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EA - Q4 2014 Electronic Arts Inc. Earnings Conference Call

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OVERVIEW:

EA reported 4Q14 non-GAAP net revenue of $914m and non-GAAP diluted EPS of $0.48. Expects FY15 GAAP revenue to be $4.38b and GAAP EPS to be $2.37. Expects 1Q15 GAAP revenue to be $1.2b and GAAP diluted EPS to be $1.26.

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PRESENTATION

Operator

Welcome and thank you for standing by.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now, I will turn the meeting over to Mr. Rob Sison, Vice President of Investor Relations. You may begin.

Rob Sison - *Electronic Arts Inc - VP of IR*

Thank you. Welcome to EA's fiscal 2014 fourth-quarter earnings call. With me on the call today are Andrew Wilson, our CEO; and Blake Jorgensen, our CFO. Frank Gibeau, our EVP of Mobile; 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 and audio replay of this call and a transcript.

This presentation and our comments include forward-looking statements regarding future events and future the 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 May 6, 2014 and disclaims any duty to update them.

During this call, unless otherwise stated, the financial metrics will be presented on a non-GAAP basis. 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. Increase investor 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 Andrew.

Andrew Wilson - *Electronic Arts Inc - CEO*

Thanks, Rob. I'm pleased to be here reporting on a great fourth quarter and capping off a strong fiscal 2014 for Electronic Arts. EA's performance in FY14 was above expectations.

In the fourth quarter we delivered revenue and EPS above our guidance. We also exceeded our full-year guidance by generating $4.02 billion in non-GAAP revenue and delivering $1.69 in EPS, doubling our EPS from FY13.

The introduction of two new consoles, continued growth in the mobile gaming audience and new modalities of play across the world combined to make the last year one of the most dynamic periods in the history of Interactive entertainment. With our focus on producing a portfolio of hit games, increasing our shift to digital and building profitability, EA successfully navigated the transition and delivered transformative results.

First, we delivered on our commitment to lead the transition to new consoles with great new games. The Playstation 4 and Xbox One have successfully established a new generation of console gaming and our games are at the top of the charts.

We immediately established EA as the early segment share leader on the new consoles and today we continue to lead. EA's the number-one publisher on the new consoles with 40% segment share in calendar-year 2014 across North America and Europe. The depth of our game line-up on the new consoles remains unmatched and was bolstered this quarter by addition of Plants vs. Zombies Garden Warfare and the huge hit, Titanfall.

Second we delivered on our plan to grow digital, powered by the extraordinary depth of play offered through our live services, mobile games and full-game downloads. Our Ultimate Team game modes generated more than $318 million in FY14, including a breakout year for Madden Ultimate Team, which grew 90% year over year. In all, our full-year digital non-GAAP revenue of approximately $1.8 billion exceeded our guidance by almost $100 million, and represented 45% of our total revenue.

Third, our objective was to increase profitability and keep our costs flat during the transition year. Not only did we do this, we exceeded our own expectations by reducing operating costs and doubling cash flow year over year. All while maintaining our investments in key IP.

These achievements were the result of strong execution. We began FY14 with an aggressive plan and the slate of incredible games. Through the hard work of the best and brightest teams in the industry, we delivered on our key objectives for the year.

Now we turn to FY15 where another exciting year is already underway. At the core of our Company, we aim to deliver amazing and fun experiences to our players. But our concept of what makes an amazing game today has changed. The power and diversity of the platforms, innovation through digital content and services, and a greater flow of feedback from the play community, mean we are designing experiences for long-term entertainment.

Our plans for FY15 reflect this focus. We expect to launch awesome new games for console, PC and mobile as well as introduce great new content for our existing live services.

Now let's touch on our new games coming in FY15. Global excitement for this summer's World Cup is heating up and we have just launched FIFA World Cup 14. We've included all 203 FIFA-sanctioned national teams, as well as 21 stadiums and 11 game modes in the most immersive version of our tournament game ever.

Next up comes the much-anticipated arrival of EA SPORTS UFC, launching on June 17. The power of the EA SPORTS Ignite engine and the new consoles bring to life the athleticism, emotion and intensity of the sport like never before. You truly feel the fight in this game. The addition of Bruce Lee, the father of mixed martial arts to this game last month has been a huge hit with fans around the world.

Over the summer we plan to deliver new additions of our major EA sports franchises, Madden NFL 15, FIFA 15 and NHL 15. Madden NFL 15 will bring the deepest defensive gameplay in franchise history, and a new Madden Ultimate Team that builds on last year's success.

NHL 15 will mark the game's debut on Playstation 4 and Xbox One and it is looking fantastic. FIFA 15, the world's most popular sports game, will deliver breakthrough innovation that brings fans closer to the sport than ever before.

Fall 2014 will see the arrival of the Sims 4, our first all new Sims experience in over five years. The team at Maxis has built an innovative technology base which offers smarter, more relatable Sims with rich emotions, fluid intuitive creative controls and vibrant and intimate play spaces. These all combine to create the most entertaining, surprising and personal Sims experience yet.

In October, Bioware is scheduled to release Dragon Age: Inquisition. Showcasing the vast capabilities of the Frostbite 3 engine, Dragon Age is an epic character-driven story in a visually stunning living open world. It is the most immersive RPG ever created in the rich history of Bioware.

Two more EA SPORTS titles are scheduled to launch in Q3 and Q4. NBA Live 15 returns from our Tiburon studio where the teams have been working with community feedback to deliver a great game. We will also debut a new EA SPORTS golf game, the first on next-gen and something entirely new from our development teams in Florida.

And last, but certainly not least, we also have a major new game coming in our third quarter this year powered by Frostbite 3 and developed by some of our most talented teams. We are excited to unveil this game to our fans first, with a live reveal next month at the gaming industry's marquee event in North America, E3 in Los Angeles.

We are preparing a rich line-up of games for E3 this year that showcases our commitment to the player experience. This will include first looks, demos and other new announcements for many titles from this year's slate.

We also plan to unveil details on at least six new projects in development at EA. Over the next few years we'll deliver some epic new entertainment experiences to our players, built on a foundation of creativity and innovation. I'm looking forward to sharing a lot more with our gamers in just a few short weeks.

We will launch fewer titles in FY15, as we focus on delivering top-quality games and services and invest in new experiences. Previously, we announced that we will not release an NCAA football game this year.

We also decided not to ship a Need for Speed game in FY15. Ghost Games in Gothenburg is working on an innovative new chapter of this storied franchise and we planned an extended development window to ensure we're delivering high-quality experience for Need for Speed players next year.

To keep the experience fresh for plays in our live services, we expect to deliver more new content through the year than ever before. Three map packs are planned for Titanfall, two more expansion packs for Battlefield 4 and our EA SPORTS games receive live daily updates including Ultimate Team content, and much more. Through hours of new gameplay and additional content, live services make our games truly dynamic entertainment with rich new experiences for gamers every time they play.

Moving on to our mobile portfolio, we are now approaching a $500 million business with more than 130 million monthly active users. Our strongest titles, the Simpsons: tapped Out, the Sims FreePlay, Real Racing 3 and FIFA 14 clearly demonstrate our approach for EA mobile: engineered games as live services designed to constantly evolve and keep players engaged long-term.

EA Mobile studios are preparing some exciting new experiences from our major brands this year, while also incubating and prototyping more new projects for the future. Through all of our plans for FY15, we will maintain our focus on building profitability across EA's business for this year and beyond. Delivering quality experiences and excluding on our plans are critical goals for us in FY15.

FY14 was an outstanding performance in an important year for EA and the gaming industry. We are proud to have emerged from a transition year as the clear leader on new consoles and positioned for growth across key platforms and regions.

Our focus is now on executing in FY15 against three objectives that define a new EA. Delivering amazing games and services to players around the world, driving innovation and creativity into new experiences and building deeper relationships with our community. Over to you, Blake.

Blake Jorgensen - *Electronic Arts Inc - CFO*

Thanks, Andrew. As Andrew mentioned, we had an extremely strong quarter and a phenomenal year. Before I get into the details, I'd like to provide you some context, especially on the quarterly results.

As you may remember during our third quarter ending in December, we came in below our revenue guidance because of a steeper than anticipated decline in PS3 and Xbox 360 software demand, which was partially offset by next-generation software sales. We anticipated this was going to continue into the next period, which caused us to lower our FY14 revenue guidance.

However, during the March quarter this weakness moderated and we continued to see strong demand for Playstation 4 and Xbox One software. Additionally we saw a robust pick-up in our digital sales. These factors provided a significant boost to our revenue, gross margins and operating profits as we closed out our year.

We are encouraged by both new console hardware and software sales, but we continue to see risks associated with the decline of the previous-generation software, as the transition to the next generation continues. We are approaching fiscal 15 cautiously and we've attempted to factor this potential risk into our guidance.

But before I walk you through our guidance, let me get into the details of our fourth-quarter and full-year results. EA's Q4 non-GAAP net revenue was up $914 million, which was $114 million above our guidance and $126 million below last year. The decline over fiscal 2013 was primarily due to the recognition of over $120 million in Battlefield 3 Premium revenue in last year's Q4.

Relative to our guidance, the upside was driven by greater than anticipated demand for our digital offerings, primarily driven by full-game downloads as well as extra content, specifically from Madden, FIFA and NHL Hockey ultimate teams. Additionally we saw a strong showing from our console titles, most notably from Titanfall, Madden NFL 25, FIFA 14, Need for Speed Rivals and Plants vs. Zombies Garden Warfare.

Madden NFL 25 is a great example of our digital strategy. Due to the deep immersive gameplay in Madden, combined with the engagement of Madden Ultimate Team, we exceeded our expectations both in full game revenue as well as digital extra content. In addition, we have found that the Ultimate Team experience is engaging players in the game long after the season has ended.

EA's Q4 non-GAAP digital net revenue was $550 million, which exceeded our guidance by $93 million. This resulted in our fiscal full-year digital revenue being nearly $1.8 billion.

Breaking down our digital revenue into its key components highlights the performance of each business. First, extra content and PC free-to-play contributed $243 million, up 8% over the prior year, led by continued growth in Ultimate Team services and FIFA Online 3. As Andrew had mentioned, our Ultimate Team services accounted for more than $380 million of our annual revenue.

Second, our mobile business generated $126 million for the quarter, up 21% over prior year. Smartphones and tablets continue to represent a majority of the revenue, accounting for $111 million of the total and growing 41% year over year. Our mobile revenue has continued to set new records for us each year and we are closing out this year with nearly $460 million of mobile revenue.

Third, full-game downloads added $112 million to the quarter, up 13% over the prior year. This was driven by full-game downloads for Battlefield 4 and Titanfall and strong demand from our other catalog titles, both on consoles and PCs. Our Origin service for PC gamers nearly doubled its monthly player engagement levels over the previous year, and continues to grow in revenue and users.

And finally, subscriptions, advertising and other digital revenue totaled $69 million, down $122 million or 64% over the same period last year. This significant decline is a result of how we accounted for Battlefield 3 Premium revenue.

Last year all of the fiscal 2013 Battlefield 3 Premium revenue, which was over $120 million, was recognized in Q4. This year we are recording Battlefield 4 Premium subscription revenue on a ratable basis, smoothing out the revenue over the year.

Moving onto ghost margin, our non-GAAP gross margin for the quarter was 77.4%, up over last year's 74.3%. Gross margin also exceeded our guidance of 71% due to the pickup in our digital revenue, especially from direct downloads on consoles and PC downloads on Origin.

The new-generation consoles are showing impressive growth in full-game downloads. In North America we have seen two to three times greater downloads on the new consoles versus the prior generation. We expect this will continue to fuel growth of this part of our digital business.

Operating expenses for the quarter where $503 million, down $37 million from last year and $22 million lower than our guidance. This was driven by continued cost discipline and finding further efficiencies around contracted services and marketing efforts.

For the full year operating expenses totaled $2.02 billion, which was $131 million below our initial guidance for the year. The resulting non-GAAP diluted EPS for the quarter was $0.48 per share, which exceeded our guidance of $0.09 per share and naturally drove higher than anticipated cash flows.

Net cash provided by operating activities for the quarter was $281 million compared to $233 million in the prior year. Operating cash flow for the full fiscal year hit its highest level in over a decade, at $712 million. And it more than doubled last year's cash flow of $324 million.

Fiscal 2014 capital expenditures were $97 million, resulting in free cash flow of $615 million, exceeding our upward revised guidance of $500 million. Our cash and short-term investments at the end of the quarter were $2.37 billion, or approximately $7.60 per share.

In addition to the stronger cash flow and operating results, we made the one-time repatriation of $700 million of foreign earnings from certain International subsidiaries. This bolstered our onshore cash balances.

At the end of the quarter approximately 68% of our cash and short-term investment balances were held in the US. The tax impact of this repatriation was not material.

Related to the use of this increased cash balance, we are announcing a new $750 million stock repurchase program. This repurchase program has a two-year timeframe and replaces the remaining $222 million portion of our previous buyback program.

In summary, our fiscal year 2014 was a great year for EA. Despite navigating through a year of tremendous change in the industry, which included a challenging console transition, we were able to exceed revenue guidance, drive higher gross margins, lower our operating expenses, improve non-GAAP operating profit margins to 18%, double operating cash flows and invest in new products and services for the future. On top of all these positive points, we are also implementing a new $750 million buyback program.

Throughout fiscal 2014, we conveyed to you our goal to grow non-GAAP operating margins from 10% to 20% over a three-year period. As we've demonstrated through our results, we are clearly ahead of this goal by at least one year.

Our improving operating leverage is a testament to our commitment to drive higher operating profits for EA's shareholders and lays the foundation of possibly exceeding it. More important, it positions the Company for profitable growth in the future.

Now turning to guidance. For fiscal year 2015, we are forecasting growth of approximately 2% for our non-GAAP revenue. This estimate reflects fewer major launches this year, including new titles and continued headwinds associated with a console transition.

Andrew laid out the new releases and as he mentioned, we will not be releasing Need for Speed or a college football game this year. However, we have included in our guidance a major new game that we expect to launch in our third quarter.

GAAP revenue for the fiscal year is expected to be $4.38 billion and we expect GAAP earnings per share of $2.37. Non-GAAP revenue for the fiscal year is expected to be $4.1 billion and we expect non-GAAP diluted EPS of $1.85 per share.

Segmenting the sales provides further insight into the key drivers of our full-year non-GAAP revenue guidance. Packaged goods and distribution revenue is forecasted to be approximately $2 billion, down 10%, driven by fewer announced launches, greater shift to digital delivery and a continued tempered view regarding PS3 and Xbox 360 titles.

Digital revenue is forecasted to generate nearly $2.1 billion, up 17%. Breaking down our digital revenue into its four primary categories, we see the contributors from each group and a sustained growth in each area.

Our mobile revenue is expected to go over 20%, as gamers' engagements on smartphones and tablets continue to expand at a significant pace. In addition, we plan to expand our entertainment offering across these platforms.

Full-game downloads are anticipated to continue to show growth based on early trends seen on the new consoles. Additionally, the release of the Sims 4 should also contribute to growth in this category.

Extra content and free-to-play is expected to continue to grow over 15% this year, fueled by our live services. It becomes more difficult to show significant percentage growth year over year, as this revenue base has hit a sizable level, $750 million.

Lastly, subscription revenue is expected to grow approximately 30% this year, as a significant portion of the Battlefield 4 Premium revenue will be recognized during the fiscal year. Based on this segmentation, non-GAAP digital revenue is expected to represent over half of our total revenue, a significant milestone in the digital transformation of our business.

The increased digital revenue should help bolster our gross margins, however this will be offset by the release of more royalty-bearing titles this year, such as UFC, FIFA World Cup 14 and Titanfall catalog sales. Based on all of these factors we are forecasting non-GAAP gross margins to grow to 68.5% for the year.

GAAP operating expenses for the fiscal year is expected to be around $2.17 billion. Non-GAAP operating expenses for the fiscal year is expected to be approximately $2 billion, down 1% compared to fiscal 2014. This will also result in an operating margin of approximately 20% for fiscal 2015, doubling our operating margin in just two years.

Focusing on Q1, GAAP revenue is expected to be $1.2 billion as compared to $949 million in the prior year. GAAP diluted EPS is expected to be $1.26 as compared to $0.71 per share in the prior year.

Non-GAAP revenue for the quarter is expected to be $700 million, a 41% increase over last year's $495 million. This quarter will benefit from the launches of UFC, FIFA World Cup and Titanfall for Xbox 360.

Non-GAAP gross margin is forecasted to be approximately 67%. Non-GAAP operating expenses are expected to be $485 million, $8 million higher compared to last year, taking into account three launches in the quarter versus one title last year.

For the quarter, we expect non-GAAP loss of $0.05 per share as compared to the loss of $0.40 per share last year. Looking at the phasing for the year on a non-GAAP basis, as compared to the prior year the first and second quarters are expected to represent a slightly larger portion of the revenue due to the timing of our launches.

Finally, cash flow will continue to be a key metric for us going forward. In fiscal year 2015, we are forecasting operating cash flows of approximately $800 million. And capital expense to be approximately $100 million, resulting in free cash flow of $700 million of versus $615 million in fiscal 2014.

We remain focused on improving financial performance and driving profitable growth. To achieve these goals, we will continue to drive the digital transformation of our business and efficient utilization of all of our assets. Now I will turn the call back to Andrew.

Andrew Wilson - *Electronic Arts Inc - CEO*

Thanks, Blake. It was a dynamic year for gaming and an outstanding year for Electronic Arts. Through the transition I'm proud of what our teams have accomplished in FY14 the position of our business today.

We're the number one worldwide publisher on new consoles with great games like Battlefield 4, FIFA 15, Madden NFL 25, Need for Speed Rivals and Titanfall. We have a portfolio of hit mobile games and a strong plan for expansion.

We've exciting new PC free-to-play opportunities around the world. We are increasing profitability and investing in the future. Our digital products and services continue to grow and will account for more than 50% of our business in FY15.

Looking at the opportunities in front of us, I am even more excited about how EA is lining up for FY15 and the years ahead. At Electronic Arts, we are committed to putting out players first.

This starts with creating a amazing games and services. Fresh, fun experiences that connect, inspire, challenge and entertain players all over the world. In FY15 we're planning new games for console and PC, new titles for mobile and new experiences through our live services.

Games and services built around fresh IP are a key part of EA's future. Our teams are working on more exciting projects, including Star Wars games in development at our DICE and visceral studios, new titles from Bioware and Criterion, as well as new experiences from our EA Mobile studios.

We're also excited to announce that EA is continuing its partnership with Vince Zampella and the Respawn Entertainment team, building on our success in delivering Titanfall, the biggest interactive entertainment event of the year so far. Through a new publishing agreement, we will be working with Respawn to bring new Titanfall experiences to players worldwide.

Amazing games and services must be built on a foundation of creativity and innovation. And we are committed to constantly evolving not only the games we make, but the way that we make them.

Our teams have a track record for driving innovation in games and they are pushing to achieve more. Across our studios today we have teams rapidly prototyping ideas for compelling new experiences, and using shared technology stacks to quickly develop and test more creative concepts.

We're also channeling innovation into our design processes, engineering new development and testing frameworks to enable each game we launch to perform at the scale of today's gaming audience. With every game, every feature, every part of our live services, EA's innovating to pioneer the next generation of game experiences.

Finally, we are also committed to continually engaging with our players and taking action to ensure we are delivering meaningful and positive EA experiences. Our gamers are at the very center of our focus and we are transforming how we connect, engage and act on their feedback.

Across our games and platforms, more than 5 billion online game sessions played monthly deliver game data that helps us evolve game experiences based on play patterns. Millions of conversations about our games are happening on social networks, and we are there connecting with these growing communities through dialogue and interactive content.

We continue to prioritize and expand our capabilities and support so that help is readily available to our players when needed. Through these interactions and many others, we are constantly in dialog with our community, acting on their feedback and building long-lasting relationships between our gamers and EA.

Our commitments are clear; our position is strong; and new opportunities are in front of us. We have a lot of hard work ahead and it will be an exciting year for EA. I look forward to seeing many of you at E3 next month, but for now, Blake, Peter, Frank and I are here to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Edward Williams, BMO Capital Markets.

Edward Williams - *BMO Capital Markets - Analyst*

Congratulations. It is a great end to the year. Just a couple quick questions.

As we look to fiscal 2015 and that $2 billion OpEx number, Blake, that you just alluded to, can you give us a sense as to how it might break down between R&D? And more specifically, what we should expect out of sales and marketing?

Blake Jorgensen - *Electronic Arts Inc - CFO*

I think what you will see is a continuation of what you saw this year. So moderation on R&D, trying to hold that flat. And slight declines in marketing and sales, as we continue along our path to become more efficient and shift towards more point-to-point marketing, social marketing, individual marketing versus big TV campaigns.

And I think the challenge that we have is, we're going to continue to try to manage down the OpEx where necessary, but balance that against investing in all the great titles we have coming in 2016 and 2017. Particularly the Star Wars franchise and some of the new franchises we have coming on line. We don't want to hold that back at all.

But I think we are at a very good place, and we've worked hard over the last couple of years to really build a much more efficient structure. Efficient in the way we build games, and the way we operate. We're just now moving into the phase where we are starting to manage our business that way, and continue to keep an eye on our cost along that fashion.

Edward Williams - *BMO Capital Markets - Analyst*

Okay and just a couple quick ones. Can you give us a sense as to the percentage of the games that are being downloaded now, full-game downloads for consoles?

And then Frank, if you can talk a little bit about what you are expecting for the mobile space? And what's going to be driving that growth going into fiscal 2015?

Blake Jorgensen - *Electronic Arts Inc - CFO*

I'll have Peter answer the full-game download question.

Peter Moore - *Electronic Arts Inc - COO*

Yes, Edward. As Blake said in his prepared statements, we're seeing two to three times multipliers on what we saw in the previous generation for Playstation 4 and for Xbox One. Depending on the game depending on the platform, you can put that anywhere between 12% and 15%.

So it is not yet material, but it is becoming an important part of our business going forward here. That's, as I say, is about two to three times the rate that we saw on Xbox 360 and the Playstation 3. We expect that trend to continue and of course it is good for the consumer, as well as being good for us from a margin perspective.

Frank Gibeau - *Electronic Arts Inc - EVP of Mobile*

Ed, this is Frank. Let me give you a quick overview on what we're doing in Mobile. Let's start by looking at how we finished up 2014.

As Blake said, we are rapidly approaching a $500 million business in Mobile. We had a record year. We've been in the mobile business for a while, but this was our best year ever.

Across our titles we're reaching about 130 million people on a monthly basis, and we are seeing that number continuing to grow. In 2014 alone we installed over 620 million games on mobile devices, which creates an incredible network of players for us worldwide.

Our four biggest titles: The Simpsons, Sims FreePlay, FIFA 14, Real Racing were all reaching revenue and engagement peaks long after launch. So we are definitely seeing a sustainment in terms of live services that we are creating.

Overall revenues grew about 24%, but more importantly on smart devices and tablets we grew over 40%. While we are pleased with where we are at, we know we can do better and we expect that we are going to continue to do better going forward. It really is about putting together a plan that allows us to execute to get back into the top of the charts.

I think we've done a good job at the art of game making. Our properties are very high quality, very well reviewed. We have very strong engagement. But we frankly need more productivity of our live services and how we operate these games. That's been one of our key focuses.

Today EA Mobile, it is a group of, frankly, very talented development and publishing teams, whose sole focus is on mobile platforms. It is really been about increasing the speed at which we are developing and responding to the market. And we are really going a lot faster than we have in the past.

We're building big new experiences on our major brands. They're designed from the ground up as Premium live services. Their goal is to evolve over time, based on player input and how players are engaging with the services.

Alongside of building these big branded games, new IP is vitally important inside mobile. We've created a group of small teams that are rapidly prototyping new concepts and new IPs and new game mechanics for the mobile space and exclusively for the mobile space.

Our PopCap Studio's at the forefront of these efforts. Just as importantly, we've been investing in new go-to-market capabilities and technologies for our live service teams to deliver the maximum value to our fans.

So ultimately our goal is to build a diverse mobile platform of sustainable long-term IPs from our collection of proven brands and innovative new ones. We want to spread them across multiple genres and they will be available in all regions.

Speaking of regions, success in Asia is vital for EA in mobile. That's why we are building studio and publishing teams in each of the major Asian markets.

We now have dedicated mobile teams and Shanghai, Tokyo and Seoul. We're all working on culturalized versions of our existing IPs as well as some new ones.

In fact, we're going to be launching our first internally developed game from EA Tokyo, FIFA World Cup for iOS and Android, next month with the release of World Cup, with the advent of the World Cup event.

So Frankly, we couldn't be more excited about the mobile opportunity at EA. It's totally complementary to our existing console and PC businesses and we have great growth opportunities in front of us for years to come.

We're go deep on what our slate is for the rest of year for competitive reasons. But as we approach E3, we'll be telling you more and more as we're filling out and building out our mobile strategy at EA.

Edward Williams - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Colin Sebastian, Robert Baird.

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

Great, thanks. Add my congratulations on the quarter and the continued progress to the goals. Andrew, one clarification on the major new game. Is this from an existing franchise or is this new IP?

Andrew Wilson - *Electronic Arts Inc - CEO*

We will be announcing that at E3 next month.

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

Okay, fair enough.

Andrew Wilson - *Electronic Arts Inc - CEO*

But we are very, very excited about it. (laughter)

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

Good. Secondly, Blake, now that you are already poised to hit the 20% margin goal ahead of plan, and as you look ahead to fiscal 2016 and beyond that, can you put a new range perhaps on the potential impact from operating leverage on the model as the cycle progresses?

Blake Jorgensen - *Electronic Arts Inc - CFO*

You set a new world record. It's only a mere 35 minutes after we provided guidance and I'm already asking for next year's. (laughter)

We're not prepared yet. I think we are very focused on just continuing to execute it and really drive great games. We will start to give people over the next 6 to 12 months, some better view on the longer-term digital strategy for the Company.

We are excited that we are reaching the 50% mark in digital business. What we're really focused on is how do we get closer to 100%.

We believe there's a huge opportunity and that the business is indeed changing. We'll start to help people understand what that might look like over time.

But right now we are focused on execution. It's really making sure 2015 is a success as set to suffer a great 2016.

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

I will try one with Peter, then. (laughter)

Peter Moore - *Electronic Arts Inc - COO*

Good luck, Colin. (laughter)

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

It sounds like with the Madden Online and Ultimate Team, that you are seeing a lot of progress there. Is the engagement, is the monetization on Madden similar to levels that you've been seeing on FIFA? Or at least trending in that right direction?

Peter Moore - *Electronic Arts Inc - COO*

I'd say it is trending, Colin. It is a different game. You're primarily dealing with Madden, a relatively smaller game, 32 teams in the NFL versus the 750 we have in FIFA. But the trends are great.

One of the things we have seen and as you heard from the number, the 90% year on year growth, is that traditionally we look at Madden and we look at engagement levels drop off precipitously post the Super Bowl. The reverse has happened here.

Because of Madden Ultimate Team, because of the great work the team at Tiburon have done providing fresh content, we've seen very little drop off post-Super Bowl. And it bodes well for us having, as we have with FIFA now, almost a 12-month-a-year NFL experience as we do a 12-month-a-year FIFA experience.

Engagement levels are high. The monetization will catch up. But consumers a loving it, as they do with FIFA. And obviously when we combine all of the Ultimate Teams, as you heard from Blake, $380 million in digital revenue not only is meaningful material margin rich, but also the engagement levels that drives this is phenomenal for us.

Blake Jorgensen - *Electronic Arts Inc - CFO*

I think to Peter's point is that we've seen a similar situation in the NHL business. While it's small as well compared to FIFA, same type of engagement is occurring. And we are very excited about that and trying to make sure we are taking those learnings and using those across the portfolio.

Colin Sebastian - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, guys.

Operator

Doug Creutz, Cowen and Company.

Doug Creutz - *Cowen and Company - Analyst*

Thanks. I wonder if you could talk about Titanfall a little bit first? If you could share how many units you've sold to date, that would be great.

And then, you've mentioned the three map packs. I was wondering, you've talked about live services lot. How else are you thinking about ways to keep engagement of that game strong through what will likely be a multiple-year development process for the sequel, when you've got other big shooters coming to market over the next 6 to 12 months? Thanks.

Peter Moore - *Electronic Arts Inc - COO*

Hey Doug, it is Peter. First question, we said standby for Titanfall and boy, did it land and landed phenomenally well. MPD has it at 925,000 units sold through, which is, for the quarter, it's unbelievable, considering it only arrived on the Xbox One and PC with three weeks to go. I can also tell you that the Xbox 360 version is off to a great start as well.

As regard the map packs, the first one's going to be coming later this month. It's called Expedition. We obviously have three plans.

On top of that, we're doing a season pass as well, which is keeping the engagement level there. And our goal, quite frankly, is to keep this franchise as fresh as we do with our Ultimate Team and our sports, as well as we've done with Battlefield, obviously, with Premium.

As Andrew mentioned, we have a new publishing agreement with the very talented folks at Respawn, who have done a great job. And Vince Zampella and his team need to be congratulated for what they've delivered so far. So feeling very good about the vision engagement levels and hopefully we can continue to drive this franchise forward.

Doug Creutz - *Cowen and Company - Analyst*

Great. Thanks.

Operator

Justin Post, Bank of America.

Ryan Gee - *BofA Merrill Lynch - Analyst*

This is actually Ryan Gee calling in for Justin. The first question for Blake is to help us think about the gross margin expansion potential. I looks like with over half of the revenue next year coming from the non-packaged goods side, but gross margin is only expanding maybe a point or so. Is there much left in gross margin for you guys or levers to pull there?

THOMSON REUTERS

Blake Jorgensen - *Electronic Arts Inc - CFO*

The first part is, the key is we do see the continued gross margin expansion due to digital. But we also have a couple of titles that are now starting to bear royalties in the year that we didn't have in previous years.

UFC is a royalty-bearing title and as Titanfall grows, we'll start pay royalties to Respawn, for example. As well as the royalties on our regular sports products.

And so that counterbalances some of the upward trend. We will see continued growth, but we think it moderates. I think we've always said that it will move closer to 70% over time. Getting above 70% where we currently have the business mix as it is, will be hard longer-term.

Possibly as we move to a much higher percentage of digital, we would most likely be able to move it above that. But for now we are expecting somewhat muted growth in the year, primarily just because of the royalty issue.

Ryan Gee - *BofA Merrill Lynch - Analyst*

Okay, that's very helpful. And then the second question for Peter is, I'm not sure if this is covered in the prepared remarks. On the sports business, could you guys provide an outlook either for franchises? Or maybe an aggregate on sports growth potential for this year? You guys did that last year and that was really helpful. Thanks.

Peter Moore - *Electronic Arts Inc - COO*

I don't remember last year, Ryan. W are obviously very bullish. I think the focus the next few months is going to be the FIFA World Cup. As you heard in the remarks, we've now shipped that in. A lot of anticipation for that title.

As soon as the domestic leagues finish around the world, the teams then, the national teams will gather in Brazil. And you're going to see a great pick-up of engagement levels on a global basis with that.

With regards to broader sports portfolio, I'd have to go back and look at what we said last year. Breaking it down, either by franchise or cumulatively, I'm not too familiar with what we did last year. I'm looking at Blake --

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Blake Jorgensen - *Electronic Arts Inc - CFO*

Ryan, I could probably give a little help here. Last year and this coming year we will see similar trends. We'll still see some muting in the growth of the core franchises, packaged goods and full-game business because of the gen-three, gen-four headwinds.

So I would assume that your core franchises are about the same size as they were this year with a little bit of growth due to digital Ultimate Team. We will see some growth, we believe, in NBA Live. We'll obviously have FIFA World Cup, which adds more than 2.5 million units probably.

We will have UFC in there and we will have the Gulf game that Andrew mentioned. So net net, you will see growth of the total sports franchise, but the core franchise is probably fairly flat. And then remember, NCAA will not be in this year. It is not huge title, but it will create a small headwind against some of the new growth.

Ryan Gee - *BofA Merrill Lynch - Analyst*

Great. Thanks, guys.

Operator

Stephen Ju, Credit Suisse.

Stephen Ju - *Credit Suisse - Analyst*

Hi, Andrew. This is more of big picture question, but there is a rising opportunity here to tether your business to a user base that you can explicitly manage, as opposed to being forced to tether your business to a hardware install base that someday else manages. How does that change your game development philosophy or resource management, if at all? Thanks.

Andrew Wilson - *Electronic Arts Inc - CEO*

I want to make sure I'm answering the right question. There is about who we build for, with respect to which platforms and ecosystems, and how that relates to our development construct?

Stephen Ju - *Credit Suisse - Analyst*

That's right.

Andrew Wilson - *Electronic Arts Inc - CEO*

We think about our world in a few key pieces. The first key piece is around the core platform that actually facilitates the engagement, ID, commerce, data, infrastructure, security, game services.

Certainly what we are doing now is building towards a future that has great ubiquity of devices and great ubiquity of gaming. And a platform that will allow us to move with our gamer base wherever they might play at any given time, any given geography or any given business model.

The next thing that we are really starting to think about a lot is, how do we build an engine that is scalable from a 6-inch screen to a 60-inch screen over time. So again, irrespective of where gamers are engaging with us, they are getting the highest fidelity of entertainment.

You've seen what we've been able to do with the Frostbite 3 engine and EA SPORTS Ignite. Certainly we are starting to think about how we build a scalable model there and are investing against that for the future, so that it can move irrespective of what size window or portal our gamers are playing through.

Then lastly it comes down to our games themselves, and understanding that the user base is expanding. The platforms in which they play are expanding. And the business models in which they engage with our games is growing.

We are moving from a place where it simply two-hour sessions or 20-minute sessions, to scalable session times and game designs that can facilitate two minutes to two hours. What we end up with in a future of ubiquitous devices, ubiquity of gaming, is a platform that goes with a gamer no matter where they are.

An engine that can deliver the fidelity of experience irrespective of what size window they are looking at it through. And games that are designed to be with them whether it is in a two-minute experience or a two-hour experience over time. We believe that if we can deliver that and invest against that now, then we are in very good position for the future.

Stephen Ju - *Credit Suisse - Analyst*

Thank you.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Good afternoon. If we look back at the last cycle, we saw a few players lose share in some go out of business. And saw EA and couple of competitors actually grow share and maybe drive higher industry concentration.

Does it feel like there's still market share growth opportunities? Or is the strategy during this next generation to effectively preserve share in the renewed growth phase of the cycle?

Peter Moore - *Electronic Arts Inc - COO*

Mike, it is Peter. I think there's market share growth. But more importantly, there's market growth. And as Andrew just so eloquently outlined, the ability for us to be able to deliver content on all of the new platforms, the ubiquitous broadband that we are now seeing for connected devices, our ability to be there with EA games and franchises, I think is unheralded. Even more so in this generation that we've seen in the last few years.

As we continue geographic and platform expansion, our mobile business continues to grow. So the top of the funnel brings more and more people who want to play games into smartphone and tablet play. The free-to-play PC browser business continues to grow.

And we are seeing, quite frankly, stabilization in our console business. Xbox One and Playstation 4 have shown some growth. We are up 127% in hardware sell-through over the first five months, as compared to where we saw the Xbox 360 and Playstation 3 in the previous generation. So I think all of the key indicators are pointing upwards.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Okay. You mentioned higher percentage of purchases are full-game downloads for next-gen to date. Could that be a function of early adopters being more committed to building a library and owning certain titles permanently in their library? And as next-gen consoles extend beyond the early adopter crowd, while downloads will be a higher percent of purchases than last cycle, that might not maintain the same overall share of purchases?

Peter Moore - *Electronic Arts Inc - COO*

It could be. It is early days. We're the first few months in. We don't have a huge portfolio of titles as an industry yet that's testing this. I think both Sony and Microsoft have made it more convenient for consumers to instantly hit the A button and start downloading.

From the perspective of what we are seeing, it depends on the genre. Think earlier adopters, interestingly, are as likely to want a title on the shelf as they are to want it on their hard drives.

But the technology is there. I think the gamer interest in direct downloads is going to be there. And I think we're going to see continued growth in this area.

And again, full-game downloads is even more ubiquitous, obviously, in the world of PCs. And we are seeing that growth as well. So when we talk about full-game downloads, we not only talk about consoles, but also the PC. But I think this percentage is going to grow, absolutely.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Thank you

Operator

Ben Schachter, Macquarie.

Ben Schachter - *Macquarie Research - Analyst*

Congratulations on your recent success. I recently tried Oculus Rift and it was really a phenomenal experience. I'm wondering how far off is Oculus Rift style virtual reality from commercial deployment? Is that one years? Three years? Is it still more than five?

Quickly, separately on mobile, a couple of your competitors continue to dominate the top 10 grossing charts. I'm wondering what it is that they are doing so differently than others?

Is it the game quality? The marketing? The network effects? And are these kinds of things, are these replicable by folks like yourself? Thanks.

Peter Moore - *Electronic Arts Inc - COO*

So I'll take the one on Oculus and I'll pass to Frank to speak about mobile. Oculus VR has done an amazing job in the realm of virtual reality. We are eager to see how the headset evolves over the coming years.

For us, we're always cloning emerging technologies, new opportunities. And with any new technology, it is important for us to ensure that there'll be an attractive in-store base before investing heavily. But they're certainly making strong progress.

It is also important to note that there are new peripherals, such as Oculus, run common operating systems and architectures applicable for us as we go to more devices.

So what we are doing right now is really monitoring the marketplace, both with what Oculus is doing, what some of the other devices are doing there, and really thinking about that scalable infrastructure and architecture I referred to in an earlier question. And how we would pivot to a virtual-reality modality of play, if and when that becomes in high demand from our gamer base.

Frank Gibeau - *Electronic Arts Inc - EVP of Mobile*

This is Frank. Let me talk a little bit about mobile, probably the most fast-moving dynamic, high-growth sector of gaming right now. There isn't one established formula for how to be successful in that category.

Clearly our aspiration, and frankly track record, is that when we go after a market and go for the top, we deliver on that. And that's going to be our mission in EA mobile.

If you look at what is really setting apart some of the biggest hitters in mobile right now, it is how they operate and how they deliver live services around their games. The games are alive, they're social, they're vibrant. They're constantly changing, they're adding new features.

If you look at the top 10 charts, many of the games that are in there have been out for months and months and months. Including our own game, The Simpsons. The Simpsons was in the top five. So we learned a lot from the Simpsons experience that we're bringing to bear on the rest of our products.

But it is a mobile market that is dynamic and fast-moving. But at the same time, it is really all about how you prep the game to launch and how you approach the live services.

Each of the competitors out there, whether it is King or Supercell or GungHo or Electronic Arts, we each have different approaches on that. But there's some fundamental points that are important.

One is the frequency at which you release content. It's the quality of the features that you put out. It's the virality of the gameplay in the game loops.

And it is frankly how you use your acquisition marketing, your network marketing to build your IPs. And frankly, to introduce new IPs along the way.

I don't think the book is written for how to be successful in mobile yet. There's still a lot of experimentation. It is very dynamic. And what works in Asia can be very different from what works in the West.

So we are excited to get into this category in a much more significant and focused way. That's our mission, is to get into the top of the charts.

Ben Schachter - *Macquarie Research - Analyst*

Great, thanks.

Operator

Brian Pitz, Jefferies.

Brian Pitz - *Jefferies & Co. - Analyst*

Great, thanks. Blake, you may have covered this in the prepared remarks, but wondering if you could give us a sense for what's driving the decision to announce the $750 million buyback? Any change in philosophy here?

Then separately, curious how you're progressing with the Star Wars games under development, specifically Battlefront. Do you think that we could hear anything about this title or other Star Wars titles at E3? Thanks.

Blake Jorgensen - *Electronic Arts Inc - CFO*

I'll let Andrew address the Star Wars titles, but let me hit on the buyback. I think we've, at least in the last few years, we've been committed to buying back stock. It is a firm belief of this management team that we need to return cash to shareholders.

The biggest single driver was, first driving the returns. I think you got to make sure you keep the cart before the horse, or the horse before the cart, so to speak, whatever it is. (laughter) And in that case, it was we needed to generate better returns.

And we doubled our cash flow this year and we plan to raise it again next year based on our outlook. We feel very confident that we are moving into a higher cash-generation phase of our business.

In doing that, it builds confidence on our ability to be in the market, buying back stock at all the time. That's our goal, is to be consistently out there buying. And covering our dilution when we issue any new stock internally for employees.

I think the other piece of that puzzle, which we mentioned in the prepared remarks, was that we also repatriated some foreign earnings back to the US at a very advantageous tax rate. That moved our balance of cash onshore to now be greater than offshore, where historically it's been the other way around.

That allows us to even fuel the buyback program that much more. Overall, really driven by the operations. And we're going to continue to stay focused on that. I'll let Andrew hit the Star Wars question.

Andrew Wilson - *Electronic Arts Inc - CEO*

For Star Wars Battlefront, the best I can say is it is coming along very, very well. Frostbite 3 and the associated development toolset that comes with that has meant the team has been able to iterate and drive innovation very quickly, and get to a high-quality quickly.

Certainly there's lots and lots of work to go. But we do plan to show more of that and other new projects in development at E3 this year.

Operator

Mike Hickey, Benchmark Company.

Mike Hickey - *The Benchmark Company - Analyst*

Hey, guys, congratulations on an awesome quarter. I'm not sure if you covered this already, but there was a media article on a potential relationship with Comcast. And allowing basically a streaming solution of many of your games directly through the set-top box, a TV. So I was curious if you could talk about that. Maybe not the specifics of the deal, perhaps how you feel that sort of solution could be productive for you guys in the future?

Andrew Wilson - *Electronic Arts Inc - CEO*

So I can't comment on that specifically at this time. But what I would say, based on what I outlined of a future I believe is coming to us, which is this ability for gamers to interact with games across multiple devices, through multiple channels, multiple business models, throughout the day. You could certainly see that that modality of play might be important to a large population of gamers, certainly in North America and around the world.

Mike Hickey - *The Benchmark Company - Analyst*

Okay, fair enough. And then, Blake, I realize you guys don't want to talk about the unannounced game,. I'm sure we will see it at E3. But I'm guessing it is a first-person shooter here, obviously.

Any sense of the weight of this game, as it relates to the guidance that you gave for the year? And then perhaps under the assumption it is an FPS, the landscape here, the holiday period looks to be pretty thick. How you feel that games can differentiate themselves, and still find success in that competitive scenario?

Blake Jorgensen - *Electronic Arts Inc - CFO*

We can talk about it being that it's unannounced. That's basically what we can say. And that there's a game in our forecast. What I would do is, I would think about it, that the hole that we had to fill this year was essentially Battlefield sales from last year. If you don't have a Battlefield in a year and so you've got a hole there you've got to fill.

The way we are filling that hole is essentially new titles along the lines of FIFA World Cup, UFC, a golf game, Sims and Dragon Age. I would say that fills about two-thirds of the hole. The rest of the hole we would assume is being filled by this new unannounced game.

We are highly conscious of the crowded slate in the back half of the year. What that means is, it's got to be a great game and it is got to do really well, particularly on the new generation boxes. And it has to be unique. I think you will see all of that at E3, when you get a chance to see the game.

Mike Hickey - *The Benchmark Company - Analyst*

All right, fair enough. That's very helpful. Last one, on the digital sales. Obviously it looks like initially good traction here, two or three times what we had on prior-gen.

But it seems like there's some levers you guys still really pull here to drive greater adoption of digital. Whether it is pre-downloading, maybe a loyalty program, or pricing flexibility, maybe initially to change behavior. How do you guys think about being more aggressive? Or other levers you could pull to drive digital adoption and expand your gross margin? Thank you.

Blake Jorgensen - *Electronic Arts Inc - CFO*

You are going to continue and see and here from us over the next couple of years, a lot things around digital. I prefer we don't hear that much about pricing, because I think that there's lots of ways that we can create better content, more convenience, without having to change our pricing structure.

But I do think we're focused on how do we deliver the gamer a much more enhanced experience. And they can do that with far less friction, meaning getting in the car or having to order a disk. We believe the market's shifting that way and we're going to continue to focus on how we can help drive that shift by driving great gameplay.

Operator

John Taylor, Arcadia Investment Corp.

John Taylor - *Arcadia Investment Corporation - Analyst*

Congrats from me too. I've got a couple questions. I don't know if you said this specifically, but could you give us a sense of the percentage of Titanfall that was delivered digitally as opposed to retail?

Peter Moore - *Electronic Arts Inc - COO*

JT, it's Peter. I can't breakdown the individual titles. As I said, and as you've heard, two to three times the last generation, depending on the platform, depending on the genre, depending on the game. Anywhere between 12% and 15% of our total sales in any given moment, might be full-game downloads on those consoles.

Of course it is a greater percentage on Origin, which Titanfall is also available for. All in all, a growing part of the business. I can't break it down right now by individual title.

John Taylor - *Arcadia Investment Corporation - Analyst*

Okay, the 12% to 15% is really helpful. Then, it's been a little since we've heard any dissertation, shall I say, on Origin. Feels like Origin is now built into the toolset that everybody is using to reach customers, do e-commerce, maximize revenue per lower user acquisition cost, and so on. Are there any metrics you can share from year-on-year improvement? Or expansion? Or declines? Is there any way you can characterize how that tool is working in terms of building efficiency into the business?

Peter Moore - *Electronic Arts Inc - COO*

Yes, you're talking about engagement, that's exactly what we are doing. We've doubled our monthly engagement levels year-on-year and we continue to grow.

Obviously this year, with a Sims 4 year coming up as well, we're excited about how Origin becomes part of that toolset. It reports into my organization, so it is part of the publishing organization. And I think it does a phenomenal job in engaging consumers.

It allows us to be able to, of course, directly commercially transact with them in the PC space. The more PC content we have, the more powerful it's going to be for us. As Blake will tell you, it is a margin-enhancing part of our business.

And particularly when you think of the Sims year coming up as well. And of course we've had Battlefield, and more recently Titanfall. Continues to grow.

We continue to invest in it. It is going to be an incredibly important part of our digital strategy going forward.

John Taylor - *Arcadia Investment Corporation - Analyst*

Are there any major improvements that you expect to do, say, in the next 12 months on Origin? Or is it -- ?

Peter Moore - *Electronic Arts Inc - COO*

Yes. We will talk a little bit more when I see you at E3. I can maybe bring in our team. And if you want to do a deeper dive, I'm more that happy to do that.

A lot of feature sets. We've got a road map. We're continuing to build the features in there, make it even more user-friendly than is right now. But we could dive into that at E3 if you're of interest.

Blake Jorgensen - *Electronic Arts Inc - CFO*

A couple things you saw during this past year, we introduced a great game guarantee, for example. We recently have done a program called On the House, where we are giving away some of our catalog titles to our really dedicated users.

We took part of the Humble Bundle fund raising and had the highest, I think, Humble Bundle sold that day.

Peter Moore - *Electronic Arts Inc - COO*

Over $10 million.

Blake Jorgensen - *Electronic Arts Inc - CFO*

$10 million, yes. Some of that's obviously to get people to try Origin, or to make sure we are building a great relationship with our origin customers. And some of it is just to make sure people are getting access to our games in every platform that they want to.

We are very encouraged by where it is going. We are trying to keep our heads down and deliver versus spend too much time talking about stuff. Hopefully you will see it in the numbers.

John Taylor - *Arcadia Investment Corporation - Analyst*

Cool. Okay let me ask Frank one thing, if I can, and then I'm done. On the mobile side, Frank, could you give us any sense as to how much effort, resources, whatever, are going into new IP creation as opposed to leveraging the brand portfolio this year?

Given you can do rapid iterations and improve on the fly and all that kind of thing, it seems like this ought to be a workshop. In terms of bringing out new IP and expanding for EA and getting a little bit away from the portfolio.

Nothing wrong with portfolio, but new is good as well. So any way you can talk about any of that?

Frank Gibeau - *Electronic Arts Inc - EVP of Mobile*

I could talk little bit about it, sure. It sounds like you've been reading my e-mail. (laughter) We have, as I mentioned in my remarks, we've carved off a lot of very experienced and high-quality teams, to go and rapidly prototype. And we are talking about multiple prototypes per week.

And burning through them quickly, getting them into tests both internally with all of our employees, as well as externally. We see that focus on new IP, rapid prototyping is absolutely vital to how we are going to succeed in mobile.

The big brands are important. And it is a good part of the portfolio. But right alongside it you're going to see new IPs from us that come from this rapid prototyping, rapid testing endeavor that we are embarking on.

We're pretty excited about it. Because we have a vast network of engaged players that we need to get into position to introduce new IPs to them and new games to them. We couldn't be more excited about it.

John Taylor - *Arcadia Investment Corporation - Analyst*

Is there any way you can characterize what percentage of your folks, or development budget, or whatever, is working on those things as opposed to leveraging the portfolio?

Frank Gibeau - *Electronic Arts Inc - EVP of Mobile*

We don't really announce percentages that way. I would say that it is bigger than you think.

John Taylor - *Arcadia Investment Corporation - Analyst*

Okay. Thank you.

Rob Sison - *Electronic Arts Inc - VP of IR*

Holly, I think we will end it there.

Operator

Thank you. This does conclude today's conference call. You may disconnect at this time.
