

ELECTRONIC ARTS INC.

Form 10-Q

November 06, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

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. 000-17948

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)

(650) 628-1500

(Registrant's telephone number, including area code)

94065

(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 1, 2012, there were 305,135,363 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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 FORM 10-Q
 FOR THE PERIOD ENDED SEPTEMBER 30, 2012
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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

ELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (Unaudited) (In millions, except par value data) | September 30, 2012 | March 31, 2012 (a) |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$871 | \$1,293 |
| Short-term investments | 351 | 437 |
| Marketable equity securities | 93 | 119 |
| Receivables, net of allowances of \$182 and \$252, respectively | 643 | 366 |
| Inventories | 71 | 59 |
| Deferred income taxes, net | 64 | 67 |
| Other current assets | 239 | 268 |
| Total current assets | 2,332 | 2,609 |
| Property and equipment, net | 561 | 568 |
| Goodwill | 1,723 | 1,718 |
| Acquisition-related intangibles, net | 334 | 369 |
| Deferred income taxes, net | 49 | 42 |
| Other assets | 192 | 185 |
| TOTAL ASSETS | \$5,191 | \$5,491 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$219 | \$215 |
| Accrued and other current liabilities | 874 | 857 |
| Deferred net revenue (packaged goods and digital content) | 953 | 1,048 |
| Total current liabilities | 2,046 | 2,120 |
| 0.75% convertible senior notes due 2016, net | 549 | 539 |
| Income tax obligations | 209 | 189 |
| Deferred income taxes, net | 2 | 8 |
| Other liabilities | 231 | 177 |
| Total liabilities | 3,037 | 3,033 |
| Commitments and contingencies (See Note 12) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value. 10 shares authorized | — | — |
| Common stock, \$0.01 par value. 1,000 shares authorized; 312 and 320 shares issued and outstanding, respectively | 3 | 3 |
| Paid-in capital | 2,259 | 2,359 |
| Accumulated deficit | (257 |) (77 |
| Accumulated other comprehensive income | 149 | 173 |
| Total stockholders' equity | 2,154 | 2,458 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$5,191 | \$5,491 |
| See accompanying Notes to Condensed Consolidated Financial Statements (unaudited). | | |

(a) Derived from audited consolidated financial statements.

Table of ContentsELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| (Unaudited) (In millions, except per share data) | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|-----------|-----------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net revenue: | | | | |
| Product | \$481 | \$592 | \$1,183 | \$1,486 |
| Service and other | 230 | 123 | 483 | 228 |
| Total net revenue | 711 | 715 | \$1,666 | \$1,714 |
| Cost of revenue: | | | | |
| Product | 371 | 399 | 503 | 611 |
| Service and other | 74 | 33 | 147 | 61 |
| Total cost of revenue | 445 | 432 | 650 | 672 |
| Gross profit | 266 | 283 | 1,016 | 1,042 |
| Operating expenses: | | | | |
| Research and development | 314 | 318 | 604 | 603 |
| Marketing and sales | 212 | 222 | 357 | 362 |
| General and administrative | 99 | 88 | 185 | 162 |
| Acquisition-related contingent consideration | — | 17 | (20 |) 19 |
| Amortization of intangibles | 7 | 13 | 14 | 26 |
| Restructuring and other charges | (2 |) (1 |) 25 | 17 |
| Total operating expenses | 630 | 657 | 1,165 | 1,189 |
| Operating loss | (364 |) (374 |) (149 |) (147 |
| Interest and other expense, net | (4 |) (6 |) (9 |) (3 |
| Loss before provision for (benefit from) income taxes | (368 |) (380 |) (158 |) (150 |
| Provision for (benefit from) income taxes | 13 | (40 |) 22 | (31 |
| Net loss | \$(381 |) \$(340 |) \$(180 |) \$(119 |
| Net loss per share: | | | | |
| Basic and Diluted | \$(1.21 |) \$(1.03 |) \$(0.57 |) \$(0.36 |
| Number of shares used in computation: | | | | |
| Basic and Diluted | 316 | 331 | 317 | 331 |

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

Table of ContentsELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| (Unaudited) (In millions) | Three Months Ended September 30, | | Six Months Ended September 30, | | |
|---|-------------------------------------|----------|-----------------------------------|----------|---|
| | 2012 | 2011 | 2012 | 2011 | |
| Net loss | \$(381 |) \$(340 |) \$(180 |) \$(119 |) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Change in unrealized gains on available-for-sale securities | 17 | 42 | (25 |) 55 | |
| Reclassification adjustment for realized gains on available-for-sale securities | — | (1 |) — | (1 |) |
| Change in unrealized losses on derivative instruments | (3 |) (1 |) (2 |) (1 |) |
| Reclassification adjustment for realized losses on derivative instruments | 1 | — | 1 | 2 | |
| Foreign currency translation adjustments | 19 | (22 |) 2 | (16 |) |
| Total other comprehensive income (loss), net of tax | 34 | 18 | (24 |) 39 | |
| Total comprehensive loss | \$(347 |) \$(322 |) \$(204 |) \$(80 |) |

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

Table of ContentsELECTRONIC ARTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Unaudited) | Six Months Ended | |
|---|------------------|----------|
| (In millions) | September 30, | |
| | 2012 | 2011 |
| OPERATING ACTIVITIES | | |
| Net loss | \$(180 |) \$(119 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, amortization and accretion, net | 112 | 94 |
| Stock-based compensation | 83 | 81 |
| Acquisition-related contingent consideration | (20 |) 19 |
| Non-cash restructuring charges | 7 | — |
| Net gains on investments and sale of property and equipment | — | (12 |
| Change in assets and liabilities: | | |
| Receivables, net | (274 |) (215 |
| Inventories | (13 |) (11 |
| Other assets | — | (63 |
| Accounts payable | 9 | (57 |
| Accrued and other liabilities | 109 | 2 |
| Deferred income taxes, net | (10 |) (48 |
| Deferred net revenue (packaged goods and digital content) | (95 |) (156 |
| Net cash used in operating activities | (272 |) (485 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (56 |) (84 |
| Proceeds from sale of property and equipment | — | 26 |
| Proceeds from maturities and sales of short-term investments | 280 | 319 |
| Purchase of short-term investments | (197 |) (179 |
| Acquisition-related restricted cash | 25 | — |
| Acquisition of subsidiaries, net of cash acquired | (10 |) (657 |
| Net cash provided by (used in) investing activities | 42 | (575 |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | 18 | 35 |
| Proceeds from borrowings on convertible senior notes, net of issuance costs | — | 617 |
| Proceeds from issuance of warrants | — | 65 |
| Purchase of convertible note hedge | — | (107 |
| Payment of debt issuance costs | (2 |) — |
| Excess tax benefit from stock-based compensation | — | 3 |
| Repurchase and retirement of common stock | (179 |) (189 |
| Acquisition-related contingent consideration payment | (26 |) — |
| Net cash provided by (used in) financing activities | (189 |) 424 |
| Effect of foreign exchange on cash and cash equivalents | (3 |) (13 |
| Decrease in cash and cash equivalents | (422 |) (649 |
| Beginning cash and cash equivalents | 1,293 | 1,579 |
| Ending cash and cash equivalents | \$871 | \$930 |
| Supplemental cash flow information: | | |
| Cash paid (refunded) during the period for income taxes, net | \$17 | \$(9 |
| Cash paid during the period for interest | \$2 | \$— |
| Non-cash investing activities: | | |

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| | | |
|--|-------|--------|
| Change in unrealized gains on available-for-sale securities, net of taxes | \$(25 |) \$55 |
| Equity issued in connection with acquisition | \$— | \$87 |
| See accompanying Notes to Condensed Consolidated Financial Statements (unaudited). | | |

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

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

We develop, market, publish and distribute game software content and services that can be played by consumers on a variety of platforms, including video game consoles (such as the Sony PLAYSTATION 3, Microsoft Xbox 360, and Nintendo Wii), personal computers, mobile devices (such as the Apple iPhone and Google Android compatible phones), tablets and electronic readers (such as the Apple iPad and Amazon Kindle), and the Internet. Our ability to publish games across multiple platforms, through multiple distribution channels, and directly to consumers (online and wirelessly) has been, and will continue to be, a cornerstone of our product strategy. We have generated substantial growth in new business models and alternative revenue streams (such as subscription, micro-transactions, and advertising) based on the continued expansion of our online and wireless platform. Some of our games are based on our own wholly-owned intellectual property (e.g., Battlefield, Mass Effect, Need for Speed, The Sims, Bejeweled, and Plants v. Zombies), and some of our games are based on content that we license from others (e.g., FIFA, Madden NFL, and Star Wars: The Old Republic). Our goal is to turn our core intellectual properties into year-round businesses available on a range of platforms. Our products and services may be purchased through physical and online retailers, platform providers such as console manufacturers and mobile carriers via digital downloads, as well as directly through our own distribution platform, including online portals such as Origin and Play4Free.

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal years ending or ended, as the case may be, March 31, 2013 and 2012 contain 52 weeks each, and ends or ended, as the case may be, on March 30, 2013 and March 31, 2012, respectively. Our results of operations for the three and six months ended September 30, 2012 and 2011 contained 13 and 26 weeks each, respectively, and ended on September 29, 2012 and October 1, 2011, respectively. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

The Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals unless otherwise indicated) 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, 2012, as filed with the United States Securities and Exchange Commission ("SEC") on May 25, 2012.

(2) FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability. We measure certain financial and nonfinancial assets and liabilities at fair value on a recurring and nonrecurring basis.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or

corroborated with observable market data for substantially the full term of the assets or liabilities.

• Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2012 and March 31, 2012, our assets and liabilities that were measured and recorded at fair value on a recurring basis were as follows (in millions):

| | As of September 30, 2012 | Fair Value Measurements at Reporting Date Using | | | Balance Sheet Classification |
|---|-----------------------------------|--|---|--|---|
| | | Quoted Prices in Active Markets for Identical Financial Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets | | | | | |
| Money market funds | \$200 | \$200 | \$— | \$— | Cash equivalents |
| Available-for-sale securities: | | | | | |
| Corporate bonds | 180 | — | 180 | — | Short-term investments |
| U.S. Treasury securities | 95 | 95 | — | — | Short-term investments |
| U.S. agency securities | 74 | — | 74 | — | Short-term investments and cash equivalents |
| Marketable equity securities | 93 | 93 | — | — | Marketable equity securities |
| Commercial paper | 5 | — | 5 | — | Short-term investments and cash equivalents |
| Deferred compensation plan assets ^(a) | 11 | 11 | — | — | Other assets |
| Foreign currency derivatives | 1 | — | 1 | — | Other current assets |
| Total assets at fair value | \$659 | \$399 | \$260 | \$— | |
| Liabilities | | | | | |
| Contingent consideration ^(b) | \$88 | \$— | \$— | \$88 | Accrued and other current liabilities and other liabilities |
| Total liabilities at fair value | \$88 | \$— | \$— | \$88 | |

Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

| | | |
|-------------------------------------|-----------------------------|-------|
| Balance as of March 31, 2012 | Contingent Consideration | \$112 |
| Change in fair value ^(c) | (20) | |
| Payments ^(d) | (4) | |
| Balance as of September 30, 2012 | | \$88 |

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| | As of March 31, 2012 | Fair Value Measurements at Reporting Date Using | | | Balance Sheet Classification |
|---|----------------------------|--|---|--|---|
| | | Quoted Prices in Active Markets for Identical Financial Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets | | | | | |
| Money market funds | \$490 | \$ 490 | \$ — | \$ — | Cash equivalents |
| Available-for-sale securities: | | | | | |
| U.S. Treasury securities | 170 | 170 | — | — | Short-term investments and cash equivalents |
| Corporate bonds | 150 | — | 150 | — | Short-term investments |
| Marketable equity securities | 119 | 119 | — | — | Marketable equity securities |
| U.S. agency securities | 116 | — | 116 | — | Short-term investments |
| Commercial paper | 16 | — | 16 | — | Short-term investments and cash equivalents |
| Deferred compensation plan assets ^(a) | 11 | 11 | — | — | Other assets |
| Foreign currency derivatives | 2 | — | 2 | — | Other current assets |
| Total assets at fair value | \$1,074 | \$ 790 | \$ 284 | \$ — | |
| Liabilities | | | | | |
| Contingent consideration ^(b) | \$ 112 | \$ — | \$ — | \$ 112 | Accrued and other current liabilities and other liabilities |
| Total liabilities at fair value | \$ 112 | \$ — | \$ — | \$ 112 | |

Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

| | | |
|-------------------------------------|-----------------------------|-------|
| Balance as of March 31, 2011 | Contingent Consideration | \$51 |
| Additions | | 100 |
| Change in fair value ^(c) | | 11 |
| Payment ^(d) | | (25) |
| Reclassification ^(e) | | (25) |
| Balance as of March 31, 2012 | | \$112 |

(a) The deferred compensation plan assets consist of various mutual funds.

(b) The contingent consideration as of September 30, 2012 and March 31, 2012 represents the estimated fair value of the additional variable cash consideration payable primarily in connection with our acquisitions of PopCap Games, Inc. (“PopCap”), KlickNation Corporation (“KlickNation”), and Chillingo Limited (“Chillingo”) that is contingent upon the achievement of certain performance milestones. We estimated the fair value of the acquisition-related contingent consideration payable using probability-weighted discounted cash flow models, and applied a discount rate that appropriately captures a market participant’s view of the risk associated with the obligation. The weighted

average of the discount rates used during the six months ended September 30, 2012 was 13 percent. The weighted average of the discount rates used during fiscal year 2012, was 12 percent. The significant unobservable input used in the fair value measurement of the acquisition-related contingent consideration payable are forecasted earnings. Significant changes in forecasted earnings would result in a significantly higher or lower fair value measurement. At September 30, 2012 and March 31, 2012, the fair market value of acquisition-related contingent consideration totaled \$88 million and \$112 million, respectively, compared to a maximum potential payout of \$568 million and \$572 million, respectively.

(c) The change in fair value is reported as acquisition-related contingent consideration in our Condensed Consolidated Statements of Operations.

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- (d) During the six months ended September 30, 2012, we made a payment of \$4 million to settle certain performance milestones achieved in connection with one of our acquisitions. During the fourth quarter of fiscal year 2012, we made a payment of \$25 million to settle certain performance milestones achieved through December 31, 2011 in connection with our acquisition of Playfish Limited (“Playfish”).

(e) During the fourth quarter of fiscal year 2012, we reclassified \$25 million of contingent consideration in connection with our acquisition of Playfish to other current liabilities in our Condensed Consolidated Balance Sheet as the contingency was settled. This amount was paid during the second quarter of fiscal 2013.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

During the three and six months ended September 30, 2012 and 2011, there were no material impairment charges for assets and liabilities measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

(3) FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

As of September 30, 2012 and March 31, 2012, our cash and cash equivalents were \$871 million and \$1,293 million, respectively. Cash equivalents were valued at their carrying amounts as they approximate fair value due to the short maturities of these financial instruments.

Short-Term Investments

Short-term investments consisted of the following as of September 30, 2012 and March 31, 2012 (in millions):

| | As of September 30, 2012 | | | | As of March 31, 2012 | | | |
|--------------------------|--------------------------|------------------------|-------------------------|------------|------------------------|------------------------|-------------------------|------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Corporate bonds | \$179 | \$1 | \$— | \$180 | \$149 | \$1 | \$— | \$150 |
| U.S. Treasury securities | 95 | — | — | 95 | 166 | — | — | 166 |
| U.S. agency securities | 73 | — | — | 73 | 116 | — | — | 116 |
| Commercial paper | 3 | — | — | 3 | 5 | — | — | 5 |
| Short-term investments | \$350 | \$1 | \$— | \$351 | \$436 | \$1 | \$— | \$437 |

We evaluate our investments for impairment quarterly. Factors considered in the review of investments with an unrealized loss include the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, the severity of the impairment, the reason for the decline in value and potential recovery period, the financial condition and near-term prospects of the investees, our intent to sell the investments, any contractual terms impacting the prepayment or settlement process, as well as if we would be required to sell an investment due to liquidity or contractual reasons before its anticipated recovery. Based on our review, we did not consider these investments to be other-than-temporarily impaired as of September 30, 2012 and March 31, 2012.

The following table summarizes the amortized cost and fair value of our short-term investments, classified by stated maturity as of September 30, 2012 and March 31, 2012 (in millions):

| | As of September 30, 2012 | | As of March 31, 2012 | |
|------------------------|--------------------------|------------|----------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Short-term investments | | | | |
| Due in 1 year or less | \$132 | \$132 | \$207 | \$207 |
| Due in 1-2 years | 112 | 112 | 123 | 124 |
| Due in 2-3 years | 106 | 107 | 106 | 106 |
| Short-term investments | \$350 | \$351 | \$436 | \$437 |

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Marketable Equity Securities

Our investments in marketable equity securities consist of investments in common stock of publicly-traded companies and are accounted for as available-for-sale securities and are recorded at fair value. Unrealized gains and losses are recorded as a component of accumulated other comprehensive income in stockholders' equity, net of tax, until either the security is sold or we determine that the decline in the fair value of a security to a level below its adjusted cost basis is other-than-temporary. We evaluate these investments for impairment quarterly. If we conclude that an investment is other-than-temporarily impaired, we recognize an impairment charge at that time in our Condensed Consolidated Statements of Operations.

Marketable equity securities consisted of the following as of September 30, 2012 and March 31, 2012 (in millions):

| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------|------------------|------------------------------|-------------------------------|---------------|
| As of September 30, 2012 | \$32 | \$61 | \$— | \$93 |
| As of March 31, 2012 | \$32 | \$87 | \$— | \$119 |

We did not recognize any impairment charges during the three and six months ended September 30, 2012 and 2011 on our marketable equity securities. We did not sell any of our marketable securities during the three and six months ended September 30, 2012 and 2011.

0.75% Convertible Senior Notes Due 2016

The following table summarizes the carrying value and fair value of our 0.75% Convertible Senior Notes due 2016 as of September 30, 2012 and March 31, 2012 (in millions):

| | As of September 30, 2012 | | As of March 31, 2012 | |
|---|--------------------------|---------------|----------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 0.75% Convertible Senior Notes due 2016 | \$549 | \$580 | \$539 | \$584 |

The carrying value of the 0.75% Convertible Senior Notes due 2016 excludes the fair value of the equity conversion feature, which was classified as equity upon issuance, while the fair value is based on quoted market prices for the 0.75% Convertible Senior Notes due 2016, which includes the equity conversion feature. The fair value of the 0.75% Convertible Senior Notes due 2016 is classified as level 2 within the fair value hierarchy. See Note 11 for additional information related to our 0.75% Convertible Senior Notes due 2016.

(4) DERIVATIVE FINANCIAL INSTRUMENTS

The assets or liabilities associated with our derivative instruments and hedging activities are recorded at fair value in other current assets or accrued and other current liabilities, respectively, on our Condensed Consolidated Balance Sheets. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative instrument and whether it is designated and qualifies for hedge accounting.

We transact business in various foreign currencies and have significant international sales and expenses denominated in foreign currencies, subjecting us to foreign currency risk. We purchase foreign currency option contracts, generally with maturities of 15 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue and expenses denominated in certain foreign currencies. In addition, we utilize foreign currency forward contracts to mitigate foreign exchange rate risk associated with foreign-currency-denominated monetary assets and liabilities, primarily intercompany receivables and payables. The foreign currency forward contracts generally have a contractual term of approximately three months or less and are transacted near month-end. At each quarter-end, the fair value of the foreign currency forward contracts generally is not significant. We do not use foreign currency option or foreign currency forward contracts for speculative or trading purposes.

Cash Flow Hedging Activities

Our foreign currency option contracts are designated and qualify as cash flow hedges. The effectiveness of the cash flow hedge contracts, including time value, is assessed monthly using regression analysis, as well as other timing and

probability criteria. To qualify for hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedges and must be highly effective in offsetting changes to future cash flows on hedged transactions. The effective portion of gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated

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other comprehensive income in stockholders' equity. The gross amount of the effective portion of gains or losses resulting from changes in the fair value of these hedges is subsequently reclassified into net revenue or research and development expenses, as appropriate, in the period when the forecasted transaction is recognized in our Condensed Consolidated Statements of Operations. In the event that the gains or losses in accumulated other comprehensive income are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to interest and other expense, net, in our Condensed Consolidated Statements of Operations. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur, within the defined hedge period, the gains or losses on the related cash flow hedges are reclassified from accumulated other comprehensive income to interest and other expense, net, in our Condensed Consolidated Statements of Operations. As of September 30, 2012, we had foreign currency option contracts to purchase approximately \$53 million in foreign currency and to sell approximately \$94 million of foreign currency. All of the foreign currency option contracts outstanding as of September 30, 2012 will mature in the next 12 months. As of March 31, 2012, we had foreign currency option contracts to purchase approximately \$74 million in foreign currency and to sell approximately \$78 million of foreign currency. As of September 30, 2012, the fair value of these outstanding foreign currency option contracts was immaterial and are included in other current assets. As of March 31, 2012, these foreign currency option contracts outstanding had a total fair value of \$2 million and are included in other current assets.

The effective and ineffective portions of the gains and losses from our foreign currency option contracts in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2012 and 2011 were immaterial.

Balance Sheet Hedging Activities

Our foreign currency forward contracts are not designated as hedging instruments, and are accounted for as derivatives whereby the fair value of the contracts is reported as other current assets or accrued and other current liabilities on our Condensed Consolidated Balance Sheets, and gains and losses resulting from changes in the fair value are reported in interest and other expense, net, in our Condensed Consolidated Statements of Operations. The gains and losses on these foreign currency forward contracts generally offset the gains and losses in the underlying foreign-currency-denominated monetary assets and liabilities, which are also reported in interest and other expense, net, in our Condensed Consolidated Statements of Operations. As of September 30, 2012, we had foreign currency forward contracts to purchase and sell approximately \$352 million in foreign currencies. Of this amount, \$343 million represented contracts to sell foreign currencies in exchange for U.S. dollars, and \$9 million to sell foreign currency in exchange for British pounds sterling. As of March 31, 2012, we had foreign currency forward contracts to purchase and sell approximately \$242 million in foreign currencies. Of this amount, \$197 million represented contracts to sell foreign currencies in exchange for U.S. dollars, \$37 million to purchase foreign currency in exchange for U.S. dollars, and \$8 million to sell foreign currency in exchange for British pounds sterling. As of September 30, 2012 and March 31, 2012, the fair value of our foreign currency forward contracts was immaterial and is included in accrued and other liabilities.

The effect of foreign currency forward contracts in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2012 and 2011, was as follows (in millions):

| | Location of Gain (Loss) Recognized in Income from Derivatives | Amount of Gain (Loss) Recognized in Income from Derivatives | | | |
|--|---|---|--------|--------------------------------|------|
| | | Three Months Ended September 30, | | Six Months Ended September 30, | |
| | | 2012 | 2011 | 2012 | 2011 |
| Foreign currency forward contracts not designated as hedging instruments | Interest and other expense, net | \$(6 |) \$16 | \$1 | \$14 |

(5) BUSINESS COMBINATIONS

During the three and six months ended September 30, 2012, we completed one acquisition that did not have a significant impact on our Condensed Consolidated Financial Statements.

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The changes in the carrying amount of goodwill are as follows (in millions):

| | EA Labels Segment |
|---|-------------------|
| As of March 31, 2012 | |
| Goodwill | \$ 2,086 |
| Accumulated impairment | (368) |
| Total | 1,718 |
| Goodwill acquired | 3 |
| Effects of foreign currency translation | 2 |
| As of September 30, 2012 | |
| Goodwill | 2,091 |
| Accumulated impairment | (368) |
| Total | \$ 1,723 |

Amortization of intangibles for the three and six months ended September 30, 2012 and 2011, are classified in the Condensed Consolidated Statement of Operations as follows (in millions):

| | Three Months Ended | | Six Months Ended | |
|---------------------------|--------------------|------|------------------|------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Cost of product | \$8 | \$6 | \$17 | \$8 |
| Cost of service and other | 6 | 2 | 12 | 3 |
| Operating expenses | 7 | 13 | 14 | 26 |
| Total | \$21 | \$21 | \$43 | \$37 |

Acquisition-related intangibles consisted of the following (in millions):

| | As of September 30, 2012 | | | As of March 31, 2012 | | |
|--|--------------------------|--------------------------|--------------------------------------|-----------------------|--------------------------|--------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Acquisition-Related Intangibles, Net | Gross Carrying Amount | Accumulated Amortization | Acquisition-Related Intangibles, Net |
| Developed and core technology | \$525 | \$ (257) | \$ 268 | \$518 | \$ (229) | \$ 289 |
| Trade names and trademarks | 131 | (91) | 40 | 131 | (84) | 47 |
| Registered user base and other intangibles | 90 | (83) | 7 | 90 | (80) | 10 |
| Carrier contracts and related | 85 | (70) | 15 | 85 | (67) | 18 |
| In-process research and development | 4 | — | 4 | 5 | — | 5 |
| Total | \$835 | \$ (501) | \$ 334 | \$829 | \$ (460) | \$ 369 |

Acquisition-related 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 fourteen years. As of September 30, 2012 and March 31, 2012, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 5.3 years and 5.7 years, respectively.

As of September 30, 2012, future amortization of acquisition-related intangibles that will be recorded in cost of revenue and operating expenses is estimated as follows (in millions):

| | |
|------------------------------|-------|
| Fiscal Year Ending March 31, | |
| 2013 (remaining six months) | \$38 |
| 2014 | 68 |
| 2015 | 63 |
| 2016 | 52 |
| 2017 | 43 |
| Thereafter | 70 |
| Total | \$334 |

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(7) RESTRUCTURING AND OTHER CHARGES

Restructuring and other restructuring plan-related information as of September 30, 2012 was as follows (in millions):

| | Fiscal 2013 Restructuring | | | Fiscal 2011 Restructuring | | Other Restructurings and Reorganization | | Total |
|-----------------------------------|------------------------------|------------------------|-------|------------------------------|-------|---|-------|-------|
| | Workforce | Facilities- related | Other | Workforce | Other | Facilities- related | Other | |
| Balances as of March 31, 2011 | \$— | \$— | \$— | \$3 | \$101 | \$8 | \$5 | \$117 |
| Charges to operations | — | — | — | (1) | 21 | (12) | 8 | 16 |
| Charges settled in cash | — | — | — | (2) | (47) | 7 | (13) | (55) |
| Balances as of March 31, 2012 | — | — | — | — | 75 | 3 | — | 78 |
| Charges to operations | 11 | 2 | 9 | — | 3 | — | — | 25 |
| Charges settled in cash | (9) | — | (1) | — | (3) | (1) | — | (14) |
| Changes settled in non-cash | — | — | (7) | — | — | — | — | (7) |
| Balances as of September 30, 2012 | \$2 | \$2 | \$1 | \$— | \$75 | \$2 | \$— | \$82 |

Fiscal 2013 Restructuring

On May 7, 2012, we announced a restructuring plan to align our cost structure with our ongoing digital transformation. Under this plan, we reduced our workforce, terminated licensing agreements, and consolidated or closed various facilities. The majority of these actions were completed by September 30, 2012.

Since the inception of the fiscal 2013 restructuring plan through September 30, 2012, we have incurred charges of \$22 million, consisting of (1) \$11 million in employee-related expenses, (2) \$9 million related to license termination costs, and (3) \$2 million related to the closure of certain of our facilities. We anticipate incurring approximately \$3 million of additional facility closure costs related to this plan during the three months ended December 31, 2012. Substantially all of these costs will be settled in cash by March 31, 2013, with the exception of approximately \$4 million of license and lease termination costs, which will be settled by May 2016.

Fiscal 2011 Restructuring

In fiscal year 2011, we announced a plan focused on the restructuring of certain licensing and developer agreements in an effort to improve the long-term profitability of our packaged goods business. Under this plan, we amended certain licensing and developer agreements. To a much lesser extent, as part of this restructuring we had workforce reductions and facilities closures through March 31, 2011. Substantially all of these exit activities were completed by March 31, 2011.

Since the inception of the fiscal 2011 restructuring plan through September 30, 2012, we have incurred charges of \$171 million, consisting of (1) \$128 million related to the amendment of certain licensing agreements and other intangible asset impairment costs, (2) \$31 million related to the amendment of certain developer agreements, and (3) \$12 million in employee-related expenses. The \$75 million restructuring accrual as of September 30, 2012 related to the fiscal 2011 restructuring is expected to be settled by June 2016. We currently estimate recognizing in future periods through June 2016, approximately \$11 million for the accretion of interest expense related to our amended licensing and developer agreements, of which \$3 million will be recognized during the remainder of fiscal year 2013. This interest expense will be included in restructuring and other charges in our Condensed Consolidated Statement of Operations.

Overall, including \$171 million in charges incurred through September 30, 2012, we expect to incur total cash and non-cash charges between \$180 million and \$185 million by June 2016. These charges will consist primarily of (1) charges, including accretion of interest expense, related to the amendment of certain licensing and developer agreements and other intangible asset impairment costs (approximately \$170 million) and (2) employee-related costs

(\$12 million).

Other Restructurings and Reorganization

We also engaged in various other restructurings and a reorganization based on management decisions made prior to fiscal 2011. We do not expect to incur any additional restructuring charges under these plans. The \$2 million restructuring accrual as of September 30, 2012 related to our other restructuring plans is expected to be settled by September 2016.

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(8) ROYALTIES AND LICENSES

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and 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 the delivery of products.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue generally at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. 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 release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed to research and development over the development period as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of revenue.

Our contracts with some licensors include minimum guaranteed royalty payments, which are initially recorded as an asset and as a liability at the contractual amount when no performance remains with the licensor. When performance remains with the licensor, we record guarantee payments as an asset when actually paid and as a liability when incurred, rather than recording the asset and liability upon execution of the contract. Royalty liabilities are classified as current liabilities to the extent such royalty payments are contractually due within the next 12 months.

Each quarter, we also evaluate the expected 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 or losses determined before the launch of a product are charged to research and development expense. Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment generally using undiscounted cash flows when impairment indicators exist. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (i.e., cease use) or the contractual rights to use the intellectual property are terminated. During the three months ended September 30, 2012, we recognized losses of \$9 million on previously unrecognized royalty-based commitments. During the six months ended September 30, 2012, we recognized losses of \$18 million on previously unrecognized royalty-based commitments, inclusive of \$9 million in license termination costs related to our fiscal 2013 restructuring. During the three and six months ended September 30, 2011, we recognized a reduction of accrued expenses of \$1 million and additional losses of \$14 million, respectively, representing adjustments to our fiscal 2011 restructuring. The losses related to restructuring and other plan-related activities are presented in Note 7.

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 September 30, 2012 | As of March 31, 2012 |
|------------------------|--------------------------------|----------------------------|
| Other current assets | \$66 | \$85 |
| Other assets | 102 | 102 |
| Royalty-related assets | \$168 | \$187 |

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 owed to these parties as accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other current liabilities and other liabilities, consisted of (in millions):

As of

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| | As of September 30, 2012 | March 31, 2012 |
|---------------------------------------|--------------------------------|-------------------|
| Accrued and other current liabilities | \$149 | \$121 |
| Other liabilities | 68 | 52 |
| Royalty-related liabilities | \$217 | \$173 |

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As of September 30, 2012, \$1 million of restructuring accruals related to the fiscal 2013 restructuring plan, and \$75 million of restructuring accruals related to the fiscal 2011 restructuring plan are included in royalty-related liabilities in the table above. See Note 7 for details of restructuring and other restructuring plan-related activities and Note 9 for the details of our accrued and other current liabilities.

In addition, as of September 30, 2012, we were committed to pay approximately \$1,168 million to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (i.e., delivery of the product or content or other factors) and such commitments were therefore not recorded in our Condensed Consolidated Financial Statements.

(9) BALANCE SHEET DETAILS**Inventories**

Inventories as of September 30, 2012 and March 31, 2012 consisted of (in millions):

| | As of September 30, 2012 | As of March 31, 2012 |
|-----------------------------------|--------------------------------|----------------------------|
| Raw materials and work in process | \$3 | \$— |
| In-transit inventory | 2 | — |
| Finished goods | 66 | 59 |
| Inventories | \$71 | \$59 |

Property and Equipment, Net

Property and equipment, net, as of September 30, 2012 and March 31, 2012 consisted of (in millions):

| | As of September 30, 2012 | As of March 31, 2012 |
|--|--------------------------------|----------------------------|
| Computer equipment and software | \$637 | \$575 |
| Buildings | 341 | 339 |
| Leasehold improvements | 129 | 121 |
| Office equipment, furniture and fixtures | 73 | 72 |
| Land | 64 | 64 |
| Warehouse equipment and other | 10 | 10 |
| Construction in progress | 9 | 38 |
| | 1,263 | 1,219 |
| Less: accumulated depreciation | (702) | (651) |
| Property and equipment, net | \$561 | \$568 |

Depreciation expense associated with property and equipment was \$29 million and \$57 million for the three and six months ended September 30, 2012, respectively. Depreciation expense associated with property and equipment was \$26 million and \$51 million for the three and six months ended September 30, 2011, respectively.

Acquisition-Related Restricted Cash Included in Other Current Assets

Included in other current assets on our Condensed Consolidated Balance Sheets was \$6 million and \$31 million of acquisition-related restricted cash as of September 30, 2012 and March 31, 2012, respectively. As these deposits are restricted in nature, they are excluded from cash and cash equivalents.

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Accrued and Other Current Liabilities

Accrued and other current liabilities as of September 30, 2012 and March 31, 2012 consisted of (in millions):

| | As of September 30, 2012 | As of March 31, 2012 |
|---------------------------------------|--------------------------------|----------------------------|
| Other accrued expenses | \$404 | \$441 |
| Accrued compensation and benefits | 169 | 233 |
| Deferred net revenue (other) | 175 | 85 |
| Accrued royalties | 126 | 98 |
| Accrued and other current liabilities | \$874 | \$857 |

Deferred net revenue (other) includes the deferral of subscription revenue, deferrals related to our Switzerland distribution business, advertising revenue, licensing arrangements, and other revenue for which revenue recognition criteria has not been met.

Deferred Net Revenue (Packaged Goods and Digital Content)

Deferred net revenue (packaged goods and digital content) was \$953 million and \$1,048 million as of September 30, 2012 and March 31, 2012, respectively. Deferred net revenue (packaged goods and digital content) includes the unrecognized revenue from (1) bundled sales of certain online-enabled packaged goods and digital content for which either we do not have VSOE for the online service that we provide in connection with the sale of the software or we have an obligation to provide future incremental unspecified digital content, (2) certain packaged goods sales of MMO role-playing games, and (3) sales of certain incremental content associated with our core subscription services that can only be played online, which are types of “micro-transactions.” We recognize revenue from sales of online-enabled packaged goods and digital content for which (1) we do not have VSOE for the online service that we provided in connection with the sale and (2) we have an obligation to deliver incremental unspecified digital content in the future without an additional fee on a straight-line basis generally over an estimated six-month period beginning in the month after shipment. However, we expense the cost of revenue related to these transactions during the period in which the product is delivered (rather than on a deferred basis).

(10) INCOME TAXES

We estimate our annual effective tax rate at the end of each quarterly period, and we record the tax effect of certain discrete items, which are unusual or occur infrequently, in the interim period in which they occur, including changes in judgment about deferred tax valuation allowances. In addition, jurisdictions with a projected loss for the year, jurisdictions with a year-to-date loss where no tax benefit can be recognized, and jurisdictions where we are unable to estimate an annual effective tax rate are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter depending on the mix and timing of actual earnings versus annual projections.

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statement amount and the tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards. We record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. In making this determination, we are required to give significant weight to evidence that can be objectively verified. It is generally difficult to conclude that a valuation allowance is not needed when there is significant negative evidence, such as cumulative losses in recent years. Forecasts of future taxable income are considered to be less objective than past results, particularly in light of the economic environment. Therefore, cumulative losses weigh heavily in the overall assessment. Based on the assumptions and requirements noted above, we have recorded a valuation allowance against most of our U.S. deferred tax assets. In addition, we expect to provide a valuation allowance on future U.S. tax benefits until we can sustain a level of profitability or until other significant positive evidence arises that suggest that these benefits are more likely than not to be realized.

During the three months ended September 30, 2011, we recorded approximately \$55 million of additional net deferred tax liabilities related to the PopCap acquisition. These additional deferred tax liabilities create a new source of taxable

income, thereby requiring us to release a portion of our deferred tax asset valuation allowance with a related reduction in income tax expense of \$55 million.

The provision for income taxes reported for the three and six months ended September 30, 2012 is based on our projected annual effective tax rate for fiscal year 2013, and also includes certain discrete tax benefits recorded during the period. Our effective tax rate for the three and six months ended September 30, 2012 was a tax expense of 3.5 percent and 13.9 percent,

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respectively, as compared to a tax benefit of 10.5 percent and 20.7 percent, respectively, for the same periods of fiscal 2012. The effective tax rate for the three and six months ended September 30, 2012 differs from the statutory rate of 35.0 percent primarily due to the U.S. losses for which no benefit is recognized and non-U.S. losses with a reduced or zero tax benefit. The effective tax rate for the three and six months ended September 30, 2011 differs from the statutory rate of 35.0 percent primarily due to the utilization of U.S. deferred tax assets which were subject to a valuation allowance, a reduction in the U.S. valuation allowance related to the PopCap acquisition, and non-U.S. profits subject to a reduced or zero tax rate. The effective tax rate for the three and six months ended September 30, 2012 differs from the same period in fiscal year 2012 primarily due to greater tax benefits recorded in fiscal year 2012 related to the reduction of the U.S. valuation allowance for the PopCap acquisition.

During the three months ended September 30, 2012, we recorded a net increase of \$9 million in gross unrecognized tax benefits. The total gross unrecognized tax benefits as of September 30, 2012 is \$283 million, of which approximately \$43 million is offset by prior cash deposits to tax authorities for issues pending resolution. A portion of our unrecognized tax benefits will affect our effective tax rate if they are recognized upon favorable resolution of the uncertain tax positions. As of September 30, 2012, if recognized, approximately \$102 million of the unrecognized tax benefits would affect our effective tax rate and approximately \$168 million would result in adjustments to deferred tax assets with corresponding adjustments to the valuation allowance.

During the three months ended September 30, 2012, we recorded a net increase in taxes of \$2 million for accrued interest and penalties related to tax positions taken on our tax returns. As of September 30, 2012, the combined amount of accrued interest and penalties related to uncertain tax positions included in income tax obligations on our Condensed Consolidated Balance Sheet was approximately \$23 million.

The IRS has completed its examination of our federal income tax returns through fiscal year 2005, and is currently examining our returns for fiscal years 2006 through 2011. We are also currently under income tax examination in Canada for fiscal years 2004 and 2005, and in France for fiscal years 2006 through 2008. We remain subject to income tax examination for several other jurisdictions including Canada for fiscal years after 2003, in France for fiscal years after 2008, in Germany for fiscal years after 2007, in the United Kingdom for fiscal years after 2009, and in Switzerland for fiscal years after 2007.

The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Although potential resolution of uncertain tax positions involve multiple tax periods and jurisdictions, it is reasonably possible that a reduction of up to \$81 million of the reserves for unrecognized tax benefits may occur within the next 12 months, some of which, depending on the nature of the settlement or expiration of statutes of limitations, may affect our income tax provision (benefit) and therefore benefit the resulting effective tax rate. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements.

(11) FINANCING ARRANGEMENTS**0.75% Convertible Senior Notes Due 2016**

In July 2011, we issued \$632.5 million aggregate principal amount of 0.75% Convertible Senior Notes due 2016 (the "Notes"). The Notes are senior unsecured obligations which pay interest semiannually in arrears at a rate of 0.75 percent per annum on January 15 and July 15 of each year, beginning on January 15, 2012 and will mature on July 15, 2016, unless earlier purchased or converted in accordance with their terms prior to such date. The Notes are senior in right of payment to any unsecured indebtedness that is expressly subordinated in right of payment to the Notes.

The Notes are convertible into cash and shares of our common stock based on an initial conversion value of 31.5075 shares of our common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$31.74 per share). Upon conversion of the Notes, holders will receive cash up to the principal amount of each Note, and any excess conversion value will be delivered in shares of our common stock. Prior to April 15, 2016, the Notes are convertible only if (1) the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130 percent of the conversion price (\$41.26 per share)

on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of notes falls below 98 percent of the last reported sale price of our common stock multiplied by the conversion rate on each trading day; or (3) specified corporate transactions, including a change in control, occur. On or after April 15, 2016, a holder may convert any of its Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. The conversion rate is subject to customary anti-dilution adjustments (for example, certain dividend distributions or tender or exchange offer of our common stock), but will not be adjusted for any accrued and unpaid interest. The Notes are not

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redeemable prior to maturity except for specified corporate transactions and events of default, and no sinking fund is provided for the Notes. The Notes do not contain any financial covenants.

We separately account for the liability and equity components of the Notes. The carrying amount of the equity component representing the conversion option is equal to the fair value of the Convertible Note Hedge, as described below, which is a substantially identical instrument and was purchased on the same day as the Notes. The carrying amount of the liability component was determined by deducting the fair value of the equity component from the par value of the Notes as a whole, and represents the fair value of a similar liability that does not have an associated convertible feature. A liability of \$525 million as of the date of issuance was recognized for the principal amount of the Notes representing the present value of the Notes' cash flows using a discount rate of 4.54 percent. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the term of the Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for \$15 million of issuance costs related to the Notes issuance, we allocated \$13 million to the liability component and \$2 million to the equity component. Debt issuance costs attributable to the liability component are being amortized to interest expense over the term of the Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

The carrying values of the liability and equity components of the Notes are reflected in our Condensed Consolidated Balance Sheet as follows (in millions):

| | As of September 30, 2012 | As of March 31, 2012 |
|---|--------------------------------|----------------------------|
| Principal amount of Notes | \$633 | \$633 |
| Unamortized discount of the liability component | (84 |) (94 |
| Net carrying amount of Notes | \$549 | \$539 |
| Equity component, net | \$105 | \$105 |

Interest expense recognized related to the Notes are as follows (in millions):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|------|-----------------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Amortization of debt discount | \$5 | \$4 | \$10 | \$4 |
| Amortization of debt issuance costs | 1 | 1 | 2 | 1 |
| Coupon interest expense | 1 | 1 | 2 | 1 |
| Total interest expense related to Notes | \$7 | \$6 | \$14 | \$6 |

As of September 30, 2012, the remaining life of the Notes is 3.8 years.

Convertible Note Hedge and Warrants Issuance

In addition, in July 2011, we entered into privately negotiated convertible note hedge transactions (the "Convertible Note Hedge") with certain counterparties to reduce the potential dilution with respect to our common stock upon conversion of the Notes. The Convertible Note Hedge, subject to customary anti-dilution adjustments, provides us with the option to acquire, on a net settlement basis, approximately 19.9 million shares of our common stock at a strike price of \$31.74, which corresponds to the conversion price of the Notes and is equal to the number of shares of our common stock that notionally underlie the Notes. As of September 30, 2012, we have not purchased any shares under the Convertible Note Hedge. We paid \$107 million for the Convertible Note Hedge, which was recorded as an equity transaction.

Separately, in July 2011 we also entered into privately negotiated warrant transactions with the certain counterparties whereby we sold to independent third parties warrants (the "Warrants") to acquire, subject to customary anti-dilution adjustments that are substantially the same as the anti-dilution provisions contained in the Notes, up to 19.9 million shares of our common stock (which is also equal to the number of shares of our common stock that notionally underlie the Notes), with a strike price of \$41.14. The Warrants could have a dilutive effect with respect to our common stock to the extent that the market price per share of its common stock exceeds \$41.14 on or prior to the expiration date of

the Warrants. We received proceeds of \$65 million from the sale of the Warrants.

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Credit Facility

On August 30, 2012, we entered into a \$500 million 3.5 years senior unsecured revolving credit facility with a syndicate of banks. The credit facility terminates on February 29, 2016 and contains an option to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$250 million in additional commitments for revolving loans. Proceeds of loans made under the credit facility may be used for general corporate purposes.

The loans bear interest, at our option, at the base rate plus an applicable spread or an adjusted LIBOR rate plus an applicable spread, in each case with such spread being determined based on our consolidated leverage ratio for the preceding fiscal quarter. We are also obligated to pay other customary fees for a credit facility of this size and type. Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable on February 29, 2016.

The credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, dispose of all or substantially all assets and pay dividends or make distributions, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a capitalization ratio and maintain a minimum level of total liquidity and a minimum level of domestic liquidity.

The credit agreement contains customary events of default, including among others, non-payment defaults, covenant defaults, bankruptcy and insolvency defaults and a change of control default, in each case, subject to customary exceptions for a credit facility of this size and type. The occurrence of an event of default could result in the acceleration of the obligations under the credit agreement, an obligation by any guarantors to repay the obligations in full and an increase in the applicable interest rate.

As of September 30, 2012, no amounts were outstanding under the credit facility. During the three months ended September 30, 2012, we paid \$2 million of debt issuance costs in connection with obtaining this credit facility. These costs are deferred and are being amortized to interest expense over the 3.5 years term of the credit facility.

(12) COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of September 30, 2012, we leased certain facilities, furniture and equipment under non-cancelable operating lease agreements. We were required to pay property taxes, insurance and normal maintenance costs for certain of these facilities and any increases over the base year of these expenses on the remainder of our facilities.

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

The products we produce in 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 generally 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 may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation, FAPL (Football Association Premier League Limited), and DFL Deutsche Fußball Liga GmbH (German Soccer League) (professional soccer); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Augusta National (professional golf); National Hockey League and NHL Players’ Association (professional hockey); National Football League Properties, PLAYERS Inc., and Red Bear Inc. (professional football); Collegiate Licensing Company (collegiate football); Zuffa, LLC (Ultimate

Fighting Championship); ESPN (content in EA SPORTS games); Hasbro, Inc. (most of Hasbro's toy and game intellectual properties); and LucasArts and Lucas Licensing (Star Wars: The Old Republic). These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed 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 as of September 30, 2012 (in millions):

| | Total | Fiscal Year Ending March 31, 2013 (Remaining six mos.) | 2014 | 2015 | 2016 | 2017 | Thereafter |
|--|---------|---|-------|-------|-------|-------|------------|
| Unrecognized commitments | | | | | | | |
| Developer/licensor commitments | \$1,168 | \$66 | \$166 | \$164 | \$207 | \$58 | \$507 |
| Marketing commitments | 273 | 49 | 53 | 34 | 34 | 20 | 83 |
| Operating leases | 196 | 26 | 51 | 42 | 29 | 16 | 32 |
| 0.75% Convertible Senior Notes due 2016 interest ^(a) | 19 | 2 | 5 | 5 | 5 | 2 | — |
| Other purchase obligations | 45 | 15 | 22 | 8 | — | — | — |
| Total unrecognized commitments | 1,701 | 158 | 297 | 253 | 275 | 96 | 622 |
| Recognized commitments | | | | | | | |
| 0.75% Convertible Senior Notes due 2016 principal ^(a) | 633 | — | — | — | — | 633 | — |
| Licensing and lease obligations ^(b) | 95 | 21 | 27 | 20 | 5 | 20 | 2 |
| Total recognized commitments | 728 | 21 | 27 | 20 | 5 | 653 | 2 |
| Total Commitments | \$2,429 | \$179 | \$324 | \$273 | \$280 | \$749 | \$624 |

Included in the \$19 million coupon interest on the 0.75% Convertible Senior Notes due 2016 is \$1 million of accrued interest recognized as of September 30, 2012. We will be obligated to pay the \$632.5 million principal amount of the 0.75% Convertible Senior Notes due 2016 in cash and any excess conversion value in shares of our common stock upon redemption of the Notes at maturity on July 15, 2016 or upon earlier redemption. The \$632.5 million principal amount excludes \$84 million of unamortized discount of the liability component. See Note 11 for additional information regarding our 0.75% Convertible Senior Notes due 2016.

See Note 7 for additional information regarding recognized commitments resulting from our restructuring plans.

(b) Lease commitments have not been reduced for approximately \$6 million due in the future from third parties under non-cancelable sub-leases.

The unrecognized amounts represented in the table above reflect our minimum cash obligations for the respective fiscal years, but do not necessarily represent the periods in which they will be recognized and expensed in our Condensed Consolidated Financial Statements. In addition, the amounts in the table above are presented based on the dates the amounts are contractually due as of September 30, 2012; however, certain payment obligations may be accelerated depending on the performance of our operating results.

In addition to what is included in the table above, as of September 30, 2012, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$261 million, of which we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

In addition to what is included in the table above as of September 30, 2012, primarily in connection with our PopCap, KlickNation, and Chillingo acquisitions, we may be required to pay an additional \$568 million of cash consideration based upon the achievement of certain performance milestones through March 31, 2015. As of September 30, 2012, we have accrued \$88 million of contingent consideration on our Condensed Consolidated Balance Sheet representing the estimated fair value of the contingent consideration.

Legal Proceedings

In June 2008, Geoffrey Pecover filed an antitrust class action in the United States District Court for the Northern District of California, alleging that EA obtained an illegal monopoly in a discreet antitrust market that consists of “league-branded football simulation video games” by bidding for, and winning, exclusive licenses with the NFL, Collegiate Licensing Company and Arena Football League. In December 2010, the district court granted the plaintiffs’ request to certify a class of plaintiffs consisting of all consumers who purchased EA’s Madden NFL, NCAA Football

or Arena Football video games after 2005. In May 2012, the parties reached a settlement in principle to resolve all claims related to this action. As a result, we recognized a

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\$27 million accrual for the fourth quarter of fiscal 2012 associated with the potential settlement. In July 2012, the plaintiffs filed a motion with the court to approve the settlement. On October 5, 2012, the court granted its preliminary approval of the settlement and scheduled a hearing to consider the court's final approval of the settlement for February 7, 2013.

We are also subject to claims and litigation arising in the ordinary course of business. We do not believe that any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on our Condensed Consolidated Financial Statements.

(13) STOCK-BASED COMPENSATION**Valuation Assumptions**

We are required to estimate the fair value of share-based payment awards on the date of grant. We recognize compensation costs for stock-based payment awards to employees based on the grant-date fair value using a straight-line approach over the service period for which such awards are expected to vest.

We determine the fair value of our share-based payment awards as follows:

Restricted Stock Units, Restricted Stock, and Performance-Based Restricted Stock Units. The fair value of restricted stock units, restricted stock, and performance-based restricted stock units (other than market-based restricted stock units) is determined based on the quoted market price of our common stock on the date of grant. Performance-based restricted stock units include grants made (1) to certain members of executive management primarily granted in fiscal year 2008 and (2) in connection with certain acquisitions.

Market-Based Restricted Stock Units. Market-based restricted stock units consist of grants of performance-based restricted stock units to certain members of executive management (referred to herein as "market-based restricted stock units"). The fair value of our market-based restricted stock units is determined using a Monte-Carlo simulation model. Key assumptions for the Monte-Carlo simulation model are the risk-free interest rate, expected volatility (of our common stock and of the common stock of our peer companies within the NASDAQ-100 Index), expected dividends and correlation coefficient.

Stock Options and Employee Stock Purchase Plan. The fair value of stock options and stock purchase rights granted pursuant to our equity incentive plans and our 2000 Employee Stock Purchase Plan ("ESPP"), respectively, is determined using the Black-Scholes valuation model based on the multiple-award valuation method. Key assumptions of the Black-Scholes valuation model are the risk-free interest rate, expected volatility, expected term and expected dividends.

The determination of the fair value of market-based restricted stock units, stock options and ESPP is affected by assumptions regarding subjective and complex variables. Generally, our assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes.

The estimated assumptions used in the Black-Scholes valuation model to value our stock option grants were as follows:

| | Stock Option Grants | | | | ESPP | | |
|-----------------------------|---|------------|---|------------|---|---------------|---|
| | Three Months Ended September 30, 2012 | | Six Months Ended September 30, 2012 | | Three Months Ended September 30, 2012 | | |
| | 2011 | 2011 | 2011 | 2011 | 2011 | 2011 | |
| Risk-free interest rate | 0.4 - 1.0% | 0.4 - 1.2% | 0.4 - 1.0% | 0.4 - 1.8% | 0.1 - 0.2% | 0.1 | % |
| Expected volatility | 40 - 45% | 41 - 44% | 40 - 46% | 40 - 44% | 41 - 42% | 39 - 40% | |
| Weighted-average volatility | 42 | % 44 | % 44 | % 43 | % 41 | % 39 | % |
| Expected term | 4.3 years | 4.4 years | 4.4 years | 4.4 years | 6 - 12 months | 6 - 12 months | |
| Expected dividends | None | None | None | None | None | None | |

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The estimated assumptions used in the Monte-Carlo simulation model to value our market-based restricted stock units were as follows:

| | Six Months Ended | |
|-----------------------------|------------------|------------|
| | September 30, | |
| | 2012 | 2011 |
| Risk-free interest rate | 0.2 - 0.4% | 0.2 - 0.6% |
| Expected volatility | 17 - 116% | 14 - 83% |
| Weighted-average volatility | 36 | % 35 |
| Expected dividends | None | None |

There were no market-based restricted stock units granted during the three months ended September 30, 2012 and 2011.

Stock-Based Compensation Expense

Employee stock-based compensation expense recognized during the three and six months ended September 30, 2012 and 2011 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. In subsequent periods, if actual forfeitures differ from those estimates, an adjustment to stock-based compensation expense will be recognized at that time.

The following table summarizes stock-based compensation expense resulting from stock options, restricted stock, restricted stock units and the ESPP included in our Condensed Consolidated Statements of Operations (in millions):

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|------|------------------|------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenue | \$— | \$— | \$1 | \$1 |
| Research and development | 27 | 28 | 49 | 51 |
| General and administrative | 9 | 9 | 18 | 18 |
| Marketing and sales | 8 | 6 | 15 | 11 |
| Stock-based compensation expense | \$44 | \$43 | \$83 | \$81 |

During the three and six months ended September 30, 2012 and 2011, we did not recognize any provision for or benefit from income taxes related to our stock-based compensation expense.

As of September 30, 2012, our total unrecognized compensation cost related to stock options was \$8 million and is expected to be recognized over a weighted-average service period of 2.2 years. As of September 30, 2012, our total unrecognized compensation cost related to restricted stock and restricted stock units (collectively referred to as “restricted stock rights”) was \$301 million and is expected to be recognized over a weighted-average service period of 2.0 years. Of the \$301 million of unrecognized compensation cost, \$16 million relates to market-based restricted stock units and \$1 million relates to performance-based restricted stock units.

Stock Options

The following table summarizes our stock option activity for the six months ended September 30, 2012:

| | Options (in thousands) | Weighted- Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|--------------------------------------|---------------------------|--|---|---|
| Outstanding as of March 31, 2012 | 9,774 | \$34.17 | | |
| Granted | 240 | 12.97 | | |
| Exercised | (11 |) 13.11 | | |
| Forfeited, cancelled or expired | (797 |) 35.46 | | |
| Outstanding as of September 30, 2012 | 9,206 | 33.54 | 4.41 | \$— |
| Vested and expected to vest | 9,134 | 33.68 | 4.37 | \$— |
| Exercisable as of September 30, 2012 | 8,476 | 34.90 | 4.08 | \$— |

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The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price as of September 30, 2012, which would have been received by the option holders had all the option holders exercised their options as of that date. The weighted-average grant date fair values of stock options granted during the three and six months ended September 30, 2012 were \$4.36 and \$4.65, respectively. We issue new common stock from our authorized shares upon the exercise of stock options.

Restricted Stock Rights

The following table summarizes our restricted stock rights activity, excluding performance-based and market-based restricted stock unit activity discussed below, for the six months ended September 30, 2012:

| | Restricted Stock Rights (in thousands) | Weighted-Average Grant Date Fair Value |
|----------------------------------|---|--|
| Balance as of March 31, 2012 | 16,323 | \$20.73 |
| Granted | 7,938 | 12.51 |
| Vested | (4,583 |) 21.56 |
| Forfeited or cancelled | (993 |) 18.86 |
| Balance as of September 30, 2012 | 18,685 | 17.13 |

The weighted-average grant date fair values of restricted stock rights granted during the three and six months ended September 30, 2012 were \$12.43 and \$12.51, respectively.

Performance-Based Restricted Stock Units

The following table summarizes our performance-based restricted stock unit activity for the six months ended September 30, 2012:

| | Performance-Based Restricted Stock Units (in thousands) | Weighted-Average Grant Date Fair Value |
|----------------------------------|--|--|
| Balance as of March 31, 2012 | 1,421 | \$50.35 |
| Vested | (19 |) 15.39 |
| Forfeited or cancelled | (55 |) 46.48 |
| Balance as of September 30, 2012 | 1,347 | 51.00 |

Market-Based Restricted Stock Units

Our market-based restricted stock units vest contingent upon the achievement of pre-determined market and service conditions. If these market conditions are not met but service conditions are met, the restricted stock units will not vest; however, any compensation expense we have recognized to date will not be reversed. The number of shares of common stock to be received at vesting will range from zero percent to 200 percent of the target number of stock units based on our total stockholder return ("TSR") relative to the performance of companies in the NASDAQ-100 Index for each measurement period over a three year period. The maximum number of common shares that could vest is approximately 2 million for market-based restricted stock units. The following table summarizes our market-based restricted stock unit activity for the six months ended September 30, 2012. We present shares granted at 100 percent of target of the number of stock units that may potentially vest.

| | Market-Based Restricted Stock Units (in thousands) | Weighted-Average Grant Date Fair Value |
|----------------------------------|---|--|
| Balance as of March 31, 2012 | 520 | \$34.77 |
| Granted | 670 | 10.45 |
| Vested | (111 |) 34.77 |
| Forfeited or cancelled | (62 |) 34.77 |
| Balance as of September 30, 2012 | 1,017 | 18.75 |

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Stock Repurchase Program

In February 2011, our Board of Directors authorized a program to repurchase up to \$600 million of our common stock over the next 18 months. We completed our program in April 2012. We repurchased approximately 32 million shares in the open market under the program. During the three months ended June 30, 2012, we repurchased and retired approximately 4.3 million shares of our common stock for approximately \$71 million.

In July 2012, our Board of Directors authorized a new program to repurchase up to \$500 million of our common stock. Under the program, we may purchase stock in the open market or through privately-negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase any specific number of shares under the program and the repurchase program may be modified, suspended or discontinued at any time. During the three months ended September 30, 2012, we repurchased and retired approximately 8.4 million shares of our common stock for approximately \$108 million under this new program. We continue to actively repurchase shares under this program.

During the six months ended September 30, 2012, we repurchased and retired approximately 12.7 million shares of our common stock for approximately \$179 million.

Annual Meeting of Stockholders

At our Annual Meeting of Stockholders, held on July 26, 2012, our stockholders approved amendments to our 2000 Equity Incentive Plan (the "Equity Plan") to increase the number of shares of common stock authorized under the Equity Plan by 6,180,000 shares, and to increase the limit on the number of shares that may be covered by equity awards to eligible persons under the Equity Plan in a fiscal year.

(14) NET LOSS PER SHARE

As a result of our net loss for the three and six months ended September 30, 2012, we have excluded all outstanding equity-based instruments from the diluted loss per share ("Diluted EPS") calculation as their inclusion would have had an antidilutive effect. Had we reported net income for these periods, an additional 2 million shares of common stock would have been included in the number of shares used to calculate Diluted EPS for both the three and six months ended September 30, 2012.

As a result of our net loss for the three and six months ended September 30, 2011, we have excluded all outstanding equity-based instruments from the Diluted EPS calculation as their inclusion would have had an antidilutive effect. Had we reported net income for these periods, an additional 6 million shares and 7 million shares of common stock would have been included in the number of shares used to calculate Diluted EPS, respectively.

Potentially dilutive shares of common stock related to our 0.75% Convertible Senior Notes due 2016 issued during the fiscal year ended March 31, 2012, which have a conversion price of \$31.74 per share and the associated Warrants, which have a conversion price of \$41.14 per share were excluded from the computation of Diluted EPS for the three and six months ended September 30, 2012 as their inclusion would have had an antidilutive effect resulting from the conversion price. The associated Convertible Note Hedge was excluded from the calculation of diluted shares as the impact is always considered antidilutive since the call option would be exercised by us when the exercise price is lower than the market price. See Note 11 for additional information related to our 0.75% Convertible Senior Notes due 2016 and related Convertible Note Hedge and Warrants.

(15) SEGMENT INFORMATION

Our reporting segments are based upon: our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, our Chief Operating Decision Maker ("CODM"), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations.

Our business is currently organized around our six operating labels, EA Games, EA SPORTS, Maxis, BioWare, PopCap and All Play. During the three months ended September 30, 2012, we renamed our Social/Mobile studios to All Play. Our CODM regularly reviews the results of each of the operating labels. Due to their similar economic characteristics, products, and distribution methods, all six of the operating labels are aggregated into one reportable segment (the “EA Labels” segment) as shown below. In addition to assessing performance and allocating resources based on our operating segments, to a lesser degree, our CODM also reviews results based on geographic performance.

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The following table summarizes the financial performance of the EA Labels segment and a reconciliation of the EA Labels segment's income to our consolidated operating loss for the three and six months ended September 30, 2012 and 2011 (in millions):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|-------------------------------------|----------|-----------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| EA Labels segment: | | | | |
| Net revenue before revenue deferral | \$ 1,059 | \$ 1,012 | \$ 1,526 | \$ 1,518 |
| Depreciation and amortization | (13) | (15) | (29) | (30) |
| Other expenses | (792) | (805) | (1,253) | (1,334) |
| EA Labels segment income | 254 | 192 | 244 | 154 |
| Reconciliation to consolidated operating loss: | | | | |
| Other: | | | | |
| Revenue deferral | (880) | (800) | (1,195) | (1,050) |
| Recognition of revenue deferral | 511 | 481 | 1,290 | 1,206 |
| Other net revenue | 21 | 22 | 45 | 40 |
| Depreciation and amortization | (37) | (32) | (71) | (58) |
| Acquisition-related contingent consideration | — | (17) | 20 | (19) |
| Restructuring and other charges | 2 | 1 | (25) | (17) |
| Stock-based compensation | (44) | (43) | (83) | (81) |
| Other expenses | (191) | (178) | (374) | (322) |
| Consolidated operating loss | \$(364) | \$(374) | \$(149) | \$(147) |

EA Labels segment income differs from consolidated operating loss primarily due to the exclusion of (1) certain corporate and other functional costs that are not allocated to EA Labels, (2) the deferral of certain net revenue related to online-enabled packaged goods and digital content (see Note 9 for additional information regarding deferred net revenue (packaged goods and digital content)), and (3) our Switzerland distribution revenue and expenses that is not allocated to EA Labels. Our CODM reviews assets on a consolidated basis and not on a segment basis.

Information about our total net revenue by revenue composition for the three and six months ended September 30, 2012 and 2011 is presented below (in millions):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|-------|-----------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Publishing and other | \$365 | \$450 | \$957 | \$1,097 |
| Wireless, Internet-derived, advertising (digital) | 324 | 234 | 666 | 466 |
| Distribution | 22 | 31 | 43 | 151 |
| Net revenue | \$711 | \$715 | \$1,666 | \$1,714 |

Information about our operations in North America, Europe and Asia as of and for the three and six months ended September 30, 2012 and 2011 is presented below (in millions):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|-------|-----------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Net revenue from unaffiliated customers | | | | |
| North America | \$329 | \$337 | \$779 | \$838 |
| Europe | 332 | 328 | 767 | 766 |
| Asia | 50 | 50 | 120 | 110 |
| Net revenue | \$711 | \$715 | \$1,666 | \$1,714 |

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| | As of September 30, | |
|-------------------|---------------------|---------|
| | 2012 | 2011 |
| Long-lived assets | | |
| North America | \$2,109 | \$2,161 |
| Europe | 462 | 438 |
| Asia | 47 | 49 |
| Total | \$2,618 | \$2,648 |

The basis by which we attribute net revenue from external customers to individual countries is based on the location of the legal entity that sells the products and/or services. Revenue generated in the United States represents 99 percent of our total North America net revenue. Revenue generated in Switzerland during the three and six months ended September 30, 2012 represents \$92 million and \$365 million, or 13 percent and 22 percent, of our total net revenue, respectively. Revenue generated in Switzerland during the three and six months ended September 30, 2011 represents \$59 million and \$229 million, or 8 percent and 13 percent, of our total net revenue, respectively. Revenue generated in the United Kingdom did not represent 10 percent or greater of our total net revenue during the three and six months ended September 30, 2012. Revenue generated in the United Kingdom during the three and six months ended September 30, 2011 represents \$70 million and \$172 million, or 10 percent of our total net revenue for each period. There were no other countries with net revenues greater than 10 percent.

Our direct sales to GameStop Corp. represented approximately 17 percent and 15 percent of total net revenue for the three and six months ended September 30, 2012, respectively. Our direct sales to GameStop Corp. represented approximately 16 percent and 17 percent of total net revenue for the three and six months ended September 30, 2011, respectively.

(16) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The new disclosures are designed to make financial statements that are prepared under U.S. Generally Accepted Accounting Principles more comparable to those prepared under International Financial Reporting Standards. We are currently evaluating the impact of ASU 2011-11 on our Condensed Consolidated Financial Statements.

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets, other than goodwill, for impairment. Under ASU 2012-02, an entity has the option of performing a qualitative assessment of whether it is more likely than not that the fair value of an entity's indefinite-lived intangible asset is less than its carrying amount before calculating the fair value of the asset. If the conclusion is that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the entity would be required to calculate the fair value of the asset. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We early adopted this accounting guidance during the second quarter of fiscal year 2013, and the adoption did not have a material impact on our Condensed Consolidated Financial Statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Electronic Arts Inc.:

We have reviewed the condensed consolidated balance sheets of Electronic Arts Inc. and subsidiaries (the Company) as of September 29, 2012 and October 1, 2011, and the related condensed consolidated statements of operations, comprehensive income, and cash flows for the three- and six-month periods ended September 29, 2012 and October 1, 2011. 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 reviews, 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 with 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 31, 2012, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year then ended (not presented herein); and in our report dated May 25, 2012, 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 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet for which it has been derived.

/s/ KPMG LLP
Santa Clara, California
November 6, 2012

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

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, made in this Quarterly Report are forward looking. Examples of forward-looking statements include statements related to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, including our intended product releases, and may include certain assumptions that underlie the forward-looking statements. We use words such as "anticipate," "believe," "expect," "intend," "estimate" (and the negative of any of these terms), "future" and similar expressions to help identify forward-looking statements. These forward-looking statements are subject to business and economic risk and reflect management's current expectations, and involve subjects that are inherently uncertain and difficult to predict. Our actual results could differ materially from those in the forward-looking statements. 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 under the heading "Risk Factors" in Part II, Item 1A, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012 as filed with the Securities and Exchange Commission ("SEC") on May 25, 2012 and in other documents we have filed with the SEC.

OVERVIEW

The following overview is a high-level discussion of our operating results, as well as some of the trends and drivers that affect our business. Management believes that an understanding of these trends and drivers is important in order to understand our results for the three and six months ended September 30, 2012, 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 ("MD&A")," "Risk Factors," and the Condensed Consolidated Financial Statements and related Notes. Additional information can be found in the "Business" section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2012 as filed with the SEC on May 25, 2012 and in other documents we have filed with the SEC.

About Electronic Arts

We develop, market, publish and distribute game software content and services that can be played by consumers on a variety of platforms, including video game consoles (such as the Sony PLAYSTATION 3, Microsoft Xbox 360, and Nintendo Wii), personal computers, mobile devices (such as the Apple iPhone and Google Android compatible phones), tablets and electronic readers (such as the Apple iPad and Amazon Kindle), and the Internet. Our ability to publish games across multiple platforms, through multiple distribution channels, and directly to consumers (online and wirelessly) has been, and will continue to be, a cornerstone of our product strategy. We have generated substantial growth in new business models and alternative revenue streams (such as subscription, micro-transactions, and advertising) based on the continued expansion of our online and wireless platform. Some of our games are based on our own wholly-owned intellectual property (e.g., Battlefield, Mass Effect, Need for Speed, The Sims, Bejeweled, and Plants v. Zombies), and some of our games are based on content that we license from others (e.g., FIFA, Madden NFL, and Star Wars: The Old Republic). Our goal is to turn our core intellectual properties into year-round businesses available on a range of platforms. Our products and services may be purchased through physical and online retailers, platform providers such as console manufacturers and mobile carriers via digital downloads, as well as directly through our own distribution platform, including online portals such as Origin and Play4Free.

Financial Results

Total net revenue for the three months ended September 30, 2012 was \$711 million, a decrease of \$4 million, or 1 percent, as compared to the three months ended September 30, 2011. At September 30, 2012, deferred net revenue associated with sales of online-enabled packaged goods and digital content increased by \$369 million as compared to June 30, 2012, directly decreasing the amount of reported net revenue during the three months ended September 30, 2012. At September 30, 2011, deferred net revenue associated with sales of online-enabled packaged goods and digital

content increased by \$319 million as compared to June 30, 2011, directly decreasing the amount of reported net revenue during the three months ended September 30, 2011. Without this change in deferred net revenue, reported net revenue would have increased by approximately \$46 million, or 4 percent, during the three months ended September 30, 2012. This increase was primarily the result of higher revenue from online-enabled packaged goods and digital content products that are subject to deferrals during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. Net revenue for the three months ended September 30, 2012 was driven by Mass Effect 3, FIFA 2012, and Battlefield 3.

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Net loss for the three months ended September 30, 2012 was \$381 million as compared to \$340 million for the three months ended September 30, 2011. Diluted loss per share for the three months ended September 30, 2012 was \$1.21 as compared to a diluted loss per share of \$1.03 for the three months ended September 30, 2011. Net loss increased for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 primarily as a result of (1) a \$53 million increase in income tax expense due to a discrete \$55 million tax benefit recorded in the second quarter of fiscal 2012 related to the reversal of a portion of our deferred tax asset valuation allowance in connection with the PopCap acquisition, (2) a \$17 million decrease in gross profit primarily due to an increase in the change in deferred net revenue related to certain online-enabled packaged goods and digital content offset by a greater percentage of net revenue from digital products, which have higher margins, and (3) a \$14 million increase in personnel-related costs included in operating expenses due primarily to a 4 percent increase in headcount. This was partially offset by (1) an \$18 million decrease in marketing and advertising costs and (2) a \$17 million decrease in acquisition-related contingent consideration charges.

Trends in Our Business

Digital Content Distribution and Services. Consumers are spending an ever-increasing portion of their money and time on interactive entertainment that is accessible online, or through mobile digital devices such as smart phones, or through social networks such as Facebook. We provide a variety of online-delivered products and services including through our Origin platform. Many of our games that are available as packaged goods products are also available through direct online download through the Internet. We also offer online-delivered content and services that are add-ons or related to our packaged goods products such as additional game content or enhancements of multiplayer services. Further, we provide other games, content and services that are available only via electronic delivery, such as Internet-only games and game services, and games for mobile devices.

Advances in mobile technology have resulted in a variety of new and evolving devices that are being used to play games by an ever-broadening base of consumers. We have responded to these advances in technology and consumer acceptance of digital distribution by offering different sales models, such as subscription services, online downloads for a one-time fee, micro-transactions and advertising-supported free-to-play games and game sites. In addition, we offer our consumers the ability to play a game across platforms on multiple devices. We significantly increased the revenues that we derive from wireless, Internet-derived and advertising (digital) products and services from \$743 million in fiscal year 2011 to \$1,159 million in fiscal year 2012 and we expect this portion of our business to continue to grow in fiscal 2013 and beyond.

Wireless and Other Emerging Platforms. Advances in technology have resulted in a variety of platforms for interactive entertainment. Examples include wireless technologies, streaming gaming services, and Internet platforms. Our efforts in wireless interactive entertainment are focused in downloadable games for mobile devices. These platforms grow the consumer base for our business while also providing competition to existing established video game platforms. We expect sales of games for wireless and other emerging platforms to continue to be an important part of our business.

Growth of Casual and Social Games. The popularity of wireless and other emerging gaming platforms such as smart phones, tablets and social networking sites, such as Facebook, has led to the growth of casual and social gaming. Casual and social games are characterized by their mass appeal, simple controls, flexible monetization including free-to-play and micro-transaction business models, and fun and approachable gameplay. These games appeal to a larger consumer demographic of younger and older players and more female players than video games played on console devices. These areas are among the fastest growing segments of our sector and we have responded to this opportunity by developing casual and social games based on our established intellectual properties such as The Sims, FIFA and Battlefield, and with our acquisition of PopCap Games. We expect sales of casual and social games for wireless and other emerging platforms to continue to be an important part of our business.

Concentration of Sales Among the Most Popular Games. We see a larger portion of packaged goods games sales concentrated on the most popular titles, and those titles are typically sequels of prior games. We have responded to

this trend by significantly reducing the number of games that we produce to provide greater focus on our most promising intellectual properties. We published 36 primary packaged goods titles in fiscal year 2011, 22 in fiscal year 2012 and in fiscal year 2013, we expect to release 14 primary packaged goods titles.

Evolving Sales Patterns. Our business has evolved from a traditional packaged goods business model to one where our games are played on a variety of platforms including mobile devices and social networking sites. Our strategy is to transform our core intellectual properties into year-round businesses, with a steady flow of downloadable content and extensions on new platforms. Our increasingly digital, multi-platform business no longer reflects the retail sales patterns associated with traditional packaged goods launches. For example, we offer our consumers additional services and/or additional content available through online services to further enhance the gaming experience and extend the time that consumers play our games

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after their initial purchase. Our social and casual games offer free-to-play and micro-transaction models. We also offer subscription-based products, such as our massively multi-player online (“MMO”) role-playing game Star Wars: The Old Republic. The revenue we derive from these services have become increasingly more significant year-over-year. Our service revenue represented 32 percent and 17 percent of total revenues in the three months ended September 30, 2012 and 2011, respectively.

Recent Developments

Stock Repurchase Program. In February 2011, we announced that our Board of Directors authorized a program to repurchase up to \$600 million of our common stock over the next 18 months. We completed our program in April 2012. We repurchased approximately 32 million shares in the open market under the program. During the three months ended June 30, 2012, we repurchased and retired approximately 4.3 million shares of our common stock for approximately \$71 million.

In July 2012, our Board of Directors authorized a new program to repurchase up to \$500 million of our common stock. Under the program, we may purchase stock in the open market or through privately-negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase any specific number of shares under the program and the repurchase program may be modified, suspended or discontinued at any time. During the three months ended September 30, 2012, we repurchased and retired approximately 8.4 million shares of our common stock for approximately \$108 million under this new program. We continue to actively repurchase shares under this program.

During the six months ended September 30, 2012, we repurchased and retired approximately 8.4 million shares of our common stock for approximately \$179 million.

International Operations and Foreign Currency Exchange Impact. International sales (revenue derived from countries other than Canada and the United States), are a fundamental part of our business. Net revenue from international sales accounted for approximately 54 percent of our total net revenue during the three months ended September 30, 2012 and approximately 53 percent of our total net revenue during the three months ended September 30, 2011. Our net revenue is impacted by foreign exchange rates during the reporting period associated with net revenue before revenue deferral, as well as the foreign exchange rates associated with the recognition of deferred net revenue of online-enabled packaged goods and digital content that were established at the time we recorded this deferred net revenue on our Consolidated Balance Sheets. The foreign exchange rates during the reporting period may not always move in the same direction as the foreign exchange rate impact associated with the recognition of deferred net revenue of online-enabled packaged goods and digital content. During the three months ended September 30, 2012, foreign exchange rates had an overall unfavorable impact on our reported net revenue of approximately \$66 million, or 9 percent. In addition, our international investments and our cash and cash equivalents denominated in foreign currencies are subject to fluctuations in foreign currency exchange rates. If the U.S. dollar strengthens against these currencies, then foreign exchange rates may have an unfavorable impact on our results of operations and our financial condition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). 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 management 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 derive revenue principally from sales of interactive software games (1) on video game consoles (such as the PLAYSTATION 3, Xbox 360 and Wii) and PCs, (2) on mobile devices (such the Apple iPhone and Google compatible Android phones), (3) on tablets and electronic readers such as the Apple iPad and Amazon Kindle, and (4) from software and content and online game services associated with these products. We evaluate revenue recognition based on the criteria set forth in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 985-605, Software: Revenue Recognition, and Staff Accounting Bulletin (“SAB”) No. 101, Revenue Recognition, as revised by SAB No. 104, Revenue Recognition. We classify our revenue as either Product revenue or Service and other revenue.

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We evaluate 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.

• Delivery. Delivery is considered to occur when a product is shipped and the risk of loss and rewards of ownership have been transferred to the customer. For services, delivery is considered to occur as the service is provided.

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

• Collection is deemed probable. 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 management judgments that can have a significant impact on the timing and amount of revenue we report in each period. Changes to any of these assumptions and judgments, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Multiple-element arrangements

We enter into multiple-element revenue arrangements in which we may provide a combination of game software, updates or additional content and online game services. For some software products we may provide updates or additional content (“digital content”) to be delivered via the Internet that can be used with the original software product. In many cases we separately sell this digital content for an additional fee. In other transactions, we may have an obligation to provide incremental unspecified digital content in the future without an additional fee (i.e., updates on a when-and-if-available basis) or we may offer an online “matchmaking” service that permits consumers to play against each other via the Internet. Collectively, we refer to these as software-related offerings. In those situations where we do not require an additional fee for the software-related offerings, we account for the sale of the software product and software-related offerings as a “bundled” sale, or multiple element arrangement, in which we sell both the software product and relating offerings for one combined price. Generally, we do not have vendor specific objective evidence (“VSOE”) for the software-related offerings and thus, we defer net revenue from sales of these games and recognize the revenue from the bundled sales games over the period the offering will be provided (the “offering period”). If the period is not defined, we recognize revenue over the estimated offering period, which is generally estimated to be six months, beginning in the month after delivery. In addition, determining whether we have an implicit obligation to provide incremental unspecified future digital content without an additional fee can be difficult. Determining the estimated offering period is inherently subjective and is subject to regular revision based on historical online usage.

Determining whether an element of a transaction constitutes an online game service or a digital content download of a product requires judgment and can be difficult. The accounting for these transactions is significantly different. Revenue from product downloads is generally recognized when the download is made available (assuming all other recognition criteria are met). Revenue from an online game service is recognized as the service is rendered. If the period is not defined, we recognize the revenue over the estimated service period. For example, our MMO games have an estimated service period of eighteen months, beginning in the month after delivery.

For our software and software-related multiple element arrangements (i.e., software game bundled with software-related offerings), we must make assumptions and judgments in order to (1) determine whether and when each element is delivered, (2) determine whether the undelivered elements are essential to the functionality of the delivered elements, (3) determine whether VSOE exists for each undelivered element, and (4) allocate the total price

among the various elements. Changes to any of these assumptions and judgments, or changes to the elements in the arrangement, could cause a material increase or decrease in the amount of revenue that we report in a particular period.

In some of our multiple element arrangements, we sell tangible products with software and/or software-related offerings. These tangible products are generally either peripherals or ancillary collectors' items. Revenue for these arrangements is allocated to each separate unit of accounting for each deliverable using the relative selling prices of each deliverable in the arrangement based on the selling price hierarchy described below. If the arrangement contains more than one software deliverable, the arrangement consideration is allocated to the software deliverables as a group and then allocated to each software deliverable in accordance with ASC 985-605.

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We determine the selling price for a tangible product deliverable based on the following selling price hierarchy: VSOE (i.e., the price we charge when the tangible product is sold separately) if available, third-party evidence (“TPE”) of fair value (i.e., the price charged by others for similar tangible products) if VSOE is not available, or our best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. Determining the BESP is a subjective process that is based on multiple factors including, but not limited to, recent selling prices and related discounts, market conditions, customer classes, sales channels and other factors.

We reduce revenue for estimated future returns, price protection, and other offerings, which may occur with our customers and channel partners. Price protection represents the right to receive a credit allowance in the event we lower our wholesale price on a particular product. The amount of the price protection is generally the difference between the old price and the new price. In certain countries, we have stock-balancing programs for our PC and video game system software products, which allow for the exchange of these software products by resellers under certain circumstances. It is our general practice to exchange software products or give credits rather than to give cash refunds.

In certain countries, from time to time, we decide to provide price protection for our software products. When evaluating the adequacy of sales returns and price protection allowances, we analyze historical returns, current sell-through of distributor and retailer inventory of our software products, current trends in retail and the video game industry, changes in customer demand and acceptance of our software products, and other related factors. In addition, we monitor the volume of 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 software 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 software products. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates change, 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. In addition, if our estimates of returns and price protection related to online-enabled packaged goods software products change, the amount of deferred net revenue we recognize in the future would change.

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

Fair Value Estimates

The preparation of financial statements in conformity with U.S. GAAP often requires us to determine the fair value of a particular item in order to fairly present our financial statements. Without an independent market or another representative transaction, determining the fair value of a particular item requires us to make several assumptions that are inherently difficult to predict and can have a material impact on the accounting.

There are various valuation techniques used to estimate fair value. These include (1) the market approach where market transactions for identical or comparable assets or liabilities are used to determine the fair value, (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present value amount, and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which

require us to make various estimates including, but not limited to (1) the potential future cash flows for the asset or liability being measured, (2) the timing of receipt or payment of those future cash flows, (3) the time value of money associated with the expected receipt or payment of such cash flows, and (4) the inherent risk associated with the cash flows (risk premium). Making these cash flow estimates are inherently difficult and subjective, and if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively impacted. Furthermore, relatively small changes in many of these estimates can have a significant impact to the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired.

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While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to these assessments:

Business Combinations. We must estimate the fair value of assets acquired, liabilities and contingencies assumed, acquired in-process technology, and contingent consideration issued in a business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various estimated useful lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount we recognize as goodwill, an asset that is not amortized. Determining the fair value of assets acquired requires an assessment of the highest and best use or the expected price to sell the asset and the related expected future cash flows. Determining the fair value of acquired in-process technology also requires an assessment of our expectations related to the use of that asset. Determining the fair value of an assumed liability requires an assessment of the expected cost to transfer the liability. Determining the fair value of contingent consideration issued requires an assessment of the expected future cash flows over the period in which the obligation is expected to be settled, and applying a discount rate that appropriately captures a market participant's view of the risk associated with the obligation. This fair value assessment is also required in periods subsequent to a business combination. Such estimates are inherently difficult and subjective and can have a material impact on our Condensed Consolidated Financial Statements.

Assessment of Impairment of Goodwill, Intangibles, and Other Long-Lived Assets. Current accounting standards require that we assess the recoverability of our finite lived acquisition-related intangible assets and other long-lived assets whenever events or changes in circumstances indicate the remaining value of the assets recorded on our Condensed Consolidated Balance Sheets is potentially impaired. In order to determine if a potential impairment has occurred, management must make various assumptions about the estimated fair value of the asset by evaluating future business prospects and estimated future cash flows. For some assets, our estimated fair value is dependent upon predicting which of our products will be successful. This success is dependent upon several factors, which are beyond our control, such as which operating platforms will be successful in the marketplace. Also, our revenue and earnings are dependent on our ability to meet our product release schedules.

In assessing impairment on our goodwill, we first analyze qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If we conclude it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, we do not need to perform the two-step impairment test. If based on that assessment, we believe it is more likely than not that the fair value of its reporting units is less than its carrying value, a two-step goodwill impairment test will be performed. The first step measures for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to the individual assets and liabilities within each reporting unit. Our reporting units are determined by the components of our operating segments that constitute a business for which (1) discrete financial information is available and (2) segment management regularly reviews the operating results of that component.

To determine the fair value of each reporting unit used in the first step, we use the market approach, which utilizes comparable companies' data, the income approach, which utilizes discounted cash flows, or a combination thereof. Determining whether an event or change in circumstances does or does not indicate that the fair value of a reporting unit is below its carrying amount is inherently subjective. Each step requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include long-term growth rates, tax rates, and operating margins used to calculate projected future cash flows, risk-adjusted discount rates based on a weighted average cost of capital, future economic and market conditions and determination of appropriate market comparables. These estimates and assumptions have to be made for each reporting unit evaluated for impairment. As of our last annual assessment of goodwill in the fourth quarter of fiscal year 2012, we concluded that the estimated fair values of each of our reporting units significantly exceeded their carrying amounts and we have not identified any indicators of impairment since that assessment. Our estimates for market growth, our market share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business. Our business consists of

developing, marketing and distributing video game software using both established and emerging intellectual properties and our forecasts for emerging intellectual properties are based upon internal estimates and external sources rather than historical information and have an inherently higher risk of inaccuracy. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Assessment of Impairment of Short-Term Investments and Marketable Equity Securities. We periodically review our short-term investments and marketable equity securities for impairment. Our short-term investments consist of securities with remaining maturities greater than three months at the time of purchase and our marketable equity securities consist of investments in common stock of publicly traded companies, both are accounted for as available-for-sale securities. Unrealized gains and losses on our short-term investments and marketable equity securities are recorded as a component of accumulated other

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comprehensive income in stockholders' equity, net of tax, until either (1) the security is sold, (2) the security has matured, or (3) we determine that the fair value of the security has declined below its adjusted cost basis and the decline is other-than-temporary. Realized gains and losses on our short-term investments and marketable equity securities are calculated based on the specific identification method and are reclassified from accumulated other comprehensive income to interest and other expense, net, and gains (losses) on strategic investments, net, respectively. Determining whether the decline in fair value is other-than-temporary requires management judgment based on the specific facts and circumstances of each security. The ultimate value realized on these securities is subject to market price volatility until they are sold. We consider various factors in determining whether we should recognize an impairment charge, including the credit quality of the issuer, the duration that the fair value has been less than the adjusted cost basis, severity of the impairment, reason for the decline in value and potential recovery period, the financial condition and near-term prospects of the investees, and our intent to sell and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, any contractual terms impacting the prepayment or settlement process, as well as, if we would be required to sell an investment due to liquidity or contractual reasons before its anticipated recovery. Our ongoing consideration of these factors could result in impairment charges in the future, which could have a material impact on our financial results.

Assessment of Inventory Obsolescence. We regularly review inventory quantities on-hand. We write down inventory based on excess or obsolete inventories determined primarily by future anticipated demand for our products. Inventory write-downs are measured as the difference between the cost of the inventory and market value, based upon assumptions about future demand that are inherently difficult to assess. At the point of a loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Royalties and Licenses

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and 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 the delivery of products.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue generally at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. Significant judgment is required to estimate the effective royalty rate for a particular contract. Because the computation of effective royalty rates requires us to project future revenue, it is inherently subjective as our future revenue projections must anticipate a number of factors, including (1) the total number of titles subject to the contract, (2) the timing of the release of these titles, (3) the number of software units we expect to sell, which can be impacted by a number of variables, including product quality, the timing of the title's release and competition, and (4) future pricing. Determining the effective royalty rate for our titles is particularly challenging due to the inherent difficulty in predicting the popularity of entertainment products. Accordingly, if our future revenue projections change, our effective royalty rates would change, which could impact the amount and timing of royalty expense we recognize.

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 release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed to research and development over the development period as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of revenue.

Our contracts with some licensors include minimum guaranteed royalty payments, which are initially recorded as an asset and as a liability at the contractual amount when no performance remains with the licensor. When performance remains with the licensor, we record guarantee payments as an asset when actually paid and as a liability when incurred, rather than recording the asset and liability upon execution of the contract. Royalty liabilities are classified as current liabilities to the extent such royalty payments are contractually due within the next 12 months.

Each quarter, we also evaluate the expected 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 or losses determined before the launch of a product are charged to research and development expense.

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Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment generally using undiscounted cash flows when impairment indicators exist. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (i.e., cease use) or the contractual rights to use the intellectual property are terminated.

Income Taxes

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statement amount and the tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards. We record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. In making this determination, we are required to give significant weight to evidence that can be objectively verified. It is generally difficult to conclude that a valuation allowance is not needed when there is significant negative evidence, such as cumulative losses in recent years. Forecasts of future taxable income are considered to be less objective than past results, particularly in light of the economic environment. Therefore, cumulative losses weigh heavily in the overall assessment.

In addition to considering forecasts of future taxable income, we are also required to evaluate and quantify other possible sources of taxable income in order to assess the realization of our deferred tax assets, namely the reversal of existing deferred tax liabilities, the carry back of losses and credits as allowed under current tax law, and the implementation of tax planning strategies. Evaluating and quantifying these amounts involves significant judgments. Each source of income must be evaluated based on all positive and negative evidence; this evaluation involves assumptions about future activity. Certain taxable temporary differences that are not expected to reverse during the carry forward periods permitted by tax law cannot be considered as a source of future taxable income that may be available to realize the benefit of deferred tax assets.

Based on the assumptions and requirements noted above, we have recorded a valuation allowance against most of our U.S. deferred tax assets. In addition, we expect to provide a valuation allowance on future U.S. tax benefits until we can sustain a level of profitability or until other significant positive evidence arises that suggest that these benefits are more likely than not to be realized.

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 uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, 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. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States, and accordingly, no U.S. taxes have been provided thereon. We currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries outside of the United States.

RESULTS OF OPERATIONS

Our fiscal year is reported on a 52- or 53-week period that ends on the Saturday nearest March 31. Our results of operations for the fiscal years ending or ended, as the case may be, March 31, 2013 and 2012 contain 52 weeks each and ends or ended, as the case may be, on March 30, 2013 and March 31, 2012, respectively. Our results of operations

for the three and six months ended September 30, 2012 and 2011 contained 13 and 26 weeks each, respectively, and ended on September 29, 2012 and October 1, 2011, respectively. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

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Net Revenue

Net revenue consists of sales generated from (1) video games sold as packaged goods or as digital downloads and designed for play on video game consoles (such as the PLAYSTATION 3, Xbox 360 and Wii) and PCs, (2) video games for mobile devices (such as the Apple iPhone and Google Android compatible phones), (3) video games for tablets and electronic readers (such as the Apple iPad and Amazon Kindle), (4) software products and content and online game services associated with these products, (5) programming third-party websites with our game content, (6) allowing other companies to manufacture and sell our products in conjunction with other products, and (7) advertisements on our online web pages and in our games.

We provide three different measures of our Net Revenue. Two of these measures are presented in accordance with U.S. GAAP - (1) Net Revenue by Product revenue and Service and other revenue and (2) Net Revenue by Geography. The third measure is a non-GAAP financial measure - Net Revenue before Revenue Deferral by Revenue Composition, which is primarily based on method of distribution. We use this third non-GAAP financial measure internally to evaluate our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team.

Management places a greater emphasis and focus on assessing our business through a review of the Net Revenue before Revenue Deferral by Revenue Composition than by Net Revenue by Product revenue and Service and other revenue. These two measures differ as (1) Net Revenue by Product revenue and Service and other revenue reflects the deferral and recognition of revenue in periods subsequent to the date of sale due to U.S. GAAP while Net Revenue before Revenue Deferral by Revenue Composition does not, and (2) both measures contain a different aggregation of sales from one another. For instance, Service and other revenue does not include the majority of our full-game digital download and mobile sales that are fully included in our Digital revenue. Further, Service and other revenue includes all of our revenue associated with MMO games while software sales associated with our MMOs are included in either Digital revenue or Publishing and other revenue depending on whether the sale was a full-game digital download or a packaged goods sale.

Net Revenue Quarterly Analysis

Net Revenue

For the three months ended September 30, 2012, Net Revenue was \$711 million and decreased \$4 million, or 1 percent, as compared to the three months ended September 30, 2011. This decrease was driven by a \$312 million decrease in revenue primarily from the Crysis, Dragon Age, Need For Speed, and Fight Night franchises. This decrease was partially offset by a \$308 million increase in revenue primarily from the Mass Effect and FIFA Street franchises, as well as Star Wars: The Old Republic.

Net Revenue by Product Revenue and Service and Other Revenue

Our total net revenue by product revenue and service and other revenue for the three months ended September 30, 2012 and 2011 was as follows (in millions):

| | Three Months Ended September 30, | | | |
|-------------------|----------------------------------|-------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| Net revenue: | | | | |
| Product | \$481 | \$592 | \$(111) | (19)% |
| Service and other | 230 | 123 | 107 | 87% |
| Total net revenue | \$711 | \$715 | \$(4) | (1)% |

Product Revenue

Our product revenue includes revenue associated with the sale of game software, whether delivered via a physical disc (i.e., packaged goods) or via the Internet (i.e., full-game downloads, micro-transactions), that do not require our continuous hosting support, and licensing of game software and subscription sales to third-parties. This excludes game software from our MMO games (both game and subscription sales), which is included in service and other revenue as such game software requires continuous hosting support. Product revenue also includes mobile games that do not have an online service component and sales of tangible products such as hardware, peripherals, or collectors' items.

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For the three months ended September 30, 2012, product revenue was \$481 million, primarily driven by Mass Effect 3, FIFA 2012, and FIFA Street 4. Product revenue for the three months ended September 30, 2012 decreased \$111 million, or 19 percent, as compared to the three months ended September 30, 2011. This decrease was driven by a \$317 million decrease primarily from the Crysis, Dragon Age, Need for Speed, and Fight Night franchises. This decrease was partially offset by a \$206 million increase primarily from the Mass Effect, FIFA Street, and SSX franchises.

Service and Other Revenue

Our service revenue includes revenue recognized from games or related content that requires our hosting support to provide substantial gaming experience, and time-based subscriptions. This includes (1) subscriptions for our Pogo-branded online game services, (2) MMO games (both game and subscription sales), (3) entitlements to content that are delivered through hosting services (e.g., micro-transactions for Internet-based, social network and mobile games which includes “freemium” games), and (4) allocated service revenue from sales of online-enabled packaged goods with an online service component (i.e., “matchmaking” services). Our other revenue includes non-software licensing and advertising revenue.

For the three months ended September 30, 2012, service and other revenue was \$230 million, primarily driven by Star Wars: The Old Republic, FIFA Ultimate Team, and FIFA World Class Soccer. Service and other revenue for the three months ended September 30, 2012 increased \$107 million, or 87 percent, as compared to the three months ended September 30, 2011. This increase was driven by a \$125 million increase primarily from services associated with Star Wars: The Old Republic (which launched in the third quarter of fiscal 2012), and the FIFA and The Sims franchises. This increase was partially offset by an \$18 million decrease primarily in service revenue generated by our mobile publishing titles, Pogo-branded online game services, and the NHL and Warhammer franchises.

Net Revenue by Geography

| (In millions) | Three Months Ended September 30, | | | |
|-------------------|----------------------------------|-------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| North America | \$329 | \$337 | \$(8) | (2)% |
| Europe | 332 | 328 | 4 | 1 % |
| Asia | 50 | 50 | — | — % |
| Total net revenue | \$711 | \$715 | \$(4) | (1)% |

Net revenue in North America was \$329 million, or 46 percent of total net revenue for the three months ended September 30, 2012, compared to \$337 million, or 47 percent of total net revenue for the three months ended September 30, 2011, a decrease of \$8 million, or 2 percent. Net revenue in North America decreased primarily due to decreased revenue in our Dragon Age, Crysis, and Fight Night franchises, as well as Bulletstorm, partially offset by increased revenue in our Mass Effect and SSX franchises, as well as Star War: The Old Republic during the three months ended September 30, 2012. Net revenue in Europe was \$332 million, or 47 percent of total net revenue during the three months ended September 30, 2012, compared to \$328 million, or 46 percent of total net revenue during the three months ended September 30, 2011, an increase of \$4 million, or 1 percent. We estimate that foreign exchange rates (primarily due to the Euro and Swiss Franc) decreased reported Net revenue in Europe by approximately \$64 million, or 20 percent, for the three months ended September 30, 2012. Excluding the effect of foreign exchange rates from Net revenue in Europe, we estimate that Net revenue in Europe increased by approximately \$68 million, or 21 percent, for the three months ended September 30, 2012 as compared to the three months ended September 2011. Net revenue in Europe increased primarily due to our Mass Effect, FIFA Street, and Battlefield franchises partially offset by decreased revenue in our Crysis, Dragon Age, Need for Speed franchises, as well as our mobile publishing titles during the three months ended September 30, 2012. Net revenue in Asia was \$50 million, or 7 percent of total net revenue for both the three months ended September 30, 2012 and 2011.

Supplemental Net Revenue by Revenue Composition

As we continue to evolve our business and more of our products are delivered to consumers digitally via the Internet, we place a greater emphasis and focus on assessing our business through a review of net revenue by revenue composition.

Net Revenue before Revenue Deferral, a non-GAAP financial measure, is provided in this section of MD&A, including a discussion of the components of this measure: (1) publishing and other, (2) wireless, Internet-derived, and advertising (digital), and (3) distribution. See “Non-GAAP Financial Measures” below for an explanation of our use of this non-GAAP financial measure. A reconciliation to the corresponding measure calculated in accordance with U.S. GAAP is provided in the discussion below.

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“Revenue Deferral” in this “Net Revenue” section includes the unrecognized revenue from (1) bundled sales of software and software-related offerings for which we do not have VSOE for the software-related offerings, (2) certain sales of MMO games, and (3) entitlements to content that are delivered through hosting services, which are types of “micro-transactions.” Fluctuations in the Revenue Deferral are largely dependent upon the amounts of products that we sell with the online features and services previously discussed, while the Recognition of Revenue Deferral for a period is also dependent upon (1) the amount deferred, (2) the period of time the software-related offerings are to be provided, and (3) the timing of the sale. For example, most Revenue Deferrals incurred in the first half of a fiscal year are recognized within the same fiscal year; however, substantially all of the Revenue Deferrals incurred in the last month of a fiscal year will be recognized in the subsequent fiscal year.

Our total net revenue by revenue composition for the three months ended September 30, 2012 and 2011 was as follows (in millions):

| | Three Months Ended September 30, | | | |
|---|----------------------------------|--------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| Publishing and other | \$ 744 | \$ 787 | \$(43) | (5)% |
| Wireless, Internet-derived, and advertising (digital) | 314 | 216 | 98 | 45% |
| Distribution | 22 | 31 | (9) | (29)% |
| Net Revenue before Revenue Deferral | 1,080 | 1,034 | 46 | 4% |
| Revenue Deferral | (880) | (800) | (80) | 10% |
| Recognition of Revenue Deferral | 511 | 481 | 30 | 6% |
| Total net revenue | \$ 711 | \$ 715 | \$(4) | (1)% |

Net Revenue before Revenue Deferral

Publishing and Other Revenue

Publishing and other revenue includes (1) sales of our internally-developed and co-published game software distributed physically through traditional channels such as brick and mortar retailers, (2) our non-software licensing revenue, and (3) our software licensing revenue from third parties (for example, makers of personal computers or computer accessories) who include certain of our products for sale with their products (“OEM bundles”).

For the three months ended September 30, 2012, publishing and other Net Revenue before Revenue Deferral was \$744 million, primarily driven by FIFA 13, Madden NFL 13, and NCAA Football 13. Publishing and other Net Revenue before Revenue Deferral for the three months ended September 30, 2012 decreased \$43 million, or 5 percent, as compared to the three months ended September 30, 2011. This decrease was primarily driven by (1) a \$29 million decrease in catalog sales (i.e., sales of games in the periods subsequent to the quarter in which the title was launched), which reflects both the declining console packaged goods market, and fewer title releases year over year, and (2) a \$16 million decrease in frontline sales (i.e., sales of games during the period in which the title was launched) due to fewer title releases in the current quarter as compared to the same quarter in the prior year.

Wireless, Internet-derived, and Advertising (Digital) Revenue

Digital revenue includes revenue from sales of our internally-developed and co-published game software distributed through direct download through the Internet, including through our direct-to-consumer platform Origin, or distributed wirelessly through mobile carriers. This includes our full-game downloads, mobile and tablet revenue (each of which are generally classified as product revenue with the exception of our MMO game downloads and freemium mobile games which are classified as service revenue) as well as subscription services, micro-transactions, and advertising

revenues (each of which is generally classified as service and other revenue).

For the three months ended September 30, 2012, digital Net Revenue before Deferral was \$314 million, an increase of \$98 million, or 45 percent, as compared to the three months ended September 30, 2011. This increase is due to (1) a \$33 million or 60 percent increase in mobile sales primarily driven by FIFA World Class Soccer, (2) a \$29 million or 34 percent increase in extra content and free-to-play sales primarily driven by Battlefield 3, SimCity Social and Mass Effect 3, (3) a \$24 million or 48

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percent increase in subscription, advertising, and other digital sales primarily driven by Star Wars: The Old Republic, and (4) a \$12 million or 46 percent increase in full-game download sales primarily driven by the Crysis and Madden franchises. Digital Net Revenue before Deferral for the three months ended September 30, 2012 excludes \$43 million of Battlefield 3 Premium subscriptions which have been deferred and are expected to be recognized in the fourth quarter of fiscal year 2013.

Distribution Revenue

Distribution revenue includes (1) sales of game software developed by independent game developers that we distribute and (2) sales through our Switzerland distribution business. For the three months ended September 30, 2012, distribution net revenue was \$22 million and decreased \$9 million, or 29 percent, as compared to the three months ended September 30, 2011. This decrease was primarily driven by an \$8 million decrease from sales through our Switzerland distribution business.

Revenue Deferral

Revenue Deferral for the three months ended September 30, 2012 increased \$80 million, or 10 percent, as compared to the three months ended September 30, 2011. This increase was primarily due (1) to a \$55 million increase in Net Revenue before Revenue Deferral related to our publishing and digital sales and (2) a higher percentage of both our publishing and digital sales being deferred and recognized over time, due in part to a 48 percent increase in subscription and advertising revenue and a 34 percent increase in micro-transaction sales, which all contain an online service component which requires revenue recognition over the period of time that the service is delivered.

Recognition of Revenue Deferral

Our non-distribution sales are generally deferred and recognized over a weighted-average six month period, and therefore, the related revenue recognized during the fiscal quarter ended September 30 is primarily due to sales that occurred during the respective three month period ended June 30. The Recognition of Revenue Deferral for the three months ended September 30, 2012 increased \$30 million, or 6 percent, as compared to the three months ended September 30, 2011. This increase was primarily due to increased digital sales during the three months ended June 30, 2012, and a higher percentage of those sales being comprised of games sales that have an online service component, as compared to the same period in fiscal year 2012.

Our product and service and other revenue by revenue composition for the three months ended September 30, 2012 and 2011 was as follows (in millions):

| | Three Months Ended September 30, | |
|---|--|-------|
| | 2012 | 2011 |
| Product revenue: | | |
| Publishing and other | \$342 | \$435 |
| Wireless, Internet-derived, and advertising (digital) | 117 | 126 |
| Distribution | 22 | 31 |
| Total product revenue | 481 | 592 |
| Service and other revenue: | | |
| Publishing and other | 23 | 15 |
| Wireless, Internet-derived, and advertising (digital) | 207 | 108 |
| Total service and other revenue | 230 | 123 |

| | | |
|-------------------|-------|-------|
| Total net revenue | \$711 | \$715 |
|-------------------|-------|-------|

Net Revenue Year-to-Date Analysis

Net Revenue

For the six months ended September 30, 2012, net revenue was \$1,666 million and decreased \$48 million, or 3 percent, as compared to the six months ended September 30, 2011. This decrease was driven by a \$809 million decrease in revenue primarily from the Crisis, Dragon Age, Portal, and Need for Speed franchises. This decrease was partially offset by a \$761 million increase in revenue primarily from the Mass Effect and Battlefield franchises, as well as Star Wars: The Old Republic.

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Net Revenue by Product Revenue and Service and Other Revenue

Our total net revenue by product revenue and service and other revenue for the six months ended September 30, 2012 and 2011 was as follows (in millions):

| | Six Months Ended September 30, | | | |
|-------------------|--------------------------------|---------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| Net revenue: | | | | |
| Product | \$1,183 | \$1,486 | \$(303) | (20)% |
| Service and other | 483 | 228 | 255 | 112% |
| Total net revenue | \$1,666 | \$1,714 | \$(48) | (3)% |

Product Revenue

For the six months ended September 30, 2012, product revenue was \$1,183 million, primarily driven by Battlefield 3, Mass Effect 3, and FIFA 2012. Product revenue for the six months ended September 30, 2012 decreased \$303 million, or 20 percent, as compared to the six months ended September 30, 2011. This decrease was driven by a \$833 million decrease primarily from the Crysis, Dragon Age, Portal, Need for Speed, and Dead Space franchises. This decrease was partially offset by a \$530 million increase primarily from the Mass Effect, Battlefield, and FIFA Street franchises.

Service and Other Revenue

For the six months ended September 30, 2012, service and other revenue was \$483 million, primarily driven by Star Wars: The Old Republic, FIFA Ultimate Team, and FIFA World Class Soccer. Service and other revenue for the six months ended September 30, 2012 increased \$255 million, or 112 percent, as compared to the six months ended September 30, 2011. This increase was driven by a \$279 million increase primarily from services associated with Star Wars: The Old Republic, and the FIFA and The Sims franchises. This increase was partially offset by an \$24 million decrease primarily in service revenue generated by our mobile publishing titles, Pogo-branded online game services, and Warhammer franchises.

Net Revenue by Geography

| (In millions) | Six Months Ended September 30, | | | |
|-------------------|--------------------------------|---------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| North America | \$779 | \$838 | \$(59) | (7)% |
| Europe | 767 | 766 | 1 | —% |
| Asia | 120 | 110 | 10 | 9% |
| Total net revenue | \$1,666 | \$1,714 | \$(48) | (3)% |

Net revenue in North America was \$779 million, or 47 percent of total net revenue for the six months ended September 30, 2012, compared to \$838 million, or 49 percent of total net revenue for the six months ended September 30, 2011, a decrease of \$59 million, or 7 percent. This decrease was driven by a \$411 million decrease primarily from the Portal, Dragon Age, Crysis, Need for Speed, and Dead Space franchises. This decrease was offset by a \$352 million increase primarily from the Mass Effect and Battlefield franchises, as well as Star Wars: The Old Republic. Net revenue in Europe was \$767 million, or 46 percent of total net revenue during the six months ended September 30, 2012, compared to \$766 million, or 45 percent of total net revenue during the six months ended September 30, 2011, an increase of \$1 million, or less than 1 percent. We estimate that foreign exchange rates (primarily due to the Euro) decreased reported net revenue in Europe by approximately \$39 million, or 5 percent, for the three months ended September 30, 2012. Excluding the effect of foreign exchange rates from Net revenue in Europe, we estimate that Net revenue in Europe increased by approximately \$40 million, or 5 percent, for the six months ended September 30, 2012 as compared to the six months ended September 2011. Net revenue in Europe increased primarily due to our

Battlefield, Mass Effect, and FIFA Street franchises partially offset by decreased revenue in our Crysis, Need for Speed, Dragon Age, Portal, and Dead Space franchises during the six months ended September 30, 2012. Net revenue in Asia was \$120 million, or 7 percent of total net revenue for the six months ended September 30, 2012, compared to \$110 million, or 6 percent of total net revenue for the six months ended September 30, 2011, an increase of \$10 million, or 9 percent. Net revenue in Asia increased primarily due to increased sales in our FIFA, Battlefield, and Mass Effect franchises partially offset by the absence of a primary distribution title release during the six months ended September 30, 2012.

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Supplemental Net Revenue by Revenue Composition

Our total net revenue by revenue composition for the six months ended September 30, 2012 and 2011 was as follows (in millions):

| | Six Months Ended September 30, | | | |
|---|--------------------------------|----------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| Publishing and other | \$ 890 | \$ 982 | \$(92) | (9)% |
| Wireless, Internet-derived, and advertising (digital) | 638 | 425 | 213 | 50 % |
| Distribution | 43 | 151 | (108) | (72)% |
| Net Revenue before Revenue Deferral | 1,571 | 1,558 | 13 | 1 % |
| Revenue Deferral | (1,195) | (1,050) | (145) | 14 % |
| Recognition of Revenue Deferral | 1,290 | 1,206 | 84 | 7 % |
| Total net revenue | \$ 1,666 | \$ 1,714 | \$(48) | (3)% |

Net Revenue before Revenue Deferral

Publishing and Other Revenue

For the six months ended September 30, 2012, publishing and other Net Revenue before Revenue Deferral was \$890 million, primarily driven by FIFA 13, Madden NFL 13, and NCAA Football 13. Publishing and other Net Revenue before Revenue Deferral for the six months ended September 30, 2012 decreased \$92 million, or 9 percent, as compared to the six months ended September 30, 2011. This decrease was primarily driven by (1) a \$38 million decrease in catalog sales, which reflects both the declining console packaged goods market, and fewer title releases year over year, and (2) a \$64 million decrease in frontline sales due to fewer title releases in the current quarter as compared to the same quarter in the prior year.

Wireless, Internet-derived, and Advertising (Digital) Revenue

For the six months ended September 30, 2012, digital Net Revenue before Deferral was \$638 million, an increase of \$213 million, or 50 percent, as compared to the six months ended September 30, 2011. This increase is due to (1) a \$90 million or 58 percent increase in extra content and free-to-play sales primarily driven by the Battlefield, Mass Effect and Bejeweled franchises, (2) a \$57 million or 58 percent increase in subscription, advertising, and other digital sales primarily driven by Star Wars: The Old Republic, (3) a \$53 million or 46 percent increase in mobile sales primarily driven by FIFA World Class Soccer, and (4) a \$13 million or 22 percent increase in full-game download sales primarily driven by the Madden and FIFA franchises, as well as Star Wars: The Old Republic. Digital Net Revenue before Deferral for the six months ended September 30, 2012 excludes \$80 million of Battlefield 3 Premium subscriptions which have been deferred and are expected to be recognized in the fourth quarter of fiscal year 2013.

Distribution Revenue

For the six months ended September 30, 2012, distribution net revenue was \$43 million and decreased \$108 million, or 72 percent, as compared to the six months ended September 30, 2011, primarily due to a decrease in sales in the Portal franchise and our Switzerland distribution business.

Revenue Deferral

Revenue Deferral for the six months ended September 30, 2012 increased \$145 million, or 14 percent, as compared to the six months ended September 30, 2011. This increase was primarily due (1) to a \$121 million increase in Net

Revenue before Revenue Deferral related to our publishing and digital sales and (2) a higher percentage of both our publishing and digital sales being deferred and recognized over time, due in part to a 58 percent increase in both micro-transaction sales and subscription and advertising revenue, which all contain an online service component which requires revenue recognition over the period of time that the service is delivered.

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Recognition of Revenue Deferral

Our non-distribution sales are generally deferred and recognized over a weighted average six month period, and therefore, the related revenue recognized during the six months ended September 30 is primarily due to the sales that occurred during the respective six month period ended June 30. The Recognition of Revenue Deferral for the six months ended September 30, 2012 increased \$84 million, or 7 percent, as compared to the six months ended September 30, 2011. This increase was primarily due to increased digital sales during the six months ended June 30, 2012, and a higher percentage of those sales being comprised of games sales that have an online service component, as compared to the same period in fiscal year 2012.

Our product and service and other revenue by revenue composition for the six months ended September 30, 2012 and 2011 was as follows (in millions):

| | Six Months Ended September 30, | |
|---|--------------------------------|----------|
| | 2012 | 2011 |
| Product revenue: | | |
| Publishing and other | \$ 907 | \$ 1,067 |
| Wireless, Internet-derived, and advertising (digital) | 233 | 268 |
| Distribution | 43 | 151 |
| Total product revenue | 1,183 | 1,486 |
| Service and other revenue: | | |
| Publishing and other | 50 | 30 |
| Wireless, Internet-derived, and advertising (digital) | 433 | 198 |
| Total service and other revenue | 483 | 228 |
| Total net revenue | \$ 1,666 | \$ 1,714 |

Non-GAAP Financial Measures

Net Revenue before Revenue Deferral is a non-GAAP financial measure that excludes the impact of Revenue Deferral and the Recognition of Revenue Deferral on Net Revenue related to sales of games and digital content.

We believe that excluding the impact of Revenue Deferral and the Recognition of Revenue Deferral related to games and digital content from our operating results is important to facilitate comparisons between periods in understanding our underlying sales performance for the period, and understanding our operations because all related costs of revenues are expensed as incurred instead of deferred and recognized ratably. We use this non-GAAP financial measure internally to evaluate our operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of our management team. While we believe that this non-GAAP financial measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation from or as a substitute for the related financial information prepared in accordance with GAAP. In addition, this non-GAAP financial measure may not be the same as non-GAAP financial measures presented by other companies.

Cost of Revenue

Total cost of revenue for the three months ended September 30, 2012 and 2011 was as follows (in millions):

| September 30, 2012 | % of Related | September 30, 2011 | % of Related | % Change | Change as a % of Related Net Revenue |
|--------------------|--------------|--------------------|--------------|----------|--------------------------------------|
| | | | | | |

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| | | Net Revenue | | Net Revenue | | | | |
|-----------------------|-------|----------------|---------|----------------|---------|--------|--|---|
| Cost of revenue: | | | | | | | | |
| Product | \$371 | 77.1 | % \$399 | 67.4 | % (7.0 |)% 9.7 | | % |
| Service and other | 74 | 32.2 | % 33 | 26.8 | % 124.2 | % 5.4 | | % |
| Total cost of revenue | \$445 | 62.6 | % \$432 | 60.4 | % 3.0 | % 2.2 | | % |

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Cost of Product Revenue

Cost of product revenue consists of (1) product costs, (2) certain royalty expenses for celebrities, professional sports and other organizations, and independent software developers, (3) manufacturing royalties, net of volume discounts and other vendor reimbursements, (4) expenses for defective products, (5) write-offs of post launch prepaid royalty costs, (6) amortization of certain intangible assets, (7) personnel-related costs, and (8) warehousing and distribution costs. We generally recognize volume discounts when they are earned from the manufacturer (typically in connection with the achievement of unit-based milestones); whereas other vendor reimbursements are generally recognized as the related revenue is recognized.

Cost of product revenue decreased by \$28 million, or 7.0 percent in the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The decrease was primarily due to a 29 percent decrease in distribution revenue, which has higher costs, during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011.

Cost of Service and Other Revenue

Cost of service and other revenue consists primarily of (1) data center and bandwidth costs associated with hosting our online games and websites, (2) associated royalty costs, (3) credit card fees associated with our service revenue, (4) server costs related to our website advertising business, and (5) platform processing fees from operating our website-based games on third party platforms.

Cost of service and other revenue increased by \$41 million, or 124.2 percent in the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The increase was primarily due to increased server and support costs due to the release of more online-connected and subscription-based titles and related content during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011.

Total Cost of Revenue as a Percentage of Total Net Revenue

During the three months ended September 30, 2012, total cost of revenue as a percentage of total net revenue increased by 2.2 percent as compared to the three months ended September 30, 2011. This increase as a percentage of net revenue was primarily due to (1) an increase in deferred net revenue related to certain online-enabled packaged goods and digital content and (2) an increase in server and support costs due to the release of more online-connected and subscription-based titles and related content. Both of these factors negatively impacted gross profit as a percent of net revenue by 3.3 percent. This increase was partially offset by (1) a 29 percent decrease in distribution revenue which has higher costs and (2) a greater percentage of net revenue from our digital products and services that have a lower cost than our publishing and other products. Both factors positively impacted gross profit as a percentage of net revenue by 1.1 percent.

Total cost of revenue for the six months ended September 30, 2012 and 2011 was as follows (in millions):

| | September 30, 2012 | % of Related Net Revenue | September 30, 2011 | % of Related Net Revenue | % Change | Change as a % of Related Net Revenue |
|-----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|----------|--|
| Cost of revenue: | | | | | | |
| Product | \$ 503 | 42.5 | % \$ 611 | 41.1 | % (17.7 |)% 1.4 |
| Service and other | 147 | 30.4 | % 61 | 26.8 | % 141.0 | % 3.6 |
| Total cost of revenue | \$ 650 | 39.0 | % \$ 672 | 39.2 | % (3.3 |)% (0.2 |

Cost of Product Revenue

Cost of product revenue decreased by \$108 million, or 17.7 percent in the six months ended September 30, 2012, as compared to the six months ended September 30, 2011. The decrease was primarily due to a 72 percent decrease in distribution revenue, which has higher costs, during the six months ended September 30, 2012, as compared to the six months ended September 30, 2011.

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Cost of Service and Other Revenue

Cost of service and other revenue increased by \$86 million, or 141.0 percent in the six months ended September 30, 2012, as compared to the six months ended September 30, 2011. The increase was primarily due to increased server and support costs due to the release of more online-connected and subscription-based titles and related content during the six months ended September 30, 2012, as compared to the six months ended September 30, 2011.

Total Cost of Revenue as a Percentage of Total Net Revenue

During the six months ended September 30, 2012, total cost of revenue as a percentage of total net revenue decrease by 0.2 percent as compared to the six months ended September 30, 2011. This decrease as a percentage of net revenue is primarily due to (1) a 72 percent decrease in distribution revenue which has higher costs and (2) a greater percentage of net revenue from our digital products and services that have a lower cost than our publishing and other products. Both factors positively impacted gross profit as a percentage of net revenue by 2.9 percent. This decrease was partially offset by (1) an increase in the change in deferred net revenue related to certain online-enabled packaged goods and digital content offset by a greater percentage of net revenue from digital products and (2) an increase in server and support costs due to the release of more online-connected and subscription-based titles and related content. Both of these factors negatively impacted gross profit as a percent of net revenue by 2.7 percent.

Research and Development

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

Research and development expenses for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$314 | 44 | % \$318 | 44 | % \$(4 |) (1)% |
| Six months ended | \$604 | 36 | % \$603 | 35 | % \$1 | — % |

During the three months ended September 30, 2012, research and development expenses remained relatively consistent as compared to the three months ended September 30, 2011.

Research and development expenses increased by \$1 million during the six months ended September 30, 2012, as compared to the six months ended September 30, 2011, due to (1) a \$7 million increase in personnel-related costs resulting from an increase in headcount in connection with recent acquisitions, and (2) a \$7 million increase in incentive based compensation expense. This was partially offset by an \$11 million decrease in server and support costs.

Marketing and Sales

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

Marketing and sales expenses for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
|--|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|

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| | | | | | | | | | | |
|--------------------|-------|----|---|-------|----|---|--------|---|-----|----|
| Three months ended | \$212 | 30 | % | \$222 | 31 | % | \$(10) |) | (5) |)% |
| Six months ended | \$357 | 21 | % | \$362 | 21 | % | \$(5) |) | (1) |)% |

Marketing and sales expenses decreased by \$10 million, or 5 percent, during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, primarily due to an \$18 million decrease in advertising and promotional spending on our franchises as compared to the prior year. This was partially offset by \$7 million increase in personnel-related costs resulting from an increase in headcount due to online and customer relationship initiatives and recent acquisitions.

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Marketing and sales expenses decreased by \$5 million, or 1 percent, during the six months ended September 30, 2012, as compared to the six months ended September 30, 2011, primarily due to a \$26 million decrease in advertising and promotional spending on our franchises as compared to the prior year. This was partially offset by a \$17 million increase in personnel-related costs resulting from an increase in headcount due to online and customer relationship initiatives and recent acquisitions.

General and Administrative

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

General and administrative expenses for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$99 | 14 | % \$88 | 12 | % \$11 | 13 |
| Six months ended | \$185 | 11 | % \$162 | 9 | % \$23 | 14 |

General and administrative expenses increased \$11 million, or 13 percent, during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011 primarily due to an increase in personnel-related costs of \$9 million.

General and administrative expenses increased \$23 million, or 14 percent, during the six months ended September 30, 2012, as compared to the six months ended September 30, 2011 primarily due to (1) an increase in personnel-related costs of \$14 million, and (2) a \$5 million increase in legal fees related to litigation matters.

Acquisition-Related Contingent Consideration

Acquisition-related contingent consideration for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$— | — | % \$17 | 2 | % \$(17) | (100) |
| Six months ended | \$(20) | (1) | % \$19 | 1 | % \$(39) | (205) |

During the three months ended September 30, 2012, acquisition-related contingent consideration decreased by \$17 million, or 100 percent, as compared to the three months ended September 30, 2011, primarily related to a revision in our accrual during the three months ended September 30, 2011 in connection with our Playfish acquisition.

During the six months ended September 30, 2012, acquisition-related contingent consideration decreased by \$39 million, or 205 percent, as compared to the six months ended September 30, 2011, primarily related to a revision in our accrual during the three months ended September 30, 2011 in connection with our Playfish acquisition, and to a revision in our accrual during the three months ended June 30, 2012 related to our PopCap acquisition.

Amortization of Intangibles

Amortization of intangibles for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$7 | 1 | % \$13 | 2 | % \$(6) | (46) |
| Six months ended | \$14 | 1 | % \$26 | 2 | % \$(12) | (46) |

During the three and six months ended September 30, 2012, amortization of intangibles decreased by \$6 million, or 46 percent, and \$12 million, or 46 percent, respectively, as compared to the three and six months ended September 30, 2011, primarily due to certain intangible assets from our prior year acquisitions being fully amortized during fiscal year 2012.

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Restructuring and Other Charges

Restructuring and other charges for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$(2) | — | % \$(1) | — | % \$(1) | 100 % |
| Six months ended | \$25 | 2 | % \$17 | 1 | % \$8 | 47 % |

During the three months ended September 30, 2012, restructuring and other charges remained relatively consistent as compared to the three months ended September 30, 2011.

During the six months ended September 30, 2012, restructuring and other charges increased by \$8 million, or 47 percent, as compared to the six months ended September 30, 2011, primarily due to (1) \$22 million in costs in connection with our fiscal 2013 restructuring, which was initiated in this fiscal year, and (2) a \$10 million gain on the sale of our facility in Chertsey, England related to our fiscal 2008 reorganization that was recognized during the three months ended September 30, 2011, and for which there was no comparable gain in the current year. These increases were partially offset by costs that were recognized during the six months ended September 30, 2011 comprised of (1) \$14 million expense adjustment for the amendment of certain licensing agreements related to our fiscal 2011 restructuring plan, and (2) \$10 million in costs related to IT and other costs to assist in reorganizing certain activities. See the "Liquidity and Capital Resources" section on page 49 for additional information regarding our restructuring plans.

Interest and Other Expense, Net

Interest and other expense, net, for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | % of Net Revenue | September 30, 2011 | % of Net Revenue | \$ Change | % Change |
|--------------------|-----------------------|---------------------|-----------------------|---------------------|-----------|----------|
| Three months ended | \$(4) | (1)% | \$(6) | (1)% | \$2 | (33)% |
| Six months ended | \$(9) | (1)% | \$(3) | — | % \$(6) | 200 % |

Interest and other expense, net decreased by \$2 million, or by 33 percent, during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, primarily due to a \$26 million increase in foreign currency transaction gains which was partially offset by a \$22 million increase in foreign currency forward contract losses as compared to the same period in the prior year.

Interest and other expense, net increased by \$6 million, or by 200 percent, during the six months ended September 30, 2012 as compared to the six months ended September 30, 2011, primarily due to (1) a \$12 million decrease in foreign currency forward contract gains, and (2) an \$8 million increase in interest expense, including the amortization of debt discount recognized in connection with our 0.75% Convertible Senior Notes due 2016. This was partially offset by a \$17 million decrease in foreign currency transaction losses as compared to the same period in the prior year.

Income Taxes

Provisions for (benefit from) income taxes for the three and six months ended September 30, 2012 and 2011 were as follows (in millions):

| | September 30, 2012 | Effective Tax Rate | September 30, 2011 | Effective Tax Rate | % Change |
|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------|
| Three months ended | \$13 | 3.5 | % \$(40) | (10.5)% | (133)% |
| Six months ended | \$22 | 13.9 | % \$(31) | (20.7)% | (171)% |

The provision for income taxes reported for the three and six months ended September 30, 2012 is based on our projected annual effective tax rate for fiscal year 2013, and also includes certain discrete tax benefits recorded during the period. Our effective tax rate for the three and six months ended September 30, 2012 was a tax expense of 3.5

percent and 13.9 percent respectively, as compared to a tax benefit of 10.5 percent and 20.7 percent, respectively, for the same periods of fiscal 2012. The effective tax rate for the three and six months ended September 30, 2012 differs from the statutory rate of 35.0 percent primarily due to the U.S. losses for which no benefit is recognized and non-U.S. losses with a reduced or zero tax benefit. The effective tax rate for the three and six months ended September 30, 2011 differs from the statutory rate of 35.0 percent primarily due to the utilization of U.S. deferred tax assets which were subject to a valuation allowance, a reduction in the U.S. valuation

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allowance related to the PopCap acquisition, and non-U.S. profits subject to a reduced or zero tax rate. The effective tax rate for the three and six months ended September 30, 2012 differs from the same period in fiscal year 2012 primarily due to greater tax benefits recorded in fiscal year 2012 related to the reduction of the U.S. valuation allowance for the PopCap acquisition.

Our effective income tax rates for fiscal year 2013 and future periods will depend on a variety of factors, including changes in the deferred tax valuation allowance, as well as changes in our business such as acquisitions and intercompany transactions, changes in our international structure, changes in the geographic location of business functions or assets, changes in the geographic mix of income, changes in or termination of our agreements with tax authorities, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in our annual pre-tax income or loss. We incur certain tax expenses that do not decline proportionately with declines in our pre-tax consolidated income or loss. As a result, in absolute dollar terms, our tax expense will have a greater influence on our effective tax rate at lower levels of pre-tax income or loss than at higher levels. In addition, at lower levels of pre-tax income or loss, our effective tax rate will be more volatile.

Certain taxable temporary differences that are not expected to reverse during the carry forward periods permitted by tax law cannot be considered as a source of future taxable income that may be available to realize the benefit of deferred tax assets.

We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States, and accordingly, no U.S. taxes have been provided thereon. We currently intend to continue to indefinitely reinvest the undistributed earnings of our foreign subsidiaries outside of the United States.

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LIQUIDITY AND CAPITAL RESOURCES

| (In millions) | As of September 30, 2012 | As of March 31, 2012 | (Decrease) | |
|------------------------------|-----------------------------|-------------------------|------------|---|
| Cash and cash equivalents | \$871 | \$1,293 | \$(422) |) |
| Short-term investments | 351 | 437 | (86) |) |
| Marketable equity securities | 93 | 119 | (26) |) |
| Total | \$1,315 | \$1,849 | \$(534) |) |
| Percentage of total assets | 25 | % 34 | % | |

| (In millions) | Six Months Ended September 30, | | | |
|---|--------------------------------|-----------|---------|---|
| | 2012 | 2011 | Change | |
| Cash used in operating activities | \$(272) |) \$(485) |) \$213 | |
| Cash provided by (used in) investing activities | 42 | (575) |) 617 | |
| Cash provided by (used in) financing activities | (189) |) 424 | (613) |) |
| Effect of foreign exchange on cash and cash equivalents | (3) |) (13) |) 10 | |
| Net decrease in cash and cash equivalents | \$(422) |) \$(649) |) \$227 | |

Changes in Cash Flow

Operating Activities. Cash used in operating activities decreased \$213 million during the six months ended September 30, 2012 as compared to six months ended September 30, 2011 primarily due to (1) a decrease in prepaid royalty advances and (2) a decrease in royalty payments. These decreases were offset by (1) less cash collected on receivables due to a higher percentage of Net Revenue before Revenue Deferral being generated during the second half of the current period as compared to the prior period and (2) an increase in personnel-related expenses due to increased headcount.

Investing Activities. Cash used in investing activities decreased \$617 million during the six months ended September 30, 2012 as compared to the six months ended September 30, 2011 primarily driven by a \$647 million decrease in cash used for acquisitions, the majority of which was used to fund our acquisition of PopCap during the six months ended September 30, 2011.

Financing Activities. Cash provided by financing activities decreased \$613 million during the six months ended September 30, 2012 as compared to the six months ended September 30, 2011 primarily due to (1) \$617 million in proceeds received from the sale of our 0.75% Convertible Senior Notes due 2016, net of issuance costs that occurred in fiscal 2012, (2) \$65 million in proceeds received from the issuance of Warrants in connection with the Notes, and (3) a \$26 million acquisition-related contingent consideration payment primarily in connection with our acquisition of Playfish that was paid during the three months ended September 30, 2012. This was partially offset by \$107 million paid for the purchase of the Convertible Note Hedge during the three months ended September 30, 2011.

Short-term Investments and Marketable Equity Securities

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 September 30, 2012, our short-term investments had gross unrealized gains of \$1 million, or less than 1 percent of the total in short-term investments, and gross unrealized losses of less than \$1 million, or less than 1 percent of the total in short-term investments. From time to time, we may liquidate some or all of our short-term investments to fund operational needs or other activities, such as capital expenditures, business acquisitions or stock repurchase programs. Depending on which short-term investments we liquidate to fund these activities, we could recognize a portion, or all, of the gross unrealized gains or losses.

The fair value of our marketable equity securities decreased to \$93 million as of September 30, 2012 from \$119 million as of March 31, 2012 due to a decrease in the value of our investment in Neowiz.

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Restricted Cash and Contingent Consideration

Primarily in connection with our acquisitions of PopCap, KlickNation, and Chillingo, we may be required to pay an additional \$568 million of cash consideration based upon the achievement of certain performance milestones through March 31, 2015. In connection with our PopCap acquisition, we acquired \$6 million of restricted cash which is held in an escrow account in the event that certain liabilities become due. As these deposits are restricted in nature, they are excluded from cash and cash equivalents. As of September 30, 2012, the restricted cash of \$6 million is included in other current assets in our Condensed Consolidated Balance Sheets.

Fiscal 2013 Restructuring

On May 7, 2012, we announced a restructuring plan to align our cost structure with our ongoing digital transformation. Under this plan, we reduced our workforce, terminated licensing agreements, and consolidated or closed various facilities. The majority of these actions were completed by September 30, 2012.

Since the inception of the fiscal 2013 restructuring plan through September 30, 2012, we have incurred charges of \$22 million, consisting of (1) \$11 million in employee-related expenses, (2) \$9 million related to license termination costs, and (3) \$2 million related to the closure of certain of our facilities. We anticipate incurring approximately \$3 million of additional facility closure costs related to this plan during the three months ended December 31, 2012. Substantially all of these costs will be settled in cash by March 31, 2013, with the exception of approximately \$4 million of license and lease termination costs, which will be settled by May 2016.

In connection with our fiscal 2013 restructuring plan, we expect to incur cash expenditures through May 2016 of approximately (1) \$3 million during the remainder of fiscal year 2013, (2) \$2 million in fiscal year 2014, (3) \$1 million in fiscal year 2015, (4) and less than \$1 million in fiscal years 2016 and 2017.

Fiscal 2011 Restructuring

In connection with our fiscal 2011 restructuring plan, we expect to incur cash expenditures through June 2016 of approximately (1) \$20 million during the remainder of fiscal year 2013, (2) \$25 million in fiscal year 2014, (3) \$18 million in fiscal year 2015, (4) \$3 million in fiscal year 2016, and (5) \$19 million in fiscal year 2017. The actual cash expenditures are variable as they will be dependent upon the actual revenue we generate from certain games.

Financing Arrangement

In July 2011, we issued \$632.5 million aggregate principal amount of 0.75% Convertible Senior Notes due 2016 (the "Notes"). The Notes are senior unsecured obligations which pay interest semiannually in arrears at a rate of 0.75 percent per annum on January 15 and July 15 of each year, beginning on January 15, 2012 and will mature on July 15, 2016, unless earlier purchased or converted in accordance with their terms prior to such date. The Notes are convertible into cash and shares of our common stock based on an initial conversion value of 31.5075 shares of our common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$31.74 per share). Upon conversion of the Notes, holders will receive cash up to the principal amount of each Note, and any excess conversion value will be delivered in shares of our common stock. We used the net proceeds of the Notes to finance the cash consideration of our acquisition of PopCap, which closed in August 2011.

Prior to April 15, 2016, the Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. The Notes do not contain any financial covenants.

The conversion rate is subject to customary anti-dilution adjustments, but will not be adjusted for any accrued and unpaid interest. Following certain corporate events described in the indenture governing the notes (the "Indenture") that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances. The Notes are not redeemable prior to maturity, and no sinking fund is provided for the Notes.

If we undergo a “fundamental change,” as defined in the Indenture, subject to certain conditions, holders may require us to purchase for cash all or any portion of their Notes. The fundamental change purchase price will be 100 percent of the principal amount of the Notes to be purchased plus any accrued and unpaid interest up to but excluding the fundamental change purchase date.

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The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee or the holders of at least 25 percent in principal amount of the outstanding Notes may declare 100 percent of the principal and accrued and unpaid interest on all the Notes to be due and payable.

In addition, in July 2011, we entered into privately negotiated convertible note hedge transactions (the “Convertible Note Hedge”) with certain counterparties to reduce the potential dilution with respect to our common stock upon conversion of the Notes. The Convertible Note Hedge, subject to customary anti-dilution adjustments, provides us with the option to acquire, on a net settlement basis, approximately 19.9 million shares of our common stock at a strike price of \$31.74, which corresponds to the conversion price of the Notes and is equal to the number of shares of our common stock that notionally underlie the Notes. As of September 30, 2012, we have not purchased any shares under the Convertible Note Hedge. We paid \$107 million for the Convertible Note Hedge.

Separately, we have also entered into privately negotiated warrant transactions with the certain counterparties whereby we sold to independent third parties warrants (the “Warrants”) to acquire, subject to customary anti-dilution adjustments that are substantially the same as the anti-dilution provisions contained in the Notes, up to 19.9 million shares of our common stock (which is also equal to the number of shares of our common stock that notionally underlie the Notes), with a strike price of \$41.14. The Warrants could have a dilutive effect with respect to our common stock to the extent that the market price per share of its common stock exceeds \$41.14 on or prior to the expiration date of the Warrants. We received proceeds of \$65 million from the sale of the Warrants.

See Note 11 to the Condensed Consolidated Financial Statements for additional information related to our 0.75% Convertible Senior Notes due 2016.

Credit Facility

On August 30, 2012, we entered into a \$500 million 3.5 year senior unsecured revolving credit facility with a syndicate of banks. The credit facility terminates on February 29, 2016 and contains an option to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$250 million in additional commitments for revolving loans. Proceeds of loans made under the credit facility may be used for general corporate purposes.

The loans bear interest, at our option, at the base rate plus an applicable spread or an adjusted LIBOR rate plus an applicable spread, in each case with such spread being determined based on our consolidated leverage ratio for the preceding fiscal quarter. We are also obligated to pay other customary fees for a credit facility of this size and type. Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable on February 29, 2016.

The credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur subsidiary indebtedness, grant liens, dispose of all or substantially all assets and pay dividends or make distributions, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a capitalization ratio and maintain a minimum level of total liquidity and a minimum level of domestic liquidity.

The credit agreement contains customary events of default, including among others, non-payment defaults, covenant defaults, bankruptcy and insolvency defaults and a change of control default, in each case, subject to customary exceptions for a credit facility of this size and type. The occurrence of an event of default could result in the acceleration of the obligations under the credit agreement, an obligation by any guarantors to repay the obligations in full and an increase in the applicable interest rate.

As of September 30, 2012, no amounts were outstanding under the credit facility.

Financial Condition

We believe that cash, cash equivalents, short-term investments, marketable equity securities, cash generated from operations and available financing facilities will be sufficient to meet our operating requirements for at least the next 12 months, including working capital requirements, capital expenditures, and potentially, future acquisitions, stock

repurchases, or strategic investments. We may choose at any time to raise additional capital to strengthen our financial position, facilitate expansion, repurchase our stock, pursue strategic acquisitions and investments, and/or to take advantage of business opportunities as they arise. There can be no assurance, however, 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.

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As of September 30, 2012, approximately \$637 million of our cash, cash equivalents, and short-term investments and \$46 million of our marketable equity securities were domiciled in foreign tax jurisdictions. While we have no plans to repatriate these funds to the United States in the short term, if we choose to do so, we would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

In February 2011, our Board of Directors authorized a program to repurchase up to \$600 million of our common stock over the next 18 months. We completed our program in April 2012. We repurchased approximately 32 million shares in the open market since in the commencement of the program, including pursuant to pre-arranged stock trading plan. During the three months ended June 30, 2012, we repurchased and retired approximately 4.3 million shares of our common stock for approximately \$71 million.

In July 2012, our Board of Directors authorized a new program to repurchase up to \$500 million of our common stock. Under the program, we may purchase stock in the open market or through privately-negotiated transactions in accordance with applicable securities laws, including pursuant to pre-arranged stock trading plans. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. We are not obligated to repurchase any specific number of shares under the program and the repurchase program may be modified, suspended or discontinued at any time. During the three months ended September 30, 2012, we repurchased and retired approximately 8.4 million shares of our common stock for approximately \$108 million, under this new program. We continue to actively repurchase shares under this program.

During the six months ended September 30, 2012, we repurchased and retired approximately 8.4 million shares of our common stock for approximately \$179 million.

We have a “shelf” registration statement on Form S-3 on file with the SEC. 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. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we would 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 products, 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 acquisitions and other strategic transactions in which we may engage, the impact of competition, economic conditions in the United States and abroad, the seasonal and cyclical nature of our business and operating results, risks of product returns and the other risks described in the “Risk Factors” section, included in Part II, Item 1A of this report.

Contractual Obligations and Commercial Commitments

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

The products we produce in 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 generally 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 may not be dependent on any deliverables. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation, FAPL (Football Association Premier League Limited), and DFL Deutsche Fußball Liga GmbH (German Soccer League) (professional soccer); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Augusta National (professional golf); National Hockey

League and NHL Players' Association (professional hockey); National Football League Properties, PLAYERS Inc., and Red Bear Inc. (professional football); Collegiate Licensing Company (collegiate football); Zuffa, LLC (Ultimate Fighting Championship); ESPN (content in EA SPORTS games); Hasbro, Inc. (most of Hasbro's toy and game intellectual properties); and LucasArts and Lucas Licensing (Star Wars: The Old Republic). These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed 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 as of September 30, 2012, and the effect we expect them to have on our liquidity and cash flow in future periods (in millions):

| | | Fiscal Year Ending March 31, 2013 (Remaining six mos.) | 2014 | 2015 | 2016 | 2017 | Thereafter |
|--|---------|---|-------|-------|-------|------|------------|
| Unrecognized commitments | Total | | | | | | |
| Developer/licensor commitments | \$1,168 | \$66 | \$166 | \$164 | \$207 | \$58 | \$507 |
| Marketing commitments | 273 | 49 | 53 | 34 | 34 | 20 | 83 |
| Operating leases | 196 | 26 | 51 | 42 | 29 | 16 | 32 |
| 0.75% Convertible Senior Notes due 2016 interest ^(a) | 19 | 2 | 5 | 5 | 5 | 2 | — |
| Other purchase obligations | 45 | 15 | 22 | 8 | — | | |