ELECTRONIC ARTS

Q1 FY11 PREPARED COMMENTS

AUGUST 3, 2010

Peter Ausnit:

Thank you.

Welcome to EA's fiscal 2011 first 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, EA is now providing Earnings Slides to accompany our prepared remarks. These slides are also posted to our website at investor.ea.com. 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-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of August 3rd, 2010 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.

Q1 was a solid start to FY11 with results ahead of expectations, both top and bottom line. Our bottom line reflected solid performance on the digital side and successful cost management.

EA has focused on three strategic objectives to drive shareholder value:

By producing fewer, bigger, better packaged goods games…

By driving growth in digital revenue streams…

And by controlling cost and finding operational efficiencies.

In Q1 we delivered against all three objectives.

Two great examples of fewer, better games are hits like *2010 FIFA World Cup South Africa* and *Battlefield: Bad Company 2*. These titles owe their success in the marketplace to our ability to deliver top quality games, on time, with effective marketing support.

We grew digital revenue through a combination of paid downloadable content, social games, and our success on the iPad and iPhone. In addition, we successfully launched EA SPORTS Online Pass to build loyalty and online participation.

We also remain on track to reduce operating expenses by $100 million this year thanks to lower headcount, global sourcing, and shared technologies.

Based on this performance, and on our expectations for the remainder of the year, we reaffirm our non-GAAP FY11 financial guidance.

Now I'll turn the call over to Eric.

Eric Brown:

Thank you, John.

Q1 results exceeded our expectations for both non-GAAP revenue and non-GAAP EPS. Non-GAAP revenue of $539 million reflects our efforts to build digital revenue and drive packaged goods hits. Combined with cost controls, Q1 revenue upside translated to a non-GAAP EPS loss of ($0.24), which was better than our expectations of a loss of ($0.40) to ($0.35) per share for the quarter.

Q1 non-GAAP net revenue was $539 million, down 34% year-over-year. On a GAAP basis, net revenue was $815 million, up 27% year-over-year. Non-GAAP revenue was down as compared to Q1 last year which had 10 titles including *The Sims 3* in its launch schedule, as well as an additional week of reported business.

The impact of foreign exchange rates on non-GAAP revenue year-over-year was essentially zero this quarter.

Q1 non-GAAP gross profit margin was 59.6% compared to 61.2% a year ago as a greater mix of EA digital revenue offset the prior year’s high margin *The Sims 3* release. On a GAAP basis, gross profit margin was 72.8% versus 50.2% a year ago.

Q1 non-GAAP operating income was a loss of $109 million versus a non-GAAP operating loss of $11 million a year ago. On a GAAP basis, operating income was positive $98 million versus an operating loss of $245 million a year ago.

Non-GAAP earnings per share was a loss of ($0.24) versus a loss per share of ($0.02) a year ago. GAAP diluted earnings per share was $0.29 versus a diluted loss per share of ($0.72) a year ago.

Headcount – we ended the quarter with 7,758 employees versus 8,948 a year ago and 7,842 in Q4 FY10. 21% of our employees are now in low cost locations.

Cash flow from operations this quarter totaled a loss of ($148) million versus a loss of ($328) million a year ago. Our trailing 12 month operating cash flow has increased significantly, growing from a deficit of ($25) million in the twelve months ended Q1 last year to positive $332 million in the twelve months ended Q1 FY11. At the same time, capital expenditures have fallen, excluding the purchase of our headquarters facilities. This has led to an increase in free cash flow from a deficit of ($117) million to positive $257 million in the twelve months just ended. EA remains on track to generate $250 to $300 million in operating cash flow this year.

EA has approximately $5.25 per share in cash, short-term investments, and marketable securities. Compared with year-ago levels, cash, short term investments, and marketable securities balances are down due to cash payments for the acquisition of Playfish, the purchase of our headquarters facilities, and lower strategic investment values.

Inventory levels were well managed in the quarter and fell to $82 million from $215 million in the prior year. We are carrying significantly less distribution related inventory compared to last year.

Reserves for Sales Returns and Allowances, as a percentage of trailing six month non-GAAP net revenue, are flat at 13% and up slightly on a nine month basis from 6% to 7% compared to last year.

Subsequent to the end of Q1, in July we sold our minority stake in Ubisoft for a gain of approximately $28 million.

For the industry overall, we estimate that the Western World packaged goods software market is down 7% year-over-year for the June quarter and down 5% on a calendar year-to-date basis. Year-over-year, we see Europe performing better than North America, with Europe packaged goods software flat calendar year-to-date compared to a decrease of 9% for North America. For the June quarter, Europe was also flat year-over-year while North America was down 15%.

Much of the weakness in the market is related to the Nintendo Wii and the music category, where EA has less exposure. On the positive side, we are starting to see signs of strength in the high definition console software market, which we estimate is up 14% or $1.1 billion year-over-year and 21% calendar year-to-date. This is driven by the Sony PS3 which is up sharply on its attractive price point. Microsoft is also starting to gain traction with its new, enhanced Xbox 360 form factor. This trend plays into our strength given our share position on high definition consoles.

The digital portion of the market continues to perform well. We estimate that the digital sector was up 25% to 35% year-over-year for the June quarter and calendar year-to-date. The total sector, inclusive of packaged goods and digital, is flat to up on a calendar year-to-date basis.

EA had a lighter release schedule for packaged goods in Q1 FY11, with 6 frontline titles compared to 10 frontline titles last year, including the very high margin *The Sims 3* title. Our share in Q1 was 13% in North America, 15% in Europe and 14% overall. Our calendar year-to-date share through June was 17% in North America, 16% in Europe and 16% overall.

EA's Western World packaged goods share is stable on a trailing 12 months basis at 18%, with 16% share coming from EA published titles excluding distribution.

In Q1, our key frontline packaged goods title was *2010 FIFA World Cup South Africa* which sold-in 3 million units in the quarter, offsetting performance of *SKATE 3* and *Tiger Woods PGA TOUR 11*.

Battlefield: Bad Company 2 continues to be a strong catalogue title with 1 million units sold-in during Q1. *Madden 10* continued to generate sales, meeting our expectations, selling-in a cumulative total of more than 6 million units through the end of Q1. *FIFA 10* benefited from the success of the World Cup, with life-to-date sell-in of approximately 11 million units, up 10% on the prior year's FIFA title. Net, we see slightly favorable trends in catalogue sales. Our mix of catalogue revenue was 22% for Q1 FY11 compared to 21% for Q4 FY10 and 17% for Q1 FY10.

Q1 non-GAAP digital revenue increased by 52% from $124 million to $188 million year-over-year, comprising 35% of total revenue this quarter. This is the result of significant increases in PC digital distribution, console downloadable content, and favorable phasing on approximately $20 million in digital revenue, which we do not anticipate in future quarters. Mobile revenue was up slightly year-over-year to $52 million with smart phone related revenue compensating for a drop off on feature phones. We also met internal expectations for social games related revenue. We now have 67 million unique core registered users in our Nucleus database, up from 33 million a year ago. Titles like *Battlefield: Bad Company 2, FIFA 10*, and *2010 FIFA World Cup South Africa* drove registrations in Q1.

EA has 52 million monthly active social game users (MAUs). Playfish usage has remained stable while other Facebook games have seen their MAU count fall by 25%.

For the twelve months ended Q1 FY11, non-GAAP gross profit margins improved by three and a half points from 51.1% to 54.7% on higher digital revenue and an improved mix of EA published titles. Trailing 12 month non-GAAP operating margins improved from 0.5% to 2.5%.

In terms of guidance, we are reaffirming our non-GAAP guidance for both revenue and EPS for the fiscal year.

I would like to start with FX rate assumptions. Currency exchange rates remain volatile and rate changes impact our reported revenue more than non-GAAP EPS thanks to natural hedges in our business. On a full year basis, our earnings are mostly hedged versus the Euro. Our R&D costs will increase if the Canadian dollar strengthens, and we have both revenue and earnings exposure to a weakening British Pound.

Our guidance assumes the following FX rates for the fiscal year: $1.29 USD to the Euro, $0.96 USD to the Canadian Dollar, and $1.54 USD to the British Pound. If spot rates as of July 30, 2010 persist during the fiscal year, we anticipate a $0.01 benefit to non-GAAP EPS and a $15 million to $20 million benefit to non-GAAP revenue for the year.

On a non-GAAP basis, we expect a total of $3.65 to $3.90 billion in FY11 revenue. Our packaged goods expectations call for publishing revenue ranging from $2.725 to $2.975 billion; our distribution revenue expectations are for approximately $175 million, and we expect approximately $750 million in digital revenue. The year-over-year dollar growth of $180 million in digital is divided roughly as follows:

- Approximately 25% from Console Full Games and DLC.
- Approximately 50% from PC and Browser Full Games and DLC.
- Approximately 25% from Mobile, Games Services, Subscriptions and Advertising.

We expect full year GAAP gross profit margin of approximately 56% and non-GAAP gross profit margin of approximately 60%.

We expect the worldwide market, inclusive of packaged goods and digital, to grow 7% year-over-year in calendar 2010, based on the assumption that total worldwide packaged goods, consistent with recent industry reports, will be down 3%, offset by digital growth of approximately 24%.

We expect non-GAAP revenue for the full year to be phased roughly as follows versus our midpoint revenue guidance: Q2 – 21%, Q3 – 38% and Q4 – 26% to 27%.

Our title schedule still assumes 36 titles in the fiscal year, but the quarterly phasing has changed slightly with *Crysis 2* moving from Q3 to Q4. EA now plans to release 7 titles in Q2, 15 titles in Q3, and 8 titles in Q4. The shift of *Crysis 2*, along with other updates to our forecast changes the phasing of Q3 non-GAAP revenue, which is now expected to be approximately 38% of full year revenue. In addition, Q4 phasing increases to a range of 26% to 27%. Our top 20 titles for FY11 are expected to generate approximately 80% of total non-distribution packaged goods revenue; this compares to 76% in FY10.

Non-GAAP operating expenses for the full year are expected to be approximately $2.0 billion and are phased as follows: approximately $500 million in Q2 with 55% of the remaining operating expense spend falling into Q3 and 45% falling into Q4. We expect 27% - 28% R&D, 18% -19% M&S, and 7% G&A for the full year, as a percent of total revenue.

EA is incurring significant development costs for a major new massively multiplayer online game. However, this game is not expected to ship in FY11.

We expect to end FY11 with total headcount of approximately 8,200 and are managing headcount consistent with the restructuring plan that called for a shift from high-cost to low-cost locations. Total low-cost location headcount is expected to increase to 25% by the end of FY11.

In terms of non-GAAP EPS, we are maintaining guidance for the full year at $0.50 to $0.70 per share on 334 million diluted shares. This corresponds to a non-GAAP operating income margin of approximately 6% to 8%. Net, we maintain the EPS range as we offset stronger-than-expected Q1 performance with currency fluctuations, evolving market conditions, title level forecast risks, and phasing changes in our title plan. With only 14% of the year’s revenue behind us, and some timing related upside in Q1, we encourage modeling in line with our full year guidance.

On a GAAP basis, we are reaffirming our GAAP net revenue guidance of $3.35 to $3.60 billion while we are slightly increasing GAAP EPS guidance to a range of a loss of ($1.00) to ($0.70) per share due to a gain on sale of strategic investments and reduced stock compensation expense.

For Q2 FY11, we are providing non-GAAP revenue and EPS guidance in-line with our comments from last quarter. We expect Q2 non-GAAP revenue between $775 million and $825 million and a non-GAAP EPS loss of ($0.15) to ($0.10). Non-GAAP gross profit margin is expected to be approximately 55%, operating expense is expected to be approximately $500 million, and share count is an estimated 329 million.

This concludes our outlook and guidance.

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

John Schappert:

Thanks Eric.

I'm going to start with the video game industry. Then I'll review our packaged goods titles and their achievements at E3. I'll end with our key digital initiatives.

The Western World video game industry is solid and well ahead of where we were at this point in the last cycle. All in, it's a $30 billion segment counting digital, second sale, and traditional packaged goods. This industry has doubled in the last five years.

Packaged goods alone, in North America and Europe, were $19.9 billion in 2009 versus $14 billion at the same point in the PS2 cycle, back in 2004. That's about $6 billion of growth in packaged goods.

Second, reports that packaged goods is down 9% year-to-date in North America can be misunderstood without recognizing the disproportionate impact of the music category, where EA has limited exposure and where plastic skews the software sales numbers. In North America, adjusting for music, packaged goods are actually down 4% year-over-year, versus down 9% as reported.

EA is the leading third-party publisher in Europe, which is performing better than North America year-over-year. Europe is not represented in North American industry reports.

Third, let's not forget second sale is one way consumers are satisfying their growing appetite for gaming. We estimate that packaged goods revenue would be as much as 15% bigger including second sale, which is absent from industry data reports.

Finally, the list of digital revenue streams not captured by data services includes digital game downloads, MMO subscriptions, Mobile/iPad revenues, payments for virtual goods in free-to-play browser games, console downloadable content and social network gaming and advertising. By some estimates, as much as 25% of the Western games segment is not counted in industry data reports.

Turning to the quarter just ended and the current year, the picture is very strong where EA participates most. We're seeing a bump in high definition console sales, which is good for EA and should translate into positive momentum for software revenue. While Wii software is down 13% year-to-date in the Western World, high definition console software revenue is up 21% year-to-date and was up 25% for the quarter. The redesigned "slim" PS3 from last fall and recently released "slim" Xbox 360 continue to sell well. In particular, PlayStation 3 software is up 40% both year-to-date and in the quarter, which substantially benefits EA as the leading third-party publisher on this platform.

EA's share remains healthy at 14% on a tighter slate thanks to high quality and blockbuster franchises such as FIFA and Battlefield, which are generating both packaged and digital revenue.

In summary, we believe games are healthy, particularly where EA leads: on high definition consoles and in digital.

Turning to specific game platforms, our trends remain strong with Western World PC share north of 30% thanks to *The Sims* and other titles. Our North American share on the Xbox 360 and PS3 position EA to benefit from high definition console momentum, and our Wii share, while lower, continues to lead Western third-party publishers.

Now to E3. Critics recognized EA's singular focus and commitment to quality. When it was over, EA won more nominations than any other publisher -- 15. And we won more awards than any other publisher -- 4:

> *NBA Jam* from EA Canada won Best Sports Game
>
> *Rock Band 3* from Harmonix/MTV won Best Social Game
>
> *Need For Speed Hot Pursuit* from Criterion won Best Racing Game
>
> And, Star Wars The Old Republic from BioWare and LucasArts won Best Role Playing Game

Q2 is shaping up well, with *NCAA Football 11* off to a good start. This year's game earned a Metacritic rating of 86 – up three points from last year, which is contributing to the early buzz.

Madden NFL 11 from our Tiburon Studio has solid pre-orders, and is wowing demo users with a breakthrough innovation called "GameFlow" that gets players into the action much quicker, without sacrificing the deep playbook hardcore fans demand. GameFlow makes Madden much more accessible to new players.

The World Cup has already been very good to EA, and it sets up *FIFA 11*, from EA Canada, for a strong release in Q2. World Cup years tend to pay special dividends to *FIFA* in the fall, and this year we've got a game that is packed with innovations including "Personality+" for enhancing player authenticity, Pro Passing, and a Creation Center tool for deep customization of teams and players online.

Turning to the holiday quarter, we'll lead off Q3 with *Medal of Honor*, which explores the conflict in Afghanistan with a deeply engaging single-player game built at EA Los Angeles along with an incredible multi-player experience from the Battlefield team at our DICE studio in Stockholm. The superior multi-player is a big point of difference with other shooters in this market and we plan to promote it heavily. *Medal of Honor* blew away the critics at E3 in June -- *MoH* is back and represents another step towards our goal of regaining leadership in the FPS segment.

Next up is *Need for Speed Hot Pursuit,* another winner at E3. We are especially excited by the return of police to *Hot Pursuit*; this action racing title is strongly anticipated at retail, and, with great online features, like Autolog, raises the bar for multiplayer racing.

EA SPORTS will also be launching *EA SPORTS Active 2*, the first cross platform fitness game and the first fitness game that includes a heart rate monitor. *EA SPORTS Active 2* is also the first fitness game with downloadable exercise routines and strong community features.

EA Play will publish the first console and handheld versions of *The Sims 3*. For the first time, *Sims* fans can enjoy playing in high definition on PS3 and Xbox 360.

Our EA Games Label has a Q4 lineup anchored by *Crysis 2* from Crytek, which has been moved from Q3 for a better window and polishing. *Crysis 2* was a standout at E3 and is part of our ongoing campaign for FPS leadership.

Dead Space 2 follows on one of the most popular horror games of 2008 and has a great fan base, selling through 2 million copies in its first iteration. This year, the game is even better and jam-packed with action and horror.

We're thrilled to bring bigger, better hits from the best talent in the industry to the broadest base of platforms and channels and feel very good about the games segment and our packaged goods plan.

Now, I'll move to our digital initiatives.

We're seeing good growth for our full-game downloads through PC download retailers – particularly *Battlefield: Bad Company 2* performed well. We're also seeing good results on popular full games sold through the console networks such as *Battlefield 1943* and *DeathSpank*.

Consumers are embracing downloadable content. Additional content for *FIFA Ultimate Team 2*, *Dragon Age,* and *Mass Effect 2* has been strong.

Playfish is gaining share on Facebook. EA has over 50 million monthly active social game users. Playfish titles driving usage include *Pet Society*, *Restaurant City*, *Hotel City*, and *FIFA Superstars*. Playfish is gaining share on the platform as its usage has remained stable while other Facebook games have seen their monthly audience fall by 25% on average, due to revisions to access and communications channels on the site.

In Asia, *FIFA Online 2 Korea* had record results. In June, we surpassed 5 million registered players, and had our highest grossing revenue month ever. We remain a top 3 game in the world's most online-oriented market.

Turning to mobile, smart phone revenue continues to grow with the popularity of the Apple platform. By revenue, EA is the number one publisher on the App Store and had nine of the top ten grossing games when the iPhone 4 launched last month. On feature phones, EA is taking share and now has 34% of the U.S. feature phone game market, according to Nielsen. On Android, EA launched *FIFA 10*, with more titles coming soon.

Lastly, a word about EA SPORTS Online Pass: Based on early Tiger and NCAA Football results, we are pleased to see 60% to 70% of online connected users redeeming the code.

The level of online play amongst our user base is up from last year, and revenue from paid downloadable content is also up.

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

Thanks John.

EA is well positioned for the rest of FY11 and executed well in Q1.

Stepping back, we've long been focusing on three strategic objectives:

First, build fewer, bigger packaged goods titles with great quality and support those bets with marketing that rebuilds long-lived franchises and pushes all of our titles higher in the charts,

Second, drive multiple digital revenue streams and invest in an infrastructure to support seamless, cross-platform game experiences, and

Third, relentlessly focus on costs and efficiencies throughout our operations.

EA is executing against these strategic objectives and driving shareholder value. We are gaining share on half the number of titles we had 3 years ago. We lead on the strongest platforms and have a broad, rapidly growing base of digital businesses with powerful synergies with our packaged goods portfolio.

Executing as well as we did in Q1 builds shareholder value and value for both our employees and gamers around the world.

Now – we would be 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)
- Loss on lease obligation and facilities acquisition
- Loss on licensed intellectual property commitment
- Loss (gain) on strategic investments
- 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 August 3, 2010, 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 the Playfish acquisition 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

These forward-looking statements are current as of August 3, 2010. 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 June 30, 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 June 30, 2010.