



ELECTRONIC ARTS™

**Earnings Conference Call
First Quarter Fiscal 2007
June 30, 2006**

Today's Call

Table of Contents

	Page
Welcome and Safe Harbor Statement	3-5
Highlights	6-9
Agenda	10
First Quarter Results	11-17
2007 Outlook	18
Industry Update	19
Financial Guidance	20-27
Safe Harbor Statement	28
Non-GAAP Financial Measures	29
Supplemental Information	30

EA Conference Call

Welcome and Safe Harbor

Welcome to our first quarter fiscal 2007 earnings call.

Today on the call we have Larry Probst – Chairman and Chief Executive Officer; Warren Jenson – Chief Financial and Administrative Officer; and Frank Gibeau – Executive Vice President and General Manager of North America Publishing.

- Before we begin, I'd like to remind you that 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.
- Throughout this call we will present both GAAP and non-GAAP financial measures. Non-GAAP measures exclude charges and related income tax effects associated with:
 - acquired in-process technology,
 - amortization of intangibles,
 - employee stock-based compensation,
 - restructuring charges, and
 - certain litigation expenses.
- In addition, the Company's non-GAAP results exclude the impact of certain one-time income tax adjustments.

EA Conference Call

Welcome and Safe Harbor

- Our earnings release provides a reconciliation of our GAAP to non-GAAP measures.
- Information regarding our use of non-GAAP measures along with a schedule demonstrating how we calculate ROIC will also be included with a copy of Warren's remarks we post on our website.
- These non-GAAP measures are not intended to be considered in isolation from – a substitute for – or superior to – our GAAP results – and 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 for the prior year – unless otherwise stated.
- We have included our trailing twelve month platform shares and our 2006 estimated market outlook in a supplemental schedule on our website.

EA Conference Call

Welcome and Safe Harbor

- 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 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 August 1, 2006 and disclaim any duty to update them.

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

Highlights

Our Performance

Good afternoon everyone.

We'd like to start off with a few highlights from the quarter.

First quarter results exceeded our expectations.

- **Revenue was \$413 million** – up \$48 million or 13 percent year-over-year.
- **GAAP diluted loss per share was (\$0.26) vs. (\$0.19)** a year ago.
- **Non-GAAP diluted loss per share was (\$0.12)*** – an improvement of six cents vs. a year ago.

** Please see Non-GAAP Financial Measures and reconciliation information on pages 3-4 and 29 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 30 of this document.*

Highlights

Our Performance

These results were driven by the strong performance of several titles.

- **FIFA World Cup sold more than 2.8 million copies.** It was the number one title in the UK for seven consecutive weeks and in Germany for six consecutive weeks. FIFA World Cup also had a strong showing in North America – it was our biggest title for the quarter.
- **On cell phones – we completed our first global launch with FIFA World Cup.** We released 2,000 SKUs with over 80 carriers – in 33 countries.
- **Battlefield 2 Modern Combat on the 360 was also well received.**
- **Sims 2 Family Fun Stuff** sold over 700 thousand copies.
- **NFL Head Coach had a solid debut** selling over 400 thousand copies.
- **Life-to-date – we are the number one publisher in both North America and Europe on the 360, and**
- **Our FIFA franchise has now generated over \$2 billion at retail (life-to-date).**

Highlights

Our Performance

In the quarter:

- **Spore won three awards at E3 – Best Original, Best PC and Best Simulation Game** – the most wins for any one game and the most for a third party publisher.
- **We have extended our exclusive relationship with the PGA TOUR and have also extended our NHL and NHL Players Association non-exclusive licenses.** All licenses for our major sports games are now secured through at least 2009.
- **In Korea – we launched our first online game – FIFA Online with our partner Neowiz.** A few interesting data points:
 - FIFA Online was the first game to reach 100 thousand peak concurrent users in its first month
 - On the day of July 15th alone – over one million people played the game
 - And in just 60 days we have registered over 3.5 million unique users

Although still early – we are pleased with the strong consumer response. **We are planning to begin monetizing FIFA Online with micro-transactions this week.**

Highlights

Our Performance

And finally – we are pleased to have recently closed the Mythic Entertainment acquisition. We are happy to welcome Mark Jacobs, Rob Denton and their team to EA.

EA Conference Call

Agenda

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

First – I'll review our Q1 financial results,

Second – I'll go over our outlook and financial guidance.

And then following my comments – Larry, Frank and I will open the call to your questions.

First Quarter Fiscal 2007

Net Revenue

Q1 Performance.

Net revenue was \$413 million – up 13 percent driven by FIFA World Cup, Battlefield on the 360 – and strong catalog (pre Q1 releases). By platform – the revenue increase was driven by Xbox 360 and cellular phones – partially offset by declines in current generation. We released 16 SKUs in the quarter – same as a year ago.

First Quarter Fiscal 2007

Net Revenue by Platform

Console revenue was \$194 million – up six percent. The increase was driven by Xbox 360 – which more than offset the decline in all current generation revenue. In North America and in Europe we had three of the top-ten titles on the 360.

Mobility – Revenue was \$85 million – up \$33 million or 63 percent.

- **On mobile phones** – revenue was \$33 million. We had four of the top-ten games in North America* – with Tetris at number one.
- **On handhelds** – revenue was \$52 million – flat year-over-year. We launched four handheld SKUs in the quarter vs. six a year ago.

PC revenue was \$66 million – down 11 percent primarily due to last year's strength of Battlefield 2.

Co-Publishing and Distribution revenue was \$42 million – up 40 percent driven by the success of Half Life 2.

Internet, Licensing and Other revenue was \$26 million – flat to last year. Club Pogo now has 1.3 million subscribers up 44 percent year-over-year.

* April-June 2006 Telephia

First Quarter Fiscal 2007

Net Revenue by Geography / Foreign Exchange Impact

Geographically.

North America revenue was \$209 million – up \$25 million or 14 percent – driven by the Xbox 360 and cellular phones partially offset by declines in current gen, PSP and PC. PS2 related revenue was flat year-over-year.

International revenue was \$204 million – up \$23 million or 13 percent. Excluding a \$10 million negative impact from foreign exchange – international revenue would have increased 18 percent.

- **Europe revenue was \$169 million – up \$25 million or 17 percent – driven by the Xbox 360, PSP and co-pub and distribution revenue – partially offset by declines in current gen consoles.**
- **Asia revenue was down 5 percent** primarily due to foreign exchange.

First Quarter Fiscal 2007

Gross Profit / Margin

Moving on to the rest of the income statement.

Gross Profit in the quarter was \$245 million – up 14 percent.

Gross Margin was 59.3 percent vs. 58.6 percent – up 70 basis points. The increase was principally due to lower sales return charges and a shift in mix toward higher margin platforms. These improvements were partially offset by a higher mix of licensed titles and increased royalty rates.

First Quarter Fiscal 2007

Operating Expenses

As you know – this quarter we adopted SFAS 123R. In total this increased our operating expenses by \$37 million.

Marketing and Sales. Marketing and sales expense was \$77 million – up three percent due to our adoption of SFAS 123R. Excluding stock-based compensation (\$5 million) – marketing and sales would have been down by four percent due to lower ad spending.

General and Administrative. G&A was \$59 million – up \$8 million due to stock-based compensation. Excluding the impact of stock-based compensation (\$11 million) – G&A would have been down six percent.

Research and Development. R&D was \$216 million – up \$33 million or 18 percent primarily due to the expensing of stock-based compensation (\$21 million) and the addition of JAMDAT. Excluding stock-based compensation R&D increased seven percent.

R&D headcount was approximately 5,200 – roughly flat vs. year-end and up 15 percent from a year ago. JAMDAT accounted for eight points of this increase.

First Quarter Fiscal 2007

Bottom Line

Our GAAP tax rate for the quarter was 18 percent. Let me remind everyone that in a loss quarter a lower tax rate results in a greater net loss and an increased loss per share. As I mentioned in our last call – you can expect our rate this year to be volatile and potentially fluctuate dramatically quarter to quarter.

GAAP Diluted Loss per Share was (\$0.26) vs. (\$0.19) a year ago.

Non-GAAP Diluted Loss per Share* was (\$0.12) vs. (\$0.18).

The \$0.14 difference between GAAP and non-GAAP EPS is due to employee stock-based compensation (\$0.09), amortization of intangibles (\$0.03) and restructuring charges (\$0.02).

Our trailing 12 month **operating cash flow** was \$589 million vs. \$669 million for the comparable period.

Our **return on invested capital*** on a trailing 12 month basis was 17 percent vs. 47 percent a year ago.

** Please see Non-GAAP Financial Measures and reconciliation information on pages 3-4 and 29 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 30 of this document.*

First Quarter Fiscal 2007

Balance Sheet

On to the Balance Sheet.

Cash, short-term investments and marketable securities were \$2.4 billion – down \$35 million from year-end.

Gross accounts receivable were \$225 million vs. \$278 million a year ago – a decrease of 19 percent due to the timing of our release schedule.

Reserves against outstanding receivables totaled \$184 million – up \$73 million from last year. Reserve levels were 17 percent as a percentage of trailing six month net revenue – up five points. As a percentage of trailing nine month net revenue – reserves were 8 percent – up three points.

Inventory was \$59 million – down \$7 million from last year. Other than NCAA Football – no one title represented more than \$5 million of net exposure.

2007 Outlook

Industry / EA

Our Outlook and Guidance.

Before getting into the numbers – we thought we'd highlight a few things:

First – while things can change very quickly – the current sales environment is healthy. NCAA sell through is up over 10 percent year-over-year and pre-orders for Madden are at record levels.

Second – we are very much looking forward to a great fall and holiday with all platforms hitting the store shelves. We are not far from having all the pieces of the next-generation engine in place.

Third – we are very pleased with the excitement that is surrounding the Nintendo Wii and DS Lite. We see these platforms as real opportunities to grow our business. Accordingly – we have recently ramped up development for both the Wii and DS Lite.

Finally – we think the early success of FIFA Online in Korea is encouraging. These early learnings will be invaluable for the long term.

Industry Update

Market Outlook

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

2006 Market Outlook

Essentially our outlook for the industry remains the same – we expect overall software sales in North America and Europe for calendar 2006 to be flat to down 5 percent. We are planning for the PS3 and Nintendo Wii to launch in the late fall.

In addition – we expect the overall mobile phone game segment to be up 25 to 30 percent.

Financial Guidance

Guidance

Now – on to our Financial Guidance:

I'd like to once again highlight a few points.

First – there are many uncertainties. While we expect the PS3 and Nintendo Wii to launch successfully – there could easily be delays and shipment quantities could fall below our estimates. Should this happen it would cause our numbers to drop materially. We also have yet to finalize our next-gen royalty agreements with both Sony and Nintendo.

Second – demand for existing platforms and software could fall abruptly – even below our expectations.

Third – there is significant development risk – particularly given the challenges of transition. It is possible that a title could slip out of any given quarter or the fiscal year. And finally –

It is important that you carefully review and assess the risk factors detailed in our SEC filings.

Financial Guidance

Second Quarter Ending September 30, 2006

Now the numbers:

For the quarter ending **September 30** – we expect:

- Revenue to be between \$635 and \$685 million
- GAAP diluted loss per share to be between (\$0.28) and (\$0.22)
- Non-GAAP diluted earnings per share to be roughly breakeven*

Overall – we expect our non-GAAP EPS* to be roughly \$0.25 better than our GAAP loss per share. The estimated break-down of these adjustments is as follows:

- Stock-based compensation – approximately \$0.10
- Amortization of intangible assets – roughly \$0.04
- Restructuring charges – approximately \$0.02 related to our European reorganization
- Acquisition charges – roughly \$0.09 associated with our acquisition of Mythic Entertainment and Digital Illusions

** Please see Non-GAAP Financial Measures and reconciliation information on pages 3-4 and 29 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 30 of this document.*

Financial Guidance

Second Quarter Ending September 30, 2006

If you are projecting a loss in the second quarter – the appropriate share count would be approximately 308 million. If you are projecting positive earnings – the appropriate share count would be roughly 317 million.

Financial Guidance

Second Quarter Ending September 30, 2006

In Q2 – we expect to ship 43 SKUs – compared to 37 a year ago.

We have already shipped – NCAA Football on four platforms (Xbox 360, PS2, Xbox, PSP) and Lord of the Rings Battle for Middle Earth 2 on the Xbox 360. Lord of the Rings is a break-through product which for the first time successfully brings real time strategy to consoles.

In addition, we expect to release:

- Def Jam on the PSP
- FIFA 2007 on seven platforms (PS2, Xbox, NGC, PSP, NDS, GBA, PC*)
- Godfather on two platforms (Xbox 360, PSP)
- Madden NFL 2007 on eight platforms (Xbox 360, PS2, Xbox, NGC, PSP, NDS, GBA, PC*)
- Madden NFL 2007 Hall of Fame Deluxe on two platforms (PS2, Xbox 360)
- NASCAR Thunder on three platforms (PS2, Xbox, PSP)
- NBA Live 2007 on five platforms (Xbox 360, PS2, Xbox, PSP, PC*)

** Offered at retail and through EA digital downloader*

Financial Guidance

Second Quarter Ending September 30, 2006

- NHL 2007 on five platforms (Xbox 360, PS2, Xbox, PSP, PC*)
- Sims 2 Glamour Life Stuff Expansion Pack
- Tiger PGA TOUR 2007 on four platforms (PS2, Xbox, PSP, PC*)

** Offered at retail and through EA digital downloader*

In the quarter – we expect to offer downloadable game content on Xbox Live Marketplace. Some examples include – a map pack for The Lord of the Rings Battle for Middle Earth 2. We will also be releasing a steady stream of EA Sports content later in Q2.

On mobile phones – we plan to release seven games (Tetris Mania, EVDO Tetris, Scrabble, Sim City, Madden NFL 2007, FIFA Street 2, and Def Jam Fight for New York).

Financial Guidance

Full Year Ending March 31, 2007

Full Year Guidance

For the full year, we expect:

- Revenue to be between \$2.8 and \$3.0 billion
- GAAP diluted loss per share to be between a loss of (\$0.30) and breakeven
- Non-GAAP diluted earnings per share to be between \$0.35 and \$0.65*

Overall – we expect our non-GAAP EPS* to be roughly \$0.65 better than our GAAP results. The estimated break-down of these adjustments is as follows:

- Stock-based compensation – roughly \$0.31
- Amortization of intangible assets – approximately \$0.15
- Restructuring charges – roughly \$0.05 related to our European reorganization, and
- Acquisition charges – approximately \$0.14 related to our acquisition of Mythic Entertainment (Q2) and Digital Illusions (Q2 / Q3).

** Please see Non-GAAP Financial Measures and reconciliation information on pages 3-4 and 29 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 30 of this document.*

Financial Guidance

Full Year Ending March 31, 2007

Please note:

- We have tightened and slightly increased our top-line estimates.
- We have increased our estimated GAAP loss as a result of our recent acquisitions and because we have increased the number of SKUs under development – including more SKUs for the Nintendo Wii and DS Lite. Much of this spend is for fiscal 2008.
- We continue to believe our non-GAAP EPS guidance is appropriate.

Finally a few housekeeping items:

- Looking ahead to the holidays – we now expect our Q3 revenue as a percentage of the total year to be roughly 40 percent.
- If you are projecting a loss for the year – the appropriate share count would be approximately 310 million. If you are projecting positive earnings – the appropriate share count would be roughly 320 million.

Financial Guidance

Full Year Ending March 31, 2007

We again ask you to keep in mind that with the introduction of next-generation platforms and the global expansion of online gaming – you will see more games delivered with significantly enhanced online game play. In some situations, this may delay the recognition of revenue. This, of course, will have no adverse impact on cash flows.

With that – we will open the call to your questions.

EA Conference Call

Safe Harbor Statement

Some statements set forth in this presentation, including the estimates under the headings "2007 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 Electronic Arts' results to differ materially from its expectations include the following: the timely release of next-generation hardware; the availability of an adequate supply of current-generation and next-generation hardware units (including the Microsoft Xbox 360, Sony PlayStation 3 and Nintendo Wii); sales of the Company's titles; timely development and release of Electronic Arts' products; the Company's ability to predict consumer preferences among competing hardware platforms; consumer spending trends; the seasonal and cyclical nature of the interactive game segment; competition in the interactive entertainment industry; the Company's ability to manage expenses during fiscal year 2007; the Company's ability to secure licenses to valuable entertainment properties on favorable terms; the Company's ability to attract and retain key personnel; changes in the Company's effective tax rates; 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; fluctuations in foreign exchange rates; and other factors described in the Company's annual report on Form 10-K for the year ended March 31, 2006. These forward-looking statements speak only as of August 1, 2006. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements, including those made under the "2007 Outlook", "Industry Update" and "Financial Guidance" headings. In addition, the financial results used in this presentation 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 quarter ended June 30, 2006. 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, 2006.

EA Conference Call

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. The non-GAAP financial measures used by Electronic Arts include non-GAAP operating income (loss), non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items from the Company's statement of operations: acquired in-process technology; amortization of intangibles; employee stock-based compensation; restructuring charges; certain litigation expense; and income tax adjustments (consisting of the tax effect of the items listed above and one-time tax adjustments). In addition, Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded from 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 and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods. Electronic Arts further believes that where the adjustments used in calculating non-GAAP operating income (loss), non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per share are based on specific, identifiable charges that impact different line items in the Company's statements of operations (including cost of goods sold, marketing and sales, general and administrative, research and development expense and income tax expense), that it is useful for investors to understand how these specific line items are affected by these adjustments.

Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to each non-GAAP financial measure in its earnings press release dated August 1, 2006.

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 (in millions).

	Q2 FY06	Q3 FY06	Q4 FY06	Q1 FY07
TTM Net Income	376	260	236	213
Equity	2,984	3,341	3,408	3,429
+ Debt	-	-	-	-
- Excess Cash (Cash minus 10% TTM revenue)	(1,927)	(2,270)	(1,977)	(1,931)
Invested Capital	<u>1,057</u>	<u>1,071</u>	<u>1,431</u>	<u>1,498</u>
Average Invested Capital (four quarter average)				1,264
TTM ROIC				17%