

ELECTRONIC ARTS

Q2 FY12 PREPARED COMMENTS

OCTOBER 27, 2011

Rob Sison:

Thank you.

Welcome to EA's fiscal 2012 second quarter earnings call. With me on the call today is John Riccitiello, our CEO, Eric Brown, CFO, Peter Moore, COO and Studio President Frank Gibeau will join for the QA.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, and a transcript.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of October 27th, 2011 and disclaims any duty to update them.

Throughout this call, we will discuss both GAAP and non-GAAP financial measures. Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

Now, I'll turn the call over to John Riccitiello. John?

John Riccitiello:

Thanks Rob

We are pleased to report a strong second quarter with results ahead of the top and bottom line expectations that we provided on our last earnings call. Our results reflected a tremendous performance by our EA SPORTS titles and a strong showing for our newest game on the Facebook platform, *The Sims Social*.

EA has delivered solid results in the first half of our fiscal year and we are now focused on our biggest titles for the holiday. FIFA 12 is having its best year ever with a critical index of 92 and record sales in both North America and Europe. *Battlefield 3* was launched on Tuesday and has opened very strong. We shipped ten million units to retail and we are already receiving reorders. The data is still early but sell through is strong.

Next up is *Need for Speed The Run* on November 15 and then, the most anticipated event of the year, *Star Wars: The Old Republic* launching on December 20. We also have a number of social and mobile titles that we will announce closer to their launch.

Based on this strong performance and our expectations for the holiday, we are raising the mid-point and narrowing our full-year non-GAAP EPS guidance to 75-cents to 90-cents while increasing both our total revenue guidance and our digital revenue guidance. We are increasing the low end of the EPS guidance range by a nickel based on our strong performance in Q1 and Q2 and in part based on the great initial performance of *Battlefield 3*, partially offset by the later ship date of *Star Wars: The Old Republic*. Eric Brown will provide more detail on this.

Next, I want to give you a progress report on the three major strategic initiatives we defined at the start of our fiscal year:

Our first priority is brands – EA has roughly one dozen globally recognized brands, often referred to as intellectual properties, which are at the foundation of our company. Together they constitute a powerful competitive advantage – unmatched by our principal competitors.

Our mission is to transform these brands from a single event every one-to-two years, to 365-day businesses with packaged goods launches sustained by frequent updates of downloadable content and extensions into social and mobile platforms. Flagship brands like *Battlefield*, *Need for Speed*, *Mass Effect*, *FIFA* and *Madden* are now built on this strategy. Each is expected to deliver greater revenue and profitability than we generated in the past on single-event packaged goods launches. And, this is a strategy that only EA can deliver on. Our competitors either

have fewer brands, or have not demonstrated the ability to project their games onto multiple platforms.

A prime example of this strategy is *The Sims* brand. Today, *The Sims Pets* is the leading PC game in the market and it is performing well on consoles. *The Sims* is a leader on Apple platforms and *The Sims Social* is doing exceptionally well on Facebook – dislodging several leading games to become number two on Facebook. *The Sims Social* is a certified hit that is based on one of EA's most valuable brands.

Our next priority is platform. Over the past three years, EA has been investing to put in place the foundation for true cross-platform capability with our brands, and for a high value safe and secure set of services we can offer our consumers online. Our Nucleus registration and entitlement service, which now boasts over 140 million users, was our first step in this direction. The EA Sports Online pass is a program enabled by this platform investment. The Nucleus system is also the key technology that allows us to extend our retail partnerships to sell our games on websites hosted by GameStop, Wal-Mart, Amazon and the Game chain in Europe.

This summer, we launched Origin – a direct-to-consumer digital service that is essentially a window into our own platform. In time, Origin will evolve into a unique strategic advantage for EA. This week, we welcomed three independent publishers to the platform – Warner Brothers, CapCom and THQ. We couldn't be more pleased with how consumers and independent publishers have responded to this initiative.

Our third priority is talent. EA is organized to put full responsibility for managing our key brands behind the team that creates them. Rather than scattering the development – for console, mobile and social – across multiple organizations, we are consolidating key elements of production, marketing and community into one team.

That's better for consumers who deserve creative continuity and improved service across multiple platforms. And it's better for our employees. Rather than being pigeon-holed on the same platform year after year, they see the entire spectrum of gameplay, technology and business model on their franchise. Employees see much better career development and, frankly, have more fun at work.

So to summarize – we're focused on our brands, transforming EA into a platform player and investing in our talent. We've delivered another solid quarter and are on our way to another strong year.

With that I will turn the call over to Eric.

Eric Brown:

Thanks John.

Starting with a review of Q2:

EA performance in Q2 exceeded the non-GAAP revenue and EPS guidance that we provided on the Q1 earnings call.

Total Q2 non-GAAP revenue was \$1.034 billion, growing 17% versus last year. The growth was driven by strong performances in each of our sports releases. The current releases of *FIFA*, *Madden*, *NCAA* and *NHL* each grew year-over-year, and collectively they grew more than 20%.

Q2 digital non-GAAP revenue increased 30% year-over-year to \$216 million.

- DLC and free-to-play micro transaction content was \$85 million in Q2, up 33% versus last year due to the inclusion of PopCap revenue and *The Sims Social* game which launched midway through the quarter. *FIFA* was a key contributor, generating more than \$20 million of non-GAAP digital revenue for Q2.
- Mobile and other handheld digital revenue was \$55 million, up 8% versus last year, due to continued growth in smartphone related revenue. New titles, like *Spy Mouse* for the Apple iOS, and established brands, like *FIFA*, contributed to the smartphone revenue growth which offset the reduction in feature phone related revenue.
- Full game downloads were \$26 million, up 44% year-over-year, driven by downloads for *Sims 3* and PopCap games. Additionally, *Battlefield Bad Company 2* continues to perform as a catalog download title on console.
- Revenue from subscriptions, advertising and other was \$50 million, up 52% year-over-year.

We continue to see growth in digital and extended gameplay on our core packaged goods franchises like *FIFA11* and *Battlefield Bad Company 2* where the forecast on digital revenue for these two titles is now up more than 10% versus just last quarter.

PopCap continues to grow faster than the overall market. On a standalone basis, excluding the one-time effects of the acquisition, PopCap's Q2 non-GAAP revenue grew 28% year-over-year, and continues to be on track to deliver more than 30% growth for all of calendar 2011.

In summary, relative to our previous non-GAAP guidance: revenue was \$84 million above the midpoint, gross profit margin of 59% was slightly better than expected, and operating expenses came in at the lower end. This was a good quarter overall.

Turning to Cash:

Net cash used in operations this quarter was (\$211) million versus (\$134) million a year ago. The change in operating cash flow is primarily due to the timing and amount of our Q2 shipments. Trailing twelve month operating cash flow was \$117 million.

EA has approximately \$4.52 per share in cash, short-term investments, and marketable securities. Roughly 57% of our cash and short-term investments are onshore.

During the quarter, EA repurchased 4.7 million shares at a cost of \$98 million. \$353 million remains authorized for the repurchase program over the next eight months.

Sector Performance:

Overall, the worldwide interactive entertainment segment was up mid-single digits in the September quarter, a composite of greater than 20% growth in digital, offset by an 18% decline in packaged goods.

Calendar year-to-date, the western world packaged goods market was down 12% comprised of a 6% decline in high definition platforms and a 20% decline in standard definition platforms. Quarter-to-date, EA was the #1 publisher in the western world, with 26% share in North America, 25% share in Europe and 25% share overall in the western world versus 21% a year ago.

Moving on to FY12 Guidance.

EA is raising the mid-point and narrowing the range of its full year non-GAAP EPS guidance to \$0.75 to \$0.90 diluted earnings per share. EA is also raising the mid-point and narrowing the range of its non-GAAP revenue to \$4.050 billion to \$4.200 billion. This increase in our non-GAAP revenue and EPS is a function of the following:

1. Our performance to date. Our Q2 results exceeded the mid-point of our guidance for both non-GAAP revenue and non-GAAP EPS by \$84 million and \$0.13, respectively.

2. Digital revenue, where we are investing to drive growth. On a trailing 12 month basis, our digital revenue grew 37%.
3. The move of *Star Wars: The Old Republic* to December results in a projected reduction of \$0.10 EPS versus the assumptions associated with the upper end of our prior EPS guidance.
4. The other consideration for the second half of the fiscal year is our Q4 title lineup; we may move a title out of fiscal 2012 in order to get a better ship window.

The move to a late December ship date for *Star Wars* is a key factor for guidance. If we were to hold all other assumptions constant versus our last quarter's guidance, and only change the *Star Wars* launch date to late December, our earnings guidance would be \$0.70 to \$0.80. We are now providing non-GAAP EPS guidance between \$0.75 to \$0.90, an increase in guidance that reflects our strong performance to date and revised assumptions for the balance of the fiscal year.

Breaking down the Fiscal '12 non-GAAP Revenue: Non-GAAP digital revenue is expected to increase to approximately \$1.150 billion to \$1.200 billion, while non-GAAP revenue from EA published titles is estimated to be between \$2.650 billion to \$2.750 billion. The balance is approximately \$250 million of expected distribution revenue.

Fiscal '12 GAAP Revenue and EPS: Our fiscal '12 GAAP net revenue guidance is approximately \$4.050 billion to \$4.200 billion. Our fiscal '12 GAAP EPS guidance now ranges from \$0.15 to \$0.36 diluted earnings per share. GAAP tax is expected to be a benefit of approximately \$10 million.

Gross Profit Margins: We expect full year non-GAAP gross profit margins of approximately 63% and we expect full year GAAP gross profit margins of approximately 62%.

Operating Expenses: We expect fiscal '12 non-GAAP operating expenses to be slightly greater than \$2.200 billion, a \$50 million plus increase from prior guidance due to the investment in our digital growth. GAAP operating expenses are expected to be slightly greater than \$2.450 billion.

Our fiscal '12 non-GAAP EPS guidance range corresponds to a non-GAAP operating income margin of approximately 9% to 10%, with approximately \$4 million of expense in the other income and expense line, a full year non-GAAP tax rate of 28%, and an estimated 334 million diluted shares.

Cash Flow: We expect fiscal '12 operating cash flow to be \$250 million to \$300 million, consistent with our previous guidance. We expect fiscal '12 capital spending of approximately \$125 million.

Q3 Guidance:

For Q3 fiscal '12 we expect the following for non-GAAP results: Revenue between \$1.550 billion and \$1.650 billion and non-GAAP earnings per share of \$0.85 to \$0.95. Non-GAAP gross profit margin is expected to be approximately 67%, operating expense is expected to be approximately \$650 million, a non-GAAP tax rate of 28%, and diluted share count is an estimated 334 million.

For GAAP results, we expect the following for Q3 fiscal '12: Revenue between \$1.000 billion and \$1.100 billion and GAAP diluted loss per share of (\$.77) to (\$0.63). Gross profit margin is expected to be 47% to 49%, operating expense is expected to be \$715 million, and share count is an estimated 330 million.

Foreign Exchange: Our guidance assumes the following FX rates for the fiscal year: \$1.36 USD to the Euro, \$0.98 USD to the Canadian Dollar, and \$1.57 USD to the British Pound. The strength in the US dollar since our July call has been reflected in our updated guidance and does create a small decrease in second half non-GAAP EPS versus our prior foreign exchange rate assumptions.

Lastly, our assumptions on the sector remain unchanged with mid-single digit growth overall, comprised of greater than 20% growth in digital, continued low single digit growth in high definition consoles and PC, offset by an 18% decline in standard definition.

Now, I'll turn the call over to Peter Moore.

Peter Moore:

Thanks Eric.

I'm going to cover three topics today. First, an update on our cross-label digital business including the Origin platform. Second, a quick recap of Q2 which saw a breakout performance by EA SPORTS. And finally, a perspective on our key Q3 launches.

That's a lot of ground to cover -- let's get started. Our digital business is tracking extraordinarily well – and with the addition of PopCap and a fantastic performance from *The Sims Social*, we are now confident we can exceed our goal of generating over \$1 billion in the fiscal year. This is a feat which would put us in an elite group of four or five companies worldwide.

The Sims Social has nearly 40 million Monthly Active Users. It's generating high engagement with over 8 million Daily Active Users logging in an average of four times a day.

The Sims Social was developed in close collaboration between designers from our Maxis Studio – where the franchise resides-- and our Playfish Studio in London, which developed and operates the game. Together, they produced a game that was a clear step beyond the fare that has to date dominated the Facebook platform. That's a model you'll be seeing as we continue to expand our top brands to the Facebook Platform.

Up at PopCap in Seattle, the integration with EA is going very well. They have enthusiastically embraced a new product road map and sku plan designed to accelerate their growth. *Plants vs Zombies* is already running on our Pogo site, and in August, PopCap began cross promoting *The Sims Social* on *Bejeweled Blitz*. *Bejeweled 3* is now on Xbox Live Arcade and coming soon to the PlayStation Network and Nintendo DS. As of today, there are 5 flash-based games from PopCap that are accessible through Origin PC.

On mobile, EA is once again the #1 publisher for all paid games on Apple's App store – an honour we've held for three years running. We have double the segment share of our next closest competitor. *Spy Mouse*, a new title from our recently acquired Firemint Studio launched directly into the #1 slot on iTunes, and *Madden 12* hit #1 on Android. We recently launched *Tetris Free* on Android in August, and we have more than 10 new freemium titles coming within the fiscal year.

John mentioned the impressive growth of Origin, where more than six million customers have downloaded the client. Partnerships announced this morning with THQ, Warner Brothers Interactive and CapCom are game changers – proof that in addition to the powerful EA portfolio, we can attract and represent AAA titles from the industry's top developers and publishers. The

first titles – *Batman: Arkham City* from Warner Brothers and *Saints Row: The Third* from THQ, will go live for pre-sales on Origin in early November

Now, as I cross over to an update on our packaged goods business, I'll start with an EA brand that exemplifies the state of the art in the game industry. *FIFA 12*, a franchise with a core SKU on disc, and a world of game expanding services offered online.

Around the globe, the consumer reaction to *FIFA 12* has been remarkable. Five million consumers purchased this latest iteration so far -- the best reviewed sports game of this current console generation. And with those big sales numbers, *FIFA 12* is drawing unprecedented levels of online engagement. Four weeks into the launch we have hosted 271 million online games, an increase of 105% over last year. Fans are currently playing an average of 94 million minutes per day of *FIFA 12* online.

Those numbers can be confusing, so let me provide some context: one month after *FIFA 12* launched in stores, the game is still in the console tray, and thus still generating incremental revenue. Players are rewriting our assumptions about the traditional decay curve – they're playing longer, they're more engaged, and they are eager to spend in order to extend the experience.

Two key innovations are driving engagement. First, EA SPORTS Football Club is a live service that ties directly to the real-world of football. Players receive challenges based on the week's big matches. Two weeks ago, with 36,000 people in the stadium, Tottenham beat Arsenal 2-1. By the next day, more than ten times that number had taken one of the Live Challenges and replayed the final minutes to see if they could rewrite football history.

Second, *FIFA Ultimate Team* – which allows fans to manage squads and trade players -- is scaling into a large and vibrant social experience. Last year we offered *Ultimate Team* as a free post-launch download. This year, we put it right on the disc. Roughly two million people are actively engaged and, and since launch, have conducted more than 51M trades and contributed an incremental \$13 million.

On the disc and online, *FIFA 12* is a truly incredible achievement, and my congratulations to our *FIFA* team in Vancouver.

Moving on to the "other" football....we were delighted when NFL owners and the Players Association signed a new 10-year agreement in time for a full season of action.

Our strategy for mitigating potential downside from the NFL lock-out was well conceived and executed. We did it by extending the window for NCAA 12 and launched Madden two weeks

later than usual to coincide with our sponsorship of NFL-kick off week. Backed by a solid marketing campaign, NCAA 12 also performed well. Both games performed better this year thanks to innovation from the people in our Tiburon Studios and some of the best marketing in recent memory.

I also want to give a shout out to the EA Canada team that developed and marketed *NHL 12*. Year after year it is one of the top quality games we make here at EA, and it has found a solid niche with a group of intense fans. Congratulations to that team, also based in our Vancouver studio.

We have three major title launches in the December quarter.

Need for Speed The Run, will launch on November 15 in North America and November 17 in Europe. It's an incredible racing experience built on the Frostbite 2 engine and at its core, is an online innovation we call Autolog. Autolog tracks every event in the career of a driver allowing players to post their spectacular success and epic crashes. Autolog essentially turns our packaged goods game into a social online experience. In *Need for Speed the Run*, online features make every second count in the race from San Francisco to New York.

Next, our biggest event of the year, the December 20th launch of *Star Wars: The Old Republic*. This is inarguably the most anticipated game of the year, an epic MMO that makes each player the hero of their own Star Wars saga. The Old Republic is in Beta right now and players are blown away by the immersive story, dynamic combat and authentic Star Wars feel. In the coming weeks we'll invite hundreds of thousands of players into our biggest Beta test to date.

I'll finish with *Battlefield 3*. As you know, we launched this title earlier this week and the results have been tremendous, thanks to the superb quality of the title produced by our DICE studio in Stockholm and the world class marketing executed by our teams globally. Our marketing made adept use of YouTube where 13 million people have viewed our trailers, and on Facebook, where we have 2.1 million fans. *Battlefield 3* PR was everywhere and on launch day, in North America alone, more than 8,400 stores opened early to sell the game. We couldn't be happier with the launch of Battlefield 3.

So to sum it all up, we're nailing it in digital, and nailing it in packaged goods.

Now I'll turn the call back to John.

John Riccitiello:

Thanks Peter.

We feel that EA is executing well – we are half way through our fiscal year and delivering on our plans and raising guidance.

We began the year with three objectives that none of our competitors can deliver.

First, we vowed to drive our key brands further. We did that with investments in quality and by driving them to mobile, social and micro-transaction models. *Madden*, *FIFA*, *Battlefield 3* and soon *Need For Speed The Run* and *Mass Effect 3* – no other company can deliver that degree of quality and digital experience across this many brands. This year, we're adding *Star Wars: The Old Republic* to our list of key franchises and have our launch now set for December.

Second, we said we would begin to transform EA into a platform company in FY12 – Nucleus, EA Sports Season Ticket and Origin. Nucleus has 140 million registered users. This week, we announced Origin had surpassed six million client downloads and three major third party publishers will be joining us on the platform. We're at the early stages of our development as a platform company, and are making good progress.

Third, we have prioritized and invested deeply in talent. Brand and development teams have taken full cross-platform responsibility for the brands they lead. Four new leaders have stepped up to head our four major labels. To accelerate our transformation we've hired our first CTO in modern memory. And, we are integrating an extraordinarily creative team at PopCap. I don't recall a stronger team at EA or one more energized by the opportunity in front of us. Together, they are the best team in the industry – and getting better. It's an honor for me to work with them.

With that, Eric, Peter, Frank and I will take your questions.

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Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Change in deferred net revenue (packaged goods and digital content)
- Gain (loss) on strategic investments
- Loss on licensed intellectual property commitment
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods. In its earnings press release dated October 27, 2011, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the estimates relating to EA's third quarter and full fiscal year 2012 guidance information, and the fiscal year 2012 title slate, contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and

uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions, including the PopCap acquisition; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011.

These forward-looking statements are current as of October 27, 2011. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended September 30, 2011.