

ELECTRONIC ARTS

Q3 FY12 PREPARED COMMENTS

FEBRUARY 1, 2012

Rob Sison:

Thank you.

Welcome to EA's fiscal 2012 third quarter earnings call. With me on the call today is John Riccitiello, our CEO, Eric Brown, CFO, Frank Gibeau, President of Labels, and Peter Moore, our COO will be joining us for the Q&A portion of the call.

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 February 1st, 2012 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 third quarter on both the top and bottom line. Our results reflect a great performance by *Battlefield 3*, *Star Wars: The Old Republic*, our entire EA SPORTS line up - especially FIFA, and a nice boost from our digital games and services.

This was the kind of quarter a CEO loves to report. It is one which generated our highest operating cash flow in 31 quarters and reaffirming our strategy of creating big hits with digital revenue streams that extend the revenue, profitability and consumer engagement in our brands. We gained share in packaged goods in both North America and Europe on the strength of two titles each of which sold more than ten million units – *Battlefield 3* and *FIFA 12*.

We were the number one publisher on HD systems worldwide for all of calendar year 2011.

We also hit an important milestone at the end of the calendar year: we delivered more than \$1 billion in non-GAAP digital revenue on a trailing twelve month basis.

At the end of the quarter we launched *Star Wars: The Old Republic* recording strong initial results with this very important digital service. Two million people have purchased the game – from our retail partners and via direct digital downloads on our Origin system. This great launch makes *Star Wars: The Old Republic* the fastest growing subscription MMO in history. We're incredibly pleased to see this great game from BioWare off to a very strong start. Both Frank and Eric will share further details in their prepared comments.

In terms of guidance, the midpoint of our fiscal year range remains unchanged from the raised guidance from our last call. This implies a more conservative outlook for Q4. Eric will provide detailed guidance in his comments, but our revised Q4 outlook is based on three factors:

First, retail demand for *Star Wars: The Old Republic* was strong and we shipped units right at the end of December that we anticipated shipping in early January.

Second, we are moving an important social game launch from Q4 FY12 to Q1 FY13, and with it the associated profit. We believe this move will enable us to launch a more highly polished and ultimately more successful title in early FY13.

And, third, we are concerned with the financial condition of one of our major European retail partners which could lead to both increased bad debt and lost sales.

None of these issues are material or consequential for any period beyond fiscal 12, but taken together these may have an impact of as much as 15 cents EPS in Q4.

All in, we've delivered another strong quarter and expect to finish the fiscal year consistent with our original and recently raised guidance.

Next, I want to give you a progress report on our three strategic initiatives: Brands, Platform, and Talent.

Brands -- EA has a powerful advantage with our more than a dozen globally-recognized brands. Our mission now is to transform each of these powerhouse brands into year-round businesses – with a steady flow of downloadable content and extensions on new platforms like mobile and social. More content for our consumers – more revenue at better margins for our investors. Leading the way were two brands that sold more than 10 million copies each in *FIFA* and *Battlefield*. And, each of these global brands is succeeding on multiple platforms ranging from PC to social and console to mobile and with packaged goods and purely digital channels and business models. This is the template for all our major brands.

Platform -- Our next priority is to build a platform for our games and services that allows the consumer to connect their experiences across multiple devices and formats. Progress in several projects reflect success on this strategic initiative.

Nucleus registrations – which are essentially a database of our consumers – were given a big boost by the launch of *Battlefield 3* and *Star Wars: The Old Republic*. Nucleus registrations now total 168 million up 63 percent year-over-year.

Another big beneficiary of the *Battlefield* and *Star Wars* launches is Origin – our direct-to-consumer digital service which serves as a window into our own platform. Origin has been busy setting and breaking its own records, we have surpassed \$100 million of non-GAAP revenue since our launch in June this year. The client is now installed on more than 9.3 million desktops and within the quarter Origin recorded a milestone, over 1 million daily unique users. In Q3, we established break-through partnerships with Warner Brothers Interactive, THQ and CapCom. Last month, we added Trion, Robot Entertainment and nine other new partners.

Talent -- When I say talent, I mean that we're stretching our key creative talent to work across platforms, gain broader experience and ultimately be more engaged in more interesting work than can be found with our competition. We are investing to grow our capabilities in our core engineering and in digital skill sets. In general, these goals describe what we're doing inside

our studios, engineering and marketing teams. This past quarter these changes reached to the very top of our organization.

In October we hired Rajat Taneja as EA's Chief Technical Officer and tasked him with completing the fundamental infrastructure for our online platform. In January, Playfish co-founder Kristian Segerstrale took on a new role, as our EVP of Digital, assigned to improve our digital marketing, customer acquisition and cross promotion of our products and services.

These two new positions round out an executive team of some of the most tested and accomplished leaders in the industry, including our COO Peter Moore and Label President Frank Gibeau. Within Frank's organization are five creative leaders each of whom run a stand alone P&L which is bigger and more efficient than most of the competitors in this industry. They include Lucy Bradshaw at Maxis.....Dave Roberts at PopCap....Ray Muzyka at BioWare.....Patrick Soderlund at EA Games.....Andrew Wilson heading up EA SPORTS.

That's an executive team that balances EA veterans with internet entrepreneurs. Our talent strategy provides better career development for our employees, better structure for our brands, and better management for the fastest growing part of our business.

With that, I'll turn the call over to Eric.

Eric Brown:

Thanks John.

Starting with a review of Q3:

EA performance in Q3 exceeded the non-GAAP revenue and EPS guidance that we provided on the Q2 earnings call.

Total Q3 GAAP revenue was \$1.061 billion, relatively flat compared to the same period last year. GAAP loss per share was (\$0.62), a 36% improvement versus the loss per share last year.

Total Q3 non-GAAP revenue was \$1.651 billion, growing 17% versus last year. This is slightly better than the top end of our guidance range and was driven by the successful launches of *Battlefield 3* and *Star Wars: The Old Republic*, and the continued success of *FIFA 12*. Strong performance of *Battlefield 3* more than offset some weakness on *Need for Speed*.

Q3 digital non-GAAP revenue increased 79% year-over-year to \$377 million, and on a trailing twelve month basis our digital revenue exceeded \$1 billion.

- DLC and free-to-play micro transaction content was \$123 million in Q3, up 86% versus last year primarily due to the continued digital success of *FIFA*. Specifically, *FIFA 12* generated almost \$50 million of non-GAAP digital revenue for Q3, 4 times what *FIFA 11* did during the same period last year. Additionally, the inclusion of *The Sims Social* and PopCap also contributed to our digital growth.

PopCap had a strong finish for the calendar year. PopCap outpaced the overall market by growing revenue more than 30% on a standalone basis this year, excluding the one-time effects of the acquisition.

- Mobile and other handheld digital revenue was \$84 million, up 25% versus last year. This quarter we saw continued growth in our smartphone and tablet related sales and growth in our Asia mobile business, offset by the decline in standard feature phone revenue. This quarter, the revenue contributions from smartphones and standard feature phones were about equal, with smartphone revenue growing more than 70% year-over-year.
- Revenue from subscriptions, advertising and other was \$67 million, up 14% year-over-year.

- Full game downloads were \$103 million, up 442% year-over-year, driven by downloads from EA's new digital direct service, Origin. The specific titles that drove most of the increase were *Battlefield 3* and *Star Wars: The Old Republic*.

Our *Star Wars* launch was more successful than we anticipated. During the course of December, server performance and stability exceeded our expectations, allowing us to make more product available to our consumers at launch and through the end of the December quarter. To date, we have sold through more than 2 million units. Our sell through success to date is not as apparent to the public because nearly 40% of the December sell through went through Origin, which is not recorded by third party data services. This was achieved with a level of Q3 marketing well below that of a AAA holiday quarter launch.

In summary, relative to our previous non-GAAP guidance: revenue was \$51 million above the midpoint, gross profit margin of 67.4%, slightly better than guidance, and operating expenses came in below our estimate. It was another good quarter overall.

Turning to Cash:

Net cash provided by operating activities this quarter was \$475 million versus \$349 million a year ago. This marks the highest level of quarterly operating cash flow in 31 quarters. This significant level of operating cash flow is due to the solid revenue results and our continued efforts to become more efficient - evidenced by our inventory turns increasing to 19 times on a trailing twelve month basis and our inventory balance dropping by more than 30% year-over-year. The trailing twelve month operating cash flow was \$243 million.

EA has approximately \$5.39 per share in cash, short-term investments, and marketable securities. Roughly 45% of our cash and short-term investments are onshore.

During the quarter, EA repurchased 1.8 million shares at a cost of \$41 million. \$312 million remains authorized for the repurchase program over the next five months.

Sector Performance:

Overall, the worldwide interactive entertainment segment with packaged plus digital combined was up mid-single digits in the December quarter. Digital grew more than 20% year-over-year offset by a 4% decline in packaged goods.

For calendar year 2011, the western world packaged goods market was down 8% comprised of high definition platforms being up 2% offset by a 22% decline in standard definition platforms. For calendar year 2011, EA was the #1 publisher in the western world, with 20% share in Europe, 17% share in North America, and 18% share overall in the western world, up 2 points over calendar year 2010.

Moving on to Q4 Guidance.

We are providing non-GAAP EPS guidance of \$0.10 to \$0.20. This is lower than last quarter's implied Q4 guidance midpoint due to the following:

1. We previously envisioned having a more limited *Star Wars* launch through December. However, during the critical launch period, the servers stood up to the challenge, and were able to withstand the heavy utilization – as we announced in our December 26th momentum release. This gave us the confidence to make additional product available to our consumers, more than we had initially planned, and a portion of expected Q4 sales were realized in Q3.
2. A key social game has been delayed and is now targeted to launch after the close of the fiscal year. Although this detracts from our Q4 earnings, it helps shore up our title slate for our fiscal year 2013 social games.
3. We are focused on some isolated European retailer issues that have recently been announced. A negative outcome could adversely impact our Q4 results.
4. Based on the success to date of *Star Wars: The Old Republic*, we have decided to increase our marketing spend in Q4 to take advantage of this momentum.

Breaking down the Q4 Non-GAAP Revenue Guidance: Non-GAAP digital revenue is expected to be approximately \$400 million to \$425 million, while non-GAAP revenue from EA published titles is estimated to be between \$500 million to \$525 million. The balance is approximately \$25 million of expected distribution revenue.

Q4 GAAP Revenue and EPS: Our Q4 GAAP net revenue guidance is approximately \$1.425 billion to \$1.475 billion. Our Q4 GAAP EPS guidance now ranges from \$1.45 to \$1.59 diluted earnings per share. GAAP tax is expected to be a benefit of approximately \$15 million.

Gross Profit Margins: We expect Q4 non-GAAP gross profit margins between 66% - 67% and we expect GAAP gross profit margins of approximately 77%.

Operating Expenses: We expect Q4 non-GAAP operating expenses to be at least \$560 million. GAAP operating expenses are expected to be at least \$610 million.

Our Q4 non-GAAP EPS guidance range includes approximately \$3 million of expense in the other income and expense line, a full year non-GAAP tax rate of 28%, and an estimated 338 million diluted shares.

Cash Flow: We expect fiscal 2012 operating cash flow to be about \$250 million, consistent with the lower end of our previous guidance. We expect fiscal 2012 capital spending of approximately \$140 million.

Foreign Exchange: Our guidance assumes the following FX rates for the fiscal year: \$1.30 USD to the Euro, \$0.98 USD to the Canadian Dollar, and \$1.55 USD to the British Pound. The strength in the US dollar since our October call had a negligible impact on second half non-GAAP EPS versus our prior foreign exchange rate assumptions.

Turning to Fiscal 2013 Guidance.

We will provide detailed guidance for fiscal 2013 in our next earnings call, but at this juncture, we can share the following considerations:

- In fiscal 2013, we are estimating double-digit percentage growth for both non-GAAP EPS and revenue.
- In fiscal 2012 we expect our non-GAAP digital revenue to be approximately \$1.2 billion, and we expect to see accelerated growth in fiscal 2013.
- As we continue our strategy of generating more revenue with fewer titles, we expect to launch less than 20 packaged goods titles in fiscal 2013.
- *Star Wars: The Old Republic* is going to be an important factor in next year's results, and there could be a wide range of outcomes. We will be able to provide more informed total company guidance once we have better insight on the trajectory of *Star Wars*.
- And finally, for Q1 FY13, given the light packaged goods title slate, we expect a non-GAAP EPS loss at about the same level as Q1 last year.

Lastly, our assumptions on the sector for calendar year 2012 are similar to current trends with mid-to-high 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 a mid-teen percentage decline in standard definition.

Now, I'll turn the call over to Frank Gibeau.

Frank Gibeau:

Thanks Eric.

Today I'm going to take you through some highlights from our biggest games in Q3, including some perspective on the launch and consumer experience with *Star Wars: The Old Republic*. I'll also take you through some of the games we intend to release this quarter to complete our fiscal year.

I'll begin with *Battlefield 3* and *FIFA 12*, two games that prove that making bigger hits out of fewer titles is a winning strategy.

With *Battlefield 3*, our DICE Studio in Stockholm nailed every objective we set – including our goal of gaining share in First Person Shooters. In Q3 last year, EA held just 13 percent of the lucrative Western FPS market. This year we captured an additional 11 points and rose to a 24 percent segment share – a big leap in our plan to retake leadership in FPS. *Battlefield 3* sold through more than 11 million units and kept consumers playing and paying with premium downloadable content like the *Back To Karkand* expansion pack. *Battlefield 3* is a global blockbuster with an ambitious plan for more content and services in the months ahead.

Next is *FIFA 12*, a game from the EA SPORTS Studio in Burnaby, British Columbia, which also broke through the ten million unit mark. The innovation that makes this franchise so unique is FIFA Ultimate Team – a digital game extension that creates a massive online community where football fans can build, manage and compete with their ultimate team. In just three months, FIFA Ultimate Team generated \$39 million in micro-transactions. That's 69 percent more than we generated in the same period last year.

Our third global blockbuster in the quarter was *Star Wars: The Old Republic*. You've heard all the superlatives, the only thing I can add is BioWare/Austin has delivered a game that millions of people are going to be playing for a very long time.

Let me offer some metrics on purchase and subscription that will help you understand this business. As John stated, we have sold through two million units of the game since December. We currently have a little over 1.7 million active subscribers. The rest have either not started playing yet or have opted out.

This is an outstanding start for an MMO and the metrics on engagement suggests players are loving this game: unique log-ins are averaging about one million per day and their average play time is approximately four hours per day.

And throughout the launch, server performance and stability exceeded our expectations, allowing us to accelerate the introduction of new players in December.

Outside of scheduled maintenance, our servers have been up and running at 99.5 percent of the time – which is a big win in and of itself. Every major MMO launch has had significant service issues—until now. *Star Wars: The Old Republic* broke that cycle, leading PC Gamer to write: “BioWare hit a big homerun with server stability.”

I want to take a second to correct the reports which speculated that a lack of congestion was a sign of slow participation. Shortly after launch, we doubled the efficiency of each server, allowing us to handle twice as many players and remove the waiting lines. The lack of congestion is a function of great engineering.

In the next phase, our goal is to grow the number of subscribers with frequent releases of content that make the game even more exciting. With this in mind, BioWare has just released an extensive game update that provided additional, higher level group missions and new game features to keep players engaged. We plan on delivering another major update, even larger than the first, in March.

In summary: we nailed the launch. Adoption and daily usage among core MMO users are trending very favorably. More people are buying the game and subscribing. More content is on the way.

Going forward, we have an ambitious plan to reach the broader market – the millions of *Star Wars* fans all over the world. You’ll be seeing that very soon.

Next, I’m going to highlight some of the big titles planned for the rest of this, our fourth quarter.

On February 28, EA SPORTS will launch *SSX*, a re-invention of one of the great arcade classics of all time. Also from EA SPORTS in March, is *FIFA Street*, a great pick-up-and-play action game built on the *FIFA* engine.

And from Curt Schilling and 38 Studios, one of the most anticipated RPGs of the year, *Kingdoms of Amalur: Reckoning* will ship on February 7th in North America and February 10th in Europe.

Finally, on March 6th in North America and March 9th in Europe, another blockbuster from BioWare: *Mass Effect 3*. This is a sequel to a title that many critics voted Game-Of-The-Year. Fans love this franchise and want more – pre-orders for *Mass Effect 3* are running substantially

ahead of where we were at this point with Mass Effect 2. The buzz is building and we're betting that we've got another big hit from BioWare.

That's it – a smashing Q3 based on blockbuster launches for *Battlefield 3* and *Star Wars: The Old Republic*, the continued success of *FIFA 12* and more great games to come.

With that, I'll hand it back to John.

John Riccitiello:

Thanks Frank.

Before we move to your questions, I want to offer one last perspective: EA will finish this fiscal year a profoundly different company than we were at the start.

We've launched *Star Wars: The Old Republic*, *Battlefield 3*, *FIFA*, and *The Sims Social* – four games that reflect the evolution of our business, a traditional packaged goods model to one with a deeper relationship with the consumer and 365-day revenue potential.

PopCap -- a fantastically talented group of developers elected to become a part of EA. And in doing so, they vaulted us into leadership in casual games.

We proved our Fewer, Better, Bigger thesis and are now making more revenue on fewer titles and have now turned the page to focus on three new strategies: Building our brands, our platform and our talent.

We shattered our digital non-GAAP revenue goal, achieving the \$1billion target in calendar 2011.

We're a much better company than we were at the start of the fiscal year – much better positioned for growth in the years ahead.

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

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 February 1, 2012, 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 fourth quarter 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; 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, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011.

These forward-looking statements are current as of February 1, 2012. 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 December 31, 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 December 31, 2011.