	(110)	(106)
Net cash used in operating activities	(31)	(66)
INVESTING ACTIVITIES		
Capital expenditures	(33)	(26)
Proceeds from sale of property and equipment	—	15
Proceeds from sale of marketable equity securities	4	—
Purchase of short-term investments	(138)	(1,557)
Proceeds from maturities and sales of short-term investments	134	572
Acquisition of subsidiary, net of cash acquired	(3)	—
Other investing activities	(1)	—
Net cash used in investing activities	(37)	(996)
FINANCING ACTIVITIES		
Proceeds from sales of common stock through employee stock plans and other plans	19	44
Repurchase and retirement of common stock	(337)	—
Net cash provided by (used in) financing activities	(318)	44
Effect of foreign exchange on cash and cash equivalents	(10)	1
Decrease in cash and cash equivalents	(396)	(1,017)
Beginning cash and cash equivalents	1,270	2,150
Ending cash and cash equivalents	874	1,133
Short-term investments	1,699	1,236
Ending cash, cash equivalents and short-term investments	\$ 2,573	\$ 2,369
Supplemental cash flow information:		
Cash paid during the period for income taxes	\$ 5	\$ 3
Non-cash investing activities:		
Change in unrealized gain (loss) on investments, net	\$ 47	\$ (13)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

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

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. During the three months ended June 30, 2005, we repurchased and retired 6.3 million shares of our common stock for approximately \$337 million. From the inception of the program through June 30, 2005, we have repurchased and retired 7.1 million shares of our common stock for approximately \$378 million.

(2) FISCAL YEAR AND FISCAL QUARTER

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

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

The results of operations for the fiscal quarters ended June 30, 2005 and 2004 contain the following number of weeks:

<u>Fiscal Quarters Ended</u>	<u>Number of Weeks</u>	<u>Fiscal Period End Date</u>
June 30, 2005	14 weeks	July 2, 2005
June 30, 2004	13 weeks	June 26, 2004

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

(3) EMPLOYEE STOCK-BASED COMPENSATION

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

Had compensation cost for our stock-based compensation plans been measured based on the estimated fair value at the grant dates in accordance with the provisions of SFAS No. 123, as amended, we estimate that our reported net income (loss) and net income (loss) per share would have been the pro forma amounts indicated below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for grants made under our stock-based compensation plan during the three months ended June 30, 2005 and 2004:

	Three Months Ended June 30,	
	2005	2004
Risk-free interest rate	3.7%	3.0%
Expected volatility	35%	40%
Expected life of stock options (in years)	3.2	3.2
Expected life of employee stock purchase plans (in months)	6	6
Assumed dividends	None	None

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

	Three Months Ended June 30,	
	2005	2004
(In millions, except per share data)		
Net income (loss):		
As reported	\$ (58)	\$ 24
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(25)	(19)
Pro forma	<u>\$ (83)</u>	<u>\$ 5</u>
Net income (loss) per share:		
As reported – basic	\$ (0.19)	\$ 0.08
Pro forma – basic	\$ (0.27)	\$ 0.02
As reported – diluted	\$ (0.19)	\$ 0.08
Pro forma – diluted	\$ (0.27)	\$ 0.01

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

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

(4) GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill information is as follows (in millions):

	As of March 31, 2005	Goodwill Acquired	Effects of Foreign Currency Translation	As of June 30, 2005
Goodwill	\$ 153	\$ 3	\$ (1)	\$ 155

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

	As of June 30, 2005				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Other	Other Intangibles, Net
Developed/Core Technology	\$ 47	\$ (24)	\$ (9)	\$ 1	\$ 15
Tradename	37	(19)	(1)	–	17
Subscribers and Other Intangibles	11	(7)	(2)	(1)	1
Total	\$ 95	\$ (50)	\$ (12)	\$ –	\$ 33

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

Amortization of intangibles for the three months ended June 30, 2005 and 2004 was \$3 million (of which \$2 million was recognized as cost of goods sold) and \$1 million, respectively. Finite-lived intangible assets are amortized using the straight-line method over the lesser of their estimated useful lives or the agreement terms, typically from two to twelve years. As of June 30, 2005 and March 31, 2005, the weighted-average remaining useful life for finite-lived intangible assets was approximately 4.1 years and 4.3 years, respectively.

As of June 30, 2005, future amortization of finite-lived intangibles that will be recorded in cost of goods sold and operating expenses is estimated as follows (in millions):

Fiscal Year Ending March 31,	
2006 (remaining 9 months)	\$ 8
2007	10
2008	6
2009	3
2010	2
Thereafter	4
Total	\$ 33

(5) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Restructuring and asset impairment information as of June 30, 2005 was as follows (in millions):

	Accrual Beginning Balance	Charges Utilized in Cash	Adjustments to Operations	Accrual Ending Balance
Three Months Ended June 30, 2005				
Facilities-related	\$ 10	\$ (1)	\$ —	\$ 9
Year Ended March 31, 2005				
Workforce	\$ 2	\$ (2)	\$ —	\$ —
Facilities-related	12	(4)	2	10
Total	<u>\$ 14</u>	<u>\$ (6)</u>	<u>\$ 2</u>	<u>\$ 10</u>

In fiscal 2004, 2003 and 2002, we entered into various restructurings based on management decisions. As of June 30, 2005, an aggregate of \$24 million in cash had been paid out under the restructuring plans. The remaining projected net cash outlay of \$9 million is expected to be utilized by January 2009. The facilities-related accrued obligation shown above is net of \$12 million of estimated future sub-lease income. The restructuring accrual is included in other accrued expenses presented in Note 7 of the Notes to Condensed Consolidated Financial Statements.

(6) ROYALTIES AND LICENSES

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

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

Minimum guaranteed royalty obligations are initially recorded as an asset and as a liability at the contractual amount when payment is not contingent upon performance by the licensor. When payment is contingent upon performance by the licensor, we record royalty payments as an asset when actually paid and as a liability when incurred rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of June 30, 2005 and March 31, 2005, approximately \$44 million and \$51 million, respectively, of minimum guaranteed royalty obligations had been recognized and are included in the tables below.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties. If actual sales or revised revenue estimates fall below the initial revenue estimates, then the actual charge taken may be greater in any given quarter than anticipated. We had no impairments during the three months ended June 30, 2005 and 2004.

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

	As of June 30, 2005	As of March 31, 2005
Other current assets	\$ 113	\$ 59
Other assets	68	76
Royalty-related assets	<u>\$ 181</u>	<u>\$ 135</u>

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors and/or independent software developers, we recognize unpaid royalty amounts due to these parties as either accounts payable or accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other liabilities as well as other liabilities, consisted of (in millions):

	As of June 30, 2005	As of March 31, 2005
Accrued liabilities	\$ 61	\$ 88
Other liabilities	31	33
Accrued royalties	<u>\$ 92</u>	<u>\$ 121</u>

In addition, as of June 30, 2005, we had approximately \$1,379 million that we were committed to pay co-publishing and/or distribution affiliates and content licensors but that were generally contingent upon performance by the counterparty (i.e., delivery of the product or content or other factors) and were therefore not recorded in our Condensed Consolidated Financial Statements. See Note 8 of the Notes to Condensed Consolidated Financial Statements.

(7) BALANCE SHEET DETAILS

Inventories

Inventories as of June 30, 2005 and March 31, 2005 consisted of (in millions):

	As of June 30, 2005	As of March 31, 2005
Raw materials and work in process	\$ 2	\$ 2
Finished goods (including manufacturing royalties)	64	60
Inventories	<u>\$ 66</u>	<u>\$ 62</u>

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Property and Equipment, Net

Property and equipment, net, as of June 30, 2005 and March 31, 2005 consisted of (in millions):

	As of June 30, 2005	As of March 31, 2005
Computer equipment and software	\$ 397	\$ 381
Buildings	114	106
Leasehold improvements	77	73
Land	59	60
Office equipment, furniture and fixtures	55	53
Warehouse equipment and other	12	12
Construction in progress	36	43
	<u>750</u>	<u>728</u>
Less: Accumulated depreciation and amortization	(391)	(375)
Property and equipment, net	<u>\$ 359</u>	<u>\$ 353</u>

Depreciation and amortization expense associated with property and equipment amounted to \$20 million for the three months ended June 30, 2005 and \$16 million for the three months ended June 30, 2004.

Accrued and Other Liabilities

Accrued and other liabilities as of June 30, 2005 and March 31, 2005 consisted of (in millions):

	As of June 30, 2005	As of March 31, 2005
Accrued income taxes	\$ 237	\$ 267
Other accrued expenses	156	172
Accrued compensation and benefits	99	132
Accrued royalties	61	88
Deferred revenue	44	35
Accrued and other liabilities	<u>\$ 597</u>	<u>\$ 694</u>

(8) COMMITMENTS AND CONTINGENCIES

Lease Commitments and Residual Value Guarantees

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

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

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

We believe the estimated fair values of both properties under these operating leases are in excess of their respective guaranteed residual values as of June 30, 2005.

For the two lease agreements with Keybank National Association, as described above, the lease rates are based upon the LIBOR plus a margin and require us to maintain certain financial covenants as shown below, all of which we were in compliance with as of June 30, 2005.

Financial Covenants	Requirement	Actual as of June 30, 2005
Consolidated Net Worth (in millions)	equal to or greater than \$ 2,061	\$ 3,167
Fixed Charge Coverage Ratio	equal to or greater than 3.00	15.77
Total Consolidated Debt to Capital	equal to or less than 60%	7.2%
Quick Ratio – Q1 & Q2	equal to or greater than 1.00	11.10
Q3 & Q4	equal to or greater than 1.75	N/A

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe. The standby letter of credit guarantees performance of our obligations to pay Nintendo of Europe for trade payables. The original letter of credit guaranteed our obligations to Nintendo of Europe of up to € 18 million. In April 2005, we reduced the guarantee to € 8 million. This standby letter of credit expired in July 2005 and was renewed through July 2006. As of June 30, 2005, we had less than € 1 million payable to Nintendo of Europe covered by this standby letter of credit.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of June 30, 2005, we did not have a payable balance covered by this standby letter of credit.

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

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

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

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The following table summarizes our minimum contractual obligations and commercial commitments as of June 30, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

Fiscal Year Ending March 31,	Contractual Obligations			Commercial Commitment	
	Leases	Developer/ Licensor Commitments ⁽¹⁾	Marketing	Bank and Other Guarantees	Total
2006 (remaining nine months)	\$ 34	\$ 76	\$ 34	\$ 3	\$ 147
2007	30	137	34	—	201
2008	23	125	30	—	178
2009	17	134	30	—	181
2010	13	121	31	—	165
Thereafter	35	830	197	—	1,062
Total	\$ 152	\$ 1,423	\$ 356	\$ 3	\$1,934

⁽¹⁾ Developer/licensor commitments include \$44 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Condensed Consolidated Balance Sheets as of June 30, 2005 because the developer or licensor does not have any performance obligations to us.

The lease commitments disclosed above include contractual rental commitments of \$21 million under real estate leases for unutilized office space due to our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Condensed Consolidated Balance Sheets as of June 30, 2005. See Note 5 in the Notes to Condensed Consolidated Financial Statements.

Litigation

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

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

On March 24, 2005, a class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on June 13, 2005, the court appointed lead plaintiff and lead counsel pursuant to the requirements of the Private Securities Litigation Reform Act of 1995. An amended consolidated complaint has not yet been filed. Separately, on April 12, 2005, a shareholder derivative action was filed in San Mateo Superior Court against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. Two other shareholder derivative actions have been filed in San Mateo Superior Court based on the same claims. Two of the three derivative actions have been consolidated; a request to consolidate the third is currently pending. In addition, two other shareholder derivative actions based on substantially the same allegations have been filed in the United States District Court, Northern District of California. We have not responded to any of the complaints.

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

Director Indemnity Agreements

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

(9) COMPREHENSIVE INCOME (LOSS)

SFAS No. 130, “*Reporting Comprehensive Income*”, requires classification of other comprehensive income (loss) in a financial statement and display of accumulated other comprehensive income (loss) separately from retained earnings and additional paid-in capital. Accumulated other comprehensive income primarily includes foreign currency translation adjustments, and the net of tax amounts for unrealized gains (losses) on investments and unrealized gains (losses) on derivatives designated as cash flow hedges.

The change in the components of accumulated other comprehensive income, net of tax, for the three months ended June 30, 2005 and 2004 are summarized as follows (in millions):

	Three Months Ended June 30,	
	2005	2004
Net income (loss)	\$ (58)	\$ 24
Other comprehensive income (loss):		
Change in unrealized gain (loss) on investments, net of tax expense (benefit) of \$0 and \$(5), respectively	47	(8)
Change in unrealized gain on derivative instruments, net of tax expense of \$1 and \$0, respectively	4	—
Foreign currency translation adjustments	(11)	(5)
Total other comprehensive income (loss)	\$ 40	\$ (13)
Total comprehensive income (loss)	<u>\$ (18)</u>	<u>\$ 11</u>

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

(10) NET INCOME (LOSS) PER SHARE

The following table summarizes the computations of basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic EPS is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation plans including stock options, restricted stock awards, warrants and other convertible securities using the treasury stock method. Effective August 2, 2004, each outstanding share of Class A common stock was reclassified as one share of common stock and prior period Class A common stock has been reclassified to reflect these amendments.

(In millions, except per share data):	Three Months Ended June 30,	
	2005	2004
Net income (loss)	\$ (58)	\$ 24
Shares used to compute net income (loss) per share:		
Weighted-average common stock outstanding – basic	308	302
Dilutive potential common stock equivalents	–	14
Weighted-average common stock outstanding – diluted	308	316
Net income (loss) per share:		
Basic	\$ (0.19)	\$ 0.08
Diluted	\$ (0.19)	\$ 0.08

As a result of our net loss for the three months ended June 30, 2005, we have excluded certain stock awards from the Diluted EPS calculation as their inclusion would have been antidilutive. Had we reported net income for this period, an additional 10 million shares of potential common stock equivalents would have been included in the number of shares used to calculate Diluted EPS for the three months ended June 30, 2005.

Excluded from the above computation of weighted-average common shares for Diluted EPS for the three months ended June 30, 2005 and 2004 were options to purchase 7 million and less than 1 million shares of common stock, respectively, as the options’ exercise price was greater than the average market price of the common shares for the period. For the three months ended June 30, 2005 and 2004, the weighted-average exercise price of these options was \$63.19 and \$52.35 per share, respectively.

(11) SEGMENT INFORMATION

SFAS No. 131, “*Disclosures About Segments of an Enterprise and Related Information*”, establishes standards for the reporting by public business enterprises of information about product lines, geographic areas and major customers. The method for determining what information to report is based on the way that management organizes our operating segments for making operational decisions and assessments of financial performance.

Our chief operating decision maker is considered to be our Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenue by geographic region and by product line for purposes of making operating decisions and assessing financial performance. Our view and reporting of business segments may change due to changes in the underlying business facts and circumstances and the evolution of our reporting to our CEO.

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Information about our total net revenue by product line for the three months ended June 30, 2005 and 2004 is presented below (in millions):

	Three Months Ended June 30,	
	2005	2004
Consoles		
PlayStation 2	\$ 117	\$ 162
Xbox	44	57
Nintendo GameCube	22	26
Other consoles	—	2
Total Consoles	183	247
PC	74	67
Mobility		
PSP	33	—
Nintendo DS	12	—
Game Boy Advance	6	18
Cellular Handsets	1	—
Total Mobility	52	18
Co-publishing and Distribution	30	67
Internet Services, Licensing and Other		
Subscription Services	15	13
Licensing, Advertising and Other	11	20
Total Internet Services, Licensing and Other	26	33
Total Net Revenue	<u>\$ 365</u>	<u>\$ 432</u>

Information about our operations in North America, Europe and Asia Pacific for the three months ended June 30, 2005 and 2004 is presented below (in millions):

	North America	Europe	Asia Pacific	Total
<u>Three months ended June 30, 2005</u>				
Net revenue from unaffiliated customers	\$ 184	\$ 144	\$ 37	\$ 365
Interest income, net	13	7	—	20
Depreciation and amortization	14	8	1	23
Total assets	2,603	1,246	69	3,918
Capital expenditures	26	5	2	33
Long-lived assets	326	211	10	547
<u>Three months ended June 30, 2004</u>				
Net revenue from unaffiliated customers	\$ 211	\$ 190	\$ 31	\$ 432
Interest income, net	7	1	—	8
Depreciation and amortization	9	6	1	16
Total assets	2,538	768	64	3,370
Capital expenditures	21	4	1	26
Long-lived assets	257	140	6	403

Our direct sales to Wal-Mart Stores, Inc. represented approximately 12 percent of total net revenue for both the three months ended June 30, 2005 and 2004.

(12) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2004, the FASB ratified the measurement and recognition guidance and certain disclosure requirements for impaired securities as described in Emerging Issues Task Force (“EITF”) Issue No. 03-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*”. In June 2005, the FASB directed its staff to issue proposed FASB Staff Position (“FSP”) EITF 03-1-a, “*Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1,*” as final. The FASB plans to retitle this FSP as FSP FAS 115-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*”. The final FSP will supersede EITF Issue No. 03-1 and EITF Topic D-44, “*Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.*” The final FSP will replace the guidance set forth in paragraphs 10 through 18 of EITF Issue No. 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. Management is currently evaluating what impact the adoption of the measurement and recognition guidance in FSP FAS 115-1 will have on our consolidated financial statements.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Electronic Arts Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Electronic Arts Inc. and subsidiaries (the Company) as of July 2, 2005, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended July 2, 2005 and June 26, 2004. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

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

KPMG LLP

Mountain View, California
August 3, 2005

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward looking. We use words such as “anticipate”, “believe”, “expect”, “intend” (and the negative of any of these terms), “future” and similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk and reflect management's current expectations, and involve subjects that are inherently uncertain and difficult to predict. Our actual results could differ materially. We will not necessarily update information if any forward-looking statement later turns out to be inaccurate. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed in this report below under the heading “Risk Factors”, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 as filed with the Securities and Exchange Commission (“SEC”) on June 7, 2005 and in other documents we have filed with the SEC.

OVERVIEW

The following overview is a top-level discussion of our operating results as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers is important in order to understand our results for the quarter ended June 30, 2005, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-Q, including in the remainder of “Management's Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors” or the condensed consolidated financial statements and related notes. Additional information can be found within the “Business” section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 as filed with the SEC on June 7, 2005 and in other documents we have filed with the SEC.

About Electronic Arts

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

Overview of Financial Results

Total net revenue for the three months ended June 30, 2005 was \$365 million, down 15.5 percent as compared to the three months ended June 30, 2004. Net revenue for the three months ended June 30, 2005 was driven by our Medal of Honor and Battlefield franchises and the release of *Batman Begins*[™]. The strength of these titles did not offset last year's strong performance of our Harry Potter and Fight Night franchises as well as *UEFA Euro 2004* released in the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. *Medal of Honor European Assault*[™] and *Battlefield 2*[™] both reached platinum status (over one million copies sold) in the quarter.

Net loss for the three months ended June 30, 2005 was \$58 million as compared to net income for the three months ended June 30, 2004 of \$24 million. Diluted loss per share for the three months ended June 30, 2005 was \$0.19 as compared to diluted income per share of \$0.08 for the three months ended June 30, 2004.

We used \$31 million in cash from operations during the three months ended June 30, 2005 as compared to \$66 million during the three months ended June 30, 2004. The decrease in cash used in operating activities resulted primarily from the collection of receivables, partially offset by the overall decline in net income during the three months ended June 30, 2005 as compared to the three months ended June 30, 2004.

Management's Overview of Historical and Prospective Business Trends

Transition to Next-Generation Consoles. Our industry is cyclical and we believe it has entered into a transition stage heading into the next cycle. Beginning in the third quarter of fiscal 2006 and continuing over the course of the next twelve to eighteen months thereafter, we expect Microsoft, Sony and Nintendo to introduce new video game consoles into the market. During this transition, we intend to continue developing new titles for the current-generation of video game consoles while we also make significant investments as we prepare to introduce products that operate on the next-generation consoles. We have incurred, and expect to continue to incur, higher costs during this transition to next-generation consoles. We also expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. In addition, sales of video games for current generation consoles may begin to decline and consumers may defer game software purchases until the next-generation consoles become available. While we expect our sales and gross profit to increase for the fiscal year ended March 31, 2006 as compared to prior fiscal years, such increases may not offset the increased costs we have incurred and expect to continue to incur, during the transition. As we move through the transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

Expansion of Mobile Platforms . The introduction of the PSP and NDS, and to a lesser extent, increased demand for gameplay on cellular handsets, has resulted in increased sales of titles for mobile platforms. During the three months ended June 30, 2005, our net revenue from sales of our titles for mobile platforms increased to \$52 million from \$18 million for the three months ended June 30, 2004. As the mobile platform installed base continues to grow, we expect that sales of our titles for these platforms may become an increasingly important part of our business, particularly during the transition from current-generation to next-generation consoles.

Increasing Cost of Titles. Titles have become increasingly expensive to produce and market as the platforms on which they are played continue to advance technologically and consumers demand continual improvements in the overall gameplay experience. We expect this trend to continue throughout the transition from current-generation to next-generation platforms as (1) we become more familiar with, and gain expertise in, developing titles for next-generation platforms, (2) we require larger production teams to create our titles, (3) the technology needed to develop titles becomes more complex, (4) the number and nature of the platforms for which we develop titles increases and becomes more diverse, (5) the cost of licensing the third-party intellectual property we use in many of our titles increases and (6) we develop new methods to distribute our content via the Internet and on hand-held and wireless devices.

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

Sales of "Hit" Titles. Sales of "hit" titles, several of which were top sellers across a number of international markets, continued to contribute to our revenue growth. Our top-selling titles across all platforms worldwide during the three months ended June 30, 2005 were *Medal of Honor European Assault* , *Battlefield 2* and *Batman Begins*. Hit titles are important to our financial performance because they benefit from overall economies of scale. We have developed, and it is our objective to continue to develop, many of our hit titles to become franchise titles that can be regularly iterated.

International Operations and Sales Growth. During the first three months of fiscal 2006, net revenue from international sales accounted for approximately 50 percent of our total net revenue, down from 51 percent during the first three months of fiscal 2005. Our international net revenue was primarily driven by sales in Europe and, to a more limited extent, sales in Asia Pacific. Although foreign exchange rates favorably impacted our net revenue in the three months ended June 30, 2005, we do not necessarily expect this trend to continue during the remainder of fiscal 2006. We anticipate that international net revenue will increase during the remainder of fiscal 2006 as the console installed base continues to expand outside of North America. In particular, we believe that in order to succeed in China and Japan, it is important to develop content locally. As such, we expect to devote resources to hiring local development talent and expanding our infrastructure in each country, most notably, through the expansion and creation of local studio facilities. In addition, we anticipate establishing online game marketing, publishing and distribution functions in China. As part of this strategy, we may seek to partner with established local companies through acquisitions, joint ventures or other similar arrangements. Our international business has also grown through acquisitions and investments such as our acquisition of Criterion Software Group Ltd. and our tender offer for Digital Illusions C.E. (DICE).

Foreign Exchange Impact. Given that a significant portion of our business is conducted internationally in foreign currency, fluctuations in currency prices can have a material impact on our results of operations. For example, the average exchange rate for the Euro, as compared to the U.S. dollar, increased from \$1.20 per Euro during the three months ended June 30, 2004 to \$1.29 per Euro during the three months ended June 30, 2005. Changes in foreign currency rates improved our net revenue by approximately \$10 million, or 2 percent, for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. We currently expect this will be the last quarter in fiscal 2006 in which foreign exchange rates will favorably impact our net revenue. Although we intend to continue to utilize foreign exchange forward and option contracts to either mitigate or hedge against some foreign currency exposures, we cannot predict with certainty the effect foreign currency fluctuations will have on us during fiscal 2006.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition, Sales Returns, Allowances and Bad Debt Reserves

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

- Evidence of an arrangement: Evidence of an agreement with the customer that reflects the terms and conditions to deliver products must be present in order to recognize revenue.

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

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

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

In certain countries, from time to time, we decide to provide price protection for both our PC and video game system products. In our decision, we analyze historical returns, current sell-through of distributor and retailer inventory of our products, current trends in the video game market and the overall economy, changes in consumer demand and acceptance of our products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, we monitor the volume of our sales to our channel partners and their inventories, as substantial overstocking in the distribution channel could result in high returns or higher price protection costs in subsequent periods.

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

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

Royalties and Licenses

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

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

Minimum guaranteed royalty obligations are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of June 30, 2005 and March 31, 2005, approximately \$44 million and \$51 million, respectively, of minimum guaranteed royalty obligations had been recognized.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties. If actual sales or revised revenue estimates fall below the initial revenue estimate, then the actual charge taken may be greater in any given quarter than anticipated. As of June 30, 2005, we had \$181 million of royalty-related assets and \$1,379 million of unrecognized minimum commitments not yet paid that could be impaired if our revenue estimates decrease. We had no impairments during the three months ended June 30, 2005 and 2004.

Valuation of Long-Lived Assets

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

Under current accounting standards, we make judgments about the recoverability of purchased intangible assets and other long-lived assets whenever events or changes in circumstances indicate a potential impairment in the remaining value of the assets recorded on our condensed consolidated balance sheet. In order to determine if a potential impairment has occurred, management makes various assumptions about the future value of the asset by evaluating future business prospects and estimated cash flows. Our future net cash flows are primarily dependent on the sale of products for play on proprietary video game consoles, hand-held game players and PCs (collectively referred to as “platforms”). The success of our products is affected by our ability to accurately predict which platforms and which products we develop will be successful. Also, our revenue and earnings are dependent on our ability to meet our product release schedules. Due to product sales shortfalls, we may not realize the future net cash flows necessary to recover our long-lived assets, which may result in an impairment charge being recorded in the future. There were no impairment charges recorded in the three months ended June 30, 2005 or June 30, 2004.

Income Taxes

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

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

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

RESULTS OF OPERATIONS

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

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

The results of operations for the fiscal quarters ended June 30, 2005 and 2004 contain the following number of weeks and end on the dates indicated below:

<u>Fiscal Quarters Ended</u>	<u>Number of Weeks</u>	<u>Fiscal Period End Date</u>
June 30, 2005	14 weeks	July 2, 2005
June 30, 2004	13 weeks	June 26, 2004

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

Although certain amounts presented have been rounded to the nearest million, corresponding percentage changes have been calculated on the basis of amounts rounded to the nearest thousand.

Net Revenue

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

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From a geographical perspective, our total net revenue for the three months ended June 30, 2005 and 2004 were as follows (in millions):

	Three Months Ended June 30,				Increase / (Decrease)	% Change
	2005		2004			
North America	\$ 184	50.4%	\$ 211	48.9%	\$ (27)	(13.1%)
Europe	144	39.5%	190	44.0%	(46)	(24.0%)
Asia Pacific	37	10.1%	31	7.1%	6	20.8%
International	181	49.6%	221	51.1%	(40)	(17.8%)
Total Net Revenue	\$ 365	100.0%	\$ 432	100.0%	\$ (67)	(15.5%)

North America

For the three months ended June 30, 2005, net revenue in North America decreased by 13.1 percent as compared to the three months ended June 30, 2004. The net revenue decrease was primarily due to (1) lower sales of products from our Fight Night and Harry Potter franchises as these franchises did not have a corresponding title release during the three months ended June 30, 2005 and (2) higher net revenue in the three months ended June 30, 2004 from various co-publishing and distribution titles. Together, these items resulted in decreased net revenue of \$80 million during the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. This decrease was partially offset by higher sales of products from our Medal of Honor and Battlefield franchises and the release of *Batman Begins*, which increased net revenue by \$54 million in the three months ended June 30, 2005 as compared to the three months ended June 30, 2004.

Europe

For the three months ended June 30, 2005, net revenue in Europe decreased by 24.0 percent as compared to the three months ended June 30, 2004. We estimate that foreign exchange rates (primarily the Euro and the British pound sterling) increased reported European net revenue by approximately \$8 million, or 4 percent, for the three months ended June 30, 2005. Excluding the effect of foreign exchange rates, we estimate that European net revenue decreased by approximately \$54 million, or 28 percent, for the three months ended June 30, 2005. The net revenue decrease was primarily due to (1) lower sales of products from our Harry Potter and Fight Night franchises as these franchises did not have a corresponding title release during the three months ended June 30, 2005, (2) higher prior year sales of *UEFA Euro 2004* released in the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe and (3) lower sales of products from The Sims and FIFA franchises. Together, these items resulted in a net revenue decrease of \$96 million during the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. This decrease was partially offset by higher sales of products from our Medal of Honor and Battlefield franchises, the release of *Batman Begins* and catalog sales of *FIFA Street*, which increased net revenue by \$63 million in the three months ended June 30, 2005 as compared to the three months ended June 30, 2004.

Asia Pacific

For the three months ended June 30, 2005, net revenue in Asia Pacific increased by 20.8 percent as compared to the three months ended June 30, 2004. We estimate that foreign exchange rates increased reported Asia Pacific net revenue by approximately \$2 million, or 6 percent, for the three months ended June 30, 2005. Excluding the effect of foreign exchange rates, we estimate that Asia Pacific net revenue increased by approximately \$4 million, or 15 percent, for the three months ended June 30, 2005. The increase in net revenue was driven primarily by higher sales of our co-publishing and distribution titles, as well as our Battlefield, NBA STREET and Medal of Honor franchises. This increase was partially offset by lower sales from our Harry Potter franchise as this franchise did not have a corresponding title release during the three months ended June 30, 2005.

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Our total net revenue by product line for the three months ended June 30, 2005 and 2004 was as follows (in millions):

	Three Months Ended June 30,				Increase/ (Decrease)	% Change
	2005		2004			
Consoles						
PlayStation 2	\$ 117	32.2%	\$ 162	37.4%	\$ (45)	(27.6%)
Xbox	44	12.0%	57	13.3%	(13)	(23.4%)
Nintendo GameCube	22	6.1%	26	6.1%	(4)	(16.1%)
Other consoles	–	0.0%	2	0.5%	(2)	(92.1%)
Total Consoles	183	50.3%	247	57.3%	(64)	(25.9%)
PC	74	20.3%	67	15.5%	7	11.1%
Mobility						
PSP	33	8.8%	–	0.0%	33	N/A
Nintendo DS	12	3.3%	–	0.0%	12	N/A
Game Boy Advance	6	1.7%	18	4.2%	(12)	(65.5%)
Cellular Handsets	1	0.3%	–	0.0%	1	N/A
Total Mobility	52	14.1%	18	4.2%	34	180.1%
Co-publishing and Distribution	30	8.1%	67	15.6%	(37)	(55.8%)
Internet Services, Licensing and Other						
Subscription Services	15	4.2%	13	2.9%	2	21.3%
Licensing, Advertising and Other	11	3.0%	20	4.5%	(9)	(43.6%)
Total Internet Services, Licensing and Other	26	7.2%	33	7.4%	(7)	(18.4%)
Total Net Revenue	\$ 365	100.0%	\$ 432	100.0%	\$ (67)	(15.5%)

PlayStation 2

Net revenue from PlayStation 2 products decreased from \$162 million in the three months ended June 30, 2004 to \$117 million in the three months ended June 30, 2005. As a percentage of total net revenue, sales of PlayStation 2 products decreased by 5.2 percent in the three months ended June 30, 2005. The decrease in net revenue was primarily driven by lower sales of products from our Harry Potter and Fight Night franchises, as well as higher prior year sales of *UEFA Euro 2004* released in the three months ended June 30, 2004 in conjunction with the UEFA Euro 2004 football tournament held in Europe. These decreases were partially offset by higher net revenue from our Medal of Honor franchise and the release of *Batman Begins* during the three months ended June 30, 2005 as compared to three months ended June 30, 2004.

Xbox

Net revenue from Xbox products decreased from \$57 million in the three months ended June 30, 2004 to \$44 million in the three months ended June 30, 2005. As a percentage of total net revenue, sales of Xbox products decreased by 1.3 percent in the three months ended June 30, 2005. The decrease in net revenue was primarily due to lower sales of products from our Fight Night and Harry Potter franchises, as well as higher prior year sales of *UEFA Euro 2004*. These decreases were partially offset by higher net revenue from our Medal of Honor franchise and the release of *Batman Begins* during the three months ended June 30, 2005 as compared to three months ended June 30, 2004.

Nintendo GameCube

Net revenue from Nintendo GameCube products decreased from \$26 million in the three months ended June 30, 2004 to \$22 million in the three months ended June 30, 2005. The decrease in net revenue was primarily due to lower sales of products from our Harry Potter franchise and partially offset by sales of products from our Medal of Honor franchise and the release of *Batman Begins* for the three months ended June 30, 2005 as compared to three months ended June 30, 2004.

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PC

Net revenue from PC-based products increased from \$67 million in the three months ended June 30, 2004 to \$74 million in the three months ended June 30, 2005. As a percentage of total net revenue, sales of PC products increased by 4.8 percent in the three months ended June 30, 2005. The increase in PC net revenue was primarily due to higher sales of products from our Battlefield franchise. We consolidated Digital Illusions C.E.'s (DICE) financial results into our financial statements as of January 27, 2005, and therefore, characterized *Battlefield 2* as PC-based revenue. Prior to the consolidation of DICE, revenue from the Battlefield franchise was classified as co-publishing and distribution revenue. The increase was partially offset by a decrease in sales of products from our Harry Potter and The Sims franchises, as well as higher prior-year sales of *UEFA Euro 2004*.

Mobility

Net revenue from mobile products increased from \$18 million in the three months ended June 30, 2004 to \$52 million in the three months ended June 30, 2005. Mobile products include games for all mobile devices such as hand-helds and cellular handsets. As a percentage of total net revenue, sales of mobile products increased by 9.9 percentage points in the three months ended June 30, 2005 as compared to June 30, 2004. The increase in mobility net revenue was primarily due to the sales of titles for the Nintendo DS and PSP. The Nintendo DS and PSP were launched in certain regions during the six months ended March 31, 2005. The increase was partially offset by a decrease in net revenue from sales of products for the Game Boy Advance.

Co-Publishing and Distribution

Net revenue from co-publishing and distribution products decreased from \$67 million in the three months ended June 30, 2004 to \$30 million in the three months ended June 30, 2005. The decrease was primarily due to lower sales of products from our Battlefield franchise, which is now included in PC revenue due to our consolidation of DICE and higher prior year sales of various distribution titles.

Subscription Services

In the three months ended June 30, 2005, net revenue from subscription services products increased by \$2 million to \$15 million as compared to the three months ended June 30, 2004. The increase in net revenue was primarily due to an increase in the number of paying subscribers to Club Pogo, partially offset by a decrease in net revenue from *The Sims Online*™ and *Earth & Beyond*™.

Licensing, Advertising and Other

In the three months ended June 30, 2005, net revenue from licensing, advertising and other products decreased by \$9 million to \$11 million as compared to the three months ended June 30, 2004. The decrease was primarily due to lower licensing revenue related to the Nokia N-Gage platform.

Cost of Goods Sold

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

Costs of goods sold for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	% of Net Revenue	June 30, 2004	% of Net Revenue	% Change
\$ 151	41.2%	\$ 177	40.9%	(15.0%)

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In the three months ended June 30, 2005, cost of goods sold as a percentage of total net revenue increased by 0.3 percentage points to 41.2 percent from 40.9 percent for the three months ended June 30, 2004. The 0.3 percentage point increase was primarily the result of a 2.7 percent increase in average product and operational costs, offset by lower average royalties. The increase in average product costs was driven primarily by higher anticipated returns in Europe due to a lower-than-expected demand for our products.

The increase in average product costs was partially offset by lower average royalty costs as a result of:

- Lower license royalties as a percentage of total net revenue primarily due to a higher mix of products sold based on wholly-owned intellectual property during the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. We estimate that lower license royalties as a percentage of total net revenue increased gross margin by 2.9 percent.
- Lower co-publishing and distribution royalties as a percentage of total net revenue due to the lower volume of co-publishing and distribution net revenue during the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. We estimate that lower co-publishing and distribution royalties as a percentage of total net revenue increased gross margin by 0.4 percent.
- Partially offset by higher third-party development royalties as a percentage of total net revenue primarily due to a higher mix of externally developed titles versus internally developed titles in the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. We estimate that higher development royalties as a percentage of total net revenue decreased gross margin by 0.9 percent.

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

Marketing and Sales

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

Marketing and sales expenses for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	% of Net Revenue	June 30, 2004	% of Net Revenue	\$ Change	% Change
\$ 75	20.6%	\$ 63	14.6%	\$ 12	19.0%

Marketing and sales expenses increased by 19 percent for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004 primarily due to:

- An increase of \$8 million in personnel-related costs resulting from an increase in headcount and facilities-related expenses in support of the growth of our marketing and sales functions worldwide.
- An increase of \$4 million in our marketing and advertising, promotional and related contracted services expenses primarily due to increased advertising in North America to support our current year releases.

We expect marketing and sales expenses for the twelve months ending March 31, 2006 to be consistent with the prior year as a percentage of net revenue.

General and Administrative

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

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General and administrative expenses for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	% of Net Revenue	June 30, 2004	% of Net Revenue	\$ Change	% Change
\$ 51	14.0%	\$ 35	8.1%	\$ 16	45.1%

General and administrative expenses increased by 45 percent for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004 primarily due to:

- An increase of \$7 million in personnel and facility-related costs primarily due to an increase in headcount to help support the growth of our administrative functions worldwide.
- An increase of \$5 million in professional and contracted services to support our business.

We expect general and administrative expenses for the twelve months ending March 31, 2006 to be consistent with the prior year as a percentage of net revenue.

Research and Development

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

Research and development expenses for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	% of Net Revenue	June 30, 2004	% of Net Revenue	\$ Change	% Change
\$ 183	50.1%	\$ 131	30.3%	\$ 52	39.9%

Research and development expenses increased by 40 percent for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004 primarily due to:

- An increase of \$49 million in personnel-related costs primarily related to (1) an increase in employee headcount in our Canadian and European studios as a result of increased internal development and the development of games for next-generation tools, technologies and titles, as well as our recent consolidations of DICE and Criterion and (2) the fact that there were 14 weeks in the three months ended June 30, 2005 as compared to only 13 weeks in the three months ended June 30, 2004.
- An increase of \$11 million in facilities-related expenses to help support the growth of our research and development functions worldwide, as well as the fact that there were 14 weeks in the three months ended June 30, 2005 as compared to only 13 weeks in the three months ended June 30, 2004.

These increases were partially offset by an overall decrease of approximately \$9 million in external development expenses as a result of increased internal development.

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

Interest and Other Income, Net

Interest and other income, net, for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	% of Net Revenue	June 30, 2004	% of Net Revenue	\$ Change	% Change
\$ 17	4.6%	\$ 9	2.1%	\$ 8	84.7%

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Interest and other income, net, increased for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004 primarily due to an increase of \$12 million in interest income as a result of higher yields on higher average cash balances, partially offset by a decrease of \$3 million due to a net loss from our foreign currency activities.

Income Taxes

Income taxes for the three months ended June 30, 2005 and 2004 were as follows (in millions):

June 30, 2005	Effective Tax Rate	June 30, 2004	Effective Tax Rate	% Change
\$ (23)	29.0%	\$ 10	29.0%	(330.1%)

Our effective income tax rate reflects our significant operations outside the U.S., which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. Our effective income tax rates were 29.0 percent for the three months ended June 30, 2005 and 2004.

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

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

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

Impact of Recently Issued Accounting Standards

In March 2004, the FASB ratified the measurement and recognition guidance and certain disclosure requirements for impaired securities as described in Emerging Issues Task Force (“EITF”) Issue No. 03-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*”. In June 2005, the FASB directed its staff to issue proposed FASB Staff Position (“FSP”) EITF 03-1-a, “*Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1*,” as final. The FASB plans to retitle this FSP as FSP FAS 115-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*”. The final FSP will supersede EITF Issue No. 03-1 and EITF Topic D-44, “*Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*.” The final FSP will replace the guidance set forth in paragraphs 10 through 18 of EITF Issue No. 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. Management is currently evaluating what impact the adoption of the measurement and recognition guidance in FSP FAS 115-1 will have on our consolidated financial statements.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

(In millions)	As of June 30,		Increase
	2005	2004	
Cash, cash equivalents and short-term investments	\$ 2,573	\$ 2,369	\$ 204
Marketable equity securities	176	2	174
Total	<u>\$ 2,749</u>	<u>\$ 2,371</u>	<u>\$ 378</u>

Percentage of total assets	70.2%	70.4%
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(In millions)	Three Months Ended June 30,		Increase / (Decrease)
	2005	2004	
Cash used in operating activities	\$ (31)	\$ (66)	\$ 35
Cash used in investing activities	(37)	(996)	959
Cash provided by (used in) financing activities	(318)	44	(362)
Effect of foreign exchange on cash and cash equivalents	(10)	1	(11)
Net decrease in cash and cash equivalents	<u>\$ (396)</u>	<u>\$(1,017)</u>	<u>\$ 621</u>

Changes in Cash Flow

During the three months ended June 30, 2005, we used \$31 million of cash from operating activities as compared to the use of \$66 million for the three months ended June 30, 2004. The decrease in cash used in operating activities resulted primarily from the collection of our receivables partially offset by the overall decline in net income for the first quarter of fiscal 2006 as compared to the first quarter of fiscal 2005. We expect to generate significant operating cash flow during the remainder of fiscal 2006. For the three months ended June 30, 2005, our primary use of cash in non-operating activities consisted of \$337 million for the repurchase and retirement of our common stock and \$33 million in capital expenditures primarily related to the expansion of our Vancouver studio and upgrades to our worldwide ERP systems. We anticipate making continued capital investments in our Vancouver studio during fiscal 2006 as well as completing the remaining \$372 million of our \$750 million share repurchase program by September 30, 2005.

Short-term investments and marketable equity securities

As of June 30, 2005, 34 percent of our portfolio of cash, cash equivalents and short-term investments consisted of cash and cash equivalents and 66 percent of our portfolio consisted of short-term investments. As of March 31, 2005, 43 percent of our portfolio consisted of cash and cash equivalents and 57 percent of our portfolio consisted of short-term investments. Due to our mix of fixed and variable rate securities, our short-term investment portfolio is susceptible to changes in short-term interest rates. As of June 30, 2005, our short-term investments had gross unrealized losses of approximately \$15 million, or 0.9 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs. Depending on the short-term investments that we liquidate to fund these activities, we could recognize a portion of the gross unrealized losses.

Marketable equity securities increased to \$176 million as of June 30, 2005, from \$140 million as of March 31, 2005, primarily due to an increase in the unrealized gain on our investment in Ubisoft Entertainment.

Receivables, net

Our gross accounts receivable balance was \$278 million and \$458 million as of June 30, 2005 and March 31, 2005, respectively. The decrease in our accounts receivable balance was due to lower sales volumes in the first quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005 and the collection of receivables from the fourth quarter of fiscal 2005, which was expected as we traditionally have lower sales during our first fiscal quarter as compared to our fourth fiscal quarter. We expect our accounts receivable balance to increase during the three months ending September 30, 2005 based on our seasonal product release schedule. Reserves for sales returns, pricing allowances and doubtful accounts decreased from \$162 million as of March 31, 2005 to \$111 million as of June 30, 2005. As expected, principally due to the seasonality of our business, both sales returns and price protection reserves decreased in absolute dollars and as a percentage of trailing nine month net revenue and increased as a percentage of trailing six month net revenue as of June 30, 2005 as compared to March 31, 2005. Sales returns and price protection reserves as a percentage of six and nine month revenue remained relatively flat as compared to the quarter ended June 30, 2004. We believe these reserves are adequate based on historical experience and our current estimate of potential returns and allowances.

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Inventories

Inventories increased to \$66 million as of June 30, 2005 from \$62 million as of March 31, 2005 primarily due to the buildup of inventory in connection with the release of *NCAA® Football 06* at the beginning of the second quarter of fiscal 2006. Other than *NCAA Football 06*, no single title represented more than \$4 million of inventory as of June 30, 2005.

Other current assets

Other current assets increased to \$194 million as of June 30, 2005, from \$164 million as of March 31, 2005, primarily due to an increase in prepaid royalties as we continue to invest in our product development and content. The increase was partially offset by a decrease in our VAT receivable.

Accounts payable

Accounts payable decreased to \$113 million as of June 30, 2005, from \$134 million as of March 31, 2005, primarily due to the lower sales volume we experienced in the first quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005.

Accrued and other liabilities

Our accrued and other liabilities decreased to \$597 million as of June 30, 2005 from \$694 million as of March 31, 2005. The decrease was due to decreases in accrued compensation and benefits, accrued income taxes and accrued royalties. We anticipate our accrued and other liabilities balance will increase during the three months ending September 30, 2005 primarily due to an increase in royalties payable.

Financial Condition

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

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

A portion of our cash that was generated from operations domiciled in foreign tax jurisdictions (approximately \$905 million as of June 30, 2005) is designated as indefinitely reinvested in the respective tax jurisdiction. While we have no plans to repatriate these funds to the United States in the short term, if we were required to do so in order to fund our operations in the United States, we would accrue and pay additional taxes in connection with their repatriation. We are in the process of evaluating whether we will repatriate foreign earnings under the repatriation provisions of the American Jobs Creation Act of 2004.

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. During the three months ended June 30, 2005, we repurchased and retired 6.3 million shares of our common stock for approximately \$337 million. From the inception of the program through June 30, 2005, we have repurchased and retired 7.1 million shares of our common stock for approximately \$378 million.

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

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

Contractual Obligations and Commercial Commitments

Letters of Credit

In July 2002, we provided an irrevocable standby letter of credit to Nintendo of Europe. The standby letter of credit guarantees performance of our obligations to pay Nintendo of Europe for trade payables. The original letter of credit guaranteed our obligations to Nintendo of Europe of up to € 18 million. In April 2005, we reduced the guarantee to € 8 million. This standby letter of credit expired in July 2005 and was renewed through July 2006. As of June 30, 2005, we had less than € 1 million payable to Nintendo of Europe covered by this standby letter of credit.

In August 2003, we provided an irrevocable standby letter of credit to 300 California Associates II, LLC in replacement of our security deposit for office space. The standby letter of credit guarantees performance of our obligations to pay our lease commitment up to approximately \$1 million. The standby letter of credit expires in December 2006. As of June 30, 2005, we did not have a payable balance covered by this standby letter of credit.

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

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

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The following table summarizes our minimum contractual obligations and commercial commitments as of June 30, 2005, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

Fiscal Year Ending March 31,	Contractual Obligations			Commercial Commitment	
	Leases ⁽¹⁾	Developer/ Licensor Commitments ⁽²⁾	Marketing	Bank and Other Guarantees	Total
2006 (remaining nine months)	\$ 34	\$ 76	\$ 34	\$ 3	\$ 147
2007	30	137	34	—	201
2008	23	125	30	—	178
2009	17	134	30	—	181
2010	13	121	31	—	165
Thereafter	35	830	197	—	1,062
Total	\$ 152	\$ 1,423	\$ 356	\$ 3	\$1,934

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

(2) Developer/licensor commitments include \$44 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Condensed Consolidated Balance Sheets as of June 30, 2005 because the developer or licensor does not have any performance obligations to us.

The lease commitments disclosed above include contractual rental commitments of \$21 million under real estate leases for unutilized office space due to our restructuring activities. These amounts, net of estimated future sub-lease income, were expensed in the periods of the related restructuring and are included in our accrued and other liabilities reported on our Condensed Consolidated Balance Sheets as of June 30, 2005. See Note 5 in the Notes to Condensed Consolidated Financial Statements.

OFF-BALANCE SHEET COMMITMENTS

Lease Commitments

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

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

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

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We believe the estimated fair values of both properties under these operating leases are in excess of their respective guaranteed residual values as of June 30, 2005.

For the two lease agreements with Keybank National Association, as described above, the lease rates are based upon the LIBOR plus a margin and require us to maintain certain financial covenants as shown below, all of which we were in compliance with as of June 30, 2005.

Financial Covenants	Requirement	Actual as of June 30, 2005	
Consolidated Net Worth (in millions)	equal to or greater than	\$ 2,061	\$ 3,167
Fixed Charge Coverage Ratio	equal to or greater than	3.00	15.77
Total Consolidated Debt to Capital	equal to or less than	60%	7.2%
Quick Ratio – Q1 & Q2	equal to or greater than	1.00	11.10
Q3 & Q4	equal to or greater than	1.75	N/A

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

Litigation

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

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

On March 24, 2005, a class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on June 13, 2005, the court appointed lead plaintiff and lead counsel pursuant to the requirements of the Private Securities Litigation Reform Act of 1995. An amended consolidated complaint has not yet been filed. Separately, on April 12, 2005, a shareholder derivative action was filed in San Mateo Superior Court against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. Two other shareholder derivative actions have been filed in San Mateo Superior Court based on the same claims. Two of the three derivative actions have been consolidated; a request to consolidate the third is currently pending. In addition, two other shareholder derivative actions based on substantially the same allegations have been filed in the United States District Court, Northern District of California. We have not responded to any of the complaints.

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

Director Indemnity Agreements

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

RISK FACTORS

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

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

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

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

Video game platforms have historically had a life cycle of four to six years, which causes the video game software market to be cyclical as well. Sony's PlayStation 2 was introduced in 2000 and Microsoft's Xbox and the Nintendo GameCube were introduced in 2001. Beginning in the third quarter of fiscal 2006 and continuing over the course of the next twelve to eighteen months thereafter, we expect Microsoft, Sony and Nintendo to introduce new video game platforms into the market (so-called "next-generation platforms"). As a result, we believe that the interactive entertainment industry has entered into a transition stage leading into the next cycle. During this transition, we intend to continue developing new titles for the current-generation of video game platforms while we also make significant investments preparing to introduce products upon the launch of the next-generation platforms. We have and expect to continue to incur increased costs during the transition to next-generation platforms, which are not likely to be offset in the near future. We also expect development costs for next-generation video games to be greater on a per-title basis than development costs for current-generation video games. Further, we expect that, as the current-generation of platforms reaches the end of its cycle and next-generation platforms are introduced into the market, sales of video games for current-generation consoles may begin to decline as consumers defer game software purchases until the next-generation platforms become available. This decline may not be offset by increased sales of products for the new platforms. For example, following the launch of Sony's PlayStation 2 platform, we experienced a significant decline in revenue from sales of products for Sony's older PlayStation game console, which was not immediately offset by revenue generated from sales of products for the PlayStation 2. If the increased costs we have incurred and expect to continue to incur are not offset during the transition, our operating results will suffer and our financial position will be harmed. In addition, during the transition, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

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

Beginning in the third quarter of fiscal 2006 and continuing over the course of the next twelve to eighteen months thereafter, we expect our platform licensors to introduce new video game platforms into the market in various parts of the world. For example, Microsoft has announced plans to release the Xbox 360 (the next-generation successor to the Xbox) during the 2005 holiday season and Sony has announced plans to release the PlayStation 3 (the next-generation successor to the PlayStation 2) in the spring of 2006. In order to publish products for a new game machine, we must take a license from the platform licensor which gives the platform licensor the opportunity to set the fee structure that we must pay in order to publish games for that platform.

Similarly, certain platform licensors have retained the flexibility to change their fee structures for online gameplay and features for their consoles. The control that platform licensors have over the fee structures for their future platforms and online access makes it difficult for us to predict our costs and profitability in the medium to long term. It is also possible that platform licensors may choose not to renew our licenses. Because publishing products for video game consoles is the largest portion of our business, any increase in fee structures or failure to secure a license relationship would significantly harm our ability to generate revenues and/or profits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are currently, and from time to time in the future may become, subject to other claims and litigation, which could be expensive, lengthy, and disruptive to normal business operations. In addition, the outcome of any claims or litigation may be difficult to predict and could have a material adverse effect on our business, operating results, or financial condition. For further information regarding certain claims and litigation in which we are currently involved, see "Part II — Item 1. Legal Proceedings" below.

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

Legislation is continually being introduced that may affect both the content of our products and their distribution. For example, privacy laws in the United States and Europe impose various restrictions on our web sites. Those rules vary by territory although the Internet recognizes no geographical boundaries. Other countries, such as Germany, have adopted laws regulating content both in packaged goods and those transmitted over the Internet that are stricter than current United States laws. In the United States, the federal and several state governments are considering content restrictions on products such as ours, as well as restrictions on distribution of such products. For example, recent legislation has been proposed in several states, and could be proposed at the federal level, that would prohibit the sale of certain games (e.g., those with "M" or "AO" ratings) to minors. Any one or more of these factors could harm our business by limiting the products we are able to offer to our customers, by limiting the size of the potential market for our products, and by requiring additional differentiation between products for different territories to address varying regulations. This additional product differentiation would be costly.

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

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

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

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

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

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

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

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

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

Our international net revenue is subject to currency fluctuations.

For the three months ended June 30, 2005, international net revenue comprised 50 percent of our total net revenue. For the fiscal year ended March 31, 2005, international net revenue comprised 47 percent of our total net revenue. We expect foreign sales to continue to account for a significant portion of our total net revenue. Such sales are subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies, which may fluctuate against the U.S. dollar. While we utilize foreign exchange forward contracts to mitigate some foreign currency risk associated with foreign currency denominated assets and liabilities (primarily certain intercompany receivables and payables) and from time to time, foreign currency option contracts to hedge foreign currency forecasted transactions (primarily related to a portion of the revenue generated by our operational subsidiaries), our results of operations, including our reported net revenue and net income, and financial condition would be adversely affected by unfavorable foreign currency fluctuations, particularly the Euro and Pound Sterling.

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

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

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

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

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

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

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

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

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

In the quarter ended June 30, 2005, over 70 percent of our U.S. sales were made to six key customers, two of which have recently announced plans to merge. In Europe, our top ten customers accounted for approximately 35 percent of our sales in that territory during the three months ended June 30, 2005. Worldwide, we had direct sales to one customer, Wal-Mart Stores, Inc., which represented approximately 12 percent of total net revenue in the three months ended June 30, 2005. Though our products are available to consumers through a variety of retailers, the concentration of our sales in one, or a few, large customers could lead to a short-term disruption in our sales if one or more of these customers significantly reduced their purchases or ceased to carry our products, and could make us more vulnerable to collection risk if one or more of these large customers became unable to pay for our products. Additionally, our receivables from these large customers increase significantly in the December quarter as they stock up for the holiday selling season. Also, having such a large portion of our total net revenue concentrated in a few customers reduces our negotiating leverage with these customers.

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

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

Foreign Currency Exchange Rate Risk

From time to time, we hedge some of our foreign currency risk related to anticipated foreign-currency-denominated sales transactions by purchasing option contracts that generally have maturities of 15 months or less. These transactions are designated and qualify as cash flow hedges. The derivative assets associated with our hedging activities are recorded at fair value in other current assets in the Condensed Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in fair value is initially reported as a component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported in interest and other income, net in the Condensed Consolidated Statements of Operations. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements. The fair value of our foreign currency option contracts purchased and included in other current assets was \$9 million as of June 30, 2005.

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

As of June 30, 2005, we had foreign exchange contracts to purchase and sell approximately \$248 million in foreign currencies. Of this amount, \$222 million represents contracts to sell foreign currencies in exchange for U.S. dollars, \$21 million to sell foreign currencies in exchange for British Pounds, and \$5 million to purchase foreign currency in exchange for U.S. dollars. The fair value of our forward contracts was immaterial as of June 30, 2005.

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

Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurances that our mitigating activities will adequately protect us against the risks associated with foreign currency fluctuations. For example, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in a potential loss in fair value of our option contracts of \$8 million and \$9 million, respectively, as of June 30, 2005. A hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in potential losses on our forward contracts of \$23 million and \$34 million, respectively, as of June 30, 2005. This sensitivity analysis assumes a parallel adverse shift in foreign currency exchange rates, which do not always move in the same direction. Actual results may differ materially.

Interest Rate Risk

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

As of June 30, 2005 and March 31, 2005, our short-term investments were classified as available-for-sale and, consequently, recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity. Our portfolio of short-term investments consisted of the following investment categories, summarized by fair value as of June 30, 2005 and March 31, 2005 (in millions):

	As of June 30 2005	As of March 31 2005
U.S. government agencies	\$ 1,158	\$ 1,168
U.S. government bonds	339	298
Corporate bonds	181	180
Asset-backed securities	21	42
Total short-term investments	<u>\$ 1,699</u>	<u>\$ 1,688</u>

Notwithstanding our efforts to manage interest rate risks, there can be no assurances that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp rise in interest rates could have a significant adverse impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of June 30, 2005, arising from selected potential changes in interest rates. The modeling technique measures the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS. Actual results may differ materially.

(In millions)	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of June 30, 2005	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
U.S. government agencies	\$ 1,164	\$ 1,163	\$ 1,161	\$ 1,158	\$ 1,151	\$ 1,146	\$ 1,140
U.S. government bonds	347	345	342	339	336	333	330
Corporate bonds	186	184	183	181	180	178	177
Asset-backed securities	21	21	21	21	21	21	21
Total short-term investments	<u>\$ 1,718</u>	<u>\$ 1,713</u>	<u>\$ 1,707</u>	<u>\$ 1,699</u>	<u>\$ 1,688</u>	<u>\$ 1,678</u>	<u>\$ 1,668</u>

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Market Price Risk

The values of our equity investments in publicly traded companies are subject to market price volatility. As of June 30, 2005, our marketable equity securities were classified as available-for-sale and, consequently, were recorded in the Condensed Consolidated Balance Sheet at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders' equity. The fair value of our marketable equity securities was \$176 million and \$140 million as of June 30, 2005 and March 31, 2005, respectively.

At any time, a sharp decrease in market prices in our investments in marketable equity securities could have a significant adverse impact on the fair value of our investments. The following table presents the hypothetical changes in the fair value of our marketable equity securities as of June 30, 2005, arising from selected potential changes in market prices. The modeling technique measures the change in fair value from immediate hypothetical parallel shifts in market price plus or minus 25 percent, 50 percent and 75 percent. Hypothetical changes in market prices of the same magnitude would not have resulted in material changes in the fair value of our marketable equity securities and, accordingly, are not presented.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock's Market Price			Fair Value as of June 30, 2005	Valuation of Securities Given an X Percentage Increase in Each Stock's Market Price		
	(75%)	(50%)	(25%)		25%	50%	75%
Marketable Equity Securities	\$ 44	\$ 88	\$ 132	\$ 176	\$ 220	\$ 263	\$ 307

Item 4. Controls and Procedures

Definition and limitations of disclosure controls. Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial and Administrative Officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluates these controls and procedures on an ongoing basis.

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

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

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On March 24, 2005, a class action lawsuit was filed against us and certain of our officers and directors. The complaint, which asserts claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly false and misleading statements, was filed in the United States District Court, Northern District of California, by an individual purporting to represent a class of purchasers of EA common stock. Additional class action lawsuits have been filed in the same court by other individuals asserting the same claims against us. On May 9, 2005, the court consolidated the complaints, and on June 13, 2005, the court appointed lead plaintiff and lead counsel pursuant to the requirements of the Private Securities Litigation Reform Act of 1995. An amended consolidated complaint has not yet been filed. Separately, on April 12, 2005, a shareholder derivative action was filed in San Mateo Superior Court against certain of our officers and directors. This suit asserts claims based on substantially the same factual allegations set forth in the federal class action lawsuits. Two other shareholder derivative actions have been filed in San Mateo Superior Court based on the same claims. Two of the three derivative actions have been consolidated; a request to consolidate the third is currently pending. In addition, two other shareholder derivative actions based on substantially the same allegations have been filed in the United States District Court, Northern District of California. We have not responded to any of the complaints.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 18, 2004, our Board of Directors authorized a program to repurchase up to an aggregate of \$750 million of shares of our common stock. Pursuant to the authorization, we may repurchase shares of our common stock from time to time in the open market or through privately negotiated transactions over the course of a twelve-month period. The following table summarizes the number of shares repurchased for the three months ended June 30, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)
April 1 – 30, 2005	–	–	–	\$ 709
May 1 – 31, 2005	5,076,300	\$ 52.52	5,076,300	\$ 443
June 1 – 30, 2005	1,218,003	\$ 58.02	1,218,003	\$ 372

Item 6. Exhibits

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

<u>Exhibit Number</u>	<u>Title</u>
10.1	Guaranty, dated as of December 6, 2000, by Electronic Arts Inc. in favor of Selco Service Corporation, Victory Receivables Corporation, The Bank Of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and Keybank National Association.
10.2	Guaranty, dated as of July 16, 2001, by Electronic Arts Inc. in favor of Flatirons Funding, Limited Partnership, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks and Tranche B Banks, and KeyBank National Association.
10.3	First Amendment to Participation Agreement, dated as of May 13, 2002, by and among Electronic Arts Redwood, Inc., Electronic Arts Inc., Flatirons Funding, Limited Partnership, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, KeyBank National Association, and The Bank of Nova Scotia.
10.4	Omnibus Amendment Agreement (2001 transaction), dated as of September 15, 2004, Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank Of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and KeyBank National Association.
10.5	Omnibus Amendment Agreement (2000 transaction), dated as of September 15, 2004, by and among Electronic Arts Redwood, LLC, Electronic Arts, Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank Of Tokyo-Mitsubishi, Ltd., various Liquidity Banks, and KeyBank National Association.
10.6	Omnibus Amendment (2000 transaction), dated as of July 11, 2005, among Electronic Arts Redwood LLC, Electronic Arts Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, various Liquidity Banks, Deutsche Bank Trust Company Americas, and KeyBank National Association.
10.7	Omnibus Amendment (2001 transaction), dated as of July 11, 2005, among Electronic Arts Redwood LLC, Electronic Arts Inc., Selco Service Corporation, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, various Liquidity Banks, Deutsche Bank Trust Company Americas, The Bank of Nova Scotia, and KeyBank National Association.
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Additional exhibits furnished with this report:

32.1	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRONIC ARTS INC.
(Registrant)

DATED:
August 3, 2005

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

**ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2005**

EXHIBIT INDEX

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32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

GUARANTY

This GUARANTY, dated as of December 6, 2000 (this “Guaranty”), is made by ELECTRONIC ARTS, INC., a Delaware corporation (the “Guarantor”) in favor of SELCO SERVICE CORPORATION, an Ohio corporation doing business in California as Ohio SELCO Service Corporation, Victory Receivables Corporation, a Delaware corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, the various Liquidity Banks which are parties to the Participation Agreement (defined below), and Keybank National Association (collectively, the “Beneficiaries”).

W I T N E S S E T H :

WHEREAS, the Guarantor wishes to induce the Beneficiaries to enter into a synthetic lease arrangement and, in such connection, execute the Participation Agreement, dated the date hereof (the “Participation Agreement”), by and among Electronic Arts Redwood, Inc., a Delaware corporation and a wholly owned subsidiary of the Guarantor (the “Lessee”), the Guarantor and the Beneficiaries; and

WHEREAS, in connection with the aforementioned synthetic lease arrangement, the Beneficiaries will further execute other Operative Documents (as defined in the Participation Agreement);

WHEREAS, the execution and delivery of this Guaranty is a condition to the Beneficiaries’ execution of the Participation Agreement and other Operative Documents.

NOW, THEREFORE, in order to induce the Beneficiaries to enter into and execute the Participation Agreement and other Operative Documents and to consummate the transactions contemplated thereby, the Guarantor hereby agrees as follows:

SECTION 1. Definitions. Unless the context shall otherwise require, capitalized terms used and not defined herein shall have the meanings assigned thereto in Appendix A to the Participation Agreement for all purposes hereof, and the rules of interpretation set forth in Appendix A to the Participation Agreement shall apply to this Agreement.

SECTION 2. Guaranty.

(a) The Guarantor hereby irrevocably and unconditionally guarantees, as primary obligor, and not as a surety, to the Beneficiaries the full, prompt and timely performance by the Lessee (in all its capacities, including, but not limited to, its being the Lessee, the Construction Agent under the Construction Agency Agreement, the Indemnitor under the Environmental Indemnity Agreement and the Administrator under the Administration Agreement) of all obligations, covenants, warranties, undertakings, indemnities and conditions in or arising under the Operative Documents. The foregoing guaranty includes the irrevocable and

unconditional guaranty of the full and prompt payments, and performance of Liabilities (defined below) when due.

As used in this Guaranty, “Liabilities” means, all of the following (in each case howsoever created, arising or evidenced, whether direct or indirect, joint or several, absolute or contingent, or now or hereafter existing, or due or to become due): all Basic Rent, Supplemental Rent, Outstanding Lease Balance and all additional amounts and other sums at any time due and owing, or required to be paid by the Lessee and all other obligations, agreements and covenants required to be performed by the Lessee, in each case under and subject to the terms of the Master Lease and the other Operative Documents (without giving effect to any modification, rejection, termination, restructuring, discharge, characterization or recharacterization of any such document in any bankruptcy or insolvency proceeding with respect to the Lessee other than as may be agreed to in writing by all of the Beneficiaries). Further, “Liabilities” shall also include (i) interest and yield on any such Liabilities as provided in the Operative Documents, whether accruing before or after any bankruptcy or insolvency case or proceeding involving the Lessee, the Guarantor or any other Person, and, if interest or yield on any portion of such obligations ceases to accrue by operation of law by reason of the commencement of such case or proceeding, including such interest and yield as would have accrued on any such portion of such obligations if such case or proceeding had not commenced, and (ii) all expenses (including attorneys’ fees and legal expenses) paid or incurred by any Beneficiary in collecting the Liabilities, or any part thereof, and in enforcing this Guaranty.

Each and every claim for Liabilities shall give rise to a separate claim and cause of action hereunder.

(b) This Guaranty shall in all respects be an absolute and unconditional guaranty of payment and performance of Liabilities when due (but not of the collection thereof) and shall remain in full force and effect notwithstanding, without limitation, the dissolution of the Guarantor. This Guaranty is in no way conditioned upon any effort or attempt to collect from the Lessee or upon any other event or contingency. This Guaranty shall be binding upon and enforceable against the Guarantor without regard to the validity or enforceability of the Operative Documents or of any term thereof. If, for any reason, the Lessee shall fail or be unable to duly and punctually pay any such amount when due under the Operative Documents, the Guarantor will forthwith pay, if not already paid by the Lessee, the same immediately upon demand.

(c) In the event of the dissolution, bankruptcy or insolvency of the Lessee or the Guarantor, or the inability or failure of the Lessee or the Guarantor to pay debts as they become due, or an assignment by the Lessee or the Guarantor, for the benefit of creditors, or the commencement of any case or proceeding in respect of the Lessee or the Guarantor, under any bankruptcy, insolvency or similar laws, and if such event shall occur at a time when any of the Liabilities may not then be due and payable, the Guarantor shall pay the Beneficiaries forthwith the full amount due each such Beneficiary which would be payable hereunder by the Guarantor as if all Liabilities were then due and payable.

(d) Any Beneficiary, may, from time to time at its discretion and without notice to the Guarantor, take any or all of the following actions (the defenses against any such action are hereby expressly waived by the Guarantor):

(i) retain or obtain a lien upon or a security interest in any property to secure any of the Liabilities or any obligation hereunder;

(ii) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the Guarantor, with respect to any of the Liabilities;

(iii) extend or renew for one or more periods (which may be longer or shorter than the original period), alter or exchange any of the Liabilities, or release or compromise any obligation of the Guarantor hereunder or any obligation of any nature of any other obligor (including, without limitation, the Lessee) with respect to any of the Liabilities;

(iv) release or fail to perfect its lien upon or security interest in, or impair, surrender, release or permit any substitution or exchange for, all or part of any property securing any of the Liabilities or any obligation hereunder, or extend or renew for one or more periods (regardless of whether longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such property; and

(v) resort to the Guarantor for payment of any of the Liabilities, regardless of whether the Lessor or any other Person shall have resorted to any property securing any of the Liabilities or any obligation hereunder or shall have proceeded against any other obligor primarily or secondarily obligated with respect to any of the Liabilities.

SECTION 3. Guarantor's Obligations Unconditional.

(a) The obligations of the Guarantor set forth herein constitute the full recourse obligations of the Guarantor enforceable against it to the full extent of all its assets and properties, notwithstanding any provision in the Participation Agreement or any other agreements limiting the liability of the Lessee or any other Person, or any agreement by any Beneficiary to look for payment with respect thereto, solely to collateral.

(b) The Guarantor's obligations hereunder are independent of the obligations of the Lessee or any other Person. Each Beneficiary may enforce any of its rights hereunder independently of any other right or remedy that it may hold at any time with respect to the Liabilities or any security or other guaranty therefor. The Guarantor's obligations hereunder shall be absolute and unconditional, shall not be subject to any counterclaim, setoff, deduction, diminution, abatement, recoupment, suspension, deferment, reduction or defense (other than full and strict compliance by the Guarantor with its obligations hereunder), whether based upon any claim that the Lessee, the Guarantor, or any other Person may have against any Beneficiary or any other Person or otherwise, and shall remain in full force and effect without regard to, and shall not be released, discharged or in any way affected by, any circumstance or condition whatsoever (whether or not the Guarantor or the Lessee shall have any knowledge or notice thereof), including without limitation:

(i) any amendment, modification, addition, deletion, supplement or renewal to or of or other change in the Liabilities or any Operative Document or any instruments referred to therein, or any other instrument or agreement applicable to any Operative Document or any party to such instruments, made in accordance with the terms thereof, or to the Property, or any assignment, mortgage or transfer thereof or of any interest therein, or any furnishing or acceptance of additional security for, guaranty of or right of offset with respect to, any of the Liabilities; or the failure of any security or the failure of any Beneficiary to perfect or insure any interest in any collateral;

(ii) any failure, omission or delay on the part of the Lessee or any Beneficiary to conform or comply with any term of any instrument or agreement referred to in clause (i) above;

(iii) any waiver, consent, extension, indulgence, compromise, release or other action or inaction under or in respect of any instrument, agreement, guaranty, right of offset or security referred to in clause (i) above or any obligation or liability of the Lessee or any Beneficiary, or any exercise or non-exercise by any Beneficiary of any right, remedy, power or privilege under or in respect of any such instrument, agreement, guaranty, right of offset or security or any such obligation or liability;

(iv) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to the Lessee, any Beneficiary or any other Person or any of their respective properties or creditors, or any action taken by any trustee, receiver or court in any such proceeding;

(v) any limitation on the liability or obligations of any Person under any Operative Document, the Liabilities, any collateral security for the Liabilities, or any other guaranty of the Liabilities or any discharge, termination, cancellation, frustration, irregularity, invalidity or unenforceability, in whole or in part, of any of the foregoing or any other agreement, instrument, guaranty or security referred to in clause (i) above or any term of any thereof;

(vi) any defect in the title, compliance with specifications, condition, design, operation or fitness for use of, or any damage to or loss or destruction of, or any interruption or cessation in the use of the Property by the Lessee or any other Person for any reason whatsoever (including any governmental prohibition or restriction, condemnation, requisition, seizure or any other act on the part of any governmental or military authority, or any act of God or of the public enemy) regardless of the duration thereof (even though such duration would otherwise constitute a frustration of a lease), whether or not resulting from accident and whether or not without fault on the part of the Lessee or any other Person;

(vii) any lien, charge or encumbrance on or affecting the Guarantor's or the Lessee's respective assets and properties;

(viii) any merger or consolidation of the Lessee or the Guarantor into or with any other Person or any sale, lease or transfer of any of the assets of the Lessee or the Guarantor to any other Person;

(ix) any change in the ownership of any shares of capital stock of the Lessee or the Guarantor or any corporate change in the Lessee or the Guarantor;

(x) any change in the name of the Guarantor, the Lessee or any Beneficiary;

(xi) any claim as a result of other dealings between any Beneficiary and the Guarantor or the Lessor;

(xii) the recovery of any judgment against the Lessee, or by the levy of any writ or process of execution under any such judgment, or by any action or proceeding taken by any Beneficiary under any of the Operative Documents for the enforcement thereof, or hereof, or in the exercise of any right or power given or conferred thereby, or hereby, except to the extent that such recovery, levy or other action reduces the outstanding amount of the Liabilities;

(xiii) the acceptance of any additional security or other guaranty, the advance of additional money to the Lessee or any other Person, the renewal or extension of any amounts guaranteed hereby, or the sale, release, substitution or exchange of any security for the amounts guaranteed hereby;

(xiv) any defense (other than the full and indefeasible performance by the Lessee of its obligations under the Operative Documents) whatsoever that the Lessee or any other Person might have to the payment of any of the amounts or obligations guaranteed hereby or to the performance or observance of any of the provisions of any of the Operative Documents, whether through the satisfaction or purported satisfaction by the Lessee or any other Person of its debts due to any cause such as bankruptcy, insolvency, receivership, merger, consolidation, reorganization, dissolution, liquidation, winding-up or otherwise;

(xv) impossibility or illegality of performance on the part of the Lessee or any other Person of its obligations under the Operative Documents; or

(xvi) any other occurrence or circumstance whatsoever, whether similar or dissimilar to the foregoing, and any other circumstance that might otherwise constitute a legal or equitable defense or discharge of the liabilities of a guarantor or surety or that might otherwise limit recourse against the Guarantor.

(c) The Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Liabilities and notice of or proof of reliance by any Beneficiary upon this Guaranty or acceptance of this Guaranty, and the Liabilities, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty. The Guarantor unconditionally waives, to the extent permitted by law:

(i) acceptance of this Guaranty and proof of reliance by any Beneficiary hereon;

(ii) notice of any of the matters referred to in Section 3(b), or any right to consent or assent to any thereof;

(iii) all notices that may be required by statute, rule of law or otherwise, now or hereafter in effect, to preserve intact any rights against the Guarantor, including any demand, presentment, protest, proof or notice of nonpayment under any Operative Document, and notice of default or any failure on the part of the Lessee to perform and comply with any covenant, agreement, term or condition of any Operative Document;

(iv) any right to the enforcement, assertion or exercise against the Lessee of any right, power, privilege or remedy conferred in any Operative Document or otherwise;

(v) any requirement of diligence on the part of any Person;

(vi) any requirement of any Beneficiary to take any action whatsoever, to exhaust any remedies or to mitigate the damages resulting from a default by any Person under any Operative Document or to proceed first against the Lessee;

(vii) any notice of any sale, transfer or other disposition by any Person of any right under, title to or interest in any Operative Document or the Property;

(viii) any and all benefits under Applicable Law;

(ix) presentation, demand for payment, or protest, of any Liability (except such notices to the Lessee as may be required under the Operative Documents);

(x) any right to require any Beneficiary to proceed first against the Lessee or against any collateral, security or other support provided or to be provided by any Person in respect of any of the Operative Documents; and

(xi) any other circumstance that might otherwise constitute a legal or equitable discharge, release or defense of a guarantor or surety, or that might otherwise limit recourse against the Guarantor.

(d) Without limiting the generality of this Guaranty, if a Lease Event of Default under the Master Lease shall have occurred and be continuing and any Beneficiary is prevented by applicable law from exercising its remedies under the Operative Documents, such Beneficiary shall be entitled to receive hereunder from the Guarantor, upon demand therefor, the sums which would have otherwise been due from the Lessee had such remedies been exercised.

(e) In furtherance and not in limitation of the foregoing, the Guarantor hereby agrees upon the bankruptcy or insolvency of the Lessee or the Guarantor, the Notes, and all instruments and indebtedness secured by or issued in reliance upon the assignment to the Collateral Agent of the lease payments pursuant to the Master Lease shall be deemed to constitute Liabilities pursuant to this Guaranty and the holders of any such instruments and indebtedness shall be entitled to the rights of a Beneficiary hereunder with respect to such claims.

(f) This Guaranty shall be automatically reinstated if, and to the extent that, for any reason, any payment by or on behalf of the Lessee or otherwise is rescinded or must be

otherwise restored by any Beneficiary, whether as a result of any proceedings in bankruptcy or reorganization or otherwise.

SECTION 4. Additional Waivers; Waiver of Subrogation.

(a) Any Beneficiary may, at its election, exercise any right or remedy it may have against the Lessee or any security held by the Lessor, including, without limitation, the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of the Guarantor hereunder, except to the extent the Liabilities have been paid, and the Guarantor waives any defense arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantor against the Lessee or any such security, whether resulting from such election by such Beneficiary or otherwise. The Guarantor understands that the liability of the Lessee to the Beneficiary for the Liabilities may be secured by real property and that the Guarantor shall be liable for the full amount of its liability hereunder notwithstanding foreclosure on such real property by trustee sale or any other reason impairing the Guarantor's right to proceed against the Lessee.

(b) Guarantor hereby further expressly waives any defense arising by reason of any disability or other defense of the Lessee or by reason of the cessation from any cause whatsoever of the liability, either in whole or in part, of the Lessee to any Beneficiary for the Liabilities.

(c) The Guarantor hereby irrevocably waives, until all of the Liabilities have been fully and indefeasibly paid and satisfied in full, any claim or other rights which it may now or hereafter acquire against the Lessee arising from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or any other Operative Document, including any right of subrogation, reimbursement, exoneration, or indemnification, any right to participate in any claim or remedy of any Beneficiary against the Lessee or any property or assets now or hereafter constituting part of the Collateral, whether or not such claim, remedy or right arises in equity, or under contract, statute or common law, including the right to take or receive from the Lessee directly or indirectly, in cash or other property or by set-off or in any manner, payment or security on account of such claim or other rights. If any amount shall be paid to the Guarantor in violation of the preceding sentence and the Liabilities shall not have been indefeasibly paid in cash, such amount shall be deemed to have been paid to the Guarantor for the benefit of, and held in trust for, each Beneficiary, and shall forthwith be paid by the Guarantor to the Lessor to be credited and applied pursuant to the terms of the Operative Documents. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Participation Agreement and that the waiver set forth in this paragraph is knowingly made in contemplation of such benefits. The Guarantor hereby absolutely, unconditionally and irrevocably waives and agrees not to assert or take advantage of any defense based upon an election of remedies by the Beneficiaries, including an election to proceed by non-judicial rather than judicial foreclosure, which destroys or impairs any right of subrogation of the Guarantor or the right of the Guarantor to proceed against any Person for reimbursement or both.

(d) The Guarantor authorizes each Beneficiary, at its sole option, without notice or demand and without affecting the liability of the Guarantor hereunder, to release and reconvey (with or without the receipt of any consideration) any lien against any or all real or personal property security for the Liabilities, to foreclose any or all deeds of trust, mortgages, security agreements or other instruments or agreements by judicial or nonjudicial sale, and to exercise any other remedy against the Lessee, any security or any other guarantor, all without affecting the liability of the Guarantor hereunder. The Guarantor acknowledges that it has, in this Guaranty, until all of the Liabilities have been fully and indefeasibly paid and satisfied in full, waived any and all rights of subrogation and additionally expressly waives any defense to the recovery by the Beneficiaries from the Guarantor of any deficiency after a nonjudicial sale, including any defense arising as a result of any election of remedies by the Beneficiaries which limits or destroys the Guarantor's subrogation rights or the Guarantor's right to proceed against the Lessee for reimbursement (including any election by the Beneficiaries to exercise its rights under the power of sale in any mortgage or deed of trust and any consequential loss by the Guarantor of the right to recover any deficiency from the Lessee as described above). The Guarantor waives any defenses or benefits that may be derived under applicable law, and all other suretyship defenses it would otherwise have under Applicable Law. The Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any real property, and the failure of the Guarantor to receive such notice shall not impair or affect the Guarantor's liability hereunder.

(e) To the extent applicable, the Guarantor hereby also waives and agrees not to assert or take advantage of:

(i) Any defense based upon any Beneficiary's election of any remedy against the Lessee, including, without limitation, the defense to enforcement of this Guaranty (the "Gradsy" defense based upon Union Bank v. Gradsy, 265 Cal. App. 2d 40 (1968) or subsequent cases) which, absent this waiver, Guarantor would have by virtue of an election by Beneficiary to conduct a non-judicial foreclosure sale of the Property, it being understood by the Guarantor that any such non-judicial foreclosure sale will destroy, by operation of California Code of Civil Procedure Section 580d, all rights of any party to a deficiency judgment against the Lessee, and, as a consequence, will destroy all rights which the Guarantor would otherwise have (including, without limitation, the right of subrogation, the right of reimbursement, and the right of contribution) to proceed against the Lessee and to recover any such amount, and that Beneficiary could be otherwise estopped from pursuing the Guarantor for a deficiency judgment after a non-judicial foreclosure sale on the theory that a guarantor should be exonerated if a lender elects a remedy that eliminates the guarantor's subrogation, reimbursement or contribution rights;

(ii) Any rights under California Code of Civil Procedure Sections 580a and 726(b), which provide, among other things: that a creditor must file a complaint for deficiency within three (3) months of a nonjudicial foreclosure sale or judicial foreclosure sale, as applicable; that a fair market value hearing must be held; and that the amount of the deficiency judgment shall be limited to the amount by which the unpaid debt exceeds the fair market value of the security, but not more than the amount by which the unpaid debt exceeds the sale price of the security; and

(iii) Without limiting the generality of the foregoing or any other provision hereof, the Guarantor expressly waives any and all benefits which might otherwise be available to the Guarantor under California Civil Code Sections 2809, 2810, 2819, 2839, 2845, 2849, 2850, 2899 and 3433 and California Code of Civil Procedure Sections 580a, 580b, 580d and 726, or any of such sections.

(f) In addition to all the other waivers agreed to and made by the Guarantor as set forth in this Guaranty, and pursuant to the provisions of California Civil Code Section 2856, the Guarantor hereby waives all rights and defenses that the Guarantor may have because the debtor's debt is secured by real property. This means, among other things:

(i) The creditor may collect from the Guarantor without first foreclosing on any real or personal property collateral pledged by the debtor.

(ii) If the creditor forecloses on any real property collateral pledged by the debtor:

(A) The amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price.

(B) The creditor may collect from the Guarantor even if the creditor, by foreclosing on the real property collateral, has destroyed any right the Guarantor may have to collect from the debtor.

This is an unconditional and irrevocable waiver of any rights and defenses the Guarantor may have because the debtor's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

The Guarantor further hereby waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the Code of Civil Procedure or otherwise.

(g) The Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Lessee and of all other circumstances bearing upon the risk of nonpayment of the Liabilities and agrees that none of the Beneficiaries shall have any duty to advise the Guarantor of information regarding any condition or circumstance or any change in such condition or circumstance. The Guarantor acknowledges that none of the Beneficiaries has not made any representation to the Guarantor concerning the financial condition of the Lessee.

SECTION 5. Reasonableness and Effect of Waivers . The Guarantor warrants and agrees that each of the waivers set forth in this Guaranty is made with full knowledge (and with advice of its counsel) of its significance.

SECTION 6. Transfers by the Beneficiaries. Each Beneficiary may, from time to time, whether before or after any discontinuance of this Guaranty, at its sole discretion and without notice to the Guarantor, assign or transfer in accordance with the terms of the Operative Documents any or all of the Liabilities or any interest therein; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, such Liabilities shall be and remain Liabilities for the purposes of this Guaranty, and each and every immediate and successive assignee or transferee of any of the Liabilities or of any interest therein shall, to the extent of such assignee's or transferee's interest in the Liabilities, be entitled to the benefits of this Guaranty to the same extent as if such assignee or transferee were the original Beneficiary.

SECTION 7. No Waiver by the Beneficiaries. No delay in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy; nor shall any modification or waiver of any of the provisions of this Guaranty be binding upon any Beneficiary except as expressly set forth in a writing duly signed and delivered on its behalf. No action permitted hereunder shall in any way affect or impair any Beneficiary's rights or the Guarantor's obligations under this Guaranty. For the purposes of this Guaranty, Liabilities shall include all of the obligations described in the definition thereof, notwithstanding any right or power of the Lessee or anyone else to assert any claim or defense as to the invalidity or unenforceability of any such obligation, and no such claim or defense shall affect or impair the obligations of the Guarantor hereunder. The Guarantor's obligations under this Guaranty shall be absolute and unconditional irrespective of any circumstance whatsoever which might constitute a legal or equitable discharge or defense of the Guarantor. The Guarantor hereby acknowledges that there are no conditions to the effectiveness of this Guaranty.

SECTION 8. Successors and Assigns. This Guaranty shall be binding upon the Guarantor and upon the Guarantor's successors and assigns and all references herein to the Guarantor shall be deemed to include any successor or successors, whether immediate or remote, to such Person. The Guarantor may not assign its obligations under this Guaranty. This Guaranty shall inure to the benefit of the Beneficiaries and their respective successors and assigns, whether or not an express assignment of rights is made hereunder.

SECTION 9. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under Applicable Laws, but if any provision of this Guaranty shall be prohibited by or invalid thereunder, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

SECTION 10. SUBMISSION TO JURISDICTION; SERVICE OF PROCESS. THE GUARANTOR: (A) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND APPELLATE COURTS FROM ANY THEREOF; (B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDINGS MAY BE BROUGHT TO SUCH COURTS, AND WAIVES ANY OBJECTION THAT IT MAY NOW

OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME; (C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO IT AT ITS ADDRESS SET FORTH BELOW OR AT SUCH OTHER ADDRESS OF WHICH THE OTHER PARTIES TO THE PARTICIPATION AGREEMENT SHALL HAVE BEEN NOTIFIED PURSUANT TO THE RELEVANT PROVISIONS OF THE PARTICIPATION AGREEMENT; AND (D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF THE BENEFICIARIES TO SUE IN ANY OTHER JURISDICTION.

SECTION 11. Notices. All notices, demands, declarations, consents, directions, approvals, instructions, requests and other communications required or permitted by this Guaranty shall be in writing and shall be deemed to have been duly given when addressed to the appropriate Person and delivered in the manner and to the addresses specified in the Participation Agreement.

SECTION 12. GOVERNING LAW; WAIVER OF JURY TRIAL. THIS GUARANTY SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE. THE GUARANTOR HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS GUARANTY OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS GUARANTY, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be executed and delivered as of the date first written above.

ELECTRONIC ARTS, INC., a Delaware corporation

By: _____
Name: David L. Carbone
Title: Senior Vice President

GUARANTY

This GUARANTY, dated as of July 16, 2001 (this “Guaranty”), is made by ELECTRONIC ARTS, INC., a Delaware corporation (the “Guarantor”) in favor of FLATIRONS FUNDING, LIMITED PARTNERSHIP, a Delaware limited partnership, Victory Receivables Corporation, a Delaware corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, the various Liquidity Banks which are parties to the Participation Agreement (defined below), the various Tranche B Banks which are parties to the Participation Agreement and KeyBank National Association, as Agent (collectively, the “Beneficiaries”).

WITNESSETH :

WHEREAS, the Guarantor wishes to induce the Beneficiaries to enter into a synthetic lease arrangement and, in such connection, execute the Participation Agreement, dated the date hereof (the “Participation Agreement”), by and among Electronic Arts Redwood, Inc., a Delaware corporation and a wholly owned subsidiary of the Guarantor (the “Lessee”), the Guarantor, the New Partners, and the Beneficiaries; and

WHEREAS, in connection with the aforementioned synthetic lease arrangement, the Beneficiaries will further execute other Operative Documents (as defined in the Participation Agreement);

WHEREAS, the execution and delivery of this Guaranty is a condition to the Beneficiaries’ execution of the Participation Agreement and other Operative Documents.

NOW, THEREFORE, in order to induce the Beneficiaries to enter into and execute the Participation Agreement and other Operative Documents and to consummate the transactions contemplated thereby, the Guarantor hereby agrees as follows:

SECTION 1. Definitions. Unless the context shall otherwise require, capitalized terms used and not defined herein shall have the meanings assigned thereto in Appendix A to the Participation Agreement for all purposes hereof, and the rules of interpretation set forth in Appendix A to the Participation Agreement shall apply to this Agreement.

SECTION 2. Guaranty.

(a) The Guarantor hereby irrevocably and unconditionally guarantees, as primary obligor, and not as a surety, to the Beneficiaries the full, prompt and timely performance by the Lessee (in all its capacities, including, but not limited to, its being the Lessee, the Indemnitor under the Environmental Indemnity Agreement and the Administrator under the Administration Agreement) of all obligations, covenants, warranties, undertakings, indemnities and conditions in or arising under the Operative Documents. The foregoing guaranty includes the irrevocable and unconditional guaranty of the full and prompt payments, and performance of Liabilities (defined below) when due.

As used in this Guaranty, “Liabilities” means, all of the following (in each case howsoever created, arising or evidenced, whether direct or indirect, joint or several, absolute or contingent, or now or hereafter existing, or due or to become due): all Basic Rent, Supplemental Rent, Outstanding Lease Balance and all additional amounts and other sums at any time due and owing, or required to be paid by the Lessee and all other obligations, agreements and covenants required to be performed by the Lessee, in each case under and subject to the terms of the Master Lease and the other Operative Documents (without giving effect to any modification, rejection, termination, restructuring, discharge, characterization or recharacterization of any such document in any bankruptcy or insolvency proceeding with respect to the Lessee other than as may be agreed to in writing by all of the Beneficiaries). Further, “Liabilities” shall also include (i) interest and yield on any such Liabilities as provided in the Operative Documents, whether accruing before or after any bankruptcy or insolvency case or proceeding involving the Lessee, the Guarantor or any other Person, and, if interest or yield on any portion of such obligations ceases to accrue by operation of law by reason of the commencement of such case or proceeding, including such interest and yield as would have accrued on any such portion of such obligations if such case or proceeding had not commenced, and (ii) all expenses (including attorneys’ fees and legal expenses) paid or incurred by any Beneficiary in collecting the Liabilities, or any part thereof, and in enforcing this Guaranty.

Each and every claim for Liabilities shall give rise to a separate claim and cause of action hereunder.

(b) This Guaranty shall in all respects be an absolute and unconditional guaranty of payment and performance of Liabilities when due (but not of the collection thereof) and shall remain in full force and effect notwithstanding, without limitation, the dissolution of the Guarantor. This Guaranty is in no way conditioned upon any effort or attempt to collect from the Lessee or upon any other event or contingency. This Guaranty shall be binding upon and enforceable against the Guarantor without regard to the validity or enforceability of the Operative Documents or of any term thereof. If, for any reason, the Lessee shall fail or be unable to duly and punctually pay any such amount when due under the Operative Documents, the Guarantor will forthwith pay, if not already paid by the Lessee, the same immediately upon demand.

(c) In the event of the dissolution, bankruptcy or insolvency of the Lessee or the Guarantor, or the inability or failure of the Lessee or the Guarantor to pay debts as they become due, or an assignment by the Lessee or the Guarantor, for the benefit of creditors, or the commencement of any case or proceeding in respect of the Lessee or the Guarantor, under any bankruptcy, insolvency or similar laws, and if such event shall occur at a time when any of the Liabilities may not then be due and payable, the Guarantor shall pay the Beneficiaries forthwith the full amount due each such Beneficiary which would be payable hereunder by the Guarantor as if all Liabilities were then due and payable.

(d) Any Beneficiary, may, from time to time at its discretion and without notice to the Guarantor, take any or all of the following actions (the defenses against any such action are hereby expressly waived by the Guarantor):

- (i) retain or obtain a lien upon or a security interest in any property to secure any of the Liabilities or any obligation hereunder;
- (ii) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the Guarantor, with respect to any of the Liabilities;
- (iii) extend or renew for one or more periods (which may be longer or shorter than the original period), alter or exchange any of the Liabilities, or release or compromise any obligation of the Guarantor hereunder or any obligation of any nature of any other obligor (including, without limitation, the Lessee) with respect to any of the Liabilities;
- (iv) release or fail to perfect its lien upon or security interest in, or impair, surrender, release or permit any substitution or exchange for, all or part of any property securing any of the Liabilities or any obligation hereunder, or extend or renew for one or more periods (regardless of whether longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such property; and
- (v) resort to the Guarantor for payment of any of the Liabilities, regardless of whether the Lessor or any other Person shall have resorted to any property securing any of the Liabilities or any obligation hereunder or shall have proceeded against any other obligor primarily or secondarily obligated with respect to any of the Liabilities.

SECTION 3. Guarantor's Obligations Unconditional.

- (a) The obligations of the Guarantor set forth herein constitute the full recourse obligations of the Guarantor enforceable against it to the full extent of all its assets and properties, notwithstanding any provision in the Participation Agreement or any other agreements limiting the liability of the Lessee or any other Person, or any agreement by any Beneficiary to look for payment with respect thereto, solely to collateral.
- (b) The Guarantor's obligations hereunder are independent of the obligations of the Lessee or any other Person. Each Beneficiary may enforce any of its rights hereunder independently of any other right or remedy that it may hold at any time with respect to the Liabilities or any security or other guaranty therefor. The Guarantor's obligations hereunder shall be absolute and unconditional, shall not be subject to any counterclaim, setoff, deduction, diminution, abatement, recoupment, suspension, deferment, reduction or defense (other than full and strict compliance by the Guarantor with its obligations hereunder), whether based upon any claim that the Lessee, the Guarantor, or any other Person may have against any Beneficiary or any other Person or otherwise, and shall remain in full force and effect without regard to, and shall not be released, discharged or in any way affected by, any circumstance or condition whatsoever (whether or not the Guarantor or the Lessee shall have any knowledge or notice thereof), including without limitation:
 - (i) any amendment, modification, addition, deletion, supplement or renewal to or of or other change in the Liabilities or any Operative Document or any instruments referred to therein, or any other instrument or agreement applicable to any Operative Document or any party to such instruments, made in accordance with the terms thereof, or to the Property, or any assignment, mortgage or transfer thereof or of any interest therein, or any furnishing or

acceptance of additional security for, guaranty of or right of offset with respect to, any of the Liabilities; or the failure of any security or the failure of any Beneficiary to perfect or insure any interest in any collateral;

(ii) any failure, omission or delay on the part of the Lessee or any Beneficiary to conform or comply with any term of any instrument or agreement referred to in clause (i) above;

(iii) any waiver, consent, extension, indulgence, compromise, release or other action or inaction under or in respect of any instrument, agreement, guaranty, right of offset or security referred to in clause (i) above or any obligation or liability of the Lessee or any Beneficiary, or any exercise or non-exercise by any Beneficiary of any right, remedy, power or privilege under or in respect of any such instrument, agreement, guaranty, right of offset or security or any such obligation or liability;

(iv) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to the Lessee, any Beneficiary or any other Person or any of their respective properties or creditors, or any action taken by any trustee, receiver or court in any such proceeding;

(v) any limitation on the liability or obligations of any Person under any Operative Document, the Liabilities, any collateral security for the Liabilities, or any other guaranty of the Liabilities or any discharge, termination, cancellation, frustration, irregularity, invalidity or unenforceability, in whole or in part, of any of the foregoing or any other agreement, instrument, guaranty or security referred to in clause (i) above or any term of any thereof;

(vi) any defect in the title, compliance with specifications, condition, design, operation or fitness for use of, or any damage to or loss or destruction of, or any interruption or cessation in the use of the Property by the Lessee or any other Person for any reason whatsoever (including any governmental prohibition or restriction, condemnation, requisition, seizure or any other act on the part of any governmental or military authority, or any act of God or of the public enemy) regardless of the duration thereof (even though such duration would otherwise constitute a frustration of a lease), whether or not resulting from accident and whether or not without fault on the part of the Lessee or any other Person;

(vii) any lien, charge or encumbrance on or affecting the Guarantor's or the Lessee's respective assets and properties;

(viii) any merger or consolidation of the Lessee or the Guarantor into or with any other Person or any sale, lease or transfer of any of the assets of the Lessee or the Guarantor to any other Person;

(ix) any change in the ownership of any shares of capital stock of the Lessee or the Guarantor or any corporate change in the Lessee or the Guarantor;

(x) any change in the name of the Guarantor, the Lessee or any Beneficiary;

(xi) any claim as a result of other dealings between any Beneficiary and the Guarantor or the Lessor;

(xii) the recovery of any judgment against the Lessee, or by the levy of any writ or process of execution under any such judgment, or by any action or proceeding taken by any Beneficiary under any of the Operative Documents for the enforcement thereof, or hereof, or in the exercise of any right or power given or conferred thereby, or hereby, except to the extent that such recovery, levy or other action reduces the outstanding amount of the Liabilities;

(xiii) the acceptance of any additional security or other guaranty, the advance of additional money to the Lessee or any other Person, the renewal or extension of any amounts guaranteed hereby, or the sale, release, substitution or exchange of any security for the amounts guaranteed hereby;

(xiv) any defense (other than the full and indefeasible performance by the Lessee of its obligations under the Operative Documents) whatsoever that the Lessee or any other Person might have to the payment of any of the amounts or obligations guaranteed hereby or to the performance or observance of any of the provisions of any of the Operative Documents, whether through the satisfaction or purported satisfaction by the Lessee or any other Person of its debts due to any cause such as bankruptcy, insolvency, receivership, merger, consolidation, reorganization, dissolution, liquidation, winding-up or otherwise;

(xv) impossibility or illegality of performance on the part of the Lessee or any other Person of its obligations under the Operative Documents; or

(xvi) any other occurrence or circumstance whatsoever, whether similar or dissimilar to the foregoing, and any other circumstance that might otherwise constitute a legal or equitable defense or discharge of the liabilities of a guarantor or surety or that might otherwise limit recourse against the Guarantor.

(c) The Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Liabilities and notice of or proof of reliance by any Beneficiary upon this Guaranty or acceptance of this Guaranty, and the Liabilities, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty. The Guarantor unconditionally waives, to the extent permitted by law:

(i) acceptance of this Guaranty and proof of reliance by any Beneficiary hereon;

(ii) notice of any of the matters referred to in Section 3(b), or any right to consent or assent to any thereof;

(iii) all notices that may be required by statute, rule of law or otherwise, now or hereafter in effect, to preserve intact any rights against the Guarantor, including any demand, presentment, protest, proof or notice of nonpayment under any Operative Document, and notice of default or any failure on the part of the Lessee to perform and comply with any covenant, agreement, term or condition of any Operative Document;

(iv) any right to the enforcement, assertion or exercise against the Lessee of any right, power, privilege or remedy conferred in any Operative Document or otherwise;

(v) any requirement of diligence on the part of any Person;

(vi) any requirement of any Beneficiary to take any action whatsoever, to exhaust any remedies or to mitigate the damages resulting from a default by any Person under any Operative Document or to proceed first against the Lessee;

(vii) any notice of any sale, transfer or other disposition by any Person of any right under, title to or interest in any Operative Document or the Property;

(viii) any and all benefits under Applicable Law;

(ix) presentation, demand for payment, or protest, of any Liability (except such notices to the Lessee as may be required under the Operative Documents);

(x) any right to require any Beneficiary to proceed first against the Lessee or against any collateral, security or other support provided or to be provided by any Person in respect of any of the Operative Documents; and

(xi) any other circumstance that might otherwise constitute a legal or equitable discharge, release or defense of a guarantor or surety, or that might otherwise limit recourse against the Guarantor.

(d) Without limiting the generality of this Guaranty, if an Event of Default under the Master Lease shall have occurred and be continuing and any Beneficiary is prevented by applicable law from exercising its remedies under the Operative Documents, such Beneficiary shall be entitled to receive hereunder from the Guarantor, upon demand therefor, the sums which would have otherwise been due from the Lessee had such remedies been exercised.

(e) In furtherance and not in limitation of the foregoing, the Guarantor hereby agrees upon the bankruptcy or insolvency of the Lessee or the Guarantor, the Notes, the Tranche B Loan, the Equity Investment and all instruments and indebtedness secured by or issued in reliance upon the assignment to the Agent of the lease payments pursuant to the Master Lease shall be deemed to constitute Liabilities pursuant to this Guaranty and the holders of any such instruments and indebtedness shall be entitled to the rights of a Beneficiary hereunder with respect to such claims.

(f) This Guaranty shall be automatically reinstated if, and to the extent that, for any reason, any payment by or on behalf of the Lessee or otherwise is rescinded or must be otherwise restored by any Beneficiary, whether as a result of any proceedings in bankruptcy or reorganization or otherwise.

SECTION 4. Additional Waivers; Waiver of Subrogation.

(a) Any Beneficiary may, at its election, exercise any right or remedy it may have against the Lessee or any security held by the Lessor, including, without limitation, the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of the Guarantor hereunder, except to the extent the Liabilities have been paid, and the Guarantor waives any defense arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantor against the Lessee or any such security, whether resulting from such election by such Beneficiary or otherwise. The Guarantor understands that the liability of the Lessee to the Beneficiary for the Liabilities may be secured by real property and that the Guarantor shall be liable for the full amount of its liability hereunder notwithstanding foreclosure on such real property by trustee sale or any other reason impairing the Guarantor's right to proceed against the Lessee.

(b) Guarantor hereby further expressly waives any defense arising by reason of any disability or other defense of the Lessee or by reason of the cessation from any cause whatsoever of the liability, either in whole or in part, of the Lessee to any Beneficiary for the Liabilities.

(c) The Guarantor hereby irrevocably waives, until all of the Liabilities have been fully and indefeasibly paid and satisfied in full, any claim or other rights which it may now or hereafter acquire against the Lessee arising from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or any other Operative Document, including any right of subrogation, reimbursement, exoneration, or indemnification, any right to participate in any claim or remedy of any Beneficiary against the Lessee or any property or assets now or hereafter constituting part of the Collateral, whether or not such claim, remedy or right arises in equity, or under contract, statute or common law, including the right to take or receive from the Lessee directly or indirectly, in cash or other property or by set-off or in any manner, payment or security on account of such claim or other rights. If any amount shall be paid to the Guarantor in violation of the preceding sentence and the Liabilities shall not have been indefeasibly paid in cash, such amount shall be deemed to have been paid to the Guarantor for the benefit of, and held in trust for, each Beneficiary, and shall forthwith be paid by the Guarantor to the Lessor to be credited and applied pursuant to the terms of the Operative Documents. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Participation Agreement and that the waiver set forth in this paragraph is knowingly made in contemplation of such benefits. The Guarantor hereby absolutely, unconditionally and irrevocably waives and agrees not to assert or take advantage of any defense based upon an election of remedies by the Beneficiaries, including an election to proceed by non-judicial rather than judicial foreclosure, which destroys or impairs any right of subrogation of the Guarantor or the right of the Guarantor to proceed against any Person for reimbursement or both.

(d) The Guarantor authorizes each Beneficiary, at its sole option, without notice or demand and without affecting the liability of the Guarantor hereunder, to release and reconvey (with or without the receipt of any consideration) any lien against any or all real or personal property security for the Liabilities, to foreclose any or all deeds of trust, mortgages, security agreements or other instruments or agreements by judicial or nonjudicial sale, and to exercise any other remedy against the Lessee, any security or any other guarantor, all without

affecting the liability of the Guarantor hereunder. The Guarantor acknowledges that it has, in this Guaranty, until all of the Liabilities have been fully and indefeasibly paid and satisfied in full, waived any and all rights of subrogation and additionally expressly waives any defense to the recovery by the Beneficiaries from the Guarantor of any deficiency after a nonjudicial sale, including any defense arising as a result of any election of remedies by the Beneficiaries which limits or destroys the Guarantor's subrogation rights or the Guarantor's right to proceed against the Lessee for reimbursement (including any election by the Beneficiaries to exercise its rights under the power of sale in any mortgage or deed of trust and any consequential loss by the Guarantor of the right to recover any deficiency from the Lessee as described above). The Guarantor waives any defenses or benefits that may be derived under applicable law, and all other suretyship defenses it would otherwise have under Applicable Law. The Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any real property, and the failure of the Guarantor to receive such notice shall not impair or affect the Guarantor's liability hereunder.

(e) To the extent applicable, the Guarantor hereby also waives and agrees not to assert or take advantage of:

(i) Any defense based upon any Beneficiary's election of any remedy against the Lessee, including, without limitation, the defense to enforcement of this Guaranty (the "Gradsky" defense based upon Union Bank v. Gradsky, 265 Cal. App. 2d 40 (1968) or subsequent cases) which, absent this waiver, Guarantor would have by virtue of an election by Beneficiary to conduct a non-judicial foreclosure sale of the Property, it being understood by the Guarantor that any such non-judicial foreclosure sale will destroy, by operation of California Code of Civil Procedure Section 580d, all rights of any party to a deficiency judgment against the Lessee, and, as a consequence, will destroy all rights which the Guarantor would otherwise have (including, without limitation, the right of subrogation, the right of reimbursement, and the right of contribution) to proceed against the Lessee and to recover any such amount, and that Beneficiary could be otherwise estopped from pursuing the Guarantor for a deficiency judgment after a non-judicial foreclosure sale on the theory that a guarantor should be exonerated if a lender elects a remedy that eliminates the guarantor's subrogation, reimbursement or contribution rights;

(ii) Any rights under California Code of Civil Procedure Sections 580a and 726(b), which provide, among other things: that a creditor must file a complaint for deficiency within three (3) months of a nonjudicial foreclosure sale or judicial foreclosure sale, as applicable; that a fair market value hearing must be held; and that the amount of the deficiency judgment shall be limited to the amount by which the unpaid debt exceeds the fair market value of the security, but not more than the amount by which the unpaid debt exceeds the sale price of the security; and

(iii) Without limiting the generality of the foregoing or any other provision hereof, the Guarantor expressly waives any and all benefits which might otherwise be available to the Guarantor under California Civil Code Sections 2809, 2810, 2819, 2839, 2845, 2849, 2850, 2899 and 3433 and California Code of Civil Procedure Sections 580a, 580b, 580d and 726, or any of such sections.

(f) In addition to all the other waivers agreed to and made by the Guarantor as set forth in this Guaranty, and pursuant to the provisions of California Civil Code Section 2856, the Guarantor hereby waives all rights and defenses that the Guarantor may have because the debtor's debt is secured by real property. This means, among other things:

- (i) The creditor may collect from the Guarantor without first foreclosing on any real or personal property collateral pledged by the debtor.
- (ii) If the creditor forecloses on any real property collateral pledged by the debtor:
 - (A) The amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price.
 - (B) The creditor may collect from the Guarantor even if the creditor, by foreclosing on the real property collateral, has destroyed any right the Guarantor may have to collect from the debtor.

This is an unconditional and irrevocable waiver of any rights and defenses the Guarantor may have because the debtor's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

The Guarantor further hereby waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the Code of Civil Procedure or otherwise.

(g) The Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Lessee and of all other circumstances bearing upon the risk of nonpayment of the Liabilities and agrees that none of the Beneficiaries shall have any duty to advise the Guarantor of information regarding any condition or circumstance or any change in such condition or circumstance. The Guarantor acknowledges that none of the Beneficiaries has not made any representation to the Guarantor concerning the financial condition of the Lessee.

SECTION 5. Reasonableness and Effect of Waivers. The Guarantor warrants and agrees that each of the waivers set forth in this Guaranty is made with full knowledge (and with advice of its counsel) of its significance.

SECTION 6. Transfers by the Beneficiaries. Each Beneficiary may, from time to time, whether before or after any discontinuance of this Guaranty, at its sole discretion and without notice to the Guarantor, assign or transfer in accordance with the terms of the Operative Documents any or all of the Liabilities or any interest therein; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, such Liabilities shall be and remain Liabilities for the purposes of this Guaranty, and each and every immediate and successive assignee or transferee of any of the Liabilities or of any interest therein shall, to the

extent of such assignee's or transferee's interest in the Liabilities, be entitled to the benefits of this Guaranty to the same extent as if such assignee or transferee were the original Beneficiary.

SECTION 7. No Waiver by the Beneficiaries. No delay in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy; nor shall any modification or waiver of any of the provisions of this Guaranty be binding upon any Beneficiary except as expressly set forth in a writing duly signed and delivered on its behalf. No action permitted hereunder shall in any way affect or impair any Beneficiary's rights or the Guarantor's obligations under this Guaranty. For the purposes of this Guaranty, Liabilities shall include all of the obligations described in the definition thereof, notwithstanding any right or power of the Lessee or anyone else to assert any claim or defense as to the invalidity or unenforceability of any such obligation, and no such claim or defense shall affect or impair the obligations of the Guarantor hereunder. The Guarantor's obligations under this Guaranty shall be absolute and unconditional irrespective of any circumstance whatsoever which might constitute a legal or equitable discharge or defense of the Guarantor. The Guarantor hereby acknowledges that there are no conditions to the effectiveness of this Guaranty.

SECTION 8. Successors and Assigns. This Guaranty shall be binding upon the Guarantor and upon the Guarantor's successors and assigns and all references herein to the Guarantor shall be deemed to include any successor or successors, whether immediate or remote, to such Person. The Guarantor may not assign its obligations under this Guaranty. This Guaranty shall inure to the benefit of the Beneficiaries and their respective successors and assigns, whether or not an express assignment of rights is made hereunder.

SECTION 9. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under Applicable Laws, but if any provision of this Guaranty shall be prohibited by or invalid thereunder, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

SECTION 10. SUBMISSION TO JURISDICTION; SERVICE OF PROCESS. THE GUARANTOR: (A) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND APPELLATE COURTS FROM ANY THEREOF; (B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDINGS MAY BE BROUGHT TO SUCH COURTS, AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME; (C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO IT AT ITS ADDRESS SET FORTH BELOW OR AT SUCH OTHER ADDRESS OF WHICH

THE OTHER PARTIES TO THE PARTICIPATION AGREEMENT SHALL HAVE BEEN NOTIFIED PURSUANT TO THE RELEVANT PROVISIONS OF THE PARTICIPATION AGREEMENT; AND (D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF THE BENEFICIARIES TO SUE IN ANY OTHER JURISDICTION.

SECTION 11. Notices. All notices, demands, declarations, consents, directions, approvals, instructions, requests and other communications required or permitted by this Guaranty shall be in writing and shall be deemed to have been duly given when addressed to the appropriate Person and delivered in the manner and to the addresses specified in the Participation Agreement.

SECTION 12. GOVERNING LAW; WAIVER OF JURY TRIAL. THIS GUARANTY SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE. THE GUARANTOR HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS GUARANTY OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS GUARANTY, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be executed and delivered as of the date first written above.

ELECTRONIC ARTS, INC.,
a Delaware corporation

By: _____
Name: David L. Carbone
Title: Senior Vice President

FIRST AMENDMENT TO PARTICIPATION AGREEMENT

THIS FIRST AMENDMENT TO PARTICIPATION AGREEMENT (this “Amendment”), dated as of May 13, 2002, is entered into by and among:

- (1) ELECTRONIC ARTS REDWOOD, INC., a Delaware corporation (the “Lessee”);
- (2) ELECTRONIC ARTS, INC., a Delaware corporation (the “Guarantor”);
- (3) FLATIRONS FUNDING, LIMITED PARTNERSHIP, a Delaware limited partnership (the “Lessor”);
- (4) VICTORY RECEIVABLES CORPORATION, a Delaware corporation, (the “Note Purchaser”);
- (5) THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH, as the agent for the Note Purchaser and the administrative agent for the Liquidity Banks (in such capacities, together with its permitted successors and assigns, the “Conduit Agent”);
- (6) Each of the financial institutions denoted as “Liquidity Banks” which are parties to the Participation Agreement (referred to in Recital A below) and the Liquidity Documentation from time to time (referred to in Recital B below) (such financial institutions to be referred to collectively as the “Liquidity Banks”);
- (7) KEYBANK NATIONAL ASSOCIATION, as the Tranche B Bank under the Participation Agreement (in such capacity, the “Tranche B Bank”);
- (8) KEYBANK NATIONAL ASSOCIATION, as the agent for the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Tranche B Bank (in such capacity, the “Agent”);
- (9) SELCO SERVICE CORPORATION, and SELCO REDWOOD, LLC (the “New Partners”); and
- (10) THE BANK OF NOVA SCOTIA, as a new liquidity bank (“Scotia Bank”) and as documentation agent (in such capacity, the “Documentation Agent”).

RECITALS

A. The Lessee, the Guarantor, the Lessor, SELCO Service Corporation, SELCO Redwood, LLC, the Note Purchaser, the Conduit Agent, the Liquidity Banks, the Tranche B

Bank and the Agent are parties to that certain Participation Agreement dated as of July 16, 2001 (the “Participation Agreement”).

B. In connection with the Participation Agreement, (i) the Lessor executed that certain Promissory Note dated July 16, 2001, payable to the order of Auer & Co. f/b/o the Note Purchaser (the “Note”), (ii) the Lessee, the Guarantor, the Lessor, SELCO Service Corporation, SELCO Redwood, LLC, the Note Purchaser and the Conduit Agent executed that certain Note Purchase Agreement dated as of July 16, 2001 (the “Note Purchase Agreement”), (iii) the Note Purchaser, the Liquidity Banks, Bankers Trust Company, and Conduit Agent executed that Liquidity Agreement dated as of July 16, 2001 (the “Liquidity Agreement”), and (iv) Bankers Trust Company, the Note Purchaser and the Liquidity Banks executed that certain Asset Purchase Agreement dated as of July 16, 2001 (the “Asset Purchase Agreement”) (the Liquidity Agreement and the Asset Purchase Agreement, collectively, the “Liquidity Documentation”).

C. Scotia Bank desires to become a Liquidity Bank and the Documentation Agent under the Participation Agreement, the Liquidity Documentation and the other applicable Operative Documents.

D. The Lessor desires to prepay in full to the Tranche B Bank the Tranche B Loan funded pursuant to the Participation Agreement and the other Operative Documents, and all of the parties hereto are willing to consent to such prepayment of the Tranche B Loan by the Lessor to the Tranche B Bank.

E. KeyBank National Association, as a Liquidity Bank, desires to reduce its Commitment under the Liquidity Documentation and to fund a new “Residual Risk Tranche” among the Liquidity Banks.

F. To effectuate such matters, the parties hereto now wish to amend the Participation Agreement, the Liquidity Documentation, and certain other Operative Documents.

G. The parties hereto are willing to so amend the Participation Agreement, the Liquidity Documentation and certain other Operative Documents upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks, the Tranche B Bank, the Agent, the New Partners, Scotia Bank and the Documentation Agent hereby agree as follows:

1. **Definitions. Interpretation** . All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Participation Agreement, as amended by this Amendment. The rules of construction set forth in Appendix A of the Participation Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. **Amendment to Participation Agreement**. Subject to the satisfaction of the conditions set forth in Paragraph 7 below, the Participation Agreement is hereby amended as follows:

(a) Section 3.1(b) is hereby amended to read in its entirety as follows:

(b) The maximum aggregate principal amount outstanding under the Notes at any time shall not exceed \$132,279,411.18 (such amount, the “Aggregate Note Purchase Commitment”); provided, however, in the event that additional allocated portions of the “Commitments” (as defined in the Liquidity Agreement) of the Liquidity Banks are obtained from time to time in accordance with Section 3.7 hereof, the Aggregate Note Purchase Commitment shall increase to an amount calculated by dividing the then aggregate Liquidity Bank “Commitments” by 1.02 (one and two one-hundredths); and, provided, further, that in no event shall the Aggregate Note Purchase Commitment exceed \$134,925,000, which shall consist of two portions, one portion in the amount of \$123,891,514.07 (such amount, the “Non-Residual Risk Tranche”) and the second portion in the amount of \$11,033,485.93 (such amount, the “Residual Risk Tranche”). In the event that any such increase in the Liquidity Bank “Commitments” are effected by the inclusion of an additional Liquidity Bank, each such additional Liquidity Bank must be an “Eligible Assignee” under, and comply with the provisions with respect to assignee “Banks” and “Purchasers” in, both the Liquidity Agreement and the Asset Purchase Agreement, respectively. Whether or not any such increase in the Liquidity Bank “Commitments” are effected by an increase in the allocated portion of the “Commitments” of existing Liquidity Banks, appropriate amendments to the schedules to the Liquidity Documentation to reflect the changed percentages of the Liquidity Banks shall be agreed to by the Liquidity Banks as one of the conditions to the increase. For accounting purposes, all funds advanced to the Lessor under the Notes pursuant to the Note Purchase Agreement shall constitute debt.

(b) Section 3.7 is hereby amended to read in its entirety as follows:

Section 3.7 Commitment of the Liquidity Banks. Subject to the terms and conditions set forth herein and in the other Operative Documents, (a) the Liquidity Banks shall severally, but not jointly, make available Loans (as defined in the Liquidity Agreement) in an aggregate principal amount not to exceed (x) as of the Initial Funding Date, \$107,425,000 and (y) at any time during which the allocated portion of the “Commitment” (as defined in the Liquidity Agreement) of one or more existing Liquidity Banks shall have been increased and/or one or additional financial institutions shall have agreed to become a Liquidity Bank in accordance with Section 15.5 hereof, \$134,925,000 (consisting of the Non Residual Risk Tranche and the Residual Risk Tranche), plus all accrued discount on all related Commercial Paper (as such amount may be adjusted pursuant to the Liquidity Agreement) less the aggregate principal amount of outstanding Percentage Interest purchased by the Liquidity Banks pursuant to the Asset Purchase Agreement, and (b) each of the Liquidity Banks shall, at the times set

forth thereby, duly perform their respective obligations set forth herein and under the applicable Operative Documents to which such Person is a party.

(c) Section 11.4 is hereby amended to read in its entirety as follows:

Section 11.4 Application of Funds Upon Exercise of the Remarketing Option. If the Lessee shall have exercised the Remarketing Option, moneys received by the Lessor (or by the Agent on behalf of the Lessor) shall be paid to the Person or Persons entitled thereto after being applied as follows: first to repay, in full, the Non-Residual Risk Tranche of the Notes (together with any other amounts payable to the Note Purchaser or the Liquidity Banks holding such interest, as applicable, pursuant to the Operative Documents), ratably in accordance with their respective interests, second, if any amounts remain, to repay, in full, the Residual Risk Tranche of the Notes (together with any other amounts payable to the Note Purchaser or the Liquidity Banks holding such interest, as applicable, pursuant to the Operative Documents), ratably in accordance with their respective interests, third, if any amounts remain, to repay, in full, the Tranche B Loan (together with any other amounts payable to the Tranche B Banks pursuant to the Operative Documents), ratably in accordance with their respective interests, fourth, if any amounts remain, to redeem, in full, the Equity Investment (together with any other amounts payable to the Lessor pursuant to the Operative Documents), and fifth, if any amounts remain, to the Lessee or any other Person as the Lessee's and/or such Person's interest may appear.

(d) The last full paragraph of Section 15.5 is hereby amended to read in its entirety as follows:

Notwithstanding the foregoing or any other provision to the contrary contained in this Participation Agreement or the other Operative Documents, the parties hereto acknowledge and agree that the aggregate "Commitments" (as defined in the Liquidity Agreement) of the Liquidity Banks may be increased without the consent of the Transaction Parties (other than the Note Purchaser) provided that (a) the Note Purchaser agrees to such amendments as may be necessary to the Liquidity Documents in order to allow for such increase, (b) the maximum aggregate "Commitments" of the Liquidity Banks after giving effect to any such increase does not exceed \$134,925,000 plus all accrued discount on all related Commercial Paper (as such amount may be adjusted pursuant to the Liquidity Agreement) less the aggregate principal amount of outstanding Percentage Interest purchased by the Liquidity Bank pursuant to the Asset Purchase Agreement and (c) no allocated portion (restricted to the dollar amount) of the "Commitment" of any Liquidity Bank may be increased without the prior express written consent of such Liquidity Bank.

(e) Appendix A of the Participation Agreement is hereby amended by adding thereto in alphabetical order the following defined term:

“ Documentation Agent ” means The Bank of Nova Scotia, and its permitted successors and assigns.”

(f) Schedule I of the Participation Agreement is hereby amended to add the following contact, address and wire account information for Scotia Bank:

SCOTIA BANK

Contact information for notices:

For credit related matters:

Ed Kofman
Scotia Capital
580 California Street, Suite 2100
San Francisco, CA 94104
Tel.: (415) 616-4152
Fax: (415) 397-0791

For operational, billing and administrative related matters:

Lily Hsieh
Scotiabanc Inc.
600 Peachtree Street, NE, Suite 2700
Atlanta, GA 30308
Tel.: (404) 877-1523
Fax: (404) 888-8998

Wiring Instructions:

The Bank of Nova Scotia
New York Agency
1 Liberty Plaza
New York, NY
ABA #026002532
Credit Account #0610135
BNS San Francisco -Loan Service
Reference -Victory Receivables Corp. (Electronic Arts) deal 2

3. **Repayment of Tranche B Loan and Issuance of New Promissory Note** . On the Effective Date (as defined below), the Lessee shall pay any accrued and unpaid interest due under the Tranche B Loan to Lessor, and Lessor shall use a portion of the proceeds from the issuance of the New Promissory Note (as defined below) to repay to the Tranche B Bank the Tranche B Loan in full, such that on the Effective Date, the amount of the Tranche B Loan shall equal \$-0-. Each party to this Amendment shall evidence its acknowledgement and consent to such repayment of the Tranche B Loan by its execution of this Amendment. The New Promissory Note shall constitute a “Note” under the Operative Documents and the outstanding

Principal amount of the New Promissory Note owing at any time shall be included in the Outstanding Lease Balance as determined under the Operative Documents.

4. **Addition of Scotia Bank as a Liquidity Bank** . On or before the Effective Date, Scotia Bank shall be added as a Liquidity Bank and as Documentation Agent under the Participation Agreement and shall execute this Amendment, amendments to the Liquidity Documentation and such other necessary Operative Documents to evidence Scotia Bank's Commitment (as defined in the Liquidity Agreement) under the Liquidity Documentation of Twenty Million Dollars (\$20,000,000).

5. **Reduction of KeyBank's Non-Residual Risk Tranche Commitment as a Liquidity Bank and Acceptance of Residual Risk Tranche Commitment** . On or before the Effective Date, KeyBank, in its capacity as a Liquidity Bank, shall execute amendments to the Liquidity Documentation and such other necessary Operative Documents to evidence KeyBank's reduction of its Non-Residual Risk Tranche portion of its Commitment under the Liquidity Documentation from \$17,425,000 down to \$13,891,514.07, and its acceptance of the Residual Risk Tranche portion of its Commitment under the Liquidity Documentation in the amount of \$11,033,485.93.

6. **Representations and Warranties** . The Lessee hereby represents and warrants to the Lessor Parties that the following are true and correct on the date of this Amendment and that, after giving effect to the amendments set forth in Paragraphs 2, 3, 4 and 5 above, the following will be true and correct on the Effective Date:

(a) The representations and warranties of the Guarantor and the Lessee set forth in Section 7.1 of the Participation Agreement and in the other Operative Documents are true and correct in all material respects (except for representations and warranties expressly made as of a specific date, which shall be true as of such date);

(b) No Default or Event of Default has occurred and is continuing; and

(c) All of the Operative Documents are in full force and effect.

(Without limiting the scope of the term "Operative Documents," the Lessee and the Guarantor each expressly acknowledges in making the representations and warranties set forth in this Paragraph 6 that, on and after the date hereof, such term includes this Amendment.)

7. **Effective Date** . The amendment effected by Paragraph 2 above shall become effective on May 13, 2002 (the "Effective Date"), subject to receipt by Note Purchaser, Agent, and the Liquidity Banks on or prior to the Effective Date of the following, each in form and substance reasonably satisfactory to Note Purchaser, Agent, and the Liquidity Banks:

(a) This Amendment duly executed by the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, each of the Liquidity Banks, the Tranche B Bank, the Agent and Scotia Bank;

(b) New Promissory Note made by the Lessor and payable to the Note Purchaser in the principal amount of \$132,279,411.18, in the form attached hereto as Exhibit A (the “ New Promissory Note ”);

(c) First Amendment to Note Purchase Agreement executed by the Note Purchaser, the Lessee, the Guarantor, the Conduit Agent, SELCO Service Corporation, SELCO Redwood, LLC, and the Lessor, in the form attached hereto as Exhibit B (the “ First Amendment to Note Purchase Agreement ”);

(d) Amended and Restated Liquidity Agreement executed by the Note Purchaser, the Liquidity Banks, Bankers Trust Company, Conduit Agent, and KeyBank National Association, as the Residual Risk Tranche Liquidity Provider, in the form attached hereto as Exhibit C (the “ Amended Liquidity Agreement ”);

(e) Amended and Restated Asset Purchase Agreement executed by Bankers Trust Company, the Note Purchaser, and the Liquidity Banks, in the form attached hereto as Exhibit D (the “ Amended Asset Purchase Agreement ”);

(f) A letter in the form attached hereto as Exhibit E, dated the Effective Date and duly executed by the Guarantor;

(g) Payment by Lessee of all fees and expenses of Lessor’s, Note Purchaser’s, and Agent’s counsels incurred in connection with the preparation and negotiation of the documents identified in clauses (a) through (f) above and the consummation of the transactions contemplated thereby; and

(h) Such other evidence as the Note Purchaser, the Conduit Agent, any of the Liquidity Banks, the Tranche B Bank, and the Agent may reasonably request to establish the accuracy and completeness of the representations and warranties and the compliance with the terms and conditions contained in this Amendment and the other Operative Documents.

8. **Effect of this Amendment**. On and after the Effective Date, each reference in the Participation Agreement and the other Operative Documents to the Participation Agreement shall mean the Participation Agreement as amended hereby. On and after the Effective Date, the New Promissory Note, the First Amendment to Note Purchase Agreement, the Amended Liquidity Agreement, and the Amended Asset Purchase Agreement shall each constitute an Operative Document. Except as specifically amended above, (a) the Participation Agreement and the other Operative Documents shall remain in full force and effect and are hereby ratified and confirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Lessor Parties, nor constitute a waiver of any provision of the Participation Agreement or any other Operative Document.

9. **Miscellaneous**.

(a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.

(c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

(d) Return of Original Promissory Note. Promptly following the Effective Date, the Note Purchaser shall return the original Promissory Note dated July 16, 2001 made by the Lessor in the original amount of \$105,318,627.45, marked cancelled, to the Agent.

[signature page follows]

IN WITNESS WHEREOF, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks, the Tranche B Bank, the Agent, the New Partners, Scotia Bank and the Documentation Agent have caused this Amendment to be executed as of the day and year first above written.

ELECTRONIC ARTS REDWOOD, INC.,
as the Lessee

By: /s/ Khuyen Dang
Name: Khuyen Dang
Title: Chief Financial Officer

ELECTRONIC ARTS, INC.,
as the Guarantor

By: /s/ David L. Carbone
Name: David L. Carbone
Title: Senior Vice President — Finance

FLATIRONS FUNDING, LIMITED
PARTNERSHIP, as the Lessor

By: SELCO REDWOOD, LLC, its General
Partner

By: SELCO Service Corporation, an
Ohio corporation doing business
in California as Ohio SELCO
Service Corporation, its sole
member

By: /s/ Donald C. Davis

Name: Donald C. Davis

Title: Vice President

SELCO SERVICE CORPORATION, doing
business in California as Ohio
SELCO Service Corporation, as a New
Partner

By: /s/ Donald Davis

Name: Donald Davis

Title: Vice President

SELCO REDWOOD LLC, as a New
Partner

By: /s/ Donald David

Name:

Title:

VICTORY RECEIVABLES CORPORATION,
as the Note Purchaser

By: /s/ Karen A. Granquist

Name: Karen A. Granquist

Title: Secretary

KEYBANK NATIONAL ASSOCIATION,
as the Agent

By: /s/ Julien Michaels

Name: Julien Michaels

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD.,
NEW YORK BRANCH, as the Conduit Agent

By: /s/ Koji Baba

Name: Koji Baba

Title: Senior Vice President & Group Head

KEYBANK NATIONAL ASSOCIATION,
as a Liquidity Bank

By: /s/ Julien Michaels

Name: Julien Michaels

Title: Vice President

FLEET NATIONAL BANK,
as a Liquidity Bank

By: /s/ Greg Roux

Name: Greg Roux

Title: Director

WELLS FARGO BANK, NATIONAL
ASSOCIATION,
as a Liquidity Bank

By: /s/ Jillian Richardson

Name: Jillian Richardson

Title: Vice President

JPMORGAN CHASE BANK.
as a Liquidity Bank

By: /s/ Anne Biancardi

Name: Anne Biancardi

Title: Vice President

U.S. BANK NATIONAL ASSOCIATION,
as a Liquidity Bank

By: /s/ Daniel W. Stevens

Name: Daniel W. Stevens

Title: Vice President

BNP PARIBAS,
as a Liquidity Bank

By:	<u>/s/ Robert Mimaki</u>	<u>/s/ Richard Ong Pho</u>
Name:	Robert Mimaki	Richard Ong Pho
Title:	Vice President	Associate

KEYBANK NATIONAL ASSOCIATION,
as a Tranche B Bank

By: /s/ Julien Michaels

Name: Julien Michaels

Title: Vice President

THE BANK OF NOVA SCOTIA,
as a Liquidity Bank and as Documentation Agent

By: /s/ Ed Kofman

Name: Ed Kofman

Title: Director

EXHIBIT A
NEW PROMISORY NOTE
[See Attached]

OMNIBUS AMENDMENT AGREEMENT

THIS OMNIBUS AMENDMENT AGREEMENT (this “Amendment”), dated as of September 15, 2004, is entered into by and among:

- (1) ELECTRONIC ARTS REDWOOD, LLC, a Delaware limited liability company (as successor in interest pursuant to this Amendment to Electronic Arts Redwood, Inc., a Delaware corporation, the “Lessee”);
- (2) ELECTRONIC ARTS, INC., a Delaware corporation (the “Guarantor”);
- (3) SELCO SERVICE CORPORATION, an Ohio corporation doing business in California as Ohio SELCO Service Corporation, as the successor in interest to Flatirons Funding, Limited Partnership (the “Lessor”);
- (4) VICTORY RECEIVABLES CORPORATION, a Delaware corporation, (the “Note Purchaser”);
- (5) THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH, as the agent for the Note Purchaser and the administrative agent for the Liquidity Banks (in such capacities, together with its permitted successors and assigns, the “Conduit Agent”);
- (6) Each of the financial institutions denoted as “Liquidity Banks” which are parties to the Participation Agreement (referred to in Recital A below) and the related Documentation (such financial institutions to be referred to collectively as the “Liquidity Banks”); and
- (7) KEYBANK NATIONAL ASSOCIATION, as the agent for the Lessor, the Note Purchaser, the Conduit Agent and the Liquidity Banks (in such capacity, the “Agent”).

RECITALS

A. The Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent are parties to that certain Participation Agreement dated as of July 16, 2001 (as amended, the “Participation Agreement”).

B. In connection with the Participation Agreement, one or more of the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent entered into (i) that certain Note Purchase Agreement dated as of July 16, 2001 (the “Note Purchase Agreement”), (ii) that certain Liquidity Agreement dated as of July 16, 2001 (the “Liquidity Agreement”), (iii) that certain Asset Purchase Agreement dated as of July 16, 2001 (the “Asset Purchase Agreement”), (iv) that certain Amendment to Lease Agreement dated as of

July 16, 2001 (the “Lease Agreement Amendment”), which Lease Agreement Amendment and subsequent amendments amended that certain Lease Agreement dated as of February 14, 1995 (the “Lease Agreement”), (v) that certain Guaranty dated as of July 16, 2001 (the “Guaranty”), (vi) that certain Environmental Indemnity Agreement dated as of July 16, 2001 (the “Environmental Indemnity”), (vii) that certain Precautionary Deed of Trust, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of July 16, 2001 (the “Precautionary Deed of Trust”), (viii) that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filings dated as of July 16, 2001 (the “Deed of Trust”), and (ix) various other documents executed by the parties in connection with the Participation Agreement (the Note Purchase Agreement, the Liquidity Agreement, the Asset Purchase Agreement, the Lease Agreement, the Guaranty, the Environmental Indemnity Agreement, the Precautionary Deed of Trust, the Deed of Trust and such other documents, each as may have been amended through the date hereof are collectively referred to herein as the “Operative Documents”).

C. The Lessee has recently informed the Agent and the other Lessor Parties that it intends to change its name and status from “Electronic Arts Redwood, Inc., a Delaware corporation” to “Electronic Arts Redwood, LLC, a Delaware limited liability company”.

D. In order to effectuate such name and status change, the parties hereto now wish to amend the Participation Agreement and the other Operative Documents upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent hereby agree as follows:

1. Definitions, Interpretation . All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Participation Agreement, as amended by this Amendment. The rules of construction set forth in Appendix A of the Participation Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. Amendment to Participation Agreement and Operative Documents . Subject to the satisfaction of the conditions set forth in Paragraph 4 below, the parties hereto acknowledge and agree that (a) all references in the Participation Agreement and the Operative Documents to “Electronic Arts Redwood, Inc., a Delaware corporation” are hereby deemed to be changed to be references instead to “Electronic Arts Redwood, LLC, a Delaware limited liability company”; and (b) all representations, warranties, covenants and other agreements applicable to the Lessee as a corporation set forth in the Participation Agreement and the Operative Documents shall be deemed to be changed to representations, warranties, covenants and other agreements applicable to the Lessee as a limited liability company.

3. Representations and Warranties. The Lessee hereby represents and warrants to the Lessor Parties that the following are true and correct on the date of this Amendment and that, after giving effect to the amendments set forth in Paragraph 2 above, the following will be true and correct on the Effective Date:

- (a) The representations and warranties of the Guarantor and the Lessee set forth in the Participation Agreement and in the other Operative Documents as amended by this Amendment are true and correct in all material respects (except for representations and warranties expressly made as of a specific date, which shall be true as of such date);
- (b) No Lease Default or Lease Event of Default has occurred and is continuing, or would result from the change in the Lessee's name or status; and
- (c) All of the Operative Documents are in full force and effect.

(Without limiting the scope of the term "Operative Documents," the Lessee and the Guarantor each expressly acknowledges in making the representations and warranties set forth in this Paragraph 3 that, on and after the date hereof, such term includes this Amendment.)

4. Effective Date. The amendment effected by Paragraph 2 above shall become effective as of September 15, 2004 (the "Effective Date"), subject to receipt by the Note Purchaser, the Liquidity Banks, the Conduit Agent and the Agent of the following, each in form and substance reasonably satisfactory to the Note Purchaser, the Liquidity Banks, the Conduit Agent and the Agent:

- (a) This Amendment duly executed by the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, each of the Liquidity Banks, and the Agent;
- (b) A letter in the form attached hereto as Exhibit A, dated the Effective Date and duly executed by the Guarantor;
- (c) Evidence satisfactory to the Agent that the Lessee has changed its name and status from "Electronic Arts Redwood, Inc., a Delaware corporation" to "Electronic Arts Redwood, LLC, a Delaware limited liability company", together with (i) copies of the organizational documents of Electronic Arts Redwood, LLC (such as its operating agreement or similar document), certified by the Secretary of Electronic Arts Redwood, LLC, and (ii) certificates of good standing from Delaware and California indicating that Electronic Arts Redwood, LLC is qualified to do business and in good standing in such jurisdictions;
- (d) To the extent invoiced, payment by Lessee of all fees and expenses of the Conduit Agent's and the Agent's counsels; and
- (e) Such other evidence as the Note Purchaser, the Conduit Agent, any of the Liquidity Banks and the Agent may reasonably request to establish the accuracy and completeness of the representations and warranties and the compliance with the terms and conditions contained in this Amendment and the other Operative Documents.

With respect to the condition precedent set forth in clause (c) above, the Agent will promptly notify the Lessee once this condition has been satisfied.

5. Effect of this Amendment. On and after the Effective Date, each reference in the Participation Agreement and the Operative Documents shall mean the Participation Agreement as amended hereby. Except as specifically amended above, (a) the Participation Agreement and the Operative Documents shall each remain in full force and effect and each is hereby ratified and confirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Lessor Parties, nor constitute a waiver of any provision of the Participation Agreement, the Operative Documents or any other document, instrument or agreement constituting executed in connection therewith.

6. Miscellaneous.

- (a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.
- (b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.
- (c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

[signature page follows]

IN WITNESS WHEREOF, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent have caused this Amendment to be executed as of the day and year first above written.

ELECTRONIC ARTS REDWOOD, LLC,
as the Lessee

By: _____
Name:
Title:

ELECTRONIC ARTS, INC.,
as the Guarantor

By: _____
Name: Glen Kohl
Title: Senior Vice President

SELCO SERVICE CORPORATION, an Ohio corporation
doing business in California as Ohio SELCO Service
Corporation, as the Lessor

By: _____
Name: Donald C. Davis
Title: Vice President

VICTORY RECEIVABLES CORPORATION, as the Note
Purchaser

By: _____
Name: Rosa Oliveri
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as the Agent

By: _____
Name: Thomas A. Crandell
Title: Senior Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW
YORK BRANCH, as the Conduit Agent

By: _____
Name: Aditya Reddy
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as a Liquidity Bank

By: _____
Name: Thomas A. Crandell
Title: Senior Vice President

BANK OF AMERICA,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

JPMORGAN CHASE BANK,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

U.S. BANK NATIONAL ASSOCIATION,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

BNP PARIBAS,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

THE BANK OF NOVA SCOTIA,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

EXHIBIT A

GUARANTOR CONSENT LETTER

As of September 15, 2004

TO: Selco Service Corporation, an Ohio corporation doing business in California as Ohio Selco Service Corporation, Victory Receivables Corporation, a Delaware corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, the various Liquidity Banks which are parties to the Participation Agreement (defined below) and KeyBank National Association, as Agent (collectively, the “Beneficiaries”)

1. Reference is made to the following:

(a) The Participation Agreement dated as of July 16, 2001, by and among Electronic Arts Redwood, LLC, a Delaware limited liability company (formerly known as Electronic Arts Redwood, Inc., a Delaware corporation) (the “Lessee”), the undersigned (the “Guarantor”) and the Beneficiaries;

(b) The Guaranty dated as of July 16, 2001 (the “Guaranty”) executed by the undersigned (“Guarantor”) in favor of the Beneficiaries; and

(c) The Omnibus Amendment Agreement dated as of September 15, 2004 (the “Omnibus Amendment”) by and among the Lessee, the Guarantor, and the Beneficiaries.

2. Guarantor hereby consents to the Omnibus Amendment. Guarantor expressly agrees that such amendments and documents shall in no way affect or alter the rights, duties, or obligations of Guarantor under the Guaranty.

3. From and after the date hereof, the term “Participation Agreement” and each of the other Operative Documents as used in the Guaranty shall mean the Participation Agreement or the other Operative Document, respectively, as amended by the Omnibus Amendment.

4. Guarantor’s consent to the Omnibus Amendment shall not be construed (i) to have been required by the terms of the Guaranty or any other document, instrument or agreement relating thereto or (ii) to require the consent of Guarantor in connection with any future amendment of the Participation Agreement or any other Operative Document.

IN WITNESS WHEREOF, Guarantor has executed this Guarantor Consent Letter as of the day and year first written above.

ELECTRONIC ARTS, INC.,
a Delaware corporation

By: _____
Name: Glen Kohl
Title: Senior Vice President

OMNIBUS AMENDMENT AGREEMENT

THIS OMNIBUS AMENDMENT AGREEMENT (this “Amendment”), dated as of September 15, 2004, is entered into by and among:

- (1) ELECTRONIC ARTS REDWOOD, LLC, a Delaware limited liability company (as successor in interest pursuant to this Amendment to Electronic Arts Redwood, Inc., a Delaware corporation, the “Lessee”);
- (2) ELECTRONIC ARTS, INC., a Delaware corporation (the “Guarantor”);
- (3) SELCO SERVICE CORPORATION, an Ohio corporation doing business in California as Ohio SELCO Service Corporation, as the successor in interest to Flatirons Funding, Limited Partnership (the “Lessor”);
- (4) VICTORY RECEIVABLES CORPORATION, a Delaware corporation, (the “Note Purchaser”);
- (5) THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH, as the agent for the Note Purchaser and the administrative agent for the Liquidity Banks (in such capacities, together with its permitted successors and assigns, the “Conduit Agent”);
- (6) Each of the financial institutions denoted as “Liquidity Banks” which are parties to the Participation Agreement (referred to in Recital A below) and the related Documentation (such financial institutions to be referred to collectively as the “Liquidity Banks”); and
- (7) KEYBANK NATIONAL ASSOCIATION, as the agent for the Lessor, the Note Purchaser, the Conduit Agent and the Liquidity Banks (in such capacity, the “Agent”).

RECITALS

A. The Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent are parties to that certain Participation Agreement dated as of December 6, 2000 (as amended, the “Participation Agreement”).

B. In connection with the Participation Agreement, one or more of the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent entered into (i) that certain Note Purchase Agreement dated as of December 6, 2000 (the “Note Purchase Agreement”), (ii) that certain Liquidity Agreement dated as of December 6, 2000 (the “Liquidity Agreement”), (iii) that certain Asset Purchase Agreement dated as of December 6, 2000 (the “Asset Purchase Agreement”), (iv) that certain Master Lease and Deed of Trust dated

as of December 6, 2000 (the “Lease Agreement”), (v) that certain Guaranty dated as of December 6, 2000 (the “Guaranty”), (vi) that certain Environmental Indemnity Agreement dated as of December 6, 2000 (the “Environmental Indemnity”), (vii) that certain Precautionary Deed of Trust, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of December 6, 2000 (the “Precautionary Deed of Trust”), (viii) that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filings dated as of December 6, 2000 (the “Deed of Trust”), and (ix) various other documents executed by the parties in connection with the Participation Agreement (the Note Purchase Agreement, the Liquidity Agreement, the Asset Purchase Agreement, the Lease Agreement, the Guaranty, the Environmental Indemnity Agreement, the Precautionary Deed of Trust, the Deed of Trust and such other documents, each as may have been amended through the date hereof are collectively referred to herein as the “Operative Documents”).

C. The Lessee has recently informed the Agent and the other Lessor Parties that it intends to change its name and status from “Electronic Arts Redwood, Inc., a Delaware corporation” to “Electronic Arts Redwood, LLC, a Delaware limited liability company”.

D. In order to effectuate such name and status change, the parties hereto now wish to amend the Participation Agreement and the other Operative Documents upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent hereby agree as follows:

1. Definitions, Interpretation . All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Participation Agreement, as amended by this Amendment. The rules of construction set forth in Appendix A of the Participation Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. Amendment to Participation Agreement and Operative Documents . Subject to the satisfaction of the conditions set forth in Paragraph 4 below, the parties hereto acknowledge and agree as follows:

(a) All references in the Participation Agreement and the Operative Documents to “Electronic Arts Redwood, Inc., a Delaware corporation” are hereby deemed to be changed to be references instead to “Electronic Arts Redwood, LLC, a Delaware limited liability company”; and all representations, warranties, covenants and other agreements applicable to the Lessee as a corporation set forth in the Participation Agreement and the Operative Documents shall be deemed to be changed to representations, warranties, covenants and other agreements applicable to the Lessee as a limited liability company.

(b) The definitions of the terms “Maximum Lessor Risk Payment” and “Maximum Recourse Amount” set forth in Appendix A to the Participation Agreement are hereby amended to read in their entirety as follows:

“Maximum Lessor Risk Payment” means, at any time, an amount equal to 8.62% of the Aggregate Commitment Amount at such time.

“Maximum Recourse Amount” means, at any time, an amount equal to 91.38% of the Aggregate Commitment Amount at such time.

3. Representations and Warranties. The Lessee hereby represents and warrants to the Lessor Parties that the following are true and correct on the date of this Amendment and that, after giving effect to the amendments set forth in Paragraph 2 above, the following will be true and correct on the Effective Date:

(a) The representations and warranties of the Guarantor and the Lessee set forth in the Participation Agreement and in the other Operative Documents as amended by this Amendment are true and correct in all material respects (except for representations and warranties expressly made as of a specific date, which shall be true as of such date);

(b) No Lease Default or Lease Event of Default has occurred and is continuing, or would result from the change in the Lessee’s name or status; and

(c) All of the Operative Documents are in full force and effect.

(Without limiting the scope of the term “Operative Documents,” the Lessee and the Guarantor each expressly acknowledges in making the representations and warranties set forth in this Paragraph 3 that, on and after the date hereof, such term includes this Amendment.)

4. Effective Date. The amendment effected by Paragraph 2 above shall become effective as of September 15, 2004 (the “Effective Date”), subject to receipt by the Note Purchaser, the Liquidity Banks, the Conduit Agent and the Agent of the following, each in form and substance reasonably satisfactory to the Note Purchaser, the Liquidity Banks, the Conduit Agent and the Agent:

(a) This Amendment duly executed by the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, each of the Liquidity Banks, and the Agent;

(b) A letter in the form attached hereto as Exhibit A, dated the Effective Date and duly executed by the Guarantor;

(c) Evidence satisfactory to the Agent that the Lessee has changed its name and status from “Electronic Arts Redwood, Inc., a Delaware corporation” to “Electronic Arts Redwood, LLC, a Delaware limited liability company”, together with (i) copies of the organizational documents of Electronic Arts Redwood, LLC (such as its operating agreement or similar document), certified by the Secretary of Electronic Arts Redwood, LLC, and (ii) certificates of good standing from Delaware and California indicating that

Electronic Arts Redwood, LLC is qualified to do business and in good standing in such jurisdictions;

(d) To the extent invoiced, payment by Lessee of all fees and expenses of the Conduit Agent's and the Agent's counsels; and

(e) Such other evidence as the Note Purchaser, the Conduit Agent, any of the Liquidity Banks and the Agent may reasonably request to establish the accuracy and completeness of the representations and warranties and the compliance with the terms and conditions contained in this Amendment and the other Operative Documents.

With respect to the condition precedent set forth in clause (c) above, the Agent will promptly notify the Lessee once this condition has been satisfied.

5. Effect of this Amendment. On and after the Effective Date, each reference in the Participation Agreement and the Operative Documents shall mean the Participation Agreement as amended hereby. Except as specifically amended above, (a) the Participation Agreement and the Operative Documents shall each remain in full force and effect and each is hereby ratified and confirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Lessor Parties, nor constitute a waiver of any provision of the Participation Agreement, the Operative Documents or any other document, instrument or agreement constituting executed in connection therewith.

6. Miscellaneous.

(a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.

(c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

[signature page follows]

IN WITNESS WHEREOF, the Lessee, the Guarantor, the Lessor, the Note Purchaser, the Conduit Agent, the Liquidity Banks and the Agent have caused this Amendment to be executed as of the day and year first above written.

ELECTRONIC ARTS REDWOOD, LLC,
as the Lessee

By: _____
Name:
Title:

ELECTRONIC ARTS, INC.,
as the Guarantor

By: _____
Name: Glen Kohl
Title: Senior Vice President

SELCO SERVICE CORPORATION, an Ohio corporation
doing business in California as Ohio SELCO Service
Corporation, as the Lessor

By: _____
Name: Donald C. Davis
Title: Vice President

VICTORY RECEIVABLES CORPORATION, as the Note

Purchaser

By: _____
Name: Rosa Oliveri
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as the Agent

By: _____
Name: Thomas A. Crandell
Title: Senior Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW
YORK BRANCH, as the Conduit Agent

By: _____
Name: Aditya Reddy
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as a Liquidity Bank

By: _____
Name: Thomas A. Crandell
Title: Senior Vice President

BNP PARIBAS,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

BARCLAYS BANK,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

THE BANK OF NOVA SCOTIA,
as a Liquidity Bank

By: _____
Name: _____
Title: _____

EXHIBIT A

GUARANTOR CONSENT LETTER

As of September 15, 2004

TO: Selco Service Corporation, an Ohio corporation doing business in California as Ohio Selco Service Corporation, Victory Receivables Corporation, a Delaware corporation, The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, the various Liquidity Banks which are parties to the Participation Agreement (defined below) and KeyBank National Association, as Agent (collectively, the “Beneficiaries”)

1. Reference is made to the following:

(a) The Participation Agreement dated as of December 6, 2000, by and among Electronic Arts Redwood, LLC, a Delaware limited liability company (formerly known as Electronic Arts Redwood, Inc., a Delaware corporation) (the “Lessee”), the undersigned (the “Guarantor”) and the Beneficiaries;

(b) The Guaranty dated as of December 6, 2000 (the “Guaranty”) executed by the undersigned (“Guarantor”) in favor of the Beneficiaries; and

(c) The Omnibus Amendment Agreement dated as of September 15, 2004 (the “Omnibus Amendment”) by and among the Lessee, the Guarantor, and the Beneficiaries.

2. Guarantor hereby consents to the Omnibus Amendment. Guarantor expressly agrees that such amendments and documents shall in no way affect or alter the rights, duties, or obligations of Guarantor under the Guaranty.

3. From and after the date hereof, the term “Participation Agreement” and each of the other Operative Documents as used in the Guaranty shall mean the Participation Agreement or the other Operative Document, respectively, as amended by the Omnibus Amendment.

4. Guarantor’s consent to the Omnibus Amendment shall not be construed (i) to have been required by the terms of the Guaranty or any other document, instrument or agreement relating thereto or (ii) to require the consent of Guarantor in connection with any future amendment of the Participation Agreement or any other Operative Document.

IN WITNESS WHEREOF, Guarantor has executed this Guarantor Consent Letter as of the day and year first written above.

ELECTRONIC ARTS, INC.,

a Delaware corporation

By: _____

Name: Glen Kohl

Title: Senior Vice President

A-2

Omnibus Amendment

DATED AS OF JULY 11, 2005

AMONG

Electronic Arts Redwood LLC,
AS LESSEE,

Electronic Arts Inc. ,
AS GUARANTOR,

SELCO Service Corporation

(DOING BUSINESS IN CALIFORNIA AS “OHIO SELCO SERVICE CORPORATION”),
AS LESSOR,

Victory Receivables Corporation,
AS NOTE PURCHASER,

The Bank of Tokyo-Mitsubishi, Ltd., New York Branch,
AS CONDUIT AGENT,

The Various Liquidity Banks Party Hereto,
AS LIQUIDITY BANKS,

Deutsche Bank Trust Company Americas ,
AS PROGRAM ADMINISTRATOR

AND

KeyBank National Association,
AS AGENT

OMNIBUS AMENDMENT

This OMNIBUS AMENDMENT (this "*Amendment*") is entered into as of July 11, 2005 among, ELECTRONIC ARTS REDWOOD LLC, a Delaware limited liability company, as Lessee (the "*Lessee*"); ELECTRONIC ARTS INC., a Delaware corporation, as Guarantor (the "*Guarantor*"); SELCO SERVICE CORPORATION, an Ohio corporation (doing business in California as "Ohio SELCO Service Corporation"), as Lessor (the "*Lessor*"); VICTORY RECEIVABLES CORPORATION, a Delaware corporation, as Note Purchaser (the "*Note Purchaser*"); THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH, as Conduit Agent (the "*Conduit Agent*"); each of the liquidity banks party hereto (each, a "*Liquidity Bank*" or, sometimes referred to as a "*Purchaser*" and collectively, the "*Liquidity Banks*" or sometime referred to as the "*Purchasers*"); DEUTSCHE BANK TRUST COMPANY AMERICAS, successor to Bankers Trust Company, as Program Administrator (the "*Program Administrator*"); and KEYBANK NATIONAL ASSOCIATION, as Agent (the "*Agent*"). All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in Appendix A to the Participation Agreement dated as of December 6, 2000 (as amended, supplemented, restated or otherwise modified from time to time, the "*Participation Agreement*") among certain of the parties party hereto, and the rules of interpretation set forth in such Appendix shall apply to this Amendment.

WITNESSETH:

WHEREAS, the Expiration Date under the Liquidity Agreement is November 30, 2005 (herein, the "*Expiration Date*") and the Expiration Date has not been extended pursuant to Section 3.11 of the Liquidity Agreement;

WHEREAS, the Commitments under the Liquidity Agreement expire on the Expiration Date;

WHEREAS, the Liquidity Banks, the Lessee and the Guarantor desire to continue the funding of the Note after the Amendment Effective Date until the Maturity Date (as defined in the Note) through the purchase by the Liquidity Banks of the Note pursuant to Section 1(b) of that certain Asset Purchase Agreement dated as of December 6, 2000 (as amended, the "*Asset Purchase Agreement*") among the Program Administrator, the Note Purchaser and each of the Liquidity Banks party thereto (each a "*Purchaser*" and collectively, the "*Purchasers*");

WHEREAS, the parties hereto wish to amend the Operative Documents to delete funding of the Note through Commercial Paper and to terminate the status as Transaction Parties, of the Note Purchaser, the Administrative Agent (under the Liquidity Agreement), the Conduit Agent, the Program Administrator, Administrator (under the Liquidity Agreement) and Program Collateral Agent (under the Liquidity Agreement); and

WHEREAS, the Transaction Parties desire to amend the definition of "*Applicable Margin*";

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Termination of Liquidity Documentation; Termination of Commitments . (a) From and after the Amendment Effective Date, each of the Operative Documents constituting Liquidity Documentation is terminated and will be of no further force and effect except (i) each of the parties thereto will remain entitled to those benefits (and obligated by those obligations) thereunder which survive by the terms of the Liquidity Documentation, including, without limitation, the benefits of Article XIII of the Participation Agreement and (ii) to the extent not inconsistent with the terms of this Amendment, the obligation to pay any fees previously unpaid but accrued on or prior to the Amendment Effective Date shall survive said termination.

(b) From and after the Amendment Effective Date, the Commitments under the Liquidity Agreement are hereby terminated , *provided, however,* that the Maturity Date shall remain June 6, 2006 and the Interest Amount thereon shall be calculated after the Amendment Effective Date pursuant to Section 4.2(a)(ii) of the Participation Agreement.

(c) From and after the Amendment Effective Date, the roles (including all rights of consent and approval) of each of the original Note Purchaser, the Administrative Agent (under the Liquidity Agreement), the Conduit Agent, the Program Administrator, the Administrator (under the Liquidity Agreement) and Program Collateral Agent (under the Liquidity Agreement) under the Operative Documents are hereby terminated and each of said parties is no longer a “*Transaction Party*” under the Operative Documents.

(d) Notwithstanding the foregoing provisions of this Section 1, Note Purchaser’s obligations under Section 9.1 of the Participation Agreement shall survive and Note Purchaser shall remain liable and obligated thereunder.

Section 2. Amendments to Operative Documents . From and after the Amendment Effective Date, the Operative Documents shall be and are hereby amended in each of the following respects:

(a) Section 4.2(a) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

- (a) The Interest Amount portion of Basic Rent with respect to the outstanding principal amount of the Notes shall be computed based upon one of the rates set forth below:
 - (i) [Intentionally Omitted] and
 - (ii) The Interest Amount portion of Basic Rent with respect to the amounts outstanding under the Notes shall be computed as follows: one of the following two rates as selected by the Agent in its reasonable discretion: (A) the one (1) month LIBOR rate as in effect from time to time (adjusted for reserve requirements in effect on the first day of each period for which a payment is due) plus the Applicable Margin; or (B) if the one (1) month

LIBOR rate is not available for any reason, the Alternate Rate.

The aggregate amount payable in accordance with this Section 4.2(a) with respect to all Notes as of any Basic Rent Payment Date shall be the “*Interest Amount*” payable as of such date.

(b) Appendix A to the Participation Agreement shall be and is hereby amended by deleting the definitions of “Commitment Fees”, “Commercial Paper”, “CP Rate”, “Issuance Fee”, “Letter of Credit”, “Letter of Credit Event”, “Letter of Credit Issuer”, “Loans”, and “Support Amount” contained therein in their entirety.

(c) From and after the Amendment Effective Date, the definition of “*Applicable Margin*” contained in Appendix A to the Participation Agreement shall be and is hereby amended in its entirety and restated as follows:

“*Applicable Margin*” means the spread over the one (1) month LIBOR rate determined by reference to the Guarantor’s Total Consolidated Debt/Tangible Net Worth ratio set forth in the following pricing grid:

TOTAL CONSOLIDATED DEBT/CONSOLIDATED TANGIBLE NET WORTH	LIQUIDITY LOAN LIBOR MARGIN
Less than or equal to 0.33	0.50% per annum
Greater than 0.33 but less than or equal to 0.50	0.75% per annum
Greater than 0.50 but less than or equal to 0.65	1.00% per annum
Greater than 0.65	1.25% per annum

(d) From and after the Amendment Effective Date, the notice address for the Lessor shall be as follows:

SELCO SERVICE CORPORATION
c/o Key Equipment Finance
1000 South McCaslin Boulevard
Superior, Colorado 80027
Attention: Donald C. Davis
Facsimile No.: (720) 304-1470

(e) From and after the Amendment Effective Date, the definition of “*Maturity Date*” contained in the first paragraph of the Note shall be and is hereby amended in its entirety and restated as follows:

“*Maturity Date*” means the earliest of: (i) June 6, 2006; or (ii) such earlier date as the Agent shall deliver a Notice of Default under the Note Purchase Agreement referred to below.

(f) From and after the Amendment Effective Date, Section 3.7 of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

Section 3.7. [Intentionally Omitted]

(g) From and after the Amendment Effective Date, Section 4.2(c) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

(c) [Intentionally Omitted]

(h) From and after the Amendment Effective Date, Section 4.7 of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

Section 4.7. Replacement of Affected Parties.

(a) If any Liquidity Bank/Purchaser (an “*Affected Party*”) makes demand upon the Lessee for amounts pursuant to Section 4.3, 4.4 or 4.6 hereof, then the Lessee may: (x) request such Affected Party to, and such Affected Party shall upon such request, use reasonable efforts to designate another lending office acceptable to such Affected Party in its sole discretion for its investment (with the object of avoiding the consequences of such events) or (y) give notice (a “*Replacement Notice*”) in writing to such Affected Party and the Agent of its intention to replace such Affected Party with an Eligible Assignee designated in such Replacement Notice, if such replacement would result in the elimination or reduction of charges similar to those being claimed by the Affected Party. Any replacement of an Affected Party pursuant to the foregoing provisions must be

acceptable to the Agent in its sole discretion (including, without limitation, for Rating Agency concerns).

(b) The Agent shall, in the exercise of its sole discretion and within thirty (30) days of its receipt of a Replacement Notice with respect to any Affected Party, notify the Lessee and the Affected Party whether the designated Eligible Assignee is satisfactory to the Agent; and if the Agent shall fail to give such notice, the Eligible Assignee shall be deemed rejected.

(c) Upon approval of the designated Eligible Assignee as aforesaid the Affected Party shall assign its rights and obligations under the Operative Documents to such Eligible Assignee and, as a condition of such assignment, the Affected Party shall receive payment in full of all outstanding Loans and all other amounts due it under the Operative Documents.

(d) In the event the Agent does not approve the replacement of the Affected Party with the designated Eligible Assignee, the Lessee shall have the option to designate another Eligible Assignee pursuant to Section 4.7(a) and Section 4.7(b) above.

(i) From and after the Amendment Effective Date, Section 4.8(b) and Section 4.8(c) of the Participation Agreement shall be and are hereby amended by deleting the same in their entirety and inserting the following in lieu thereof:

(b) [Intentionally Omitted]

(c) [Intentionally Omitted]

(j) From and after the Amendment Effective Date, Section 5.3(a) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

(a) The Lessor shall submit to the Agent no later than 5:00 p.m., New York time, on the fourth (4th) Business Day prior to each Basic Rent Payment Date, a summary of the Basic Rent payments due in respect of the amounts outstanding under the outstanding portion of the Equity Investment, together with reasonable detail supporting the calculations made. In addition, the Agent shall calculate the amounts outstanding under the Notes and the Basic Rent payments due in respect thereof. The Agent shall prepare and distribute to the Liquidity Banks/Purchasers, the Lessor, the Lessee and the Guarantor, no later than three (3) Business Days prior to each Basic Rent Payment Date, an invoice with respect to the Basic Rent payable as of such date, which invoice shall set forth, *inter alia*, the aggregate amount of Basic Rent payable by the Lessee as of the upcoming Basic Rent Payment Date together with a detailed description of the allocation of Basic Rent to each outstanding type of instrument, with such amounts further allocated to reflect the amounts payable by the Lessee and the interest rates payable on such instrument. Such invoice shall further specify the relevant payment instructions. Notwithstanding the foregoing, any delay or failure on the part of the Agent to deliver the

invoice shall neither extinguish nor diminish Lessee's obligations to pay the Basic Rent due and payable on the applicable Basic Rent Payment Date.

(k) From and after the Amendment Effective Date, each of the Liquidity Banks shall be bound by the covenants contained in Section 9.1 of the Participation Agreement.

(l) On the Amendment Effective Date, the Letter of Credit will be cancelled and returned to Letter of Credit Issuer.

Section 3. Substitution of Agent. From and after the Amendment Effective Date, the Conduit Agent is hereby replaced by the Agent under the Note Purchase Agreement and all references in the Note Purchase Agreement to "The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, as Conduit Agent" are hereafter amended to be references to "KeyBank National Association, as Agent" as the Agent under the Note Purchase Agreement.

Section 4. Assignment of Note. (a) Pursuant to separate documentation in the form attached hereto as Exhibit A (hereinafter referred to as the "Assignment Agreement"), Note Purchaser is concurrently selling to each Purchaser, and each Purchaser is concurrently buying, its respective Percentage Interest in and to the Note and all of Note Purchaser's Asset Interests all as more fully set forth in Section 1(c) of the Asset Purchase Agreement.

(b) Pursuant to separate documentation, BNP Paribas is assigning to BNP Paribas Leasing Corporation, and BNP Paribas Leasing Corporation is assuming, a 100% interest in and to all of BNP Paribas' existing rights and obligations as Purchaser under the Operative Documents. The parties hereto consent to BNP Paribas' assignment to BNP Paribas Leasing Corporation and agree that BNP Paribas Leasing Corporation is an "Eligible Assignee".

Section 5. Representations and Warranties. The Lessee hereby represents and warrants to the Agent, the Purchasers and the Lessor that, as of the date hereof, no Lease Default or Lease Event of Default has occurred and is continuing.

Section 6. Ratification; Continuing Effectiveness. After giving effect to the amendments and agreements contained herein, the parties hereto agree that, as herein amended, the Participation Agreement, the Master Lease and each of the Operative Documents (including, without limitation the Master Lease and Guaranty, but not including the Liquidity Documentation) shall remain in full force and effect and each of the agreements and obligations contained therein (as amended hereby) is hereby ratified and confirmed in all respects. After the Amendment Effective Date, all references to any of the Operative Documents contained in the Operative Documents shall refer to such Operative Document as amended hereby.

Section 7. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

Section 8. Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of California applicable to contracts made and to be performed entirely within such state.

Section 9. Successors and Assigns. This Amendment shall be binding upon the parties hereto and their respective successors and assigns, and shall inure to the benefit of the parties hereto, and their respective successors and assigns.

Section 10. Further Assurances . The parties hereto shall take or cause to be taken from time to time all action reasonably necessary to assure that the intent of the parties hereunder is given effect. The parties hereto shall execute and deliver, or cause to be executed and delivered, to the other parties hereto from time to time, promptly upon request therefor, any and all other and further instruments that may be reasonably requested by any party hereto to cure any deficiency in the execution and delivery of this Amendment or any other Operative Document to which it is a party.

Section 11. Effectiveness. The amendments set forth in Sections 1, 2 and 3 above and the consent set forth in Section 4(b) above shall become effective as of the date hereof (the “*Amendment Effective Date*”) upon the Agent’s receipt of counterparts of this Amendment executed by the Lessee, the Guarantor, the Note Purchaser, the Agent, the Lessor and the Liquidity Banks.

[Signature Pages to Follow]

This Amendment is entered into between us for the uses and purposes hereinabove set forth as of the date first above written

Lessee: ELECTRONIC ARTS REDWOOD LLC , a Delaware limited liability company

By _____
Name _____
Its _____

Guarantor: ELECTRONIC ARTS INC.

By _____
Name _____
Its _____

Lessor: SELCO SERVICE CORPORATION (doing business in California as “Ohio SELCO Service Corporation”)

By _____
Donald C. Davis
Its Vice President

Note Purchaser:

VICTORY RECEIVABLES CORPORATION

By

Name

Its

Conduit Agent:

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH

By

Name

Its

Program Administrator:

DEUTSCHE BANK TRUST COMPANY AMERICAS

By

Name

Its

Agent:

KEYBANK NATIONAL ASSOCIATION

By

Robert W. Boswell

Its Senior Vice President

Liquidity Bank:

KEYBANK NATIONAL ASSOCIATION

By

Robert W. Boswell

Its Senior Vice President

Liquidity Bank:

BARCLAYS BANK PLC

By _____
Name _____
Its _____

Liquidity Bank:

BNP PARIBAS

By _____
Name _____
Its _____

Liquidity Bank:

THE BANK OF NOVA SCOTIA

By _____
Name _____
Its _____

Exhibit A
Form of Assignment Agreement

To: Electronic Arts Redwood LLC, as Lessee (the “*Lessee*”),
Electronic Arts Inc., as Guarantor (the “*Guarantor*”),
SELCO Service Corporation (doing business in California as “Ohio SELCO Service Corporation”) (the “*Lessor*”), and
KeyBank National Association, as Agent (the “*Agent*”)

Reference is made to Section 1(c), of the Asset Purchase Agreement, dated as of December 6, 2000, among Bankers Trust Company, as Program Administrator, Victory Receivables Corporation, as Issuer, and each of the parties party thereto, as Purchasers (herein, the “*Purchasers*”) (as the same may be amended, supplemented, amended and restated or otherwise modified from time to time, the “*Asset Purchase Agreement*”). Unless otherwise defined herein, capitalized terms used herein shall have the meanings given thereto in the Participation Agreement (as defined in the Asset Purchase Agreement).

Victory Receivables Corporation (the “*Assignor*”) and [Name of respective Purchaser] (the “*Assignee*”) hereby agree as follows:

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, a [_____] % interest in and to all the Assignor’s rights and obligations under the Asset Interests (as defined in the Asset Purchase Agreement) as of the Effective Date (as defined below) (including, without limitation, such Percentage Interest (as defined in the Asset Purchase Agreement) in the Note(s) owing to the Assignor outstanding on the Effective Date together with such percentage interest in all unpaid interest and fees accrued to the Effective Date).

2. The Assignor (a) represents and warrants that as of the date hereof the outstanding aggregate principal balance of its Note (without giving effect to assignments thereof which have not yet become effective) is \$[_____] and (b) makes no representation or warranty and assumes no responsibility (i) with respect to any statements, warranties or representations made in or in connection with any Operative Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Operative Document or any other instrument or document furnished thereunder or pursuant thereto, except that it represents and warrants that it is the legal and beneficial owner of the interests being assigned by it hereunder and that such interests are free and clear of adverse claims, and (ii) with respect to the financial position of the Lessee Parties or the performance or observance by the Lessee Parties of their obligations under any Operative Document or any other instrument or document furnished thereunder or pursuant thereto.

3. [Intentionally Omitted].

4. From and after the Effective Date (a) the Assignee shall to the extent of its interests assigned by this Assignment Agreement, have the rights and obligations of the “*Note*”

Purchaser” thereunder and (b) the Assignor shall, to the extent of its interests assigned by this Assignment Agreement, relinquish its rights and be released from its obligations under the Operative Documents.

5. [Intentionally Omitted].

6. The Assignor shall surrender to the Administrative Agent its Note or Notes representing the Assignor’s interest in and to all the Assignor’s rights and obligations under the Operative Documents, and the Administrative Agent will (upon execution and delivery thereof by the Lessor) promptly provide to the Assignor and the Assignee separate promissory notes in the amount of their respective interests substantially in the form of the original Note or Notes (each such note with a notation thereon that it is given in substitution for and replacement of the original Note or any replacement notes thereof), whereupon the original Note shall be cancelled.

7. THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

8. The effective date of this Assignment Agreement shall be July ____, 2005 (the “*Effective Date*”).

IN WITNESS WHEREOF , the parties hereto have caused this Assignment Agreement to be executed and delivered by their respective duly authorized officers as of the date first written above.

Adjusted Commitment
Commitment to make Loans:
\$0.00
Commitment Percentage: 0.0%

VICTORY RECEIVABLES CORPORATION , as Assignor

By _____
Name: _____
Title: _____

Commitment
Commitment to make Loans:
\$ _____
Commitment Percentage: _____

[],
as Assignee
By _____
Name: _____
Title: _____

Agreed to and Accepted:

ELECTRONIC ARTS INC.,
as Guarantor

By: _____
Name:
Title:

ELECTRONIC ARTS REDWOOD LLC , a Delaware limited
liability company, as Lessee

By: _____
Name:
Title:

KEYBANK NATIONAL ASSOCIATION , as Administrative
Agent

By: _____
Name:
Title:

SELCO SERVICE CORPORATION (doing business in
California as "Ohio SELCO Service Corporation") , as
Lessor

By: _____
Name:
Title: WS

OMNIBUS AMENDMENT

Dated as of July 11, 2005

Among

ELECTRONIC ARTS REDWOOD LLC,
as Lessee,

ELECTRONIC ARTS INC. ,
as Guarantor,

SELCO SERVICE CORPORATION

(doing business in California as “Ohio SELCO Service Corporation”),
as Lessor,

VICTORY RECEIVABLES CORPORATION,
as Note Purchaser,

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH,
as Conduit Agent,

THE VARIOUS LIQUIDITY BANKS PARTY HERETO,
as Liquidity Banks,

DEUTSCHE BANK TRUST COMPANY AMERICAS ,
as Program Administrator

THE BANK OF NOVA SCOTIA,
as Documentation Agent

and

KEYBANK NATIONAL ASSOCIATION,
as Agent

OMNIBUS AMENDMENT

This OMNIBUS AMENDMENT (this "*Amendment*") is entered into as of July 11, 2005 among, ELECTRONIC ARTS REDWOOD LLC, a Delaware limited liability company, as Lessee (the "*Lessee*"); ELECTRONIC ARTS INC., a Delaware corporation, as Guarantor (the "*Guarantor*"); SELCO SERVICE CORPORATION, an Ohio corporation (doing business in California as "Ohio SELCO Service Corporation"), as Lessor (the "*Lessor*"); VICTORY RECEIVABLES CORPORATION, a Delaware corporation, as Note Purchaser (the "*Note Purchaser*"); THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH, as Conduit Agent (the "*Conduit Agent*"); each of the liquidity banks party hereto (each, a "*Liquidity Bank*" or, sometimes referred to as a "*Purchaser*" and collectively, the "*Liquidity Banks*" or sometime referred to as the "*Purchasers*"); DEUTSCHE BANK TRUST COMPANY AMERICAS, successor to Bankers Trust Company, as Program Administrator (the "*Program Administrator*"); THE BANK OF NOVA SCOTIA, as Documentation Agent (the "*Documentation Agent*"); and KEYBANK NATIONAL ASSOCIATION, as Agent (the "*Agent*"). All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in Appendix A to the Participation Agreement dated as of July 16, 2001 (as amended, supplemented, restated or otherwise modified from time to time, the "*Participation Agreement*") among certain of the parties party hereto, and the rules of interpretation set forth in such Appendix shall apply to this Amendment.

WITNESSETH:

WHEREAS, the Expiration Date under the Liquidity Agreement is July 11, 2005 (herein, the "*Expiration Date*") and the Expiration Date has not been extended pursuant to Section 3.11 of the Liquidity Agreement;

WHEREAS, the Commitments under the Liquidity Agreement expire on the Expiration Date;

WHEREAS, the Liquidity Banks, the Lessee and the Guarantor desire to continue the funding of the Note after the Expiration Date until the Maturity Date (as defined in the Note) through the purchase by the Liquidity Banks of the Note pursuant to Section 1(b) of that certain Amended and Restated Asset Purchase Agreement dated as of May 13, 2002 (as amended, the "*Asset Purchase Agreement*") among the Program Administrator, the Note Purchaser and each of the Liquidity Banks party thereto (each a "*Purchaser*" and collectively, the "*Purchasers*");

WHEREAS, the parties hereto wish to amend the Operative Documents to delete funding of the Note through Commercial Paper and to terminate the status as Transaction Parties, of the Note Purchaser, the Administrative Agent (under the Liquidity Agreement), the Conduit Agent, the Program Administrator, Administrator (under the Liquidity Agreement) and Program Collateral Agent (under the Liquidity Agreement); and

WHEREAS, the Transaction Parties desire to amend the definition of "*Applicable Margin*";

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Termination of Liquidity Documentation; Termination of Commitments . (a) From and after the Amendment Effective Date, each of the Operative Documents constituting Liquidity Documentation is terminated and will be of no further force and effect except (i) each of the parties thereto will remain entitled to those benefits (and obligated by those obligations) thereunder which survive by the terms of the Liquidity Documentation, including, without limitation, the benefits of Article XIII of the Participation Agreement and (ii) to the extent not inconsistent with the terms of this Amendment, the obligation to pay any fees previously unpaid but accrued on or prior to the Amendment Effective Date shall survive said termination.

(b) From and after the Amendment Effective Date, the Commitments under the Liquidity Agreement are hereby terminated , *provided*, *however*, that the Maturity Date shall remain July 16, 2006 and the Note Interest Amount thereon shall be calculated from and after the Amendment Effective Date pursuant to Section 4.2(a)(ii) of the Participation Agreement.

(c) From and after the Amendment Effective Date, the roles (including all rights of consent and approval) of each of the Note Purchaser, the Administrative Agent (under the Liquidity Agreement), the Conduit Agent, the Program Administrator, the Administrator (under the Liquidity Agreement) and Program Collateral Agent (under the Liquidity Agreement) under the Operative Documents are hereby terminated and each of said parties is no longer a “*Transaction Party*” under the Operative Documents.

(d) Notwithstanding the foregoing provisions of this Section 1, Note Purchaser’s obligations under Section 9.1 of the Participation Agreement shall survive and Note Purchaser shall remain liable and obligated thereunder.

Section 2. Amendments to Operative Documents . From and after the Amendment Effective Date, the Operative Documents shall be and are hereby amended in each of the following respects:

(a) Section 4.2(a) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

- (a) The Note Interest Amount portion of Basic Rent with respect to the outstanding principal amount of the Notes shall be computed based upon one of the rates set forth below:
 - (i) [Intentionally Omitted] and
 - (ii) The Note Interest Amount portion of Basic Rent with respect to the amounts outstanding under the Notes shall be computed as follows: one of the following

two rates as selected by the Agent in its reasonable discretion: (A) the one (1) month LIBOR rate as in effect from time to time (adjusted for reserve requirements in effect on the first day of each period for which a payment is due) plus the Applicable Margin; or (B) if the one (1) month LIBOR rate is not available for any reason, the Alternate Rate.

The aggregate amount payable in accordance with this Section 4.2(a) with respect to all Notes as of any Basic Rent Payment Date shall be the “*Note Interest Amount*” payable as of such date.

(b) Each of Appendix A to the Participation Agreement and, to the extent applicable, the Master Lease, shall be and is hereby amended by deleting the definitions of “*Commitment Fees*”, “*Commercial Paper*”, “*CP Rate*”, “*Liquidity Loans*” and “*Renewal Fees*” contained therein in their entirety.

(c) From and after the Amendment Effective Date, the definition of “*Applicable Margin*” contained in each of Appendix A to the Participation Agreement and in the Master Lease shall be and is hereby amended in its entirety and restated as follows:

“*Applicable Margin*” means the spread over the one (1) month LIBOR rate determined by reference to the Guarantor’s Total Consolidated Debt/Tangible Net Worth ratio set forth in the following pricing grid:

TOTAL CONSOLIDATED DEBT/CONSOLIDATED TANGIBLE NET WORTH	LIQUIDITY LOAN LIBOR MARGIN	TRANCHE B LOAN LIBOR MARGIN
Less than or equal to 0.33	0.50% per annum	0.50% per annum
Greater than 0.33 but less than or equal to 0.50	0.75% per annum	0.75% per annum
Greater than 0.50 but less than or equal to 0.65	1.00% per annum	1.00% per annum
Greater than 0.65	1.25% per annum	1.25% per annum

(d) From and after the Amendment Effective Date, the notice address for the Lessor shall be as follows:

SELCO Service Corporation
c/o Key Equipment Finance
1000 South McCaslin Boulevard
Superior, Colorado 80027
Attention: Donald C. Davis
Facsimile No.: (720) 304-1470

(e) From and after the Amendment Effective Date, the definition of “*Maturity Date*” contained in the first paragraph of the Note shall be and is hereby amended in its entirety and restated as follows:

“*Maturity Date*” means the earliest of: (i) July 16, 2006; or (ii) such earlier date as the Agent shall deliver a Notice of Default under the Note Purchase Agreement referred to below.

(f) From and after the Amendment Effective Date, Section 3.7 of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

Section 3.7. [Intentionally Omitted]

(g) From and after the Amendment Effective Date, Section 4.2(c) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

(c) [Intentionally Omitted]

(h) From and after the Amendment Effective Date, Section 4.7 of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

Section 4.7. Replacement of Affected Parties.

(a) If any Liquidity Bank/Purchaser (an “*Affected Party*”) makes demand upon the Lessee for amounts pursuant to Section 4.3, 4.4 or 4.6 hereof, then the Lessee may. (x) request such Affected Party to, and such Affected Party shall upon such request, use reasonable efforts to designate another lending office acceptable to such Affected Party in its sole discretion for its investment (with the object of avoiding the consequences of such events) or (y) give notice (a “*Replacement Notice*”) in writing to such Affected Party and the Agent of its intention to replace such Affected Party with an Eligible Assignee designated in such Replacement Notice, if such replacement would result in the elimination or reduction of charges similar to those being claimed by the Affected Party. Any replacement of an Affected Party pursuant to the foregoing provisions must be acceptable to the Agent in its sole discretion (including, without limitation, for Rating Agency concerns).

(b) The Agent shall, in the exercise of its sole discretion and within thirty (30) days of its receipt of a Replacement Notice with respect to any Affected Party, notify the Lessee and the Affected Party whether the designated Eligible Assignee is satisfactory to the Agent; and if the Agent shall fail to give such notice, the Eligible Assignee shall be deemed rejected.

(c) Upon approval of the designated Eligible Assignee as aforesaid the Affected Party shall assign its rights and obligations under the Operative Documents to such Eligible Assignee and, as a condition of such assignment, the Affected Party shall receive payment in full of all outstanding Loans and all other amounts due it under the Operative Documents.

(d) In the event the Agent does not approve the replacement of the Affected Party with the designated Eligible Assignee, the Lessee shall have the option to designate another Eligible Assignee pursuant to Section 4.7(a) and Section 4.7(b) above.

(i) From and after the Amendment Effective Date, Section 4.8(b) and Section 4.8(c) of the Participation Agreement shall be and are hereby amended by deleting the same in their entirety and inserting the following in lieu thereof:

(b) [Intentionally Omitted]

(c) [Intentionally Omitted]

(j) From and after the Amendment Effective Date, Section 5.3(a) of the Participation Agreement shall be and is hereby amended by deleting the same in its entirety and inserting the following in lieu thereof:

(a) The Lessor shall submit to the Agent no later than 5:00 p.m., New York time, on the fourth (4th) Business Day prior to each Basic Rent Payment Date, a summary of the Basic Rent payments due in respect of the amounts outstanding under the outstanding portion of the Equity Investment, together with reasonable detail supporting the calculations made. In addition, the Agent shall calculate the amounts outstanding under the Notes and any the Tranche B Loans and the Basic Rent payments due in respect thereof. The Agent shall prepare and distribute to the Tranche B Banks, the Liquidity Banks/Purchasers, the Lessor, the Lessee and the Guarantor, no later than three (3) Business Days prior to each Basic Rent Payment Date, an invoice with respect to the Basic Rent payable as of such date, which invoice shall set forth, *inter alia*, the aggregate amount of Basic Rent payable by the Lessee as of the upcoming Basic Rent Payment Date together with a detailed description of the allocation of Basic Rent to each outstanding type of instrument, with such amounts further allocated to reflect the amounts payable by the Lessee and the interest rates payable on such instrument. Such invoice shall further specify the relevant payment instructions. Notwithstanding the foregoing, any delay or failure on the part of the Agent to deliver the invoice shall

neither extinguish nor diminish Lessee's obligations to pay the Basic Rent due and payable on the applicable Basic Rent Payment Date.

(k) From and after the Amendment Effective Date, each of the Liquidity Banks shall be bound by the covenants contained in Section 9.1 of the Participation Agreement.

Section 3. Substitution of Agent. From and after the Amendment Effective Date, the Conduit Agent is hereby replaced by the Agent under the Note Purchase Agreement and all references in the Note Purchase Agreement to "*The Bank of Tokyo-Mitsubishi, Ltd., New York Branch, as Conduit Agent*" are hereafter amended to be references to "*KeyBank National Association, as Agent*" as the Agent under the Note Purchase Agreement.

Section 4. Assignment of Note. (a) Pursuant to separate documentation in the form attached hereto as Exhibit A (hereinafter referred to as the "*Assignment Agreement*"), Note Purchaser is concurrently selling to each Purchaser, and each Purchaser is concurrently buying, its respective Percentage Interest in and to the Note and all of Note Purchaser's Asset Interests all as more fully set forth in Section 1(c) of the Asset Purchase Agreement.

(b) Pursuant to separate documentation, BNP Paribas is assigning to BNP Paribas Leasing Corporation, and BNP Paribas Leasing Corporation is assuming, a 100% interest in and to all of BNP Paribas' existing rights and obligations as Purchaser under the Operative Documents. The parties hereto consent to BNP Paribas' assignment to BNP Paribas Leasing Corporation and agree that BNP Paribas Leasing Corporation is an "Eligible Assignee".

Section 5. Representations and Warranties. The Lessee hereby represents and warrants to the Agent, the Purchasers and the Lessor that, as of the date hereof, no Default or Event of Default has occurred and is continuing.

Section 6. Ratification; Continuing Effectiveness. After giving effect to the amendments and agreements contained herein, the parties hereto agree that, as herein amended, the Participation Agreement, the Master Lease and each of the Operative Documents (including, without limitation the Master Lease and Guaranty, but not including the Liquidity Documentation) shall remain in full force and effect and each of the agreements and obligations contained therein (as amended hereby) is hereby ratified and confirmed in all respects. After the Amendment Effective Date, all references to any of the Operative Documents contained in the Operative Documents shall refer to such Operative Document as amended hereby.

Section 7. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

Section 8. Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of California applicable to contracts made and to be performed entirely within such state.

Section 9. Successors and Assigns. This Amendment shall be binding upon the parties hereto and their respective successors and assigns, and shall inure to the benefit of the parties hereto, and their respective successors and assigns.

Section 10. Further Assurances . The parties hereto shall take or cause to be taken from time to time all action reasonably necessary to assure that the intent of the parties hereunder is given effect. The parties hereto shall execute and deliver, or cause to be executed and delivered, to the other parties hereto from time to time, promptly upon request therefor, any and all other and further instruments that may be reasonably requested by any party hereto to cure any deficiency in the execution and delivery of this Amendment or any other Operative Document to which it is a party.

Section 11. Effectiveness. The amendments set forth in Sections 1, 2 and 3 above and the consent set forth in Section 4(b) above shall become effective as of the date hereof (the “*Amendment Effective Date*”) upon the Agent’s receipt of counterparts of this Amendment executed by the Lessee, the Guarantor, the Note Purchaser, the Agent, the Lessor and the Liquidity Banks.

[Signature Pages to Follow]

This Amendment is entered into between us for the uses and purposes hereinabove set forth as of the date first above written

Lessee: ELECTRONIC ARTS REDWOOD LLC , a Delaware limited liability company, as Lessee

By _____
Name _____
Its _____

Guarantor: ELECTRONIC ARTS INC.

By _____
Name _____
Its _____

Lessor: SELCO SERVICE CORPORATION (doing business in California as “Ohio SELCO Service Corporation”)

By _____
Donald C. Davis
Its Vice President

Note Purchaser:

VICTORY RECEIVABLES CORPORATION

By _____
Name _____
Its _____

Conduit Agent:

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH

By _____
Name _____
Its _____

Program Administrator:

DEUTSCHE BANK TRUST COMPANY AMERICAS

By _____
Name _____
Its _____

Agent:

KEYBANK NATIONAL ASSOCIATION

By _____
Robert W. Boswell
Its Senior Vice President

Liquidity Bank and Tranche B Bank:

KEYBANK NATIONAL ASSOCIATION

By _____
Robert W. Boswell
Its Senior Vice President



Liquidity Bank:

JPMORGAN CHASE BANK, N.A.

By _____
Name _____
Its _____

Liquidity Bank:

BNP PARIBAS

By _____
Name _____
Its _____

Liquidity Bank:

U.S. BANK NATIONAL ASSOCIATION

By _____
Name _____
Its _____

Liquidity Bank and Documentation Agent:

THE BANK OF NOVA SCOTIA

By _____
Name _____
Its _____

Liquidity Bank:

BANK OF AMERICA, NATIONAL ASSOCIATION

By _____
Name _____
Its _____



Liquidity Bank:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By _____
Name _____
Its _____

EXHIBIT A
FORM OF ASSIGNMENT AGREEMENT

To: Electronic Arts Redwood LLC, as Lessee (the “*Lessee*”),
Electronic Arts Inc., as Guarantor (the “*Guarantor*”),
SELCO Service Corporation (doing business in California as “Ohio SELCO Service Corporation”) (the “*Lessor*”), and
KeyBank National Association, as Agent (the “*Agent*”)

Reference is made to Section 1(c), of the Amended and Restated Asset Purchase Agreement, dated as of May 13, 2002, among Deutsche Bank Trust Company Americas, as Program Administrator, Victory Receivables Corporation, as Issuer, and each of the parties party thereto, as Purchasers (herein, the “*Purchasers*”) (as the same may be amended, supplemented, amended and restated or otherwise modified from time to time, the “*Asset Purchase Agreement*”). Unless otherwise defined herein, capitalized terms used herein shall have the meanings given thereto in the Participation Agreement (as defined in the Asset Purchase Agreement).

Victory Receivables Corporation (the “*Assignor*”) and [Name of respective Purchaser] (the “*Assignee*”) hereby agree as follows:

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, a [_____] % interest in and to all the Assignor’s rights and obligations under the Asset Interests (as defined in the Asset Purchase Agreement) as of the Effective Date (as defined below) (including, without limitation, such Percentage Interest (as defined in the Asset Purchase Agreement) in the Note(s) owing to the Assignor outstanding on the Effective Date together with such percentage interest in all unpaid interest and fees accrued to the Effective Date).

2. The Assignor (a) represents and warrants that as of the date hereof the outstanding aggregate principal balance of its Note (without giving effect to assignments thereof which have not yet become effective) is \$[_____] and (b) makes no representation or warranty and assumes no responsibility (i) with respect to any statements, warranties or representations made in or in connection with any Operative Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Operative Document or any other instrument or document furnished thereunder or pursuant thereto, except that it represents and warrants that it is the legal and beneficial owner of the interests being assigned by it hereunder and that such interests are free and clear of adverse claims, and (ii) with respect to the financial position of the Lessee Parties or the performance or observance by the Lessee Parties of their obligations under any Operative Document or any other instrument or document furnished thereunder or pursuant thereto.

3. [Intentionally Omitted].

4. From and after the Effective Date (a) the Assignee shall to the extent of its interests assigned by this Assignment Agreement, have the rights and obligations of the

“*Note Purchaser*” thereunder and (b) the Assignor shall, to the extent of its interests assigned by this Assignment Agreement, relinquish its rights and be released from its obligations under the Operative Documents.

5. [Intentionally Omitted].

6. The Assignor shall surrender to the Administrative Agent its Note or Notes representing the Assignor’s interest in and to all the Assignor’s rights and obligations under the Operative Documents, and the Administrative Agent will (upon execution and delivery thereof by the Lessor) promptly provide to the Assignor and the Assignee separate promissory notes in the amount of their respective interests substantially in the form of the original Note or Notes (each such note with a notation thereon that it is given in substitution for and replacement of the original Note or any replacement notes thereof), whereupon the original Note shall be cancelled.

7. This Assignment Agreement shall be governed by and construed in accordance with the Laws of the state of California.

8. The effective date of this Assignment Agreement shall be July __, 2005 (the “*Effective Date*”).

IN WITNESS WHEREOF , the parties hereto have caused this Assignment Agreement to be executed and delivered by their respective duly authorized officers as of the date first written above.

Adjusted Commitment

Commitment to make Loans:
\$0.00 ____
Commitment Percentage: ____0.0%

VICTORY RECEIVABLES CORPORATION ,
as Assignor

By _____
Name: _____
Title: _____

Commitment

Commitment to make Loans:
\$ ____
Commitment Percentage: ____%

[],
as Assignee
By _____
Name: _____
Title: _____

Agreed to and Accepted:
ELECTRONIC ARTS INC.,

as Guarantor

By: _____
Name:
Title:

ELECTRONIC ARTS REDWOOD LLC , a Delaware limited
liability company, as Lessee

By: _____
Name:
Title:

KEYBANK NATIONAL ASSOCIATION , as Administrative
Agent

By: _____
Name:
Title:

SELCO SERVICE CORPORATION (doing business in
California as "Ohio SELCO Service Corporation") , as
Lessor

By: _____
Name:
Title: WS

Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm

The Board of Directors
Electronic Arts Inc.:

With respect to the registration statements on Forms S-8 (Nos. 33-66836, 33-55212, 33-53302, 33-41955, 33-82166, 33-61781, 33-61783, 333-09683, 333-09893, 333-32239, 333-32771, 333-46937, 333-60513, 333-60517, 333-84215, 333-39430, 333-39432, 333-44222, 333-60256, 333-67430, 333-82888, 333-99525 and 333-107710, 333-117990, 333-120256), and the registration statement on Form S-3 (No. 333-102797), of Electronic Arts Inc., we acknowledge our awareness of the use therein of our report dated August 3, 2005 relating to the unaudited condensed consolidated interim financial statements of Electronic Arts Inc. and subsidiaries that are included in its Form 10-Q for the three-month period ended July 2, 2005.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

Mountain View, California
August 3, 2005

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

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

1. I have reviewed this Quarterly Report on Form 10-Q of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 3, 2005

By: /s/ Lawrence F. Probst III
Lawrence F. Probst III
Chairman and Chief Executive Officer

ELECTRONIC ARTS INC.

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

I, Warren C. Jenson, Executive Vice President, Chief Financial and Administrative Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Electronic Arts Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 3, 2005

By: /s/ Warren C. Jenson
Warren C. Jenson
Executive Vice President,
Chief Financial and Administrative Officer

ELECTRONIC ARTS INC.

**Certification of Chairman and Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Electronic Arts Inc. on Form 10-Q for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence F. Probst III, Chairman and Chief Executive Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Lawrence F. Probst III
Lawrence F. Probst III
Chairman and Chief Executive Officer
Electronic Arts Inc.

August 3, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.

ELECTRONIC ARTS INC.

**Certification of Executive Vice President, Chief Financial and Administrative Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Electronic Arts Inc. on Form 10-Q for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Warren C. Jenson, Executive Vice President and Chief Financial and Administrative Officer of Electronic Arts Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Electronic Arts Inc. for the periods presented therein.

/s/ Warren C. Jenson
Warren C. Jenson
Executive Vice President,
Chief Financial and Administrative Officer
Electronic Arts Inc.

August 3, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Electronic Arts and will be retained by Electronic Arts and furnished to the Securities and Exchange Commission or its staff upon request.

End of Filing

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