NEW YORK TIMES CO
Form 10-Q
November 08, 2007

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, 2007

Commission file number 1-5837

THE NEW YORK TIMES COMPANY

(Exact name of registrant as specified in its charter)

NEW YORK	**13-1102020**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

620 EIGHTH AVENUE, NEW YORK, NEW YORK

(Address of principal executive offices)

10018

(Zip Code)

Registrant s telephone number, including area code

212-556-1234

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 x No o.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer o Non-accelerated filer o.

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

Number of shares of each class of the registrant s common stock outstanding as of November 2, 2007 (exclusive of treasury shares):

Class A Common Stock	143,025,736 shares
Class B Common Stock	825,852 shares

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE NEW YORK TIMES COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Quarters Ended September 30, 2007	For the Quarters Ended September 24, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 24, 2006
	(13 weeks)		(39 weeks)	
Revenues				
Advertising	$ 465,043	$ 465,476	$ 1,478,425	$ 1,527,604
Circulation	223,420	215,007	664,538	654,993
Other	65,896	59,103	186,359	175,822
Total revenues	754,359	739,586	2,329,322	2,358,419
Operating costs				
Production costs				
Raw materials	58,643	75,178	196,678	241,593
Wages and benefits	163,367	162,908	487,810	490,701
Other	109,952	106,012	318,421	322,879
Total production costs	331,962	344,098	1,002,909	1,055,173
Selling, general and administrative costs	342,503	340,927	1,029,045	1,030,941
Depreciation and amortization	51,789	36,676	142,871	107,712
Total operating costs	726,254	721,701	2,174,825	2,193,826
Net loss on sale of assets			68,156	
Gain on sale of WQEW-AM			39,578	
Operating profit	28,105	17,885	125,919	164,593
Net income from joint ventures	5,412	7,348	8,004	18,085
Interest expense, net	10,470	13,267	28,924	39,025
Income from continuing operations before income taxes and minority interest	23,047	11,966	104,999	143,653
Income taxes	8,991	3,926	48,741	51,557
Minority interest in net loss of subsidiaries	54	267	39	604
Income from continuing operations	14,110	8,307	56,297	92,700
Discontinued operations, Broadcast Media Group:				
Income from discontinued operations, net of income taxes		4,290	5,753	11,890
Gain/(loss) on sale, net of income taxes	(671)		93,659	
Discontinued operations, net of income taxes	(671)	4,290	99,412	11,890
Net income	$ 13,439	$ 12,597	$ 155,709	$ 104,590
Average number of common shares outstanding				

Basic		143,902		144,454		143,901		144,803
Diluted		144,112		144,568		144,057		144,982
Basic earnings per share:								
Income from continuing operations	$	0.10	$	0.06	$	0.39	$	0.64
Discontinued operations, net of income taxes		(0.01)		0.03		0.69		0.08
Net income	$	0.09	$	0.09	$	1.08	$	0.72
Diluted earnings per share:								
Income from continuing operations	$	0.10	$	0.06	$	0.39	$	0.64
Discontinued operations, net of income taxes		(0.01)		0.03		0.69		0.08
Net income	$	0.09	$	0.09	$	1.08	$	0.72
Dividends per share	$	0.230	$	0.175	$	0.635	$	0.515

See Notes to Condensed Consolidated Financial Statements.

THE NEW YORK TIMES COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 53,258	$ 72,360
Accounts receivable-net	369,756	402,639
Inventories		
Newsprint and other paper	22,210	32,594
Work-in-process and other	4,487	4,102
Total inventories	26,697	36,696
Deferred income taxes	92,563	73,729
Assets held for sale		357,028
Other current assets	76,481	242,591
Total current assets	618,755	1,185,043
Other Assets		
Investments in joint ventures	150,254	145,125
Property, plant and equipment (less accumulated depreciation and amortization of $1,119,194 in 2007 and $1,297,546 in 2006)	1,423,799	1,375,365
Intangible assets acquired		
Goodwill	680,292	650,920
Other intangible assets acquired (less accumulated amortization of $228,806 in 2007 and $217,972 in 2006)	142,491	133,448
Deferred income taxes	197,855	125,681
Miscellaneous assets	265,090	240,346
TOTAL ASSETS	$ 3,478,536	$ 3,855,928

See Notes to Condensed Consolidated Financial Statements.

THE NEW YORK TIMES COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Commercial paper outstanding	$ 91,438	$ 422,025
Borrowings under revolving credit agreements	205,000	
Accounts payable	187,982	242,528
Accrued payroll and other related liabilities	120,829	121,240
Accrued expenses	192,366	200,030
Unexpired subscriptions	81,060	83,298
Current portion of long-term debt and capital lease obligations	67	104,168
Construction loan		124,705
Total current liabilities	878,742	1,297,994
Other Liabilities		
Long-term debt	721,296	720,790
Capital lease obligations	6,691	74,240
Pension benefits obligation	351,269	384,277
Postretirement benefits obligation	197,175	256,740
Other	395,137	296,078
Total other liabilities	1,671,568	1,732,125
Minority Interest	5,928	5,967
Stockholders Equity		
Common stock of $.10 par value:		
Class A authorized 300,000,000 shares; issued: 2007 148,050,220; 2006 148,026,952 (including treasury shares: 2007 5,017,767; 2006 5,000,000)	14,805	14,804
Class B convertible authorized and issued shares: 2007 832,572; 2006 832,592	83	82
Additional paid-in capital	10,708	
Retained earnings	1,150,536	1,111,006
Common stock held in treasury, at cost	(159,126)	(158,886)
Accumulated other comprehensive loss, net of income taxes	(94,708)	(147,164)
Total stockholders equity	922,298	819,842
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,478,536	$ 3,855,928

See Notes to Condensed Consolidated Financial Statements.

THE NEW YORK TIMES COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended	
	September 30, 2007	September 24, 2006
	(39 weeks)	
OPERATING ACTIVITIES		
Net cash provided by operating activities	$ 29,074	$ 208,993
INVESTING ACTIVITIES		
Capital expenditures	(301,176)	(210,624)
Proceeds from sale of the Broadcast Media Group	575,288	
Proceeds from sale of WQEW-AM	40,000	
Proceeds from sale of Edison, N.J., assets	90,819	
Payment for purchase of Edison, N.J., printing facility	(139,961)	
Acquisitions, net of cash acquired of $1,190 in 2007	(34,087)	(35,742)
Other investing payments net	(3,169)	(105)
Net cash provided by/(used in) investing activities	227,714	(246,471)
FINANCING ACTIVITIES		
Commercial paper (repayments)/borrowings-net	(330,587)	70,150
Borrowings under revolving credit agreements-net	205,000	
Construction loan borrowings		61,120
Long-term obligations:		
Reductions	(102,422)	(1,217)
Capital shares:		
Issuances	529	8,684
Repurchases	(2,040)	(33,955)
Excess tax benefits from stock-based awards	165	1,106
Dividends paid to stockholders	(91,824)	(74,842)
Other financing proceeds net	44,769	
Net cash (used in)/provided by financing activities	(276,410)	31,046
Decrease in cash and cash equivalents	(19,622)	(6,432)
Effect of exchange rate changes on cash and cash equivalents	520	200
Cash and cash equivalents at the beginning of the year	72,360	44,927
Cash and cash equivalents at the end of the quarter	$ 53,258	$ 38,695

SUPPLEMENTAL DATA

Acquisitions

In May 2007, the Company acquired ConsumerSearch, Inc. for approximately $33 million.

In March 2007, the Company acquired UCompareHealthCare.com for $2.3 million. The Company paid approximately $1.8 million in the first quarter of 2007 and withheld the remaining $0.5 million for a one-year indemnification period.

Other

Financing activities   Other financing proceeds in 2007 includes cash received from the Company s real estate development partner for repayment of the Company s loan receivable.

Non-Cash

As of December 31, 2006, approximately $125 million was outstanding under the Company s real estate development partner s construction loan. In January 2007, the Company was released as a co-borrower, and therefore the receivable and the construction loan were reversed and are not included in the Company s Condensed Consolidated Balance Sheet as of September 30, 2007. See Note 12 for additional information related to the Company s new headquarters.

As part of the purchase and sale of the Company s Edison, N.J., printing facility (see Note 8), the Company terminated its existing capital lease agreement. This resulted in the reversal of the related assets (approximately $86 million) and capital lease obligation (approximately $69 million).

See Notes to Condensed Consolidated Financial Statements.

THE NEW YORK TIMES COMPANY

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of The New York Times Company s (the Company) management, the Condensed Consolidated Financial Statements present fairly the financial position of the Company as of September 30, 2007, and December 31, 2006, and the results of operations and cash flows of the Company for the periods ended September 30, 2007, and September 24, 2006. All adjustments necessary for a fair presentation have been included and are of a normal and recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company s Condensed Consolidated Financial Statements and related Notes should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Due to the seasonal nature of the Company s business, operating results for the interim periods are not necessarily indicative of a full year s operations.

As of September 30, 2007, the Company s significant accounting policies, which are detailed in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, have not changed materially, except for the adoption of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) (see Note 5).

Certain reclassifications have been made to the prior periods to conform to classifications used as of and for the period ended September 30, 2007, such as presenting depreciation and amortization separately from production and selling, general and administrative costs. The fiscal periods included herein comprise 13 weeks for the third-quarter periods and 39 weeks for the nine-month periods.

Recent Accounting Pronouncements

In February 2007, FASB issued Statement of Financial Accounting Standards (FAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting FAS 159 on its financial statements.

In September 2006, FASB issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a common definition for fair value under accounting principles generally accepted in the United States of America (GAAP), establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting FAS 157 on its financial statements.

In September 2006, FASB ratified the Emerging Issues Task Force (EITF) conclusion under EITF No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). Diversity in practice exists in accounting for the deferred compensation and postretirement aspects of endorsement split-dollar life insurance arrangements. EITF 06-4 was issued to clarify the accounting and requires employers to recognize a liability for future benefits in accordance with FAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee.

EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The effects of adopting EITF 06-4 can be recorded either as (i) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity as of the beginning of the year of adoption, or (ii) a change in accounting principle through retrospective application to all prior periods. The Company is currently evaluating the impact of adopting EITF 06-4 on its financial statements.

NOTE 2. DISCONTINUED OPERATIONS

On May 7, 2007, the Company sold its Broadcast Media Group, which consisted of nine network-affiliated television stations, their related Web sites and digital operating center, for approximately $575 million. The Company recognized a pre-tax gain on the sale of $189.9 million ($93.7 million after-tax) for the first nine months of 2007.

In accordance with the provisions of FAS No. 144, Accounting for Costs Associated with Exit or Disposal Activities, the Broadcast Media Group s results of operations and the gain on the sale are presented as discontinued operations, and certain assets and liabilities are classified as held for sale for the period presented before the sale. The results of operations presented as discontinued operations through May 7, 2007, and the assets and liabilities classified as held for sale as of December 31, 2006, are summarized below. In the third quarter of 2007, the Company recorded post-closing adjustments resulting in a decrease in the gain.

	For the Quarters Ended		For the Nine Months Ended	
(In thousands)	**September 30, 2007**	**September 24, 2006**	**September 30, 2007**	**September 24, 2006**
Revenues	$	$ 36,476	$ 46,702	$ 107,542
Total operating costs		29,205	36,854	87,389
Pre-tax income		7,271	9,848	20,153
Income taxes		2,981	4,095	8,263
Income from discontinued operations, net of income taxes		4,290	5,753	11,890
Gain/(loss) on sale, net of income taxes of $690 in the third quarter of 2007 and $96,221 for the nine months ending 2007	(671)		93,659	
Discontinued operations, net of income taxes	$ (671)	$ 4,290	$ 99,412	$ 11,890

(In thousands)	**December 31, 2006**
Property, plant & equipment, net	$ 64,309
Goodwill	41,658
Other intangible assets, net	234,105
Other assets	16,956
Assets held for sale	357,028
Program rights liability(a)	14,931
Net assets held for sale	$ 342,097

(a) Included in Accounts payable in the Condensed Consolidated Balance Sheet.

NOTE 3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is the excess of cost over the fair market value of tangible and other intangible assets acquired. Goodwill is not amortized but tested for impairment annually or if certain circumstances indicate a possible impairment may exist, in accordance with FAS No. 142, Goodwill and Other Intangible Assets.

Other intangible assets acquired consist primarily of mastheads on various acquired properties, customer lists, trade names, as well as other assets. Other intangible assets acquired that have indefinite lives (mastheads and trade names) are not amortized but tested for impairment annually or if certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer lists and other assets) are amortized over their estimated useful lives.

The Company performs its annual impairment testing in the fourth quarter of its fiscal year.

The changes in the carrying amount of goodwill were as follows:

(In thousands)	News Media Group	About Group	Total
Balance as of December 31, 2006	$ 306,564	$ 344,356	$ 650,920
Goodwill acquired during year		25,577	25,577
Goodwill adjusted during the year	(2,305)		(2,305)
Foreign currency translation	6,100		6,100
Balance as of September 30, 2007	$ 310,359		

On May 26, 2006, the lessor extended its loan financing underlying the Phase One Lease with its lenders through July 2007, and on May 14, 2007, the lenders extended this financing again for an additional year through July 2008. We may request, on behalf of the lessor and subject to lender approval, an additional one-year extension of the loan financing between the lessor and the lenders. In the event the lessor s loan financing with the lenders is not extended, we may loan to the lessor approximately 90 percent of the financing, and require the lessor to extend the remainder through July 2009; otherwise the lease will terminate. We account for the Phase One Lease arrangement as an operating lease in accordance with SFAS No. 13, *Accounting for Leases* , as amended.

In December 2000, we entered into a second build-to-suit lease (Phase Two Lease) with Keybank National Association for a five and one-half year term beginning in December 2000 to expand our Redwood City, California headquarters facilities and develop adjacent property (Phase Two Facilities). Construction of the Phase Two Facilities was completed in June 2002. The Phase Two Facilities comprise a total of approximately 310,000 square feet and provide space for sales, marketing, administration and research and development functions. Subject to certain terms and conditions, we may purchase the Phase Two Facilities or arrange for the sale of the Phase Two Facilities to a third party.

Pursuant to the terms of the Phase Two Lease, we have an option to purchase the Phase Two Facilities at any time for a purchase price of $115 million. In the event of a sale to a third party, if the sale price is less than $115 million, we will be obligated to reimburse the difference between the actual sale price and $115 million, up to a maximum of $105 million, subject to certain provisions of the Phase Two Lease, as amended.

On May 26, 2006, the lessor extended the Phase Two Lease through July 2009 subject to early termination in the event the underlying loan financing between the lessor and its lenders is not extended. Concurrently with the extension of the lease, the lessor extended the loan financing underlying the Phase Two Lease with its lenders through July 2007. On May 14, 2007, the lenders extended this financing again for an additional year through July 2008. We may request, on behalf of the lessor and subject to lender approval, an additional one-year extension of the loan financing between the lessor and the lenders. In the event the lessor s loan financing with the lenders is not extended, we may loan to the lessor approximately 90 percent of the financing, and require the lessor to extend the remainder through July 2009, otherwise the lease will terminate. We account for the Phase Two Lease arrangement as an operating lease in accordance with SFAS No. 13, as amended.

We believe that, as of June 30, 2007, the estimated fair values of both properties under these operating leases exceeded their respective guaranteed residual values.

The two lease agreements with Keybank National Association described above require us to maintain certain financial covenants as shown below, all of which we were in compliance with as of June 30, 2007.

Financial Covenants		Requirement		Actual as of June 30, 2007
Consolidated Net Worth (in millions)		equal to or greater than	$2,430	$4,053
Fixed Charge Coverage Ratio		equal to or greater than	3.00	4.20
Total Consolidated Debt to Capital		equal to or less than	60%	5.7%
Quick Ratio	Q1 & Q2	equal to or greater than	1.00	6.57
	Q3 & Q4	equal to or greater than	1.75	N/A

Legal Proceedings

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

Director Indemnity Agreements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

We are exposed to various market risks, including changes in foreign currency exchange rates, interest rates and market prices. Market risk is the potential loss arising from changes in market rates and market prices. We employ established policies and practices to manage these risks. Foreign exchange option and forward contracts are used to hedge anticipated exposures or mitigate some existing exposures subject to foreign exchange risk as discussed below. We have not historically, nor do we currently, hedge our short-term investment portfolio. We do not consider our cash and cash equivalents to be exposed to significant interest rate risk because our cash and cash equivalent portfolio consists of highly liquid investments with original maturities of three months or less. We also do not currently hedge our market price risk relating to our equity investments. Further, we do not enter into derivatives or other financial instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

Cash Flow Hedging Activities. From time to time, we hedge a portion of our foreign currency risk related to forecasted foreign-currency-denominated sales and expense transactions by purchasing option contracts that generally have maturities of 15 months or less. These transactions are designated and qualify as cash flow hedges. The derivative assets associated with our hedging activities are recorded at fair value in other current assets in our Condensed Consolidated Balance Sheets. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income in stockholders equity and subsequently reclassified into net revenue or operating expenses, as appropriate in the period when the forecasted transaction is recorded. The ineffective portion of gains or losses resulting from changes in fair value, if any, is reported in each period in interest and other income, net, in our Condensed Consolidated Statements of Operations. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements in revenue and operating expenses. As of June 30, 2007, we had foreign currency option contracts to purchase approximately $29 million in foreign currencies and to sell approximately $346 million of foreign currencies. As of June 30, 2007, these foreign currency option contracts outstanding had a total fair value of $3 million, included in other current assets.

Balance Sheet Hedging Activities. We use foreign exchange forward contracts to mitigate foreign currency risk associated with foreign-currency-denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of three months or less and are transacted near month-end. Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133 and are accounted for as derivatives whereby the fair value of the contracts are reported as other current assets or other current liabilities in our Condensed Consolidated Balance Sheets, and gains and losses from changes in fair value are reported in interest and other income, net. The gains and losses on these forward contracts generally offset the gains and losses on the underlying foreign-currency-denominated assets and liabilities, which are also reported in interest and other income, net, in our Condensed Consolidated Statements of Operations. As of June 30, 2007, we had forward foreign exchange contracts to purchase and sell approximately $155 million in foreign currencies. Of this amount, $107 million represented contracts to sell foreign currencies in exchange for U.S. dollars, $13 million to sell foreign currencies in exchange for British pound sterling and $35 million to purchase foreign currencies in exchange for U.S. dollars. The fair value of our forward contracts was immaterial as of June 30, 2007.

The counterparties to these forward and option contracts are creditworthy multinational commercial banks; therefore, the risk of counterparty nonperformance is not considered to be material.

Notwithstanding our efforts to mitigate some foreign currency exchange rate risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. As of June 30, 2007, a hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in a potential loss in fair value of our option contracts of $3 million in both scenarios. A hypothetical adverse foreign currency exchange rate movement of 10 percent or 15 percent would result in potential losses on our forward contracts of $14 million and $21 million, respectively, as of June 30, 2007. This sensitivity analysis assumes a parallel adverse shift in foreign currency exchange rates, which do not always move in the same direction. Actual results may differ materially.

42

Table of Contents

Interest Rate Risk

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

As of June 30, 2007 and March 31, 2007, our short-term investments were classified as available-for-sale and, consequently, recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders equity. Our portfolio of short-term investments consisted of the following investment categories, summarized by fair value as of June 30, 2007 and March 31, 2007 (in millions):

	As of June 30, 2007	As of March 31, 2007
Commercial paper	$ 725	$ 574
Corporate bonds	300	226
U.S. agency securities	296	264
Asset-backed securities	129	108
U.S. Treasury securities	76	92
Total short-term investments	$ 1,526	$ 1,264

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp change in interest rates could have a significant impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value in our short-term investment portfolio as of June 30, 2007, arising from potential changes in interest rates. The modeling technique estimates the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points (BPS), 100 BPS, and 150 BPS.

(In millions)	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of June 30,	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	2007	50 BPS	100 BPS	150 BPS
Commercial paper	$ 727	$ 726	$ 725	$ 725	$ 723	$ 722	$ 722
Corporate bonds	306	305	303	300	297	296	294
U.S. agency securities	304	301	298	296	293	290	287
Asset-backed securities	132	131	130	129	129	128	127
U.S. Treasury securities	79	78	77	76	76	75	74
Total short-term investments	$ 1,548	$ 1,541	$ 1,533	$ 1,526	$ 1,518	$ 1,511	$ 1,504

Market Price Risk

The value of our equity investments in publicly traded companies are subject to market price volatility. As of June 30, 2007 and March 31, 2007, our marketable equity securities were classified as available-for-sale and, consequently, were recorded in our Condensed Consolidated Balance Sheets at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of any tax effects, in stockholders equity. The fair value of our marketable equity securities was $660 million and $341 million as of June 30, 2007 and March 31, 2007, respectively.

43

Table of Contents

At any time, a sharp change in market prices in our investments in marketable equity securities could have a significant impact on the fair value of our investments. The following table presents hypothetical changes in the fair value of our marketable equity securities as of June 30, 2007, arising from changes in market prices plus or minus 25 percent, 50 percent and 75 percent.

(In millions)	Valuation of Securities Given an X Percentage Decrease in Each Stock s Market Price			Fair Value as of June 30, 2007	Valuation of Securities Given an X Percentage Increase in Each Stock s Market Price		
	(75%)	(50%)	(25%)		25%	50%	75%
Marketable equity securities	$ 165	$ 330	$ 495	$ 660	$ 825	$ 990	$ 1,155

Item 4. Controls and Procedures

Definition and limitations of disclosure controls

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

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

Evaluation of disclosure controls and procedures

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

Changes in internal control over financial reporting

We have implemented a new set of financial information systems and processes designed to help us accurately process, prepare, report and analyze the significant amount of net revenue from online-enabled packaged goods and digital content we will recognize on a deferred basis. During the quarter ended June 30, 2007, no other changes occurred in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II   OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Our business is highly dependent on the success and availability of video game hardware systems manufactured by third parties, as well as our ability to develop commercially successful products for these systems.

We derive most of our revenue from the sale of products for play on video game hardware systems (which we also refer to as platforms) manufactured by third parties, such as Sony s PlayStation 2 and PLAYSTATION 3, Microsoft s Xbox 360 and Nintendo s Wii. The success of our business is driven in large part by the commercial success and adequate supply of these video game hardware systems, our ability to accurately predict which systems will be successful in the marketplace, and our ability to develop commercially successful products for these systems. We must make product development decisions and commit significant resources well in advance of anticipated product ship dates. A platform for which we are developing products may not succeed or may have a shorter life cycle than anticipated. If consumer demand for the systems for which we are developing products are lower than our expectations, our revenue will suffer, we may be unable to fully recover the investments we have made in developing our products, and our financial performance will be harmed. Alternatively, a system for which we have not devoted significant resources could be more successful than we had initially anticipated, causing us to miss out on meaningful revenue opportunities.

Our industry is cyclical and is beginning its next cycle. During the transition, consumers may be slower to adopt new video game systems than we anticipate, and our operating results may suffer and become more difficult to predict.

Video game hardware systems have historically had a life cycle of four to six years, which causes the video game software market to be cyclical as well. Microsoft launched the Xbox 360 in November 2005, while Sony and Nintendo launched the PLAYSTATION 3 and the Wii, respectively, in November 2006. We have continued to develop and market new titles for prior-generation video game systems such as the PlayStation 2 while also making significant investments in products for the new systems. As the prior-generation systems reach the end of their life cycle and the installed base of the new systems continues to grow, our sales of video games for prior-generation systems will continue to decline as (1) we produce fewer titles for prior-generation systems, (2) consumers replace their prior-generation systems with the new systems, and/or (3) consumers defer game software purchases until they are able to purchase a new video game hardware system. This decline in prior-generation product sales may be greater or faster than we anticipate, and sales of products for the new platforms may be lower or increase more slowly than we anticipate. Moreover, we expect development costs for the new video game systems to be greater on a per-title basis than development costs for prior-generation video game systems. As a result of these factors, during the next several quarters, we expect our operating results to be more volatile and difficult to predict, which could cause our stock price to fluctuate significantly.

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

Our business is highly seasonal, with the highest levels of consumer demand and a significant percentage of our sales occurring in the December quarter. In addition, we seek to release many of our products in conjunction with specific events, such as the release of a related movie or the beginning of a sports season or major sporting event. If we miss these key selling periods for any reason, including product delays or delayed introduction of a new platform for which we have developed products, our sales will suffer disproportionately. Likewise, if a key event to which our product release schedule is tied were to be delayed or cancelled, our sales would also suffer disproportionately. Our ability to meet product development schedules is affected by a

46

number of factors, including the creative processes involved, the coordination of large and sometimes geographically dispersed development teams required by the increasing complexity of our products and the platforms for which they are developed, and the need to fine-tune our products prior to their release. We have experienced development delays for our products in the past, which caused us to push back release dates. In the future, any failure to meet anticipated production or release schedules would likely result in a delay of revenue and/or possibly a significant shortfall in our revenue, harm our profitability, and cause our operating results to be materially different than anticipated.

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

Competition in our industry is intense and we expect new competitors to continue to emerge in the United States and abroad. While many new products and services are regularly introduced, only a relatively small number of hit titles accounts for a significant portion of total revenue in our industry. Hit products or services offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products and services to fall below expectations. If our competitors develop more successful products or services, offer competitive products or services at lower price points or based on payment models perceived as offering a better value proposition (such as pay-for-play or subscription-based models), or if we do not continue to develop consistently high-quality and well-received products and services, our revenue, margins, and profitability will decline.

We are in the process of reorganizing our business and operating structure. We may encounter a variety of issues in connection with the reorganization that could negatively impact our operating results, financial condition and ability to report our financial results.

In an effort to streamline our internal decision-making processes, improve our global focus, and accelerate the process of bringing new ideas to market, we have begun to reorganize our business into four major divisions, which we refer to as Labels : The Sims, EA Games, EA SPORTS, and EA Casual Entertainment. The reorganization will present a number of operational challenges, which, if not successfully managed, could cause our operating results to suffer in the near-term and/or delay or inhibit the anticipated benefits of the reorganization. Implementing any reorganization necessarily requires time and focus from all levels of the organization time and focus that may be taken away from other business needs. For example, as our employees assume new responsibilities under the new structure, their responsibilities under the old structure may not be successfully re-assigned or adequately addressed, which could result in operational problems that negatively impact our financial condition and operating results. Similarly, as our employees roles and responsibilities change in a new structure, it is possible that we could experience a greater loss of key personnel than we have historically. Further, in connection with the reorganization, we anticipate that we will need to align some of our internal financial controls and procedures with our new organizational structure. Any delay or failure to align our internal controls over financial reporting could prevent us from reporting our financial results in a timely manner or lead to control deficiencies.

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

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

The video game hardware manufacturers set the royalty rates and other fees that we must pay to publish games for their platforms, and therefore have significant influence on our costs. If one or more of these manufacturers adopt a different fee structure for future game consoles, our profitability will be materially impacted.

In order to publish products for a video game system such as the Xbox 360, PLAYSTATION 3 or Wii, we must take a license from the manufacturer, which gives it the opportunity to set the fee structure that we must pay in order to publish games for that platform. Similarly, certain manufacturers have retained the flexibility to change their fee structures, or adopt different fee structures for online gameplay and other new features for their consoles. The control that hardware manufacturers have over the fee structures for their platforms and online access makes it difficult for us to predict our costs, profitability and impact on margins. Because publishing products for video game systems is the largest portion of our business, any increase in fee structures would significantly harm our ability to generate revenues and/or profits.

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

Our agreements with hardware licensors (such as Sony for the PLAYSTATION 3, Microsoft for the Xbox 360, and Nintendo for the Wii) typically give significant control to the licensor over the approval and manufacturing of our products, which could, in certain circumstances, leave us unable to get our products approved, manufactured and shipped to customers. These hardware licensors are also among our chief competitors. Generally, control of the approval and manufacturing process by the hardware licensors increases both our manufacturing lead times and costs as compared to those we can achieve independently. While we believe that our relationships with our hardware licensors are currently good, the potential for these licensors to delay or refuse to approve or manufacture our products exists. Such occurrences would harm our business and our financial performance.

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

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

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

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

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

If we do not continue to attract and retain key personnel, we will be unable to effectively conduct our business.

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

If patent claims continue to be asserted against us, we may be unable to sustain our current business models or profits, or we may be precluded from pursuing new business opportunities in the future.

Many patents have been issued that may apply to widely-used game technologies, or to potential new modes of delivering, playing or monetizing game software products. For example, infringement claims under many issued patents are now being asserted against interactive software or online game sites. Several such claims have been asserted against us. We incur substantial expenses in evaluating and defending against such claims, regardless of the merits of the claims. In the event that there is a determination that we have infringed a third-party patent, we could incur significant monetary liability and be prevented from using the rights in the future, which could negatively impact our operating results. We may also discover that future opportunities to provide new and innovative modes of game play and game delivery to consumers may be precluded by existing patents that we are unable to license on reasonable terms.

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

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

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

We are currently, and from time to time in the future may become, subject to legal proceedings, claims, litigation and government investigations or inquiries, which could be expensive, lengthy, and disruptive to normal business operations. In addition, the outcome of any legal proceedings, claims, litigation, investigations or inquiries may be difficult to predict and could have a material adverse effect on our business, operating results, or financial condition.

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

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

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

Throughout the history of our industry, many video games have been designed to include certain hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. However, in several recent cases, hidden content or features have been found to be included in other publishers products by an employee who was not authorized to do so or by an outside developer without the knowledge of the publisher. From time to time, some hidden content and features have contained profanity, graphic violence and sexually explicit or otherwise objectionable material. In a few cases, the

Entertainment Software Ratings Board (ESRB   ) has reacted to

---

discoveries of hidden content and features by reviewing the rating that was originally assigned to the product, requiring the publisher to change the game packaging and/or fining the publisher. Retailers have on occasion reacted to the discovery of such hidden content by removing these games from their shelves, refusing to sell them, and demanding that their publishers accept them as product returns. Likewise, consumers have reacted to the revelation of hidden content by refusing to purchase such games, demanding refunds for games they ve already purchased, and refraining from buying other games published by the company whose game contained the objectionable material.
We have implemented preventative measures designed to reduce the possibility of hidden, objectionable content from appearing in the video games we publish. Nonetheless, these preventative measures are subject to human error, circumvention, overriding, and reasonable resource constraints. If a video game we published were found to contain hidden, objectionable content, the ESRB could demand that we recall a game and change its packaging to reflect a revised rating, retailers could refuse to sell it and demand we accept the return of any unsold copies or returns from customers, and consumers could refuse to buy it or demand that we refund their money. This could have a material negative impact on our operating results and financial condition. In addition, our reputation could be harmed, which could impact sales of other video games we sell. If any of these consequences were to occur, our business and financial performance could be significantly harmed.

If we ship defective products, our operating results could suffer.

Products such as ours are extremely complex software programs, and are difficult to develop, manufacture and distribute. We have quality controls in place to detect defects in the software, media and packaging of our products before they are released. Nonetheless, these quality controls are subject to human error, overriding, and reasonable resource constraints. Therefore, these quality controls and preventative measures may not be effective in detecting defects in our products before they have been reproduced and released into the marketplace. In such an event, we could be required to recall a product, or we may find it necessary to voluntarily recall a product, and/or scrap defective inventory, which could significantly harm our business and operating results.

Our international net revenue is subject to currency fluctuations.

For the three months ended June 30, 2007, international net revenue comprised 59 percent of our total net revenue. We expect foreign sales to continue to account for a significant portion of our total net revenue. Such sales may be subject to unexpected regulatory requirements, tariffs and other barriers. Additionally, foreign sales are primarily made in local currencies, which may fluctuate against the U.S. dollar. While we use foreign exchange forward contracts to mitigate some foreign currency risk associated with foreign currency denominated assets and liabilities (primarily certain intercompany receivables and payables) and, from time to time, foreign currency option contracts to hedge foreign currency forecasted transactions (primarily related to a portion of the revenue and expenses denominated in foreign currency generated by our operational subsidiaries), our results of operations, including our reported net revenue and net income, and financial condition would be adversely affected by unfavorable foreign currency fluctuations, particularly the Euro, British pound sterling and Canadian dollar.

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

We are subject to income taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, and, in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.
We are also required to estimate what our tax obligations will be in the future. Although we believe our tax estimates are reasonable, the estimation process and applicable laws are inherently uncertain, and our estimates are not binding on tax authorities. Our effective tax rate could be adversely affected by our profit level, by changes in our business or changes in our structure resulting from the reorganization of our business and operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the elections we make, changes in applicable tax laws as well as other factors. Further, our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Should our ultimate tax liability exceed our estimates, our income tax provision and net income or loss could be materially affected.
We incur certain tax expenses that do not decline proportionately with declines in our consolidated pre-tax 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

Table of Contents

income or loss than higher levels. In addition, at lower levels of pre-tax income or loss, our effective tax rate will be more volatile.

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

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

As a result of the enactment of the Sarbanes-Oxley Act and the review of accounting policies by the SEC and national and international accounting standards bodies, the frequency of accounting policy changes may accelerate. For example, as discussed in Note 8 of the Notes to Condensed Consolidated Financial Statements, FIN No. 48 has affected the way we account for income taxes and may have a material impact on our financial results. Similarly, changes in accounting standards relating to stock-based compensation require us to recognize significantly greater expense than we had been recognizing prior to the adoption of the new standard. Likewise, policies affecting software revenue recognition have and could further significantly affect the way we account for revenue related to our products and services. For example, as our industry transitions to new video game hardware systems, we expect a more significant portion of our console and PC games will be online-enabled and, as a result, we will be required to recognize the related revenue over an extended period of time rather than at the time of sale. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenue and taxes, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

We have begun the implementation of a new set of financial information systems in anticipation of a significant increase in deferred net revenue, which, if not completed in a successful and timely manner, could impede our ability to accurately process, prepare and analyze important financial data.

We have begun to implement a new set of financial information systems and processes designed to help us accurately process, prepare and analyze the significant amount of net revenue from online-enabled packaged goods we expect to recognize on a deferred basis beginning in fiscal 2008. The successful implementation of these systems and processes entails a number of risks due to the complexity of the systems, the number of people affected company-wide, and the implementation process itself. While testing of these new systems and processes and training of employees are done in advance of implementation, there are inherent limitations in our ability to simulate a full-scale operating environment in advance of implementation. There can be no assurance that the implementation of these financial information systems and processes will not impede our ability to accurately and timely process, prepare and analyze the financial data we use in making operating decisions and which form the basis of the financial information we include in the periodic reports we file with the SEC.

Changes in our worldwide operating structure or the adoption of new products and distribution models could have adverse tax consequences.

As we expand our international operations, adopt new products and new distribution models, implement changes to our operating structure or undertake intercompany transactions in light of changing tax laws, expiring rulings, acquisitions and our current and anticipated business and operational requirements, our tax expense could increase. For example, in the fourth quarter of fiscal 2006, we repatriated $375 million under the American Jobs Creation Act of 2004. As a result, we recognized an additional one-time tax expense in fiscal 2006 of $17 million.

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

In the quarter ended June 30, 2007, over 63 percent of our U.S. sales were made to seven key customers. In Europe, our top ten customers accounted for approximately 29 percent of our sales in that territory during the three months ended June 30, 2007. No single customer represented more than 10 percent of total net revenue during the three months ended June 30, 2007. Though our products are available to consumers through a variety of retailers, the concentration of our sales in one, or a few, large customers could lead to a short-term disruption in our sales if one or more of these customers significantly reduced their purchases or ceased to carry our products, and could make us more vulnerable to collection risk if one or more of these large customers became unable to pay for our products. Additionally, our receivables from these large customers increase significantly in the December quarter as they stock up for the holiday selling season. Also, having such a large portion of our total net revenue concentrated in a few customers could reduce our negotiating leverage with these customers.

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

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

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

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

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

In many countries around the world, more pirated copies of our products are sold than legitimate copies. Though we believe piracy has not had a material impact on our operating results to date, highly organized pirate operations have been expanding globally. In addition, the proliferation of technology designed to circumvent the protection measures we use in our products, the availability of broadband access to the Internet, the ability to download pirated copies of our games from various Internet sites, and the widespread proliferation of Internet cafes using pirated copies of our products, all have contributed to ongoing and expanding piracy. Though we take steps to make the unauthorized copying and distribution of our products more difficult, as do the manufacturers of consoles on which our games are played, these efforts may not be successful in controlling the piracy of our products. This could have a negative effect on our growth and profitability in the future.

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

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

Item 6. Exhibits

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

Exhibit Number	Title
10.1	Electronic Arts Inc. 2000 Equity Incentive Plan, as amended. (*)
10.2	Electronic Arts Inc. 2000 Employee Stock Purchase Plan, as amended. (*)
10.3	Electronic Arts Inc. Deferred Compensation Plan. (*)
10.4	Offer Letter for Employment at Electronic Arts Inc. to Kathy Vrabeck, dated May 10, 2007. (*)(1)
10.5	Employment Agreement between Electronic Arts (Canada), Inc. and V. Paul Lee, dated June 18, 2007. (*)(2)
10.6	Offer Letter for Employment at Electronic Arts Inc. to Peter Moore, dated June 5, 2007. (*)(3)
10.7	Electronic Arts Inc. Executive Bonus Plan. (*) (4)
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Additional exhibits furnished with this report:

32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*	Management contract or compensatory plan or arrangement.
(1)	Incorporated by reference to exhibits filed with Registrant s Current Report on Form 8-K, filed June 6, 2007.
(2)	Incorporated by reference to exhibits filed with Registrant s Current Report on Form 8-K, filed June 22, 2007.
(3)	Incorporated by reference to exhibits filed with Registrant s Current Report on Form 8-K, filed July 17, 2007.
(4)	Incorporated by reference to exhibits filed with Registrant s Current Report on Form 8-K, filed July 27, 2007.

53

Table of Contents

SIGNATURE

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

	ELECTRONIC ARTS INC. (Registrant)
	/s/ Warren C. Jenson
DATED: August 6, 2007	WARREN C. JENSON Executive Vice President, Chief Financial and Administrative Officer

Table of Contents

ELECTRONIC ARTS INC.
FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2007
EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT TITLE
10.1	Electronic Arts Inc. 2000 Equity Incentive Plan, as amended.
10.2	Electronic Arts Inc. 2000 Employee Stock Purchase Plan, as amended.
10.3	Electronic Arts Inc. Deferred Compensation Plan.
15.1	Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Additional exhibits furnished with this report:

32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President, Chief Financial and Administrative Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.