Earnings Conference Call
Fourth Quarter and Fiscal Year Ended March 31, 2005

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our fourth quarter and fiscal 2005 year-end earnings call.

Today on the call we have:

Larry Probst – Chairman and Chief Executive Officer and

Warren Jenson – Chief Financial and Administrative Officer

David Gardner – Senior Vice President, International Publishing

Before we begin – I'd like to remind you that:

1. You may find copies of our SEC filings, our earnings release and a replay of the webcast on our web site at http://investor.ea.com. Shortly after the call – we will post a copy of Warren's remarks on our website.
2. Throughout this call – we will present both GAAP and non-GAAP financial results. Non-GAAP results exclude charges associated with restructuring, asset impairment, other-than-temporary impairment of investments in affiliates, acquired in-process technology, amortization of intangibles, employee stock-based compensation and certain non-recurring litigation expenses – and their related tax effects. A supplemental schedule to our earnings release provides a reconciliation of non-GAAP to GAAP measures. In addition, a supplemental schedule demonstrating how we calculate ROIC will be included with the copy of Warren's remarks we post on our website.

EA Conference Call

Welcome and Safe Harbor

3. All non-GAAP measures are provided as a complement to our GAAP results and we encourage investors to consider all measures before making an investment decision.
4. All comparisons made in the course of this call are against the same period for the prior year – unless otherwise stated.
5. During the course of this call – we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you that actual events and results may differ materially. We refer you to our most recent Form 10-K and 10-Q for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of May 3, 2005 and disclaim any duty to update them.
6. Consistent with last quarter, we have included our trailing twelve month platform shares and our 2005 estimated market outlook by platform in a supplemental schedule that will be posted on our website.

And now – I'd like to turn the call over to Warren.

Highlights

Our Performance

Good afternoon everyone.

I think it is safe to say that fiscal 2005 was an eventful year. It was a year with many positives but also a year in which we had an earnings disappointment.

On the positive side:

First – Our titles performed extremely well.

We ended the year with 31 platinum titles – up from 27 a year ago.

We now – as a Company – have four $1 billion dollar lifetime franchises: Madden, FIFA, the Sims and Need for Speed.

In addition, we have seven $500 million dollar lifetime franchises.

Of our 31 platinum titles, twenty had an average meta-critic rating of 80 or higher and nine had average ratings of 85 or above.

Highlights

Our Performance

This year our teams won several important awards for creative excellence on three continents.

- We received four awards from the Academy of Interactive Arts and Sciences (AIAS). (Burnout 3, GoldenEye: Rogue Agent, The Sims 2 and Tiger Woods).
- Collectively our teams walked away with five best of E3 awards last year (Def Jam: Fight for NY, Burnout 3, The Sims 2, Madden NFL 2005, The Lord of the Rings: Battle for Middle Earth).
- Burnout 3 – took home three awards from the British Academy of Film and Television Arts (BAFTA).
- EA received six top awards at China Joy – China's equivalent to E3 (Need for Speed Underground (won multiple awards), Lord of the Rings: Battle for Middle Earth, Sims 2, FIFA 2005, Medal of Honor).

Highlights

Our Performance

Two of our wholly-owned franchises – the Sims and Need for Speed – each sold more than 15 million copies this year.

In sports – our sales accounted for 63 percent of the category – our best performance ever.

- Madden 2005 had 80 percent revenue share in the pro football category.
- NBA Live continues to set the pace in pro basketball with over 70 percent revenue share.
- In professional baseball – MVP 2005 was the hands-down number one baseball title with more than 70 percent revenue share – three times that of our nearest competitor.
- FIFA 2005 – we estimate – remains the number one European football title. FIFA Street in its inaugural year has gone platinum in Europe as of today and was the number one title in the UK for 4 out of the past 8 weeks on the PS2.

Highlights

Our Performance

This year – we significantly strengthened our long-term position.

- We added 2 world class studios including Criterion and Digital Illusions.
- We added three new owned intellectual properties to our portfolio – Burnout, Battlefield and The Urbz.
- We entered into a 5 year exclusive relationship with the NFL and the NFL Players Association.
- We now have a 15 year partnership with the leader in sports broadcasting – ESPN.
- We have extended key relationships with the NBA and the NCAA. We also established a new relationship with the Arena Football League.
- Renderware has given us ownership of the most advanced and sophisticated set of platform tools for next generation game development,
- And – finally – we acquired a strategic stake in Ubisoft.

Highlights

Our Performance

Taken together – these moves all serve to strengthen our core business and add to the long-term stability of our revenue streams.

On the other side of the ledger – we missed our fourth quarter. The silver lining is that we have increased our resolve and enter fiscal 2006 determined, in a strong competitive position and committed to winning on next gen.

EA Conference Call

Agenda

For the next few minutes – I'll focus my remarks in four areas:

First – I'll review our Q4 financial results – highlighting the significant changes,

Second – I will talk about our focus and objectives for fiscal 2006,

Third – Our market outlook for North America and Europe, and

Fourth – Our financial guidance for Q1 and the fiscal year.

Following my comments – Larry, David and I will open the call to your questions.

Fourth Quarter Fiscal 2005

Net Revenue

Q4 Performance

Net revenue was $553 million – down $45 million year-over-year.

- **We had four titles that went platinum in the quarter**: NBA Street Vol. 3, Fight Night Round 2, The Sims 2 University and MVP 2005.
- **We had four top 10 titles in North America** on both the PS2 and Xbox: NBA Street Vol. 3, MVP 2005, Need for Speed Underground 2 and Fight Night Round 2.
- **In Europe – we estimate that we had two top 10 titles** on both the PS2 and Xbox: Need for Speed Underground 2 and FIFA 2005**.**

Fourth Quarter Fiscal 2005

Net Revenue by Geography / Foreign Exchange Impact

Geographically

- **North America revenue was $288 million – down $11 million or 4 percent year-over-year.** The decline was primarily the result of significantly lower PS2 related revenue and to a lesser extent the Game Cube. These declines were partially offset by increased revenue from the PSP, NDS, the PC and subscriptions. Xbox related revenues were essentially flat year-over-year.
- **Europe revenue was $218 million – down $31 million or 12 percent.** The decrease was driven primarily by lower co-publishing and PS2 related sales. Revenues increased at a double digit rate on both the Xbox and PC.
- **Total International revenue was $265 million – down 11 percent**. Asia Pacific, which includes Japan, was down 7 percent year-over-year.
- **Foreign currency** movement improved our top-line by roughly $11 million – or 2 percent in the quarter.

Fourth Quarter Fiscal 2005

Net Revenue by Platform

Co-Publishing and Distribution:

- **Revenue was 16 percent of total net revenue or $89 million – down 21 percent**. The decline in revenue was a result of last year's strong performance of Final Fantasy X-2 and Battlefield Vietnam which was partially offset by this year's performance of Time Splitters III.

Mobility – which includes revenue associated with all mobile devices – including handhelds and cell phones – increased by $20 million in the quarter to $34 million up 140 percent.

- The increase was driven by the introduction of the PSP in North America and to a lesser extent the NDS. We were number two behind Sony on the PSP with a 23 percent revenue share. Need For Speed was the number one game and both NFL Street 2 and Tiger Woods were top 10 titles.

Internet Services, Licensing and Other

- Revenue was $28 million up 46 percent year-over-year. The increase was driven primarily by increases in Club Pogo subscriptions and licensing revenue.
- We have just crossed an important on-line threshold – as of today over 1 million paying subscribers are using our services.

Fourth Quarter Fiscal 2005

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was $320 million – down 14 percent.

Gross Margin was 57.9 percent vs. 62.2 percent a year ago. The decline was primarily driven by:

- Higher price protection and sales returns charges taken in the quarter and
- Lower overall pricing
- The decline was partially offset by lower co-publishing royalties and lower overall royalty rates.

Fourth Quarter Fiscal 2005

Operating Expenses

Operating Expenses:

Marketing and Sales. Marketing and sales expense was $87 million – up $20 million year-over-year.

- The increase was driven by lower co-marketing offsets in the current quarter and to a lesser extent increased advertising on titles released in North America. We also had higher payroll-related costs.

- The increase was partially offset by bonus adjustments in light of the Company's performance.

General and Administrative. G&A was $66 million – up 44 percent year-over-year.

- The increase was driven by a $21 million charge taken in connection with employment related litigation. G&A also increased as a result of increased headcount and related costs.

- Again, the increase was partially offset by bonus adjustments.

Fourth Quarter Fiscal 2005

Operating Expenses

Research and Development. R&D was $161 million – up 4 percent year-over-year. The increase was driven by:

- An increase in SKUs under development for current and new platforms;
- Development of next generation tools, technologies and titles;
- And – to some extent-higher spending on current generation titles.

The R&D increase was primarily offset by bonus adjustments.

R&D related headcount was up 34 percent year-over-year to roughly 4,200. Acquisitions accounted for 13 percentage points of this increase.

As a percentage of revenue, R&D was up 3 points to 29 percent.

Please remember that we generally expense all development and do not capitalize these costs on the balance sheet.

Interest and Other Income. Interest and other income was $12 million up $6 million year-over-year. This increase was driven primarily by higher interest income due to higher yields and significantly higher cash balances.

Fourth Quarter Fiscal 2005

Bottom Line

Diluted Earnings per Share were $0.02 vs. $0.29 a year ago

Non-GAAP Diluted EPS was $0.09 vs. $0.25*. The difference between GAAP and Non-GAAP diluted EPS relates primarily to the after tax impact of certain litigation and acquisition-related charges.

Our trailing 12 month **operating cash flow** was $634 million vs. $669 million for the comparable period.

To date we have repurchased **805 thousand** common shares as part of our $750 million share repurchase plan. We intend to complete this plan by the end of our September quarter.

** Please see Non-GAAP Financial Measures and reconciliation information on pages 3 & 4 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 35 of this document.*

Fourth Quarter Fiscal 2005

Balance Sheet

On to the Balance Sheet:

Cash, short-term investments and marketable equity securities were $3.1 billion – up $683 million year-over-year.

Gross accounts receivable were $458 million – vs. $367 million – an increase of $91 million. The increase was driven by the timing of releases within the quarter.

Reserves against outstanding receivables totaled $162 million – up $7 million from the prior year. Reserve levels were 8 percent as a percentage of trailing six month net revenue – up 70 basis points over the prior year. As a percentage of trailing nine month net revenue – reserves were 6 percent – comparable to a year ago.

In the quarter, we added roughly $60 million more in charges for price protection and returns than we did a year ago. In the quarter – we likewise – used approximately $50 million more than a year ago. These charges and the related usage are why our reserve balance is relatively flat as compared to a year ago.

Fourth Quarter Fiscal 2005

Balance Sheet

Ending net inventory was $62 million – up $7 million year-over-year. No one title represents more than $4 million of exposure.

Total intangible assets increased $79 million year-over-year, related primarily to our acquisition of Criterion and tender offer for Digital Illusions.

In short – our balance sheet continues to be solid.

2006 Outlook

Housekeeping

Two quick housekeeping items

Sarbanes Oxley – As you know – we are required as of the end of fiscal 2005 to report under the provisions of Section 404 of the Sarbanes Oxley Act. We are well down the road in our testing and expect to report on a timely basis with the filing of our 10-K.

Stock Option Expensing – Last month the SEC delayed the effective date of Statement 123R. As a result – we expect to begin stock option expensing in fiscal 2007.

2006 Outlook

Industry / EA

Our Outlook and Guidance

Before we get into the numbers – we thought it might be helpful to update our thoughts on the overall environment and to discuss our fiscal 2006 operating plan.

First – the environment

This is clearly a challenging period as the industry is clearly in transition – this creates risk and the potential of increased volatility – particularly as it relates to top line and gross margin performance. It is also a critical period for investment. The certainty of expense vs. the uncertainty of revenue is never more pronounced.

2006 Outlook

Industry / EA

That said – there appears to be real opportunity:

- **First – we love what we are seeing in next gen.** If you happened to catch our Next Gen Madden spot during the NFL draft – you got a glimpse of what we are talking about. We think you will enjoy E3. As the quality of our entertainment improves our markets will naturally expand.
- **Second – the stakes for next gen hardware leadership are enormous** – it's about owning the set top box that may ultimately connect the living room to the internet. Our industry is a direct beneficiary of the attention this battle will create.
- **Third – there are a couple of things that will likely help smooth the transition** – namely continued strength in demand for current gen consoles and software and the introduction of the PSP.
- **And finally – new distribution platforms are emerging and new geographies continue to open** – whether it is the PSP, the cell phone, micro-transactions or further globalization.

Net – this a period of significant change. It is also and a period of significant opportunity.

2006 Outlook

Industry / EA

What you can expect from EA in fiscal 2006:

Well – for us – the key word is execution. We are focused on leadership and believe that this is the year in which we will lay the foundation for the next five years of our performance and advantage.

As we prepared our 2006 budget we had a ton of debate. We had to prioritize given an expanding list of opportunities. We made every attempt to strike the right balance between short-term results and long-term investment. Our focus is pretty straight forward:

1. Deliver on our SKU plan for fiscal 2006 with the highest quality lineup of hits
2. Own the launch of next gen software – we do that with our new Renderware technology and the strongest talent in the industry
3. Win on the PSP
4. Ramp our mobile business by launching 15 to 20 mobile phone games
5. Build a meaningful studio presence in China, and
6. Take advantage of acquisition opportunities as they arise

In summary – as we look ahead to fiscal 2006 – it is a year of focus, it is a year of execution and a year of prioritized investment. We can't afford to skimp – it is about our long-term lead.

Industry Update

Market Outlook

I’ll conclude my portion of today’s call with our **Market Outlook** and **Financial Guidance.**

2005 Market Outlook:

As Tricia mentioned – we will again be posting on our website a detailed summary of our market outlook. Essentially our outlook remains the same – with two exceptions.

- First, given the delayed launch of the PSP in Europe – we have lowered our hardware estimates by 1.5 million units – and as a result – have slightly lowered our software growth estimates,
- We have also lowered our PC software growth expectations by 5 percentage points.

Financial Guidance

First Quarter Ending June 30, 2005

Now – on to our Financial Guidance:

The following forward-looking statements reflect expectations as of May 3, 2005. Actual results may be materially different and are affected by many factors, such as changes in foreign exchange rates, the overall global economy, the popular appeal of our products, competition in our industry, our effective tax rate, development delays, our ability to secure key licenses and other factors detailed in our earnings release and in our annual and quarterly SEC filings.

I'll cover our financial guidance in two parts – first – I'll discuss the first quarter of 2006 and then our outlook for the full year.

For the quarter ending June 30 – we expect:

- **Revenue** to between $300 and $340 million – as compared with $432 million for the prior year, and
- **We also expect GAAP diluted net loss per share** to be between $0.22 and $0.28 – as compared with GAAP diluted earnings per share of $0.08 for the prior year.

These expected results include the projected impact of our share repurchase program.

Financial Guidance

First Quarter Ending June 30, 2005

In Q1 – we expect to ship 8 console and PC SKUs – as compared to 11 a year ago. We also expect to ship 5 handheld SKUs.

Our Q1 titles include:

- Medal of Honor: European Assault on 3 Platforms (PS2, Xbox, GameCube)
- Battlefield 2 on the PC
- Batman on 4 Platforms (PS2, Xbox, GameCube, GBA)
- FIFA 2005 on the PSP
- MVP Baseball 2005 on the PSP
- NBA Street V3 on the PSP
- Need for Speed Underground 2 on NDS
- GoldenEye: Rogue Agent on NDS

In addition, we plan to release Need for Speed Underground 2 on the cell phone.

Financial Guidance

Full Year Ending March 31, 2006

Full Year Guidance

For the full year, we expect:

- **Revenue** to be between $3.4 and $3.5 billion – as compared to $3.129 billion for fiscal 2005.
- **GAAP diluted earnings per share** – to be between $1.55 and $1.70 – as compared to $1.59 for the prior year.

These expected results also include the projected impact of our share repurchase program.

Financial Guidance

Full Year Ending March 31, 2006

In fiscal 2006, we plan to ship between 30 and 35 titles. We believe our fiscal 2006 line up is stronger than ever. In fact, it may be our strongest so far this cycle.

We plan to ship several new properties and as always – terrific and innovative entertainment. Our line-up includes:

- Batman – day and date with the movie
- Harry Potter Goblet of Fire – day and date with the movie
- Marvel Nemesis
- Godfather
- Bond: From Russia with Love
- Black – our new first person shooter from Criterion
- Medal of Honor: European Assault on the console
- Battlefield 2 for the PC
- Battlefield Modern Combat for the console
- The Sims 2 on the console

Financial Guidance

Full Year Ending March 31, 2006

Full Year Guidance

In EA SPORTS – the proven cast will be back and better than ever – led by the newly exclusive Madden NFL, FIFA Soccer and NBA Live. This year we'll also be exclusive with the PGA and Tiger Woods, with the NCAA on Football as well as with NASCAR. We will also release our first Arena Football League title.

On mobile platforms – we plan to release roughly 15 titles on the PSP, 5 on the NDS and 15-20 mobile phone games.

In Online – we will continue to expand EA Nation. Likewise – we will continue to drive the Club Pogo subscription business. We also expect to begin the process of rolling Pogo out in China by year end.

Financial Guidance

Full Year Ending March 31, 2006

Further – we expect our revenues to fall in roughly the following percentages throughout the year:

- 9 - 10 percent of the total in Q1
- 15 - 20 percent in Q2
- 50 - 55 percent in Q3 and
- 17 - 22 percent of the total in Q4

Remember that we are in heavy investment mode. We are also focused on maximizing the potential launch of next generation consoles and the expansion of the PSP installed base. These factors combined – skew our results toward the back half of the year. As a result – we expect our second quarter EPS to be roughly break-even.

We expect gross margin to be roughly flat year-over-year. Relative to fiscal 2005 – we expect margin pressure as a result of lower current generation pricing and higher content royalty rates. We expect this pressure to be essentially offset by lower manufacturing royalty rates, lower outside development expense and, to some extent, product mix.

Financial Guidance

Full Year Ending March 31, 2006

On the expense side we expect:

- R&D to be roughly 22 to 25 percent of revenue and both marketing and sales and G&A to be roughly flat year-over-year as a percentage of revenue.
- We expect our operating margin to be in the high teens.

We currently project our annual effective tax rate to be roughly 27 percent. This rate contemplates a favorable one time tax benefit of roughly $15 million net.

- Looking beyond fiscal 2006 – from where we sit today – we believe our long-term rate will fluctuate around 28 percent.
- Finally – please remember that our tax rate is constantly subject to change depending upon several things including changes in our business, non-recurring items and the applicable tax laws. As an example - we have not decided whether to repatriate foreign earnings as allowed by the 2004 Jobs Act. If we were to do so – this would negatively impact our rate.

On Share Count:

- We expect our fully-diluted share count at year end to be about 320 million shares. We expect to complete our $750 million share buy back by the end of our second quarter.

Financial Guidance

Full Year Ending March 31, 2006

Finally – we ask you to keep a couple of additional things in mind:

- **Deferred Revenue** – Looking ahead – particularly with the introduction of next generation platforms and the global expansion of on-line gaming – you will see more games delivered with significantly enhanced on-line game play. In some situations, this may increase deferred revenue. This, of course, will have no adverse impact on cash flows. We expect these amounts to be insignificant in the near-term, but to grow over time.

- **Foreign exchange rates**. While we do attempt to hedge a portion of our results – any material movement in foreign currencies – most notably the Euro and British Pound - will impact our results. We cannot offset either the top or bottom line impact of a significant appreciation in the dollar.

EA Conference Call

Summary

I will now conclude with a few closing thoughts.

- **First** – we leave fiscal 2005 with a strategically strong business.
- **Second** – we are fortunate to have the best and most talented team in the interactive entertainment industry.
- **Third** – we move into our new fiscal year with what appears to be a great slate of hit titles.
- **Finally** – in the year ahead – we are intently focused on delivering our operating plan and winning in the next generation.

We look forward to reporting our progress in the coming quarters.

With that – Larry, David and I will open the call up to your questions.

EA Conference Call

Safe Harbor Statement

Some statements set forth herein and/or made during the course of the conference call, including those under the headings “2006 Outlook”, “Industry Update” and “Financial Guidance”, 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 subject to 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 our results to differ materially from our expectations include the following: competition in the interactive entertainment industry; the availability of an adequate supply of hardware platforms; our ability to predict consumer preferences among competing hardware platforms; consumer spending trends; the seasonal and cyclical nature of the interactive game segment; timely development and release of our products; our ability to manage expenses during fiscal year 2006; our ability to secure licenses to valuable entertainment properties on favorable terms; our ability to attract and retain key personnel; changes in our effective tax rates; adoption of new accounting regulations and standards; potential regulation of our products in key territories; developments in the law regarding protection of our products; fluctuations in foreign exchange rates; and other factors described in our annual report on Form 10-K for the year ended March 31, 2004 and quarterly report on Form 10-Q for the quarter ended December 31, 2004. We do not intend to update these forward-looking statements, including those made under the “2006 Outlook”, “Industry Update” and “Financial Guidance” headings.

Supplemental Information

ROIC Calculation

Return on Invested Capital ("ROIC") is one measure we look at to evaluate our operational and asset efficiency. Note that ROIC is not a measure of financial performance under GAAP and should not be considered in isolation or as an alternative to net income as an indicator of company performance, or as an alternative to operating cash flow as a measure of liquidity. The following illustrates our methodology.

	Q1 FY05	Q2 FY05	Q3 FY05	Q4 FY05
TTM Net Income	583	604	587	504
Equity	2,746	2,907	3,335	3,498
+Debt	0	0	0	0
-Excess Cash (Cash Minus 10% TMM Revenue)	(2,065)	(2,168)	(2,247)	(2,645)
Invested Capital	681	739	1,087	853
Average Invested Capital (four quarter average)				840
TTM ROIC				60%