ELECTRONIC ARTS

Q3 FY11 PREPARED COMMENTS

FEBRUARY 1, 2011

Peter Ausnit:

Thank you.

Welcome to EA's fiscal 2011 third quarter earnings call. Today on the call we have John Riccitiello, our Chief Executive Officer, Eric Brown, our Chief Financial Officer and John Schappert, our Chief Operating Officer.

Please note that our SEC filings and our earnings release are available at investor.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, 2011 and disclaims any duty to update them.

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

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

John Riccitiello:

Thanks Peter.

We are pleased to report a very good Q3 with non-GAAP EPS at the very high end of our guidance range and ahead of expectations. We are revising our full year non-GAAP EPS guidance upward from a range of $0.50 to $0.70 to a revised range of $0.60 to $0.70. And today we are also announcing a $600 million share buyback.

EA continues to focus on our three strategic objectives to drive shareholder value:

Producing fewer, better, bigger packaged goods games…

Driving growth in digital…

Controlling cost and creating operating efficiencies.

In Q3, we delivered against these objectives.

Fewer, better, bigger… we had five intellectual properties, each of which sold in over 5 million units and collectively are approaching 35 million units to date.

Our digital business is on a roll. We are tracking to our FY11 non-GAAP digital revenue target of $750 million. In Q3, digital revenues were up 39% year-over-year. We are focused on the largest and fastest growing digital segments across PCs, mobile devices, and consoles, and the most lucrative business models – micro transactions and free to play. Digital revenues derived from packaged goods were up over 100% year-over-year.

Our focus on costs is working. Year to date, our operating expenses are down 7% thanks to lower headcount and a more focused portfolio.

Driving hits. Building our digital business. Aggressively managing costs. These three strategies have put us in a position to raise our non-GAAP EPS guidance and build shareholder value. We are also creating shareholder value through our capital structure. Based on the operational progress we are making and the improved visibility we have on our business, we are announcing a $600 million share repurchase program.

Now I'll turn the call over to Eric.

Eric Brown:

Thank you, John.

Non-GAAP revenue of $1,410 million reflected solid front line title performance on *Need for Speed Hot Pursuit, Medal of Honor,* and *The Sims* on Console. Catalogue revenues of 30% were in line with seasonal patterns. Digital revenues were strong, growing 39% year-over-year.

Q3 non-GAAP EPS was $0.59, exceeding consensus, and at the higher end of our guidance range of non-GAAP EPS of $0.50 to $0.60 per share for the quarter.

Q3 non-GAAP net revenue was up 5% year-over-year. Q3 GAAP net revenue of $1,053 million was down by 15% year-over-year due to a higher percentage of our sales being subject to deferral.

The effect of foreign exchange rates on non-GAAP revenue year-over-year was an adverse impact of $19 million this quarter.

Q3 non-GAAP gross profit margin was 58.7% compared to 51.6% a year ago due to a higher mix of EA-owned titles and a greater percentage of digital revenues at higher margins. On a GAAP basis, gross profit margin was 44.3% versus 47.4% a year ago, again due to a higher percentage of our sales being subject to deferral.

For the twelve months ended Q3 FY11, **non-GAAP gross profit margins** improved by over eight points, from 52.3% to 60.4% on an improved mix of EA published titles and higher digital revenue. Trailing 12 month non-GAAP operating margins improved from -0.1% to +6.4%.

Q3 non-GAAP operating income was $272 million versus non-GAAP operating income of $154 million a year ago, up approximately 75%. On a GAAP basis, operating loss was ($303) million versus an operating loss of ($107) million a year ago, due to a $154 million restructuring charge in the quarter and lower GAAP revenue, again due to a higher percentage of our sales being subject to deferral.

Non-GAAP earnings per share was $0.59 versus $0.33 a year ago, up over 75%. GAAP diluted loss per share was ($0.97) versus a diluted loss per share of ($0.25) a year ago driven by one-time restructuring charges.

Headcount – we ended the quarter with 7,742 employees versus 8,537 a year ago and 7,820 in Q2 FY11. 22% of our employees are now in low cost locations.

Cash flow from operations this quarter totaled $349 million versus $221 million a year ago. Our trailing 12 month operating cash flow has increased significantly to $320 million, which is up $206 million versus the twelve months ending Q3 last year. Capital expenditures have also declined, and trailing 12 month free cash flow of $260 million is up by $221 million versus Q3 last year. EA is tracking to an estimated $200 to $250 million in operating cash flow this year, including cash restructuring payments for actions concluded this quarter.

EA has over **$5.75 per share in cash**, **short-term investments, and marketable securities** and is debt-free.

Inventory levels were well managed in the quarter and fell to $105 million from $144 million in the prior year. We are carrying significantly less distribution related inventory compared to last year. DSOs also improved at 46 days this quarter versus 51 days for Q3 last year.

Reserves for Sales Returns and Allowances, as a percentage of trailing six month non-GAAP net revenue, were 15%, up from 11% a year ago, and are up on a nine month basis to 12% from 8% last year driven by increased reserves relating to *EA SPORTS Active 2*.

Sector Performance:

Overall, the worldwide interactive entertainment segment, inclusive of packaged goods and digital, was up an estimated 7% in calendar 2010. Packaged Goods were down 4% for the year and Digital continues to perform well and is up approximately 25% for the year.

Packaged Goods:

EA was the #1 publisher in 2010 with 17% share in North America, 17% in Europe and 17% overall in the Western world, with 16% share coming from EA published titles excluding distribution, versus 15% a year ago. Our share in Q3 FY11 was 15% overall with 14% in North America and 17% in Europe.

Industry software sales on high-definition consoles and PCs remain strong and play to EA's portfolio strength on these platforms. In 2010, PC and high definition console software sales in the Western world grew by 17%, and were up 23% for the quarter.

For FY11, we expect that approximately 80% of EA's total packaged goods revenue will be on these growing, high definition platforms. Software sales for low-definition and handheld platforms, including the Wii, PS2, PSP and Nintendo DS are down by an estimated 24% for both the quarter and the year.

In Q3, our **key frontline packaged goods** titles were *Medal of Honor, Need For Speed Hot Pursuit,* and *The Sims on Console*. *Medal of Honor* and *Need for Speed Hot Pursuit* have each sold in over 5 *million* units to date*. EA SPORTS Active 2* was well below our expectations for the quarter .

EA's catalogue revenue in Q3 was 30% of our sales compared to 40% in Q3 last year. ***FIFA 11*** and ***Madden NFL 11*** were particularly **strong catalogue titles**. *Madden NFL 11* has sold in over 5.5 million units to date and *FIFA 11* has sold in over 11.5 million units to date. *Need for Speed* was a frontline title in Q3 this year and a catalogue title in Q3 last year.

Digital:

Q3 non-GAAP digital revenue increased by 39% from $152 million to $211 million year-over-year, comprising 15% of total revenue this quarter. For the trailing 12 months, EA generated digital revenues totaling $721 million, up 38% year-over-year. Mobile revenue was up 12% year-over-year and was up 31% sequentially at $64 million thanks to growth in smartphone related revenue, which more than offset a reduction in feature phone related revenue. Notable digital contributors include *FIFA 11 Ultimate Team* mode on consoles, *Angry Birds* on smart phones and DLC like *Battlefield: Bad Company 2 Vietnam.*

As of the end of Q3, we had approximately 98 million registered users in our Nucleus consumer registration system, up from 50 million a year ago. It is worth noting that we broke through to over 100 million registered users in January. Titles like *FIFA 11*, *Battlefield: Bad Company 2* and *Madden NFL 11* drove registrations in Q3. Please note that in addition to our Nucleus registered users, we have tens of millions of additional consumers playing our social and browser based games.

EA has 39 million monthly active social game users (MAUs) and 7 million daily active users (DAUs). Playfish experienced improved monetization on the continued strength of *Pet Society, Restaurant City, FIFA Superstars* and *Madden Superstars*.

Restructuring Update:

We successfully completed our restructuring plan for certain licensing and development agreements this quarter. In Q3, we incurred a total GAAP charge of $154 million with an expected additional GAAP charge of approximately $20 million in future quarters. This is consistent with the $180 million total charge we projected last quarter.

Share repurchase program:

We are initiating a $600 million share repurchase program to be executed over the next 18 months. We have a strong cash position, which is sufficient to meet small scale acquisition requirements, and our earnings model is improving as our digital portfolio expands. We believe a share repurchase is a good way to deploy excess cash and improve returns for our long term shareholders.

Guidance:

Based on results to date, we are raising the lower end of our FY11 non-GAAP EPS guidance range to $0.60 to $0.70, up from $0.50 to $0.70 per share, on 334 million diluted shares. This corresponds to a non-GAAP operating income margin of approximately 7.5% to 8.4%, with approximately $5 million in Other Income and Expense.

Our FY11 GAAP net revenue guidance is $3.47 to $3.57 billion and our FY11 GAAP EPS guidance is a loss of ($0.90) to a loss of ($0.77) per share, which includes restructuring charges.

For Q4 FY11, we expect non-GAAP revenue between $850 million and $950 million and we are raising our non-GAAP EPS guidance range to $0.15 to $0.25. Non-GAAP gross profit margin is expected to be approximately 67% to 68%, operating expense is expected to be approximately $505 to $520 million, and share count is an estimated 337 million.

Our updated guidance assumes the following FX rates for the balance of the fiscal year: $1.31 USD to the Euro, $1.00 USD to the Canadian Dollar, and $1.54 USD to the British Pound. If spot rates as of January 26, 2011 persist during the fourth quarter, we anticipate a negligible impact to non-GAAP EPS and an approximate $10 million benefit to non-GAAP revenue for the year.

On a non-GAAP basis, we expect a total of $3.68 to $3.78 billion in **FY11 revenue**. Our packaged goods expectations call for publishing revenue ranging from $2.73 to $2.83 billion; our distribution revenue expectations are for approximately $200 million, and we expect approximately $750 million in digital revenue.

Our title schedule now assumes 37 titles in FY11, versus 35 titles previously. EA plans to release 10 titles in Q4. Our top 20 titles for FY11 are expected to generate approximately 77% of total non-distribution packaged goods revenue; this compares to 76% in FY10.

We expect full year non-GAAP operating expenses to be approximately $2.0 billion, and we expect 26-27% R&D, 19-20% M&S and 7% G&A for the year, as a percent of total revenue.

EA is incurring significant development costs for the Star Wars MMO, which is expected to ship in calendar 2011, but after the close of FY11.

We expect to end FY11 with total headcount of less than 8,000 and we continue to move resources from high-cost to low-cost locations. Total low-cost location headcount is expected to increase to 23% by the end of FY11.

We will provide FY12 guidance when we report Q4 results. For now, we will provide only the highest level framing for our FY12 plans. For the sector overall, our expectations for calendar 2011 are very similar to calendar year 2010 actuals in terms of digital, packaged goods and overall growth worldwide. We expect to increase FY12 non-GAAP EPS by double-digits percentage-wise and to continue to grow digital revenue aggressively. We are expecting to ship *Star Wars: The Old Republic* in FY12. We are also planning our NFL business conservatively given the possibility of a lock out. In terms of phasing, we expect the year to be a bit more back-end loaded given our expected title ship dates, and to have Q1 FY12 non-GAAP EPS come in approximately $0.15 to $0.20 below our Q1 FY11 actuals due to fewer frontline title releases compared to last year and the absence of the *FIFA World Cup* title.

We are optimistic about our FY12 outlook, and look forward to sharing our plans with you next quarter.

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

John Schappert:

Thanks Eric.

I'm going to start with a perspective on the industry and EA's retail performance. I'll finish with an update on our games and services.

Regarding the industry, it is important to note that while retail software has declined overall, sales of packaged goods games for high-definition consoles are actually growing. In 2010, total worldwide packaged goods declined 4% but software for HD platforms – PlayStation 3 and Xbox 360 – grew by 22%.

Recognizing the strong performance of PS3 and Xbox 360 is an important filter for understanding EA's business. Our portfolio strongly favors these growth platforms and we now command a 22% segment share on HD consoles in Western markets.

My second point about the industry relates to the reliability of retail tracking services, and the near-total absence of digital sales recorded by those data bases. This is a point I made on our last call. Today, we estimate that digital sales represent roughly 30% of revenue in Western markets and roughly 45% worldwide – sales not captured in the retail tracking data. The exclusion of this data works to the disadvantage of investors and companies that participate in this sector.

So my take away is this: contrary to the headlines, there is a solid growth story for publishers that have invested in HD consoles as well as digital goods and services. We've made smart bets on good platforms.

Now let me review EA's performance in Q3 – I'll start with packaged goods.

As Eric mentioned, we were the number one publisher in packaged goods in 2010. In Western markets, our share in Q3 was 15% overall -- 14% in North America and 17% in Europe.

Our new releases delivered, including: *Medal of Honor, Need For Speed Hot Pursuit,* and *The Sims 3* on console. Our catalog also continued to perform well. *FIFA 11* is up 16% from last year, selling in over 11 million units to date.

By now, you're familiar with our mantra: "Fewer, Better, Bigger." We have dramatically reduced our SKU plan, improved our overall product quality, and focused on hits we can take to the top of the charts.

This strategy is working and our average revenue per title is up 25% year-over-year. For 2010, we had five titles that sold over five million units and five titles in the top 20 in the Western world.

And the quality will continue in Q4. Last month, we released *Mass Effect 2* for the PlayStation 3 and earned a near-perfect 95 rating. The game shipped simultaneously as both a disc and a digital download and is doing well in both channels.

Last week we released *Dead Space 2* from our Visceral Studio. The game launched with a 91 rating and is approaching two million units sold in, with double the sell through of the original *Dead Space*.

And we will finish out the quarter with an armada of big titles: *Need For Speed Shift 2*, *Dragon Age II*, *DarkSpore, Tiger Woods PGA TOUR 12: The Masters, Fight Night Champion, Crysis 2* and *Bulletstorm*.

Now I'll turn to our digital business. As Eric mentioned, we are on track to hit $750 million in total digital non-GAAP revenue this fiscal year – a 30% increase over last year.

The market for digital games continues to expand rapidly as millions of new and existing consumers purchase and play our franchises on smart phones, tablets, e-readers, and online.

In December, a well-timed promotion of our iPhone and iPad games resulted in an unprecedented share and chart position for our titles. The day after Christmas, when millions were activating their new devices, EA held 14 of the top 25 paid Apps for the iPhone and 15 of the top 25 paid Apps for the iPad. Needless to say, we had a record-breaking quarter on iOS.

Each of these devices represents a new platform, a new revenue stream, and millions of new consumers. Our strategy is to maintain and grow our leadership in this market – create new titles and extend our existing franchises onto these new platforms.

At EA, we are particularly proud of our leadership in this space. We are the #1 publisher on Apple's iOS platform – both iPhone and iPad, #1 on Windows Phone 7, #1 on Blackberry's

App World, #1 on Kindle, and a top publisher on Android, with two of the top five paid apps from Christmas to New Year's. On Kindle, our *Scrabble* game outsold all books to become the number-one selling download in the Kindle Store from Christmas to New Year's. And *Angry Birds* was the #1 selling game for both iPhone and iPad for 2010.

Another big digital opportunity is on Facebook. Last year we saw a drop off in games related to changes on the Facebook platform but we are encouraged by the recent turnaround. We're seeing an increase in game traffic on Facebook and believe the site has stabilized with a current estimate of 290 million gamers playing an average of 3.5 hours per month.

EA's Playfish is the #2 publisher in this category with a lot of potential for growth.

Our leadership on mobile and smart phones taught us a great deal about how these new platforms evolve. We know that consumers are attracted to new experiences but quickly aggregate behind high quality and the brands and franchises they recognize from other media.

At EA, we have the IP and multi-platform capability to leverage that consumer evolution.

Last year, EA SPORTS launched *Madden NFL Superstars* and *FIFA Superstars* on Facebook – both games have loyal followings and strong monetization.

This week, in partnership with Hasbro, we launched *Monopoly Millionaires* on Facebook and our popular casual gaming site, Pogo, is in Beta on Facebook.

Dragon Age Legends is now in closed-Beta on Facebook and represents a new genre for social gaming based on BioWare's successful *Dragon Age* franchise.

In 2011, you'll see more of EA's big franchises come to Facebook as well new, original offerings.

That's our outlook, so let me summarize:

In the packaged goods segment, we are seeing good growth on the PlayStation 3 and Xbox 360. EA's Fewer, Better, Bigger strategy is working – and we are generating more revenue and profits on fewer titles.

And in digital – EA is the clear leader on iPhone, iPad, Blackberry, Kindle and other rapidly growing platforms. We're #2 on Facebook with a solid strategy for introducing and monetizing high-quality, globally recognized properties.

Games are rapidly transforming into a much bigger, much more accessible industry. EA has the brands, strategies and cross-platform capability to lead that transformation.

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

John Riccitiello:

Thanks John.

We started FY11 with much to prove. We opened the year with a strong balance sheet, and a plan to have fewer titles drive stronger sales and increased profitability. We also set the goal of growing our digital business by more than 30% to $750 million. And to do these things while again cutting costs. We had much to prove. And, so far in FY11, the proof is in our results.

EA is executing against our three strategic objectives. We are outpacing the industry in terms of digital growth and we are creating meaningful digital revenue streams in our well-positioned packaged goods business.

And we are proving that our IP is working well, not only on the growing high-definition platforms, but also on casual platforms from social networks to mobile, helping drive our rapid growth on the digital side. We continue to lead in the most attractive segments of a growing game industry.

Looking forward we continue to be optimistic. Our Q4 slate is ready to go and headlined by great IP including ***Mass Effect***, ***Dead Space***, ***Dragon Age***, ***Need For Speed,*** *and* a new ***Master's Golf*** title. We also have two great shooters in ***Bulletstorm*** and ***Crysis 2***. We are proud to call Epic and Crytek our partners.

Net -- We are pleased with our performance fiscal year to date. We continue to execute our three core strategies. We are raising our full year non-GAAP EPS guidance. The strength of our business and balance sheet, together with improving visibility, are the reasons we are initiating a $600 million share repurchase.

Many will continue to debate if a packaged goods company can make the transformation to digital, but today few would argue why. Our results demonstrate it's happening at EA. The share repurchase is good for shareholder value, and it is also a strong demonstration of our belief in EA's digital strategy.

With that, we are happy to 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
- Change in deferred net revenue (packaged goods and digital content)
- Gain (loss) on strategic investments
- Loss on lease obligation and facilities acquisition
- 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, 2011, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the estimates relating to EA's fiscal year 2011 guidance information and the fiscal year 2011 key 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 general health of the U.S. and global economy and the related impact on discretionary consumer spending; fluctuations in foreign exchange rates; consumer spending trends; 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 consumer demand for, and the availability of an adequate supply of console hardware units (including the Xbox 360® video game and entertainment system, the PlayStation®3 computer entertainment system and the Wii™); the Company's ability to predict consumer preferences among competing hardware platforms; the financial impact of recent acquisitions and potential future acquisitions by EA; the Company's ability to realize the anticipated benefits of acquisitions; the seasonal and cyclical nature of the interactive game segment; the Company's ability to attract and retain key personnel; changes in the Company's effective tax rates; the performance of strategic investments; the impact of certain accounting requirements, such as the Company's ability to estimate and recognize goodwill impairment charges and determine deferred tax valuation allowances; adoption of new accounting regulations and standards; potential regulation of the Company's products in key territories; developments in the law regarding protection of the Company's products; the Company's ability to secure licenses to valuable entertainment properties on favorable terms; the stability of the Company's key customers, and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010.

These forward-looking statements are current as of February 1, 2011. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this document 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, 2010. 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, 2010.