



ELECTRONIC ARTS™

**Earnings Conference Call
Third Quarter Fiscal 2006 –
Ended December 31, 2005**

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our third quarter fiscal 2006 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 American 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 results. Non-GAAP results exclude charges associated with restructuring, asset impairment, other-than-temporary impairment of investments in affiliates, acquired in-process technology and other acquisition-related charges, amortization of intangibles, employee stock-based compensation and certain non-recurring litigation expenses – and their related tax effects. In addition, the Company's non-GAAP results exclude the impact of tax adjustments. 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 on our website.

EA Conference Call

Welcome and Safe Harbor

- 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.
- 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 that will be posted on our website.
- 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 February 2, 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 and thanks for joining us.

The December quarter was one in which we essentially held our own competitively – but overall sales were disappointing and well below our expectations.

That said – on a relative basis – many of our titles did well.

- Five titles sold over two million copies – Need for Speed Most Wanted, FIFA 2006, Harry Potter and the Goblet of Fire, The Sims 2 and Madden NFL 2006.
- Need for Speed Most Wanted sold over seven million copies, with over 60 percent internationally. It charted in the top five on PS2, Xbox, Xbox 360 and PSP in both North America and Europe.
- Harry Potter and the Goblet of Fire sold over four million copies.
- The Sims franchise continues to thrive – over seven million copies were sold in the quarter – up over 40 percent from last year.

Highlights

Our Performance

- FIFA 2006 and Madden 2006 continue to deliver. Year to date, unit sales are up over 15 percent on FIFA and up 8 percent on Madden.
- Our 360 revenue share was 30 percent in North America and we estimate approximately 24 percent in Europe.

Highlights

Our Performance

In the quarter there were several meaningful long term events:

- We announced an agreement to acquire JAMDAT. We expect the deal will close later this month. We are well down the road with our integration planning and we look forward to having the JAMDAT team join us.
- In Online – we successfully launched our PC digital distribution platform with Battlefield Special Forces and Sims 2 Holiday Pack.
- We also recorded our first micro-transaction revenue. Club Pogo offered Badge books to our customers. To date there have been 280 thousand downloads with each customer spending roughly \$12.
- We entered into a long term exclusive agreement to bring The Simpsons to next generation consoles, and
- We are pleased to announce that we have extended our exclusive relationship with Tiger Woods for another six years.

Highlights

Our Performance

For the calendar year:

- EA was the number one publisher on the PS2, Xbox, PSP and PC in North America and Europe. Specifically on the PSP, we ended the year with 31 percent revenue share in North America and we estimate 25 percent in Europe.
- In 2005, we had four of the top-10 titles in North America (Madden NFL 2006, Need For Speed, NCAA Football 06 and NBA Live 06) and six of the top-10 in Europe (Need for Speed Most Wanted, FIFA 2006, The Sims 2, Need for Speed Underground 2, Harry Potter and the Goblet of Fire and FIFA Street).
- In sports – we hit 70 percent category share on console in North America. We had 15 of the top twenty sports titles on the PS2 and 14 on both the Xbox and PC. In January, we launched NCAA 2006 MVP Baseball which is off to a great start – in the first two weeks since launch, we have sold through over 200 thousand copies at retail.

Overall – across all platforms – in North America our segment share grew roughly one point to 22 percent and in Europe, we estimate we lost roughly one point to 23 percent – net net we held our own in a tough market.

EA Conference Call

Agenda

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

First – I'll review our Q3 financial results,

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

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

Third Quarter Fiscal 2006

Net Revenue

Q3 Performance

Net revenue was \$1.270 billion – down 11 percent driven by lower current gen and PC revenue partially offset by an increase in revenue from handhelds and the Xbox 360. We released 49 SKUs in the quarter compared to 40 SKUs a year ago – 13 of the SKUs this quarter related to the 360 and PSP.

Third Quarter Fiscal 2006

Net Revenue by Platform

Console revenue was \$793 million – down 21 percent year-over-year driven by a 29 percent decline in current gen. 360 revenue was \$76 million – essentially offsetting the decline in Xbox related revenue.

PC revenue was \$148 million – down 38 percent primarily due to last year's strength of the Lord of the Rings, Medal of Honor and the Sims 2.

Mobility – revenue more than tripled to \$192 million driven by \$120 million from the PSP – and to a lesser extent the NDS. During the quarter, we had five of the top-ten PSP titles in North America and three of the top-ten in Europe.

Co-Publishing and Distribution revenue was \$99 million – up \$20 million year-over-year due to the strong launch of Half-Life 2 (distribution title) and Black & White 2 (co pub title).

Internet Services, Licensing and Other revenue was \$38 million – down \$8 million primarily due to lower license revenue.

Third Quarter Fiscal 2006

Net Revenue by Geography / Foreign Exchange Impact

Geographically

North America revenue was \$618 million – down \$74 million or 11 percent.

- Current gen revenue declined 32 percent in the quarter. 360 related revenue more than offset the decline in Xbox revenue.

International revenue was \$652 million – down \$84 million or 11 percent year-over-year. Changes in foreign exchange rates negatively impacted our top line by \$21 million.

- **Europe revenue was \$577 million – down \$89 million or 13 percent.** Current gen revenue was down 26 percent in the quarter. Our European revenue was down in large part due to last year's launch of FIFA in Q3 (vs. Q2 this year).
- **Asia revenue was up seven percent year-over-year** driven primarily by the introduction of the PSP. In Australia, we had 36 percent revenue share on the PSP with six of the top 10 titles.

Third Quarter Fiscal 2006

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was \$768 million – down 17 percent.

Gross Margin was 60.5 percent vs. 64.8 percent a year ago. The decline was driven by:

- Higher price protection and sales returns and
- An unfavorable shift in product mix (more lower margin co-pub / distribution revenue) – partially offset by
- Lower effective manufacturing royalty rates.

Third Quarter Fiscal 2006

Operating Expenses

Operating Expenses:

Marketing and Sales. Marketing and sales expense was \$147 million – up \$14 million over last year. As expected, the increase relates to the support of our key titles around the world.

General and Administrative. G&A was \$58 million – down \$20 million year-over-year. The decrease was driven primarily by lower employee-related litigation costs and other personnel related expense.

Third Quarter Fiscal 2006

Operating Expenses

Research and Development. R&D was \$206 million – up \$21 million or 11 percent driven by

- Overall higher personnel and facilities related costs, partially offset by
- Lower third-party development costs in the quarter.

R&D related headcount was up 28 percent to roughly 5,000. The consolidation of Digital Illusions and the addition of Hypnotix accounted for 6 points of the increase.

As you may know -- yesterday we moved to reduce headcount in some of our studio teams – this was done to align our resources against our product plan for the coming year and strategic opportunities in next gen platforms, online and mobile. This is an unfortunate but natural part of transition.

Third Quarter Fiscal 2006

Bottom Line

Diluted Earnings per Share were \$0.83 vs. \$1.18 a year ago.

Non-GAAP Diluted Earnings per Share were \$0.86 vs. \$1.23. The three cent difference between GAAP and Non-GAAP diluted EPS relates primarily to charges associated with our reorganization and establishment of an international publishing headquarters in Geneva.

Our effective tax rate was 29 percent vs. 31 percent a year ago.

Our **diluted share count** was 311 million vs. 317 million a year ago.

Had stock option expense been included in our results – GAAP diluted earnings would have been reduced by roughly \$0.06 per share. As you know we will begin expensing options next fiscal year.

** 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 30 of this document.*

Third Quarter Fiscal 2006

Balance Sheet

On to the Balance Sheet:

Cash, short-term investments and marketable equity securities were \$2.7 billion – up from \$2.6 billion a year ago – despite the completion of our \$750 million share repurchase program.

Gross accounts receivable were \$829 million vs. \$1.1 billion a year ago – a decrease of 24 percent due to lower overall revenues and the timing of our release schedule.

Reserves against outstanding receivables totaled \$262 million – up 27 percent. Reserve levels were 13 percent as a percentage of trailing six month net revenue – up three points from last year. As a percentage of trailing nine month net revenue – reserves were 11 percent – also up three points.

Inventory was \$76 million – down 10 percent from last year. Need for Speed Most Wanted represented roughly \$10 million of net exposure. No other title represented more than \$4 million of net exposure.

2006 Outlook

Industry / EA

Our Outlook

Before we get into the numbers – let me share our thoughts on the year ahead for the industry and EA.

As we look ahead to calendar 2006 we anticipate the emergence of many long term positives – but to be balanced – we also see several near term challenges.

First the positives.

Xbox 360. The 360 will continue to build momentum throughout the year. We believe Microsoft will step up production as the year progresses and as a result – the financial significance of this platform will continue to build.

PS3 and Revolution. The likely launches of the PlayStation 3 and Nintendo Revolution will add fuel to the excitement of owning a next generation console and software. As we enter late fall we expect that all pieces of the next generation engine will be in place and ready to go. At the same time – next gen software will keep getting better, more plentiful and more exciting – this should also naturally increase demand.

2006 Outlook

Industry / EA

Our Outlook

Online. Online will continue to grow in importance and new revenue streams will likely emerge and expand – including dynamic in-game advertising, micro-transactions and digital downloads. These new revenue streams will be additive to our existing \$80 million internet-based business.

Handheld revenue will continue to build. Year-to-date our handheld revenue is over \$300 million – up more than \$210 million year-over-year.

Mobile Phones. As more game-enabled (Brew and Java) handsets are sold this category will continue to grow. As a result of our pending combination with JAMDAT, we could easily see revenue from mobile phones exceed \$130 million in our next fiscal year.

2006 Outlook

Industry / EA

Our Outlook

Let me now talk about the challenges:

Lower Current Gen Demand. In calendar 2006 we expect significant declines in the demand for current generation software both in North America and in Europe – and as a result, we expect total software sales for the industry to be flat to down 5 percent despite the new platforms and continued growth in the handheld segment.

Current Gen Price. While implicitly included in our estimates for the industry – we want to again call out that prices will continue to decline for current generation software.

2006 Outlook

Industry / EA

Our Outlook

Investments. The investment phase of this transition is not over. Talking about EA specifically – there are several areas where we plan to invest for the long term. In every case these investments will negatively impact next year's P&L.

In the coming year we expect to do the following:

First – Spend on the PS3 well ahead of revenue and do everything we can to lead the way in the launch of this platform. We will also continue to build out our 360 portfolio and prepare for the launch of Revolution.

Second – Significantly expand our online business and content portfolio both domestically and internationally.

Third – Increase our portfolio of new intellectual property.

Fourth – Aggressively grow our mobile business globally – and

Finally – Continue to evaluate acquisition and investment opportunities.

2006 Outlook

Industry / EA

Our Outlook

In summary – as we look ahead to 2006 we see the emergence of several positive trends that bode well for our customers and our long term shareholders.

Our confidence in the potential for interactive entertainment remains intact.

That said – you should expect a tough 2006 where profits are again squeezed given the challenges of transition and our focus on investing for long term growth.

Industry Update

Market Outlook

I'll conclude my portion of today's call with our 2006 **Market Outlook** and **Fourth Quarter Financial Guidance**.

Hardware

In North America, we expect the following hardware unit sales:

- Consoles – between 12.0 and 14.5 million units
- Handhelds – between 10.5 and 11.5 million units

In Europe, we expect the following hardware unit sales:

- Consoles – between 7.0 and 9.5 million units
- Handhelds – between 8.5 and 9.5 million units

Industry Update

Market Outlook

On software

We expect total North America and Europe software sales (console, PC, handheld) to be flat to down 5 percent with:

- Current generation software sales down 35-45 percent and total console sales down 10 to 15 percent
- Handheld software sales up 20-25 percent and
- PC software sales down 5-10 percent.

On mobile phones, we expect global (including Asia) publisher game revenue to be up 25 to 30 percent.

Financial Guidance

Fiscal Year Ending March 31, 2006

Now – on to our Financial Guidance:

The following forward-looking statements reflect our expectations as of February 2, 2006.

Actual results may be materially different and are affected by many factors, such as consumer spending trends, the popular appeal of our products, development delays, current-generation and next-generation hardware availability, the seasonal and cyclical nature of our industry, the overall economy, competition, changes in foreign exchange rates, our effective tax rate, and other factors detailed in our earnings release and in our SEC filings.

Financial Guidance

Fiscal Year Ending March 31, 2006

Now the numbers:

For the fourth fiscal quarter, we expect:

- **Revenue** to be between \$550 and \$600 million.
- **GAAP net loss per share** to be between (\$0.15) and (\$0.23)
- **Non-GAAP diluted earnings per share** to be between \$0.06 and \$0.14

Please note that our expected GAAP results include approximately:

- \$0.17 of estimated acquisition-related charges associated with the likely closing of the JAMDAT transaction.
- \$0.09 related to a possible decision to repatriate up to \$500 million in foreign earnings under the American Jobs Creation Act of 2004.
- \$0.04 associated with the reorganization and establishment of an International Publishing headquarters in Geneva and other restructuring activities.

Financial Guidance

Fourth Quarter Ending March 31, 2006

Specifically in Q4 – we expect to ship 32 SKUs.

Our expected line-up includes:

- **Arena Football** on two platforms (PS2, Xbox)
- **2 Battlefield Booster Packs** on the PC
- **Black** on two platforms (PS2, Xbox)
- **Command and Conquer: The First Decade** on the PC
- **FIFA Street 2** on five platforms (PS2, Xbox, NGC, PSP, NDS)
- **Fight Night: Round 3** on four platforms (PS2, Xbox, Xbox 360, PSP)
- **Godfather** on three platforms (PS2, Xbox, PC)
- **Godfather Collectors Edition** on two platforms (PS2 and Xbox)
- **James Bond: From Russia with Love** on the PSP
- **Lord of the Rings: Battle for Middle Earth 2** on the PC
- **Lord of the Rings: Battle for Middle Earth Collectors Edition** on the PC

Financial Guidance

Fourth Quarter Ending March 31, 2006

- **MVP: NCAA Baseball** on two platforms (PS2, Xbox)
- **Rugby 06** on three platforms (PS2, Xbox, PC)
- **The Sims 2: Open For Business** Expansion Pack on the PC

On the Xbox 360, we plan to ship three titles:

- Battlefield Modern Combat
- Burnout Revenge
- Fight Night Round 3

In addition – on mobile phones – we plan to launch four games (excludes JAMDAT titles):

- NASCAR (North America & Europe), FIFA Street (Europe only), Pogo Harvest (North America only), and Pogo Word Whomp (North America only)

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

EA Conference Call

Safe Harbor Statement

Some statements set forth in this presentation, including the estimates 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 Electronic Arts’ results to differ materially from its expectations include the following: sales of the Company’s titles during the remainder of fiscal year 2006; consumer spending trends; the seasonal and cyclical nature of the interactive game segment; timely development and release of Electronic Arts’ products; competition in the interactive entertainment industry; the Company’s ability to manage expenses during fiscal year 2006; the timely release of next-generation hardware; the availability of an adequate supply of current-generation and next-generation hardware units; the Company’s ability to predict consumer preferences among competing hardware platforms; 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, 2005 and Form 10-Q for the quarter ended September 30, 2005. These forward-looking statements speak only as of February 2, 2006. Electronic Arts does 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 (in millions).

	Q4 FY05	Q1 FY06	Q2 FY06	Q3 FY06
TTM Net Income	504	422	376	260
Equity	3,498	3,167	2,984	3,341
+ Debt	-	-	-	-
- Excess Cash (Cash minus 10% TTM revenue)	(2,645)	(2,267)	(1,927)	(2,270)
Invested Capital	853	900	1,057	1,071
Average Invested Capital (four quarter average)				970
TTM ROIC				27%